

## **“STRANGE FORMS”: STILL IN NEED FOR A FRAMEWORK**

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### **Introduction**

Through his transactional operationalization, Williamson states that each generic form needs to be supported by a different contract law. More precisely, the arbitration between the three generic forms (i.e. hierarchy, market and hybrid) is based on a transaction costs minimization quest, where each generic form is a syndrome of transaction attributes. The analysis of Hybrid forms have been added subsequently and they are therefore understood as organizational forms that are based on a neo-classical contract, including, longer-term arrangements that do not cover all contingencies, but include additional governance structures.

Consequently, while the first thoughts of the transactional approach (Williamson 1975) were for a long run reduced to the arbitration between markets and hierarchies, hybrid analysis started constituting another important stream of TCA research. As pointed out by Coase (1988), the problem today is no longer to identify the properties of the market and the hierarchy, but to define and analyze the differences among the multiple types of actual coordination modes, which are most often “hybrid”. And, it is precisely these definitions and this analysis that remains ambiguous in many ways. As underlined by Arrow (1985), it is difficult to match theory and empirical analysis because most real contracts do not resemble those described by theories. In fact, contractual typology is much more complicated. As would be expected, in the growing body of empirical studies, empirical operationalizations come in a variety of forms and transactional tests are based on a variety of dimensions. As a consequence, there still is no common framework based on the same criterion to classify these hybrid forms.

During the last few years, the nature of buyer-supplier relationships has been undergoing some dramatic change and the poultry industry is a perfect illustration of these changes. In fact, contractual agreements hold an increasing important role since industrialization (Ménard

1996). Several attempts have proposed a classification of the variety of inter firm vertical arrangements in the agricultural sector that is based on a dominance of one party over the other (Mighell and Jones 1963, Mazé 2000, Rousset 2005), but this classification leaves aside other important contractual dimensions highlighted by authors such as Blanchot and Brousseau.

We will start this analysis by studying hybrid forms within the conversation of the Transaction Costs Approach (henceforth TCA), showing that many difficulties limit the creation of a clear classification of these forms. These difficulties are partly related to the variety of definitions of Hybrid forms. Moreover, the transactional framework also introduces further ambiguities in its conceptual treatment of Hybrids, as well as in its empirical studies. We will then present analyzes that offer a set of criteria for studying different contractual arrangements. These criteria could offer interesting bases for a clearer classification of hybrid form within TCA. These studies include scholars working on inter firm agreements, such as Blanchot (1997), as well as scholars working on contractual theories, such as Brousseau (1993).

Finally, we will present a synthesis of qualitative interviews conducted from February to June 2006 in the main French cooperatives and private companies. Unsurprisingly, the analysis of these interviews confirms the heterogeneity of governance typology from an activity to another and more precisely, the predominance of these “Strange forms”. We then used the criteria proposed by the earlier authors so as to think of a classification of the different governance modes established for each activity.

### **1. “Strange forms” forms within the conversation of transactional costs approach: Many difficulties**

Transaction Costs Approach (henceforth TCA) shows many difficulties in the classification of these forms. These difficulties are partly related to the variety of definitions of Hybrid forms. Further ambiguities are also introduced through the conceptual and empirical treatment of Hybrids.

#### **Difficulties relative to “Strange form”’s definition**

Hybrid form is by definition a composite of mixed origin. For organizational forms, it stands between markets and hierarchies and emerges to overcome the limits of these two polar

forms. Effectively, they are a compromise between the benefits of centralized coordination and control and the incentive of decentralized decision making (Williamson 1991, Ménard 2004).

Qualified as “Strange” by Ménard<sup>1</sup> (1996), they include a great diversity of agreements among legally autonomous entities doing business together, mutually adjusting, with little help from the price system, and sharing or exchanging technologies, capital, products, and forms represented, common characteristics do exist.

A first condition for a form to be qualified “hybrid” relies on the autonomy of the partners as they must maintain distinct property rights. Ménard (2004) highlights three main regularities that exist within hybrids. First, hybrids include “pooling of resource” making the system selective rather than open, in which identity of partners do matter, it also leads to a need for cooperation and coordination through joint planning and information sharing. Second, hybrids “contract”, as they put in place more or less formal and complete contracts. And finally, as they remain independent with full capacity to make autonomous decision in last resort, hybrids “compete”.

Hybrid forms have been progressively defined through time. In the early seventies, Blois (1972) referring to Penrose, confirms the existence of a form called “*quasi vertical integration*”. This form is described as a close relationship between suppliers and customers, in which the supplier is dependent for a significant proportion of its total business upon a particular customer.

In a pioneer empirical study, Eccles (1981) showed how subcontracting coordinates through mechanisms distinct from markets and hierarchies. He analyzed relationships between general contractors and their subcontractors noticing that although contracts were short-term, related to specific projects, the contractual relationships were durable, with general contractors doing business with essentially the same partners over time. In almost all cases, they had been working together for over five years; in one case the relationship had been going on for 37 years. He qualifies these types of relationships “*quasi firms*”.

From the mid eighties, conceptual studies highlighting these types of forms, increased dramatically. Bradach and Eccles (1989: 97) identify a form “*largely ignored by literature*:

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<sup>1</sup> Ménard C., 1996, *On clusters, Hybrids and Other Strange Forms: The Case of the French Poultry Industry*, Journal of Institutional and Theoretical Economics, 152, 154-183.

“*plural form*”, Richardson (1972) evokes “*cooperative arrangements*”, Macneil (1978) focuses on “*relational contracting*”, Mariti and Smiley (1983) point out “*joint ventures*”, Miles and Snow (1986) mentioned “*Dynamic Networks*”, and so on.

As explained by Ménard (2004), many expressions are used to describe a quite similar concept. From networks, to clusters, to supply chain, including symbiotic arrangements or quasi integrated partners and so forth, when it comes to these intermediate forms, vocabulary itself is not settled yet (2004: 370) “*Talking about a hybrid form means being confronted to a variety of typologies: franchising, cooperatives, partnerships, collective brand marks, alliance, networks [...] the typology of hybrid forms is not well established yet*”.

In this article we will focus on hybrid forms among vertical relationships between buyers and sellers, putting aside horizontal relationships.

These relationships include simple furniture arrangement, subcontracting, quasi integration, quasi vertical integration, oblique quasi integration, partnerships and so forth.

*Subcontracting or supplier arrangements* are contracts for the sale of one firm’s output to another. Supplier arrangements can be characterized as contractual agreements to provide a particular type or line of goods and services within a specific time frame. These relationships can be even more integrated. In its less integrated form, it is a simple furniture arrangement that does not include close relationships. Tight subcontracting relationships are studied by Monteverde and Teece (1982) throughout the concept of *quasi integration*. They define quasi integration as including the ownership (or payment) by a downstream firm of the specialized tools that are used by the supplier in the fabrication of components. This definition may be distinguished from that outlined by Blois (1972) for whom quasi vertical integration does not imply asset ownership. For Blois, quasi integration concerns every supplier-buyer relationship as long as it becomes a dependency relationship.

*Partnerships* are also often used in economic literature. In fact, loosely defined, partnerships have a large definition, as it can include cooperation, alliances, joint ventures and so forth. In fact, actors undertaking a transaction are very often qualified as “partners”. Partnerships in vertical relationships are defined as purposive strategic relationships between independent firms who share compatible goals, strive for mutual benefits and acknowledge a high level of mutual interdependence (Spekman and Mohr 1994). Partnerships can be informal and can

settle with time, resulting from the continuity of a relationship leading to a personal relationship. Blanchot (1994) distinguishes partnerships from traditional sub-contracting explaining that sub-contracting relationships, contrarily to partnership, introduce competition for obtaining lowest prices.

*Joint venture* can also appear in vertical integration relationships. They include the creation of a new joint unit that is formally independent from the entity two parent companies. The two (or more) parties of the joint venture are often called partners. However, joint ventures are different from partnerships as they include the creation of a new shared unit and a more complete contract.

*Franchise* can also appear in vertical relationships, more commonly in the distribution channel. It is an agreement between a parent organization “franchisor” and a local outlet “the franchisee” to sell a product or service using a brand name developed by the franchisor. The franchisor typically sells a right to use an intellectual property in return for a lump sum payment and an annual royalty fee based on sales for a period of time (Shane 1996). The franchisee usually accepts to adhere to the franchisor requirements for product mix, operating procedures and quality. In return, the franchisor typically agrees to provide managerial assistance, training, advertising assistance and so forth.

The *Cooperation* concept is also recurrent. It is a relational mode that concerns entities during a limited period of time. It can occur for a specific project. It does not link entities that have the same vocation or the same identity. However, cooperation is a premise of hybrids, as if it lasts cooperation becomes a hybrid form. According to Blanchot, “cooperation” includes partners that must have a common purpose. Contrarily, other authors such as Buckley and Casson (1988) or Anderson and Narus (1990) do not highlight on the importance of having a common purpose.

This brief presentation of examples of hybrid forms shows the multitude of forms and the difficulty of having a clear definition of each form, definitions that can not be interchanged with another. Indeed, very often, the use of partnership, cooperation or quasi integration for example, is made regardless of their main characteristics. As commented by Oliver and Ebers (1998: 550) “*The increase in the number of studies on inter organizational relations and networks has contributed to a rather messy situation marked by a cacophony of heterogeneous concepts, theories, and research results*”. Moreover scholars such as Blanchot

(1998), show that there is not even a unified definition of each type of hybrid form. He synthesizes twenty two definitions of inter firm agreements relying on works treating of inter firm relationships, and concludes that seventeen studies (77%) take into account temporal adhesion mode, while only twelve (54%) evoke the degree of cooperation between the firms, and only seven (32%) introduce the adjustment mode.

### **Difficulties related to conceptual ambiguities of “Strange forms” in the transactional framework**

Williamson states that each generic form needs to be supported by a different contract law. His model is rooted in Macneil’s (1974, 1978) contract typology which advances three contractual classifications: classical (market form), neo-classical (hybrid form) and relational contracts (Bilateral or unified). The arbitration between the three generic forms is based on a transaction costs minimization quest where each generic form is a syndrome of transaction attributes.

In fact, Williamson (1973, 1975) as expressed by the title of his book “Markets and Hierarchies”, first focuses on market and hierarchy putting aside the continuum of forms between these two poles. However, he quite rapidly adds these forms as significant elements of his analysis explaining how much these forms finally are not that strange (1985:83): “Whereas I was earlier of the view that transactions of the middle kind were very difficult to organize and hence were unstable, I am now persuaded that transactions in the middle range are much more common”.

Therefore, his 1991 article constitutes an extension of the initial model where he includes these alternative forms, which he labelled “hybrids”. In the following table, Williamson’s framework is represented, including the multiple forms from market spot contract to vertical integration.

**Table 1: Williamson’s framework**

Specificity \ Frequency		Weak	Medium	High
Occasional	Recurrent	<b>Market governance</b> « Classical Contract »	<b>Trilateral Governance</b> « Neo-classical contract »	
			<b>Bilateral governance</b>	<b>Unified governance (firm)</b> « Relational Contract »

Williamson (1979: 254)

Williamson advances that Hybrids are arrangements that are based on “neo classical contracts” (theses contracts being adequate to transactions occasional, mixed and highly specific). Neo-classical contracts rise in case of unanticipated disturbances for which adaptation is needed, as they provide a tolerance zone. They privileged arbitration rather than courts in resolving disputes and evaluating performance. This governance form is therefore called “trilateral governance”.

This definition of hybrids is quite clear, and hybrid forms, following neo classical contracts, should appear in case of intermediate level of uncertainty and intermediate asset specificity (Williamson 1991:284). However, in his 1979 article, Williamson extends his analysis, adding “relational contracts” that are supposed to appear with transaction recurrence. Yet, as relationships between partners get more tightly integrated, these relational contracts take place, moving from trilateral mode of governance to bilateral mode of governance, in which the reference is no longer the initial agreement as for neo classical contract but the *‘entire relation as it is developed through time. This may or may not include an “original agreement” and may or may not result in great deference being given it’*. (Williamson 1979:238).

However further work on hybrids generally exits these “relational contracts” (in the sense of Macneil). As underlined by Josserand<sup>2</sup> (2001:60), relational contracts are no longer presented in Williamson 1991 article, and hybrids are from then, described as based on the unique neo classical contract. Still, among the great number of studies that place hybrids under the umbrella of neo classical forms, Brousseau and Codron<sup>3</sup> (1998) also assimilate “hybrid” to Macneil’s relational contract. They describe long term relationships between distributors and importers as based on relational contracts that should offer cooperation towards a better regularity in the distribution.

To this first ambiguity concerning the contract reliance of hybrids (either neo classical or relational contract), Quélin<sup>4</sup> (2002) explains that the effect of frequency is ambiguous in the

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<sup>2</sup> Josserand E., *Les logiques d’organisation : un point de passage obligatoire pour l’économie des coûts de transaction*, 59-75, (eds) *La théorie des coûts de transaction*, 2001, Vuibert.

<sup>3</sup> Brousseau E., Codron J.M, 1998, *La complémentarité entre formes de gouvernance : le cas de l’approvisionnement des grandes surfaces en fruits de contre-saisons*, *Economie rurale*, N°245-246, 1130-1148.

<sup>4</sup> Quélin B., *Les frontières de la firme*, Edition Economica 2002, 138 pages.

transactional model. In fact, frequency of the transaction and disturbances should normally deteriorate hybrids efficiency, leading to a more unified form. That is, the more transaction occurs, the less hybrid forms should be present (Williamson 1991:283). However, Williamson (1985) and Ménard (2000: 249-250) add that, when specificity is high, occasional transactions can also require unified governance. This statement is contrary to the framework that shows that facing high level of specificity, occasional transactions only lead to hybrid forms.

### **Difficulties related to the variety of empirical studies of “Strange forms” in the transactional framework**

As would be expected, in the growing body of empirical studies on inter-organizational relations and networks, empirical operationalizations come in a variety of forms, and, even though scholars readily accept that governance is a multidimensional phenomenon, there still is no consensus of the dimensions that characterize this phenomenon.

As a matter of fact, the most common application of TCA focuses on vertical integration decision, typically highlighting the manufacture’s decision to backward integrate into the supply of materials or components or forward integrate into distribution and sales. So, these applications, in their “positive” tradition<sup>5</sup>, test TCA through studying the relationship between independent variables representing transaction attributes (i.e., specificity, uncertainty..) and dependent variables representing the generic form adopted (for a synthesis, Klein and Schelanski 1995, Rindfleisch and Heide 1997, Boerner and Macher 2002). Hence, measures of this dependant variable differ and earliest empirical studies such as Masten (1984), Meehan, Masten and Snyder (1989), Walker Weber (1984, 1987) focus more frequently on the binary “make or buy” decision. For instance, scholars measure if the component is procured through an outside supplier or if it is produced in-house. Other studies, such as Balakrishnan and Wernerfet (1986), Levy (1985), Maltz (1994, 1995) used a continuous measure of the “make or buy” decision, studying the “degree” of vertical integration, ranging from 0% to 100%.

However, forms of inter firm relationship are operationalized in a variety of forms. One of the pioneer studies of “hybrid” governance mechanisms remains Monteverde and Teece’s

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<sup>5</sup> This “positive” way of testing TCA, has been largely criticized by authors such as Walker and Poppo (1991) and Masten (1993). As a result, a new wave of empirical work tested Transaction Cost Theory in a “normative” way, highlighting the implication of using the insights of TCA on firm’s performance (Poppo and Zenger 1998, Walker and Poppo 1991..).

1982 survey. Through this study, they examine “quasi vertical integration” in the U.S. automobile industry. They use a simple binary measure of quasi vertical integration setting to “one” each time that the tools and dies used to produce the component are owned by the assemblers and not by the supplier (and “zero” if the tools and dies are not owned and/or paid by the assembler). However, this survey is limited to a very narrow type of sub contracting that is very close to vertical integration, as the supplier finally only offers his labour force. It leaves aside considerations such as the nature of the relationship, the extent of cooperation and joint action, the mode of conflict resolution, the duration of contract and its formality and so forth.

Heide and John (1990) use TCA to examine how buyers and suppliers rely on close relationships as a means of safeguarding specific investment and adapting to uncertainty. They put in place three dimensions: joint action, continuity and verification of supplier. Joint action describes the extent to which the parties undertake activities jointly rather than unilaterally. Continuity describes the perception of the firm that both parties expect the relationship to continue into the future. The verification of the supplier describes the efforts undertaken to verify the capabilities of the supplier. However the hypothesis tested are more interested in measuring the effects of continuity expectation and increased verification efforts on joint action. It does not attempt to put in light the different typologies of governance resulting from the combination these three criteria.

Palay (1984) offers a study that highlights the following five elements of governance that are methods of enforcement (e.g. existence of potential alternatives, realized mutuality of interest...), adaptations to changed circumstances (holding to original terms, flexibility), type of adjustments made (unilateral, negotiated), information stability (whether or not they exchange information for short term specific planning) and structural planning attempts (whether or not they exchange information for structural planning). Palay aggregates data relative to these five dimensions of governance structure creating three groups that are market, “mixed” and relational. However, no classification is offered inside the hybrid continuum.

Consequently, even though “Hybrid” forms have been added to the transactional literature, and even though empirical studies do exist, their study remains deficient in some important ways. Indeed, there is no theoretical framework that explains the content of these relationships, and the empirical studies applied to hybrid forms do not really aim at

classifying forms relatively to homogeneous dimensions. According to Ménard (2004), Williamson's framework should be extended, so as to provide a more useful tool for integrating and ordering the different forms of hybrids.

## **2. Seeking for a classification of these Strange forms: promising studies**

The research for a hybrid classification made us go beyond the exclusive transactional literature, to add studies related to inter firm agreements literature and economics of contracts literature. Studies such as Blanchot and Brousseau's articles, as well Macaulay's insights concerning informal contracts, provide interesting insights in "re thinking" for a more complete framework.

Blanchot (1998) highlights three main dimensions for determining a typology of the nature of inter firm agreements. These dimensions are the degree of cooperation of partners, their adhesion's temporal mode and their adjustment mode.

The degree of cooperation can take three forms depending on the extent of joint action and of common tasks undertaken between the partners.

		<i>Common tasks</i>	
		<i>Yes</i>	<i>No</i>
<i>Joint action</i>	<i>Yes</i>	(2)	(3)
	<i>No</i>	(1)	

The weakest degree of cooperation is due to the inexistence of joint action (1) while the highest degree of cooperation is relevant to situation in which common tasks are undertaken through joint action (2).

However, as the degree of cooperation gives no information about the duration of the relationship and its recurrence, Blanchot highlights four main situations.

		<i>Renewal probability</i>	
		<i>Weak</i>	<i>Strong</i>
<i>Duration</i>	<i>Middle to Long run</i>	(3)	(4)
	<i>Spot to Short run</i>	(1)	(2)

Finally, Blanchot points out a dimension illustrating the way partners face contingencies. He highlights two main situations. First, decisions can be adjusted ex post, in that case, contracts are similar to Macneil's "classical contract", meaning that they are widely described and parties can refer to them for determining their behaviour. Second, decisions and problems can be managed through time, based on mutual adjustment, referring to what Brousseau defines as a "decentralized authority" or to Macneil's "neo-classical" contract.

Building on these three dimensions, Blanchot puts in place an ambitious framework that helps to classify different types of inter firm arrangements. We will highlight classifications of vertical production arrangements.

He presents many forms, i.e. simple furniture arrangements, sub contracting (also called quasi integration or quasi vertical integration) and oblique quasi integration. Simple supplier furniture arrangements are therefore uniquely based on the ordering of product by the buyer. The supplier is the unique producer of the product, there is no joint action. In fact, the buyer does not participate to the conception neither to the production process; he simply orders the product that he buys once produced. Sub contracting relies on the ordering of a product by the buyer. But the buyer establishes a set of technical requirements. The supplier must respect these requirements. Joint action does exist as both parties participate in the production process. Relying on Baudry (1995), Blanchot explains that subcontracting is a *quasi integration* that is often a short term agreement. And, he opposes it to Baudry's "*Oblique vertical integration*" concept, that is an evolution of simple subcontracting, including collaboration between the buyer and its supplier. In fact, while subcontracting simply involves an order to a supplier that must accomplish the production following a precise set of technical requirements, oblique vertical integration includes a "participation" of the supplier in the production process.

**Table 2: Examples of Blanchot's classification of most common hybrid forms**

Type of Arrangement	Arrangements characteristics'								
	Degree of cooperation			Temporal Adhesion mode				Adjustment mode	
	1	2	3	1	2	3	4	1	2
.....									
Supplier arrangement	?			?				?	
Quasi integration /Sub contracting		?		?				?	
Oblique quasi integration		?					?		?

Blanchot (1998:17)

Even though this framework puts aside important dimensions such as the enforcement modes (credible commitments, supervision) as well as the formality of contracts, it constitutes an interesting attempt to classify inter firm relationships, presenting clear indicators of the nature of inter form arrangement.

These missing dimensions are present in the contractual literature as well as in Macaulay's preliminary study of non contractual inter firm relations. Brousseau (1995) presents an even more complete reading of contracts. In fact, he starts by explaining that hybrid forms continue to be under-used because of methodological reasons. Thus, most studies rely on the "market or hierarchy" binary choice. To overcome this lack, he offers a unified tool, a "morphologic grammar" so as to describe contracts throughout a combination of seven clauses (namely A, B, C, D, E, F and G). Contrarily to Blanchot, rather than to name these forms, he chooses to describe contracts by the collection of their features.

Brousseau sets in place four main mechanisms for reading contracts. A first set of "technical governance" mechanisms includes the modes of coordination chosen by partners concerning strategic (clause A), organizational (clause B) and operational (clause C) decisions.

Clause A describes the process that is set up to redefine the objective of the coalition (i.e. Its output and therefore the market on which it competes, and the way it competes). Clause B concerns the ability to re-assign tasks among participants or to redefine the nature of the utility brought by each party without altering the goal of the contractual arrangement. More precisely, when a contingency occurs, this clause defines the way co-contractors can reorganize or not the production and exchange process. Finally, clause C concerns the power to modulate through time and space the modality of usage of the different assets involved in the transaction (i.e. defining the intensity of use of the input, product delivery rhythm, schedules...). These three coordination modes can be established ex ante throughout a complete contract, in that case it is "routine" based. Or, contracts can be left incomplete and adjustment is therefore undertaken through time and contingencies throughout an authority mechanism that can be centralized or decentralized.

A second set of enforcement mechanisms is designed to describe the mechanisms used to avoid opportunistic behaviour and to constrain agents to enforce their promises. The enforcement mode is described through credible commitments (clause D) and supervision mechanisms (clause E). Credible commitments can be based on bilateral hostage (mutual

reliance and both agree to modify specificity of the input), unilateral hostage (one party deposits a hostage in the hand of the other) or no credible commitments at all. Supervision mechanisms can be undertaken through a self-enforcement mode, in that case each party exercises control over the other and the only recourse is to terminate the agreement. It can be based on an external non specialized supervisor (courts), a specialized supervisor that can be one of the co-contractors or by a third party that is specialized in contract supervising.

A third set concerns the remuneration and risk sharing mode (clause F). Four modes are distinguished. A first mode relies on a customized basis, in which each owner is remunerated at its marginal productivity. Second, remuneration can be based on a collective basis, meaning a fixed sharing in which the output is divided among contractors, defined by ex ante rules and not on contribution rules. Third, remuneration can be based on a flat rate in which one agent assumes losses and collects profits and remunerates the other's assets ex ante. Finally, remuneration can depend on the intensity of use of the assets, or of the ex post evaluation of the efforts.

The last set concerns contract duration (clause G). Contracts can occur once, they are then called "spot contracts", they can concern a short term period or a long term period.

**Table 3: Brousseau's grammar to describe bilateral contracts (1995: 418)**

Objective of the clause		Possible clause alternatives		
A	1	2	3	
Strategic coordination	Routine	Centralized authority	Decentralized authority	**
B	1	2	3	
Organizational coord	Routine	Centralized authority	Decentralized authority	**
C				
Operational coord	1	2	3	
	Routine	Centralized authority	Decentralized authority	**
D	1	2	3	
Credible commitm	No C.C	Unilateral hostage	Bilateral hostage	**
E	1	2	3	4
Supervision	Self-enforcement	Non specialized	Contractor	Specialized
Mechanism		supervisor	supervisor	supervisor
F	1	2	3	4
Remuneration	Marginal	Fixed	Flat	Intensity
System	productivity	sharing	rate	of use
G	1	2	3	**
Duration Contract	Spot contract	Short-term	Long-term	

Throughout these seven clauses, Brousseau offers a rich method for reading contract typologies based on their essential features.

This “contractual grammar” enables us to describe contract characteristics rather than to name them, avoiding the frequent misunderstanding caused by categorical denominations that are not always recognized by the whole research community. It also enables to take into account original contracts that do not belong to the standard and well-known categories. Brousseau presents examples of inter firm typologies (i.e. based hierarchy, market, joint ventures, cooperatives) based on the established features. His work remains to us one of the most complete insights for reading contract typologies. However, further digging must be undertaken to link these features to the transactional analysis.

Jaspere and Ende (2006) offer another type of conceptualization of the organizational form that is exclusively based on the study of vertical integration. Even though this classification is not specialized for studying hybrid forms, it constitutes an interesting insight for further research.

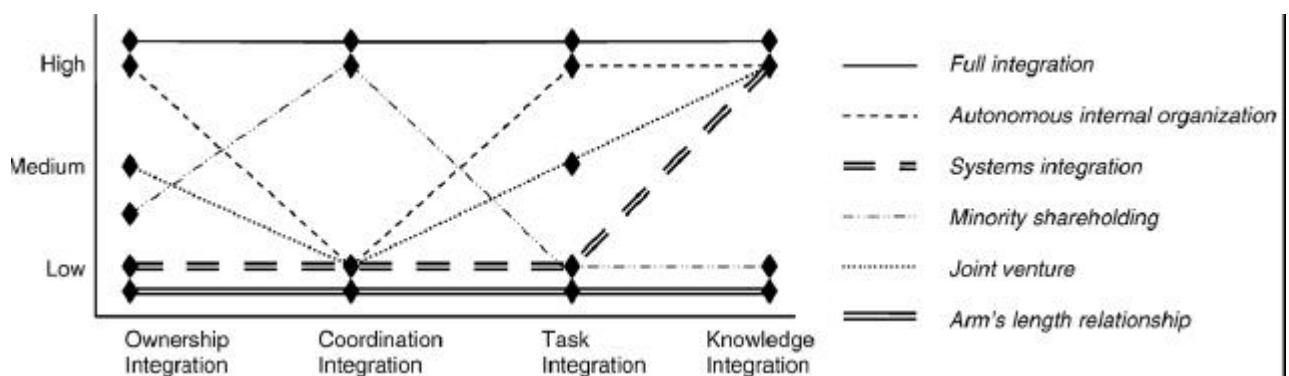
Their classification is determined as a configuration of four main dimensions. The first dimension *ownership* represents the extent to which the buying firm owns the supplier (internalization, minority stake or purchasing through independent supplier), secondly, *task integration* measures the extent to which the firm performs the upstream task required to develop and produce the component. Thirdly, *coordination integration* refers to the extent of information exchange between the focal firm and the component supplier. Finally *knowledge integration* represents the extent that the firm possesses the knowledge that is required to develop and produce the component.

At one extreme, the buying firm owns the component supplier, performs all upstream tasks internally, extensively coordinates with the internal component supplier, and possesses detailed knowledge about the component. This organizational configuration of full integration (i.e. high values on each dimension) facilitates the alignment of the component with the firm's end product and allows the firm to appropriate that is created in the relationships. Furthermore, the firm possesses detailed upstream knowledge which allows it to perform all tasks and to further specialize in this component. In addition, this integrated approach reduces the risks of spillovers, because of the absence of involvement from external firms. Following the above discussion this configuration can be theorized to be the most appropriate for the organization of components characterized by high interdependence, uncertainty, asset

specificity and strategic importance. At the other extreme, the firm purchases the component from an independent supplier, performs no upstream tasks itself, does not coordinate with this external supplier, and possesses no knowledge about the component.

Even though the development of detailed middle-range theories is beyond the scope of this paper, and that consequently, it does not take into account dimensions such as contract duration, enforcement mechanisms, remuneration and so forth, it presents several configurations that lie between the two extremes of full integration and arm's length relationships (e.g. joint venture) to illustrate the wide range of configurations that can be conceptualized with our approach. And, above all, it offers an original attempt for the establishment of a contractual typology.

**Figure 2: Illustrative configurations of the dimensions of integration**



Jaspers and Ende (2006:825)

### **3. Evidence from the French poultry industry**

#### **Presentation of the French Poultry industry**

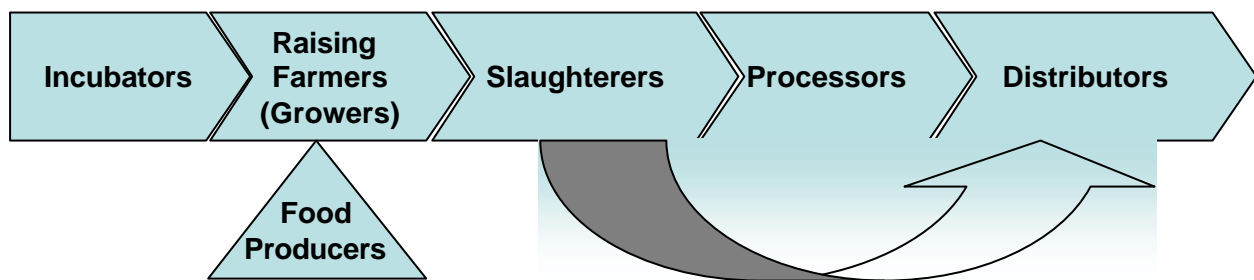
The French aviculture is leading the European production, and is second in world exports<sup>6</sup>. It has developed quite late compared to United States' (Ménard and Klein 2004). Indeed, it remained for a long time organized in a traditional way and the first symptoms of industrialization only appeared in 1950 (Diry 1985). Since then, the industrial operators usually called “integrators” started holding an increasing role in the sector.

<sup>6</sup> For more details see Ménard (1996).

The typical production chain is represented as follows:

Hatching eggs are transformed into hatching baby chicks through a selection and incubation process, once the baby chicks produced; they are transported to growers (raising farmers). In parallel, a feed mill mixing ratios for raising chicks is operated by the feed producers. Growers, then feed animals for a seven week period time (in average) for standard chicken and an eleven week period for certified chicken. Finally, chicken are slaughtered and processed (it can be frozen if it is a standard chicken) so as to be distributed (see figure 1).

**Figure 1: Representation of the poultry chain**



The French poultry sector is very concentrated and the number of operators is reduced to 25 companies that provide the whole activity. French companies are mainly composed of private groups and agricultural cooperatives.

These two types of companies do not organize themselves in the same way. Indeed, while private groups were at the beginning generally<sup>7</sup> slaughterers that decided (or not) to upward integrate, cooperatives started with the upward activities, dealing with the production chain more precisely with the combination of “feeding and growing” activities. In most cases, private groups are directly in contact with the distribution channel (i.e. Carrefour, Géant, Monoprix...), which orders products with technical and sanitary requirements. Starting from that order, these private groups whether organize their own production chain (if they are integrated), or, organize these activities through spot market, or contracting with farmers, incubators, and feed producers, or they also often contract with a single entity, generally a cooperative which already masters the entire production chain. However, variants do exist, and while slaughterers can be more or less integrated, cooperatives can also integrate the slaughtering activity being therefore directly in contact with the distribution channel.

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<sup>7</sup> One exception exists as the private group “Arrivé”, started as a feeder, and extended progressively its activities, integrating the other activities of the production chain.

A cooperative is a combination of producers (breeders) that are members of the cooperative<sup>8</sup>. In fact, to become a member, farmers must pay an “entry ticket” transforming the member in a sort of “stockholder” of the cooperative that can therefore be described as a “multi ownership” structure. Cooperatives never own breeding building, they define technical requirements to their members through a document the “*cahier des charges*” (it sets a list of technical and sanitary requirements), provide them technical support, collect and select the products, and take care of the packaging of their members. The cooperative holds property rights on the brand name and is responsible for controlling quality, and, the respect by all parties of the requirements contractually agreed upon. It is in charge of marketing the products and of contract negotiations with retailers. Consequently, members will not negotiate buying and selling prices individually, as the cooperative will be the single negotiator. In fact, the cooperative can be understood as an “organizing force” that harmonizes the efforts of its members towards a common purpose. Once created, cooperatives decide (or not) to downward integrate by integrating slaughtering and distributing activities<sup>9</sup>.

## **Methodology**

The purpose of this study was to highlight the way these poultry companies such as LDC, DOUX, UNICOPA, COOPAGRI and so forth, organize the production chain of standard chicken relying either on the spot market, on contractual agreements or on vertical integration. In fact, we were interested in classifying the modes of governance following the transactional cost approach.

Data was developed from a series of interviews held between February and June 2006 with French groups. These interviews were all conducted with either upstream directors, or general directors, depending on the size of the group and of its internal organization. However, there are two companies (a cooperative and a private group) for which we interviewed respectively two and three informants. In total, we conducted interviews with thirteen individuals from ten poultry companies, collecting information concerning the four main activities of the production chain. Meetings lasted between one and two hours in average. They were all recorded, retranscribed and analyzed. The interviews were structured, presenting questions that were essentially related to the way companies organize the four main activities of the production chain. Groups were first asked if activities were undertaken in-house, through the

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<sup>8</sup> For more details see Ménard (1998).

<sup>9</sup> In the french poultry industry most cooperatives have integrated the slaughtering activity. “Le Gouessant” for example integrated slaughtering building but rapidly sold it back because they could not manage the new activity in which they were not specialized.

contracts or spot markets. Then, each time that these activities relied on contractual agreements, we asked additional questions based on the insights presented earlier. We also added questions concerning the “formality” of the contractual agreements, referring to Macaulay’s study (1963), as we noticed that the poultry industry is very often concerned with informal arrangements.

## Analysis

### General structures

Unsurprisingly, the analysis of these interviews showed heterogeneity of governance modes from an activity to another. In fact, the classification of activities undertaken in-house or on the “spot market” was easy, whereas a classification was tougher for contractual agreements. In the following table (see Annex 1 and 2), we present a synthesis of the three modes of governance chosen by private groups and by cooperatives for each activity. We ranked from 0 to 5 the number of groups that had chosen the indicated mode of governance. Most of the activities used a mixed governance mode, integrating a part (represented in percentage) of the activity and contracting the remaining part (in one case, they also relied on the spot market).

**Table 4: General presentation of the governance mode chosen**

Private Groups	Market Spot				Contractual agreements				In-House			
	0% to 24%	25% to 49%	50% to 74%	75% to 100%	0% to 24%	25% to 49%	50% to 74%	75% to 100%	0% to 24%	25% to 49%	50% to 74%	75% to 100%
I	0				1	1	2	1	0	1	2	1
AF	0				2	1	2	1	1	1	1	2
RF	1	0	0	0	0	0	0	5	0	1	0	0
S	0				0				0	0	0	5

Coop	Market Spot				Contracts				In-House			
	0% to 24%	25% to 49%	50% to 74%	75% to 100%	0% to 24%	25% to 49%	50% to 74%	75% to 100%	0% to 24%	25% to 49%	50% to 74%	75% to 100%
I	0				1	1	0	3	0	0	2	0
AF	0				2	0	0	0	0	0	2	3
RF	0				0	0	0	5	0	0	0	0
S	0				2	0	0	0	0	0	0	5

I: Incubators

AF: Animal Feeding

RF: Raising Farmers

S: Slaughtering

Throughout these two tables representing the way private groups and cooperatives undertake these four activities, we can first notice that industrialization of agriculture typically leads to the increase of contractual forms. The industrialization of the sector resulted in a more coordinated process<sup>10</sup>. In fact, compared to other industrial sectors, poultry production chain deals with highly perishable commodities, as “chicks” and “chicken” cannot be stored (an exception remains for feed production that can be stored). So, as long as animals have not been slaughtered, the coordination of their production holds an essential role.

Indeed, contractual agreements remain the most used organizational form as opposed to spot market, as we can see that French operators no longer rely on “one shot” contract (only present for 3% of the raising activity for one private group). At the other extreme, vertical integration is quite present, it is important for private groups essentially in the slaughtering activity (as it is their starting activity), and for cooperatives in the animal feeding production activity, as we can notice that the five cooperatives integrate this activity for at least more than fifty percent of their needs. Relying on these first synthetic results, one essential question remains: Can TCA rely on this only triptych classification to justify its utility?

In fact, considering the variety of characteristics of these contractual relationships from an activity to another, we can adopt two behaviours. We can either place the contractual forms under the umbrella of “hybrid” forms, simply locating them between the two antagonist poles notwithstanding their differences; or, we can consider that these contractual agreements present different advantages and limits and that their classification is therefore at least as important as the one operated between market and in-house governance modes. Indeed, placing all the forms of exchange that are based on inter firm agreement under the designation of “contracts” does not allow us to study the variety of these relationships that contrast among activities. For example, can we place sub contracting, quasi integration (in the sense of Monteverde and Teece) or quasi integration (in the sense of Blois) between a supplier and a buyer at the same standing point? Do these forms result in the same level of transaction costs?

To our view a classification of these contracts must introduce many other dimensions present in the conceptual and empirical literature, most essentially, the formality of the contract

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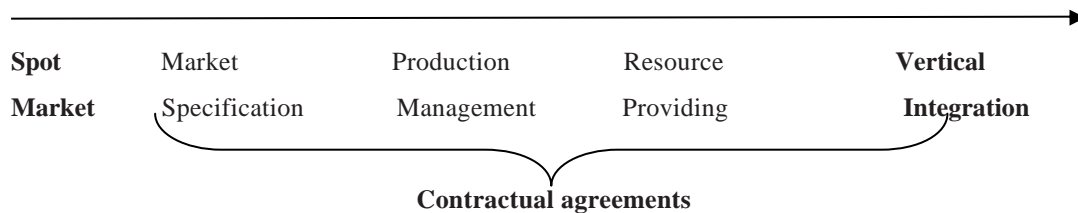
<sup>10</sup> The French research group “ATOM”, has published many papers dealing with the effects of industrialization on the contractual forms in all agri-food industry and especially in poultry industry (Ménard, Sauvé, Raynaud...).

(explicit or oral), its duration and renewal mode, its enforcement and supervision modes and so forth.

### **Contractual agreements: differences among activities and “re thinking” for a classification**

Before thinking for a classification of these inter-firm agreements, it is necessary to briefly present the main contractual typologies present in the agricultural sector. These contracts already offer insights about the nature of the relationship that links the customer to its suppliers. It also offers insights about the location of these hybrids, if they are either closer to market form or to hierarchy. Mighell and Jones (1963) already discuss several administered arrangements for vertical coordination<sup>11</sup> in the food sector. They offer three general contract types that follow the progression of increasing dominance by one party. These contracts are classified as follows: market specification, production management and resource providing. However they rely on neo classical producer theory as the unique dimension remains the dominance of one party over the other.

**Figure 3: Mighell and Jones’s contractual typology**



This classification has been enriched by Rousset<sup>12</sup> (2005), who relies on a more detailed typology (See figure 4). He adds a contract that is very present in poultry industry, the “*contrat à façon*”. This contract can take place in the relation between an integrator and its growers. More precisely, the integrator orders chicken to the farmers (growers) whom become nearly “integrated to the group”, as the former provides them with chicks, animal feeding and technical support that are free of charge. And, the breeder is paid an amount called a “*façon*”, once the animal delivered.

<sup>11</sup> The concept of vertical coordination is very often used in agricultural studies. Henderson and Franck (1992) building on Marion (1976:180) explain that “*vertical coordination is a more comprehensive concept capturing not only vertical integration, but the entire process by which the various functions of a vertical value adding system are brought into harmony [...] vertical coordination encompasses all means of harmonizing vertically interdependent production and distribution activities ranging from spot markets from various type of contracts to complete integration*”.

<sup>12</sup> Rousset borrows this typology to Mazé (2000), to which he brings more specifications.

**Figure 4: Rousset's main typology of contracts in agriculture**

<i>Market</i>				<i>Hierarchy</i>	
<b>Spot Market</b>	Selling arrangement <i>Requirements based on final product</i>	Production contract <i>Requirements based on production factors</i>	Integration contract <i>Furniture of all production factors</i>	“ <i>Contrat à façon » Labour force</i> ”	<b>Vertical Integration</b> <i>Labour Contract</i>

The “*contrat à façon*” is therefore very close to vertical integration, the only difference remains the ownership of the chicken houses that are still properties of farmers. This contract is also close from “integration contracts”. The main difference is that in the latter, animals are properties of the farmers as they pay for the inputs (chicks, feeding...) and they sell back the output (the chicken) throughout a pre fixed price. Indeed, animals are property of farmers during the whole growing process, contrarily to the former in which farmers only provide their labour force. In the two cases however, the integrator bears the risk alone as he is forced to take back or buy the animals programmed with the farmers. This form is close to Monteverde and Teece's quasi integration concept as the inputs used, are property of the “integrator”. A deeper analysis is then undertaken for each contractual agreement. These agreements are detailed in the following table.

**Table 5: Extent of contractual agreements within cooperatives and private groups**

	I	AF	B	S
Private groups				
DOUX	40 %	2 %	100 %	×
LDC	100 %	50 %	97 %	×
ARRIVE	100 %	20 %	100 %	×
E. Soulard	25 %	×	70 %	×
V. Périgord	100 %	100 %	100 %	×
Cooperatives				
UNICOPA	30 %	5 %	100 %	×
COOPAGRI	30 %	5 %	100 %	×
TERRENA	15 %	×	100 %	5%
CECAB	100 %	×	100 %	×
AGRIAL	100 %	×	100 %	20%

The contractual agreements studied are essentially based on Brousseau's insights to which we have added a question concerning the renewal of the exchange relationship (Blanchot 1998) and a question concerning the formality of the contract (Macaulay 1963). These interviews are analyzed in a qualitative way, and we next present a synthesis of the main features of each contractual relationship.

We will focus on the way slaughterers (belonging either to cooperatives or to private groups) organize contractual relationships with incubator, animal feeding producers and growers. In fact, cooperatives or private groups do not contract with an independent slaughter for the unique "slaughtering" of chicken. In fact, companies, if they do not own their slaughtering houses, sell the production to private slaughterers that undertake the whole downward process themselves (slaughtering, processing and selling). This situation is only noticed in cooperatives as these were in the beginning only involved in the upward production. When a cooperative sells a part of its production to a private slaughterer, it is a selling arrangement. The cooperative AGRIAL for example used to sell its whole production to private slaughterers but it has progressively integrated its slaughterers and it now only sells 20% of its chicken to a private slaughterer "Ramon". Consequently, "slaughtering activity" is much more studied as a "make or sell" rather than a "make or buy" decision and will not be studied in detail.

### **Incubation activity**

Contractual agreements are the dominant form in this activity. In fact, there are no companies that undertake the whole activity in-house. More precisely, 3 private groups and 2 cooperatives undertake the whole activity through contracts, and only one cooperative contracts less than 20% of its activity. Relying on Rousset (2005), these contracts are "selling arrangement" as requirements are only based upon the final product: the "baby chick".

The relationship between incubators and "integrators" are "seller/buyer" relationships based on contractual agreements. Contracts do exist as professionals work following technical requirements, but they are incomplete as changes are quite frequent (demand fluctuates and the nature of the product ordered often leads to readjustments). Incubators master the incubation process. They are responsible for improvement products, for research and development, for the creation of more productive chicks. Incubators provide many groups and the relationship is none "exclusive".

Strategic and organizational coordination are rather located between centralization and decentralization, as in theory, the integrator is the final customer and his requirements are determinant. However, negotiation is very important, and even though the integrators impose technical requirements, in almost cases, mutual dependency leads to a more equal relationship. Operational coordination is rather based on routines, as schedules, quantities, type of product ordered, are generally assimilated through time. However, decentralized adjustment can take place as bargaining concerning schedules, prices and quantities for example, can be negotiated (as it was the case during the bird flu crises for example). As explains an informant: *“we both need each other, and we know that we have to work hand in hand [...] we need to join our efforts, and in period of crises, losses must be shared. We know that in periods of take off we will need the supplier’s production capacity”*.

For all companies surveyed, the enforcement mode is based on credible commitment and trust as there is no hostage exchanged. If, the quality of the chicks delivered is really under the standard quality, disputes can be resolved through courts, but this is very rare. Supervision is generally undertaken by an external specialized supervisor which audits the supplier twice a year. Indeed, integrators do not always master sufficiently the incubation process.

In fact, the companies often explain that the supplier is much more considered like a partner. This idea has already been underlined by Macaulay (1963) that shows how businessmen often prefer to rely on “a handshake”, even where the transaction involve exposure to a serious risk. And, as he adds that even when contracts are used, disputes are rarely litigated. He observes that contract elaboration can indicate a lack of trust and blunts the demand of friendship. As explains an interviewee: *«Reputation is very important as people never forget, we are operating in the agricultural sector which is a small community where loyalty holds an important place”*.

Remuneration is fixed ex ante, and is not dependent on the performance of the chicks delivered. Finally, all these contractual agreements are based on a lasting relationship, in which contracts are generally implicitly renewed through time.

Contracts rely on technical requirements, but oral communication is much more important, as explains one of the informants *‘Phone calls and emails are used to modify quantities, animal types [...], things can be bargained in an informal way, it costs much less than putting in*

*place a complete contract*". However, we have noticed one cooperative that relies on an annual written contract and for which they say introducing competition through an arm's length relationship, making contracts more "market like".

This activity is therefore based on a selling arrangement in which dimensions such as long term relationships, trust, self enforcement, that are presented earlier reinforce our idea that these relationships are based on "partnerships". Moreover, contracts even when they exist, only determinate the guidelines, and adjustments are in most cases informal and renewed automatically over time. This form based on a "sell and buy" relationship, is firstly thought as a "closer to the market" mode of governance. However, a further study of these dimensions relates a contractual agreement that is more considered as a partnership in which parties rely on one another. Consequently, deeper analysis of inter firm agreements reveals more "firm like" characteristics. Personal relationships, duration of the agreements, reputation effects seem to offer efficient adaptation instruments that limit the "hit and run" behaviours that constitute the most important dimension in the TCA. **Contractual agreements between integrators and their incubators can be described as follows: (A2/A3, B2/B3, C1/3, D1, E4, F1, G3), and contracts, even though existent are rather adjusted in an informal way and they are more often renewed through time.**

### **Animal feeding activity**

This activity is less contractualized than the previous one. In fact, cooperatives rarely undertake this activity through contracts. We can notice that two cooperatives put in place contracts but it only concerns 5% of their needs. Private groups put in place more contracts than cooperatives as only one group internalizes the whole activity. The others contract 2, 20, 50, and 100% of their needs. In fact, this activity is less critical than the other, as the product can be stored and needs to be less "programmed" than other activities such as incubating, raising and slaughtering which are directly linked to the life cycle of the animals. Therefore, animal feeding is a product that is easy to purchase and that can be quite rapidly produced.

Groups put in place contractual "selling arrangements" with external suppliers. Strategic, organizational and operational coordination are generally based on routines, however, contingencies do occur and especially concern price fluctuation (the prices often fluctuates

based on the fluctuation of the cereal prices). And, when changes occur, bargaining does exist especially concerning operational coordination.

No credible commitments are settled down and supervision is self enforced by the “integrators” themselves. A problem with the feed product will simply put an end to the contractual agreement. The integrator has to make sure of the quality of the product bought, and reputation as well as experience will be determinant in the relationship.

Remuneration is established *ex ante* on a flat basis. Duration of the contract is rather short as it is included from one to two years. Contracts exist, however tacit changes can occur. These contracts are often renewed through time but integrators can buy from other suppliers if these offer better conditions. Contracts are more often moral as “*simple phone calls*” are undertaken to order, increase or decrease ordered quantities of animal food. Trust is once more determinant and reputation effect limit “hit and run” behaviour.

The stability of the relationships offers more security about the quality of the product that is an important element in the required traceability, but groups can arbitrate between two or more suppliers and introduce competition among them.

**Consequently in general contracts with feeders can be described as follows: (A1/3, B1/3, C1/3, D1, E1, F1, G3), contracts, even though existent are rather informal but they are not automatically tacitly renewed. Groups change their animal feeding producer supplier more often than their incubators.**

### **Breeding activity**

Contractual agreements between “integrators” and raising farmers must be distinguished considering private groups and cooperatives.

#### *Private groups*

As explained previously, the reading of contractual agreements between integrators and their farmers, depends on whether specifications concern final product, production factors, input furniture for which animals are property of farmers, or input furniture for which animals are property of the integrator (Rousset 2005, Mazé 2002). In fact, contracts between two parties are based on a set of tough technical and sanitary requirements that are established in the “*cahier des charges*”. We notice two predominant types of contracts: integration contracts and contracts “*à façon*”. Groups and cooperative never own chicken houses (only very rare cases

exist) as in France institutional and environmental pressures limit full vertical integration of groups.

In total, one group relies on a production contract, and another relies on a “*contrat à façon*”, while the three others put in place “integration contracts”. The group Doux for example remains one of the more “integrated” private groups as he produces 90% of his production relying on a “*contrat à façon*”. The remaining 10% are produced through “integration contracts”.

These contracts rely on centralized strategic and organizational coordination modes, while operational modes are rather based on routines. The integrator largely dominates the relationship.

Contracts are usually written and relationships last over time (more than three years) and are more often tacitly renewed. While a part of the remuneration is fixed ex ante, another part of it depends on the performance of the breeder. Indeed a part of the remuneration of the breeders is based on settlement cost performance related to the feed conversion index (Knoeber 1989, 1994, 1995). These settlement costs fall as feed conversion improves. Remuneration therefore includes a flat rate and breeders never share losses. However incentives do exist as part of remuneration is customized. In fact, breeders never shares losses, and contracts do not include risk sharing as the production is always taken back by the integrator at the pre fixed price without reference to market prices of feed and baby chicks. The breeder invests in chicken houses and this makes him dependent on the integrator that consequently controls pressure mechanisms. We can therefore consider that there is a unilateral credible commitment. Supervision is undertaken by the groups themselves throughout their own specialized technicians that frequently control growers.

These contracts overpass simple contractual agreements, and they are clearly characterized by the dominance of the “integrator” that *quasi integrates* the growers. This relationship is close from Monteverde and Teece’s “*quasi integration*”, particularly concerning the “*contrat à façon*” that is nearly equivalent to full integration.

Contracts with growers, independently of the nature (whether they are production, integration or “*à façon*” contracts) have very similar features. The only difference remaining the integrator’s dominance, making these contractual agreement increasingly “firm like”.

Consequently, contracts can be describe as follows (**A2, B2, C1, D2, E3, F3/F4, G3, formal, often tacit renewal**).

### *Cooperatives*

Describing the relationship between a cooperative and its growers needs a further lightening. In fact, as explained earlier, a cooperative is by definition owned by its members. Cooperatives also work with independent growers. Agrial and Coopagri for example only work with members, while Terrena produces 70 % with members and the rest with independent farmers. Unicopa produces 65% with members and 35% with non members. Finally, Cecab only works with members for 40% of its production. Cooperatives never put in place “à façon” contracts, and they rely upon “integration contract”. Consequently, growers are always property of members who buy chicks and seed, benefit from technical supports and sell back animals to either slaughterers owned by the cooperative or to external slaughters. Contractual agreements with non members are close to those undertaken by private groups.

Farmers play a double function. In fact, they can influence the global strategy of the cooperative being by definition partial owners of this entity. The strategic and organizational coordination are established by the cooperative’s general assembly that orients strategic and organizational objectives. Therefore, as global orientation can be influenced by the breeders, strategic and organizational coordination modes are located between a centralized and a decentralized authority. Operational coordination relies on a rather complete contract that is “routinized”. Credible commitments are also unilateral. Hence, members invest in chicken houses as well and they pay an “entry fee”. Supervision is undertaken throughout the cooperative’s own technicians.

Remuneration is based on ex ante fixed prices and breeders never share losses and remuneration is similar to the one undertaken by private groups, as it is based on a flat rate and a part is based on an intensity of use basis. Contracts are written and it is at least a five years period contract.

Consequently, contracts with members can be describe as follows (**A2/3, B3, C1, D3, E3, F3/F4, G3, formal, often tacit renewal**). Contracts with non members are similar to the previous integration contract described for private groups.

Figure 5: Diversity of contractual agreements: A representation attempt

	A	B	C	D	E	F	G	Macaulay	Blanchot
Firm	Centralized			Unilateral	Contractor	Flat Rate	Long Term	Informal	Yes
Hybrid	Decentralized			Bilateral	Speciali- zed	Intensity of Use	Short Term	Mixed	Maybe
					Self Enforce- ment	Fixed Sharing			
Market	Routine			No CC	External Non Specia- lized	Marginal Productivity	Spot Contract	Formal	No

	A	B	C	D	E	F	G	Macaulay	Blanchot					
"Integration Contract" with Growers					Growing Contract with Members									
	Centralized	Unilateral	Contractor	Flat Rate	Long Term	Informal	Yes	Centralized	Unilateral	Contractor	Flat Rate	Long Term	Informal	Yes
	Decentralized	Bilateral	Speciali- zed	Intensity of Use	Short Term	Mixed	Maybe	Decentralized	Bilateral	Speciali- zed	Intensity of Use	Short Term	Mixed	Maybe
			Self Enforce- ment	Fixed Sharing						Self Enforce- ment	Fixed Sharing			
	Routine	No CC	External Non Specia- lized	Marginal Productivity	Spot Contract	Formal	No	Routine	No CC	External Non Specia- lized	Marginal Productivity	Spot Contract	Formal	No
Incubation Contracts					Feed Production Contracts									
	Centralized	Unilateral	Contractor	Flat Rate	Long Term	Informal	Yes	Centralized	Unilateral	Contractor	Flat Rate	Long Term	Informal	Yes
	Decentralized	Bilateral	Speciali- zed	Intensity of Use	Short Term	Mixed	Maybe	Decentralized	Bilateral	Speciali- zed	Intensity of Use	Short Term	Mixed	Maybe
			Self Enforce- ment	Fixed Sharing						Self Enforce- ment	Fixed Sharing			
	Routine	No CC	External Non Specia- lized	Marginal Productivity	Spot Contract	Formal	No	Routine	No CC	External Non Specia- lized	Marginal Productivity	Spot Contract	Formal	No

### Consequences on research

This classification based on the main features of the contractual agreements underlines two important points. First, this classification offers quite complete dimensions for the interpretation of the diverse contractual agreements and the reading of these dimensions can

complete the transactional framework. Definitely, comparing features of the contractual agreement in place to the transaction attributes should improve TCA testing.

For example, when transactions are involved with high specificity, contractual agreements including a rather centralized coordination mode, is more efficient in transaction costs reducing than a decentralized coordination mode. The deposit of bilateral or unilateral hostage is also more efficient than the inexistence of credible commitments. Supervision undertaken by a specialized party (one of the co-contractor or a third party) results in less transaction costs than the recourse to a non specialized arbitrator. Remuneration based on the intensity of use (if effort is easy to measure) and risk sharing, can limit the transaction costs relatively to a remuneration based on a collective sharing in which free riding behaviours can more easily take place.

Indeed, in this case for example, breeding contractual agreements are more efficient than feed producing contracts to economize on transaction costs. Incubators agreements even though less centralized do not result in transaction costs that are dramatically higher, as stability of the relationship facilitates rapid adaptation between partners. Integration contracts offer more “integrated” relationships than membership breeding relationships within cooperatives, as in the latter breeders can more easily negotiate. The opening of Hybrid’s black box confirms the need for deeper digging. This brief and synthetic comparison confirms that the study of the “make or buy” decision based on a triptych classification does not permit to put in light important differences among contractual agreements, that are at least as important as the differences between the two polar forms.

Second, this research highlights the importance of more “social” and “human” dimensions such as personal relationships, trust and reputation effects, that were underlined in almost all interviews conducted. These dimensions have already been stated in previous studies (Macaulay 1963, Chen 2000) and they constitute one of the most virulent critics opposed to TCA (Goshal and Moran 1996). For us, these dimensions should rather complete the transactional approach. More precisely, Hybrid forms can sometimes “hold” an exchange relationship that includes high level of asset specificity and that is recurrent, without generating dramatic transaction costs. Indeed, importance of loyalty and of reputation effects can have a great decreasing effect on transaction costs. Moreover, recurrence of transactions often stabilizes relationships through time, as personal relationships take place. Consequently,

these social dimensions can “hold” contractual agreements without necessarily shifting to full integration, and, “hit and run” behaviours that are feared by parties can therefore be annihilated. The poultry industry seems to be a perfect illustration of this situation. Macaulay’s earlier study (1963) on contracts already showed the importance of trust and informal contracts in business life. If this appears to be true, there are situations in which parties can rely on long term contractual agreements without a dramatic increase in transaction costs and this offers further critics to the transactional framework.

## **Conclusion**

This article aimed at discussing the place of hybrid form within the transactional conversation. It first tried to show the multiple difficulties that these forms are confronted to, such as, the multiplicity of definitions, the ambiguity resulting from the conceptual model as well as the heterogeneity of empirical studies.

We then presented studies that offer interesting starting points to improve the classification of these forms. These studies were used to describe contractual agreements among the poultry production chain. This analysis first confirmed the variety of contractual agreement existing in the poultry industry. Second, it showed how hybrid forms include a variety of characteristics that do not seem to economize on transaction costs equally. This confirms the need to open Hybrid’s “black box”, and to study these forms compared to one another. Moreover, we think that putting aside dimensions such as trust and reputation effects, does not lead to a realistic framework. Indeed, the introduction of these dimensions can largely explain the reliance on a long term agreement to undertake a transaction that involves highly specific assets.

Consequently, a precise analysis of effects of independent variables (i.e. specificity, uncertainty and frequency) on dependent variables when they are “hybrid”, can not be rigorous without a deeper analysis of the continuum of forms located between markets and firms. Indeed, simply comparing hybrids to the two polar forms does not put in light the differences among inter firm agreements. Going further in this direction can lead to testing TCA in a more realistic way.

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