



Hybrid organizations beyond externalities and organizational duality: The case of Chinese “People’s Mediation Committees”

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Abstract

The increasing complexity of real-world business environments, problem-solving, and governance has outgrown traditional organizational theories, which are based solely on negative externalities and the market-hierarchy duality. We add a social-network dimension to “market” and “hierarchy” and develop an extended conception of a hybrid organizational space. We fill this two-dimensional space, the “organizational triangle”, with a more specific hybrid organizational structure. We not only consider this structure a combination of the three allocation mechanisms but also integrate multiple and heterogeneous entities into that triangle, i.e., firms, local public-private networks, and state agencies (e.g., courts). This entails multiple and diverse interrelations, objectives, values, and behaviors. In joint conflict-solving, entities will have to adapt to each other, and often to adopt principles of other entities, implementing the hybridity of the system within their own organization, decision-making, and learning of new emerging social institutions. This is investigated in case studies of Chinese non-governmental local “People’s Mediation Committees”. These function as hubs that, with their conflict-settling arrangements, link the agents in new ways and through new informal institutions to be learned. They also use specific explicit and implicit contracts, complementing hierarchical, market, and network contracting. Such more comprehensive hybridity may help advance organizational theories in economics and management studies.

Keywords Externalities · Complexity · Social network · Hybrid organization · Organizational Triangle · Polycentricity · Implicit contracts · Chinese people’s mediation committees

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1 Introduction

Assignments of legal rights and duties usually generate negative externalities on other parties, commonly described as “technological or pecuniary externalities”.

Positive externalities may, of course, also occur in specific contexts and constellations within certain commons, such as industrial districts, but these are not the topic here. In fact, nearly every form of interrelation, particularly industrial agglomerations, is in some way an “external economy”, as A. Marshall argued (Marshall 1924 [1890]).

Negative externalities are understood as impacts of the use of legal rights by their holders on other agents. As is well known, they entail a difference between private and social costs. Negative externalities formed the foundations of Coasian Property-Rights Economics (Coase 1960), but this had also motivated older Institutional Economics that had long considered the distribution of rights and duties and their impacts, both formal (legal) and informal (tacitly institutionalized) ones (Commons 1995 [1924], 1989 [1934]).

In conventional economics, “markets” (which themselves may represent very different forms, functions, and outcomes) and “hierarchies” (ditto) have been considered the dual forms of coordination, including for the management of externalities. A.C. Pigou (1920) maintained the hierarchical viewpoint, as the Pigouvian remedy held that state-enforced regulation and taxation of firms would provide effective results. In contrast, R. Coase (1960) stated that with any distribution of property rights, if there are no transaction costs, a “perfect-market” solution may be achieved. When there are no transaction costs, the required measures may be taken, and the resulting contractual arrangement would not cause costs to outweigh benefits. The optimal result will be achieved through private decentralized negotiation “in the market”, independent of state intervention.

However, the dual organizational systems of ideal “markets” and ideal “hierarchies” have proved, as we will argue, have proven insufficient in *more complex environments*, where ideal assumptions vanish, and many and heterogeneous agents are recurrently interacting in potentially different direct-interdependence structures (“games”) on potentially many different social and spatial network topologies among a population with permanently fluctuating social ecologies and agents’ conditions of decision-making.

In complex environments, thus, the market’s pricing system often fails to operate effectively, and market-based solutions may become too costly to implement, for example, when the costs of measurement of externalities outweigh the potential benefits, and result in “market failure”. Complete information will no longer be available to agents, and various forms of rent-seeking may therefore undermine proper negotiations. The property rights of agents will thus be truncated (Demsetz 1988). Due to prohibitive costs, governments cannot properly define property rights (North 1990). This creates space for multiple allocations of property rights and highlights

the need for *new allocation mechanisms* and organizational structures to define them (e.g., Barzel 1989).

This raises the question of which organizational systems will be appropriate, emerge and endure, in the evolution of a more complex real world. The answer is supposed to provide an extended approach to the theory of externalities and organization.

Real-world markets and hierarchies are in fact to be considered in combination with *social network topologies* (e.g., Bloch and Metcalfe 2013; Hodgson 1998; Elsner 2017). Against this background, we have developed a combined two-dimensional organizational space that unfolds among the three ideal “corner” allocation mechanisms, the *organizational triangle* (e.g., Elsner et al. 2010; Elsner and Schwardt 2016). Real-world organizational entities (firms) can then be defined and allocated in relation to the ideals and as specific combinations.

Given that agents within this space are directly interdependent in complex real-world contexts and repeatedly interacting to solve multi-agent, and somewhat intricate, common and collective problems (“games”) of coordination and cooperation, in potentially different network topologies, emergent *informal social institutions* will further define the particular positions and interrelations of agents in the organizational space.

Consequently, further theoretical development on organizational forms seems to be required. Solutions of the complex issues of dealing with mostly mutual externalities will be dependent on more realistic *hybrid organizational systems*, which blend not only allocation mechanisms, markets, hierarchies, and social networks, but also institutional arrangements enabling solutions that suit agents’ interests.

In this paper, we will add to that framework *diverse organizations*, on top of real-world firms, such as local agents, public and private ones, e.g., NGOs, private–public networks, and representations of a provincial or federal state, e.g., courts, as well as specific local mediating agencies. We will show how, within a legal framework, the assignment of joint problem-solving, interrelations, informal institutions, and explicit and implicit contracting combine within that organizational space (the triangle) to form a *governance system* that is sufficiently *complex* to address intricate externality problems.

Specifically, we will apply this framework to a set of case studies to illustrate and analyze the nature of hybrid organizational systems. While doing field studies on Chinese *People’s Mediation Committees*, we realized that they integrate social networks, markets, and hierarchies, giving rise to emergent institutions. We also discovered that they represent contract hubs that fill the *organizational triangle* through institutional arrangements that encompass both *explicit and implicit contracts*.

Much of the institutional and organizational literature has overlooked the social network dimension, which, in our view, has increased the value of organizational models. In fact, in the market-hierarchy tradition, there already was some recognition of “*intermediate space*” (e.g., Williamson 1991; Ménard 1996). However, many real-world forms appeared to have evolved beyond the traditional single dimension, and this had also entailed conceptualizations of “*strange forms*” of organization (e.g., Martino et al. 2017), which somehow foreshadow what we define as broader hybrid organizational systems.

Other contributions had highlighted the limitations of the traditional framework by introducing conceptions such as “*clan governance*”, characterized by a non-hierarchical and non-market coordination (e.g., Ouchi 1980; Williamson and Ouchi 1981), or by conceptualizing a “*polycentric coordination*” (Ostrom 1990a, 2005). It was recognized that different organizations can be coordinated within a broader organizational system with multiple, interrelated agents.

Such contributions had already differentiated between some “*inner*” and “*outer*” organizational dimensions, considering that clan systems or polycentric systems may work in the “*outer*” organizational space of the firm. These contribute to organizational systems being defined as hybrid.

However, hybridity is still not well understood as a polycentric system in the “*outer*” organizational space of the agents, combining not only different and diverse organizational entities with different value systems, interrelations, and behaviors, but also the different allocation mechanisms, social institutions, and contracts. This may shape the governance, values, and behaviors of the inner organization of agents, given the requirement to solve complex common problems among them and with their social and natural environments. A hybrid organization will generate and shape both outer and inner governance. This hybrid constellation would traditionally have been considered an “*anomaly*” or “*strange form*”.

In our case studies, we examine private agents facing intricate externality problems, particularly when (property) rights and duties are legally not well defined, as generally is the case with respect to China’s land tenure practices, where all land formally is state-owned. Historically, old, established, and strong legal property and conflict laws do not exist as in the West. However, the People’s Mediation Committees do exist on a national legal basis, but private agents are not obliged to consult them, and their final suggestions are not legally binding.

The conceptualized hybrid organizational system can be understood as a sufficiently complex and capable mechanism for addressing the demands of more effective governance in the face of more complex problems. It thus implies higher resilience, and it may serve as an external resource supply for private agents.

This article is organized as follows: Section 2 will briefly review the conventional theory of the organization and of negative externalities, and its limitations, when it comes to more complex environments. Section 3 will expand on the inherited framework, add the organizational network dimension, and develop the “*organizational triangle*”. In Sect. 4, we will further detail broader interrelations and institutions specifying the hybrid system in the organizational space. In section 5, the framework will be applied to cases involving the Chinese People’s Mediation Committees, with additional extensions related to contracting that further refine and specify the organizational space. Section 6 presents the key implications and extensions. Section 7 provides the concluding remarks.

2 The traditional theory of organization under externalities, its limits, and a broader perspective

Arthur Pigou (1920), in his original exposition of externalities as a difference between private and social costs, argued that this phenomenon would prevent

“the national dividend from being made a maximum; and consequently, certain specific acts of interference with normal economic processes may be expected to increase the dividend” (p.173).

Externalities were identified as a “source of market failure; Market failure suggests government intervention, and thus government intervention is implied by the presence of externalities”.

Since then, the Pigouvian remedy of market failure has been featured in micro-economic textbooks (e.g., Browning and Browning 1992).

However, later, most economists became particularly interested in externalities and market failure after Coase (1960) had proposed a private bargaining solution. Coase did not formally state his theorem, but a “rights-cum-market” solution was then deemed superior to government intervention. Stigler (1966, p.113) was the first to put forward the “Coase theorem”:

“Under perfect competition, private and social costs will be equal”.

However, his first formal statement entailed different further formulations, such as, for example,

“if transaction costs are zero, the structure of the law does not matter because efficiency will result in any case” (Polinsky 1975, p.1665),

or

“In a world of zero transaction costs, the allocation of resources will be efficient, and invariant with respect to legal rules of liability, income effects aside” (Zerbe 1980, p.84).

Various statements of the theorem arose from differing perspectives on it. These were summarized as two versions of the theorem, a “strong” version, which included an “efficiency hypothesis” (ignoring the assignment of the initial rights) and an “invariance hypothesis” (allocating the resources would be finally invariant even if the rights were assigned alternatively), and a “weak” version that relied solely on the “efficiency hypothesis” (Medema and Zerbe 2015).

So, the debate on the theorem had been widespread since (e.g., Bertrand 2010). However, the advantage of the theorem only existed on the blackboard and in the textbook. Coase himself (1988, p.10) had mentioned that

“the analysis is carried out with great ingenuity, but it floats in the air”.

Particularly, the analysis could not put forward specific conclusions about whether governments should intervene in certain ways at certain times or places, but these remained rather general in favor of reducing transaction costs (e.g., Zerbe and

McCurdy 1999). While the theorem did not point to any particular policy, government (de-)regulations to reduce transaction costs by promoting more market activity were widely adopted.

The theorem then induced a syllogism about the choice of market and hierarchy based on the relative costs of coordination. As Medema and Zerbe (2015, p.100) put it:

“If coordination is costless, both markets and government function perfectly.
If coordination is costly, both markets and government function imperfectly”.

In this perspective, the theorem endorsed the *dual* organizational systems of (ideal) *markets* and (ideal) *hierarchies* in conventional economics.

However, could transaction costs guide the selection of organizational forms in reality, and do these dual organizational forms exclusively reflect reality? Rather not.

In the famous case of the lighthouse, introduced by H. Sidgwick (1887), for instance, the broader issues of externalities in public goods become apparent and the lighthouse case indeed illustrated a divergence between the economic discussion and reality. Coordination is costly (e.g., exclusion costs too high) indeed, so governments should undertake it. However, government activity will not be based on “government vs. market”; it apparently reflects a more complex constellation that private individuals run lighthouses through some governmental organizational frame (e.g., Coase 1974). There appears to be some hybridity in the organizational system.

The also well-known case of livestock trespass in Shasta County (Ellickson 1986) provided another example of a broader phenomenon, namely, where social institutions within a social network enabled coordination. Coase (1960), in his case of the Farmer and the Rancher suggested that, in his “strong” version, no matter how liabilities are distributed between two agents, it will not affect the final allocation of resources. However, when transaction costs are too high, as they often are in the real world, the distribution of liabilities will affect the economic outcome of livestock trespass.

In the case that was demonstrated, when a new distribution of liabilities through new legal rules (namely, a change in livestock trespass law in Shasta Country) generates too high transaction costs, problem-solving may be settled by an application of informal social institutions (condensed into general social norms), a “live-and-let-live” arrangement rather than formal legal rules.

The ranchers may then pool together the costs of boarding their neighbors’ livestock in order to maintain their relationship in the local social network. This provides some space to balance losses together with their neighbors. Government intervention (here, a change of law) as well as market solutions might produce their own inefficiencies. More heed, thus, may have to be paid to the functions of social networks and the social institutions that have emerged and are working within them. This case clearly hinted at a perspective that went beyond the traditional organizational duality.

For now, we may conclude that, while the conventional dichotomic organizational dimension remains relevant, providing the “binary” corners or vanishing points of (ideal) *market* and *hierarchy*, this alone proves to be unrealistic and insufficient within a more complex real world, which we will explore further. Ideal market and

hierarchy alone will not be able to cope with such complexity, and they need to be extended and complemented by the “embeddedness” or social-network dimension, as roughly illustrated in Fig. 1 below.

This then allows for developing a conception of an organizational space that will provide an interaction “arena” for different and diverse agents (public and private) and the space for the generation of a hybrid organizational system.

Solving externalities problems then needs to be considered in a broader conceptual frame, with intricate direct-interdependence structures among multiple heterogeneous agents being embedded within and operating on a social-network topology. Any agent’s organizational entity will then have to be defined in relation to markets, hierarchies, and social networks, and positioned within the organizational space that emerges among these ideal allocation mechanisms.

Interactions within the social-network structures broaden the theoretical perspective to include recurrent interactions, thus leading to the theoretical prediction of solving the problems of externalities by the emergence of informal social institutions among private agents. The emergence of relatively stable interrelations among private, semi-public and public agents will further contribute then to the conceptualization of a *hybrid organizational system* (in a hybrid organizational space), where some real-world market relations, some real-world hierarchies, and real-world social embeddedness are combined and interwoven. In the more complex environment, a hybrid organizational arrangement will both be partially built and continue to evolve as an instrumental problem-solving device enabling more effective management of externalities. In an evolving process, individual agents may even become hybrid

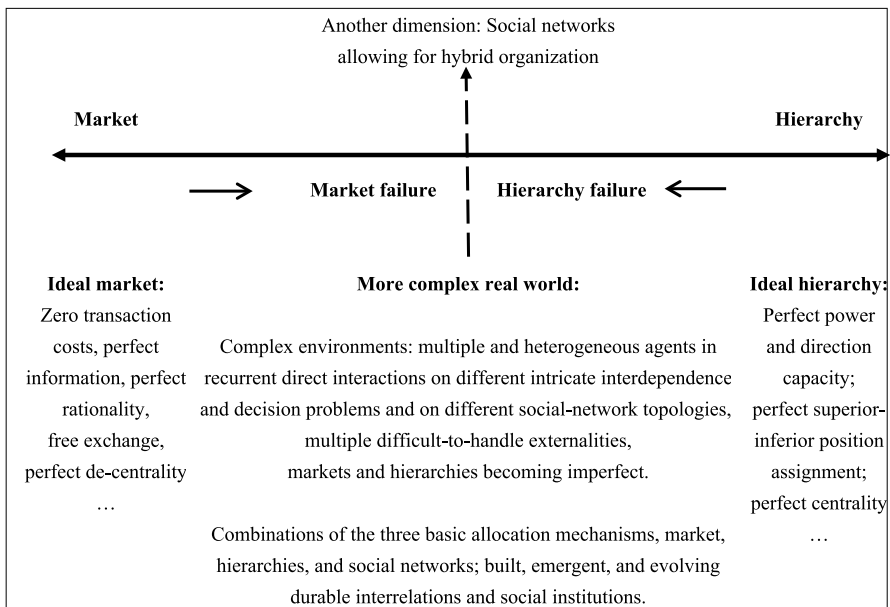


Fig. 1 The dual market-hierarchy organizational dimension, the more complex real world, and the social-network dimension

entities themselves, partially adopting values, objectives, and decision-making behaviors of other kinds of agents. We will elaborate on this.

3 A wider organizational space

Given the critique of the traditional dualistic organizational conceptualization, put forth by economists from different theoretical perspectives, we may make a step forward beyond just “optimal” dichotomic organizational choice between two ideal allocation mechanisms to solve the externalities problem. Under real-world complexity, agents and individual entities are “embedded” in (Granovetter 1985), and organizational governance will thus have to be based on recurrent direct (not price-mediated indirect) interactions, incurred to solve the complex joint problems arising from commons with associated externalities. Technically speaking, different types of recurrent games may be played on different topologies of social networks.

Therefore, on top of the “dual” market-vs.-hierarchy dimension with its two ideal vanishing points, there must be an ideal complete embedding of any organizational entity or agent in a social network of repeated direct (non-market) and informal (non-hierarchical) interactions and emerge as relatively stable (inter-)relations (Elsner, Schwardt and Hocker 2010; Elsner and Schwardt 2016). This now becomes an additional ideal vanishing point in the organizational space, in fact, another allocation mechanism, which can be depicted diagonally to the ideal market-hierarchy dimension. See Figure 2 for an illustration of a resulting *organizational triangle* (ibid.).

At the upper corner of the triangle, we may find emerged cooperation among “embedded” natural individuals characterized by the absence of hierarchy and market relations, based on recurrent interaction and the relatively stable social (inter-)relations that emerged from that. In repeated interactions in the local embedding of

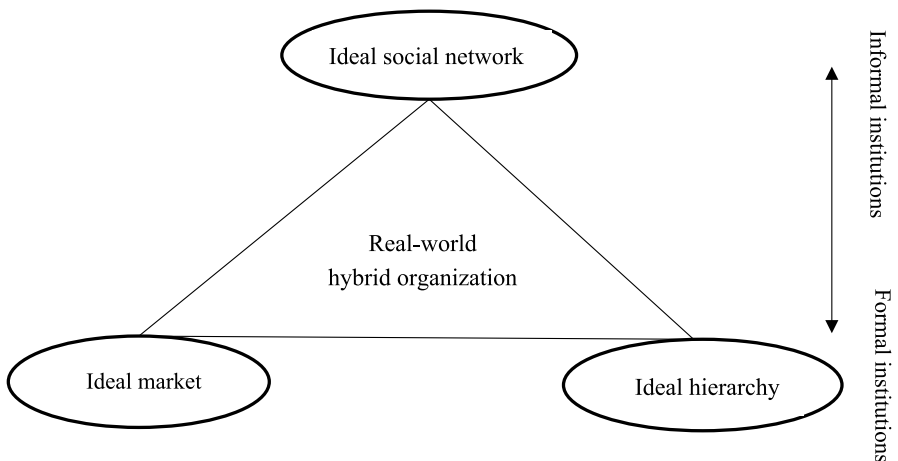


Fig. 2 An organizational triangle with ideal allocation mechanisms

the individual agent, a complex dynamic may result in stable expectations of trustworthiness and cooperation, consistent mutual behaviors and “good” interaction outcomes, superior to non-cooperation. “Markets” and “hierarchies” will be disabled at that corner, and problem-solving will be supported by multiple (inter-) relations within a (usually local and meso-sized) population (e.g., Zhang and Elsner 2020).

To substantiate this consideration further, we will move away from the ideal vanishing point and into the interior of the organizational space that we established. In the real complex world, all actual allocation mechanisms or organizational forms, i.e., real firms, markets, and direct recurrent social-network interactions, have some substantiation in some social institutions. There are formal state laws and legal enactments from governments and courts, and namely for markets and firm hierarchies, there are formal market and firm constitutional, regulatory, and property laws. On top of these, informal institutions will emerge in evolutionary processes and form many specific firm and markets cultures (Elsner and Schwardt 2016).

For social networks, institutional substantiations appear to consist less of formal laws or legal regulations but more informal institutions stemming from those very problem-solving recurrent interactions (e.g., Elsner, Heinrich and Schwardt 2015, Chapters 1–4).

In this way, institutional arrangements, mixed from formal and informal institutions (e.g., Greif 1989; Zhang and Elsner 2017, 2020), substantiate and “fill” the two-dimensional triangle space. North (1990) had already considered both private informal settlements and organizational economics based on formal institutions.

Under real-world complex conditions and within emerging combinations of the three organizational principles (allocation mechanisms) and various institutional arrangements, the externalities problem can be addressed through different hybrid organizational arrangements within the organizational space.

These would follow partly indirect, price-mediated market relations, partly hierarchical power- and command-based relations, and partly informally institutionalized direct social (inter-) relations, embedded in social networks. Within the vanishing points, the three coordinating principles interrelate in multiple ways: multiple real-world market forms, multiple hierarchies, including firms and including even public hierarchies, i.e., the state, represented through governments or courts, as well as institutionalized social network relations, combine to generate new solutions to the externalities problem in a complex world. Such combinations and hybrid arrangements may then change in multiple ways in an evolutionary process to better serve the affected and negotiating agents in their externalities conflict.

Such real-world hybrids had earlier been considered as falling into some “intermediate state” among hierarchies, markets, and social networks. Williamson (1985) considered some “fundamental transformations” of that kind as an evolutionary process to achieve cost minimization in his transaction-cost approach. Several scholars in the transaction-cost perspective had indeed examined hybridity to understand the evolution of organizational forms.

Nevertheless, as Zajac and Olsen (1993) noted, the transaction-cost perspective has limitations in comprehending hybrid organizational systems, which in fact rely more on joint value maximization, through agents in joint ventures, than in minimizing transaction costs. In such a “transaction-value” approach, such evolution of

organization may be considered not so much a function of (transaction) cost, but rather a pursuit of anticipated joint gains. Considering both perspectives, we provide a joint view on hybrid organizations and hybrid organizational systems, which involve different organizational entities in pursuit of various interests and objectives. We therefore consider multiple heterogeneous agents, whereas the earlier approaches had focused on two homogenous agents (e.g., Williamson 1975; Zajac and Olsen 1993).

Multiple heterogeneous agents indeed may apply both kinds of objectives and calculi: transaction-cost minimization and joint-value maximization. The pursuit of greater joint value typically will require a hybrid organization, which, however, may also be economizing in a transaction-cost perspective. Our approach to hybrid organizations, embracing joint-value and transaction-cost considerations, thus enriches the variety of organization systems. Transaction cost and transactional value may often be embedded in one and the same organizational entity with relations to multiple other heterogeneous agents.

Illustrating an organizational system and process for resolving the externality disputes and their cooperative outcomes, the four case studies below will offer a richer depiction indeed. This exploration provides a view of hybridity as a multiple, polycentric collaborative system.

4 Hybrid organization: A further substantiation of the organizational space

The extended conceptual framework thus acknowledges complex environments and generates room for different forms of governance of the commons and their externalities. It has indeed been observed that organizations tend to hybridize while dealing with negative externalities in complex dynamic environments (e.g., Lee et al. 2004; Makadok and Coff 2009; Emery and Giauque 2014).

For instance, if a party whose interest is impacted would take the case to court, high litigation costs, i.e., high transaction costs for the parties incur, entailing a high-cost solution, which would run counter to the idea of the Coase theorem. According to traditional Coasian transaction cost theory (TCE), a proper organizational form is the one with the lowest total cost to both parties. In fact, Coase had considered hierarchy mainly a substitution of the market, as Bylund (2021) remarked. Williamson rather had considered the vertical integration of hierarchy superior to market exchange on account of costs and benefits resulting from resource specialization.

However, our approach is uncommon for the TCE. We will further elaborate here on the proposition that some hybrid organizational system not only connects diverse private organizational entities, each already specifically related to, and combining, the different ideal allocation mechanisms in the *organizational triangle*, but also may involve public agencies and some publicly endowed societal network form. In a Williamsonian perspective, a hybrid organization had emerged, considering the relative costs and effectiveness of the problem-solving capacity of an organizational system as compared to a less complex solution. However, in our analysis, a hybrid organizational system “hybridizes” agents beyond Williamson’s “intermediate”

forms between market and hierarchy. It acknowledges diverse entities and mechanisms, as well as diverse forms of interrelations, values and objectives, internal governance, behaviors and policies, which may adopt and adapt to the different logics of profit-making and commonalities, i.e., common-goods generation. Interrelations can vary in frequencies and formalities, may be contract-based or not, and can be hierarchical and command-based or based on equality. In a coevolutionary process, while striving to adapt in an emerging complex governance, both firms and network-related, private or semi-public entities may “hybridize”. This also allows for a variety of organizational forms to control a complex process, known in cybernetics as the “law of requisite variety” (Ashby 1956, 1960, 1962). In modern complexity theory, we would also conceptualize the emergence of such hybrid governance as a “self-organizational” process (e.g., Elsner 2017).

Our approach to hybridity will also weave in forms of polycentricity, inspired by the work of Elinor Ostrom. A “polycentric” governance has “many centers of decision-making that are formally independent of each other” (Ostrom 1999 [1972]: 52). Numerous entities of decision-making will then be coordinated at multiple levels of social feedback (Ostrom 1990a, b). A polycentric system, then, is “more likely than monocentric systems to provide incentives leading to self-organized, self-corrective institutional change” (Ostrom 1998: 4).

Polycentricity and the related concept of this hybridity will be conceptualized as an evolving structure within the organizational triangle—a system that, in fact, can also be considered a “complex adaptive system” in modern complexity terms (Ostrom and Ostrom 2004: 4; Lewis and Aligica 2024: 4).

We also consider Ostrom’s conception of subsidiarity. Under the subsidiarity principle, governance tasks are assigned to the lowest-level decision unit capable of dealing with them, i.e., the negative externality in the present case. This has well-known but important implications for the role of governments and courts, also in our substantiation of the organizational triangle, where government and court (indirectly) join the hybrid system by assigning some basic governance tasks and related resources to lower-level jurisdictions and semi-public entities, as the PMCs below.

Finally, we also elaborate on both Williamson’s and Granovetter’s views. They had already argued that informal governance embedded in social network interrelations with their emerging informal social institutions is equivalent, substitutive, and often also complementary to formal institutionalized governance through contracts in markets. Thus, “transaction cost economics and embeddedness reasoning are evidently complementary in many respects” (Williamson 1993: 85). Also, emerging so-called calculative trust to facilitate cooperation in a collective solving of commons problems (e.g., Elsner and Schwardt 2014, 2015; Graebner et al. 2017) considers both social embeddedness and strategic reasoning on interrelations, which are “continuously constructed and reconstructed during interaction” (Williamson 1993: 85). However, social embeddedness may not only be constituted by relations interconnecting individual organizations “externally” (Granovetter 1995) but also, in a system of various entities and interrelations, may impact their inner organization, their values, objectives, and behaviors. A system of diverse mechanisms, agents, interrelations, and institutions allows for a broader understanding of both embeddedness and hybridity, with both “outer” (external) and inner consequences.

In other words, when dealing with negative externalities, the continuous interaction, reinforcement learning, habituation, and adaptation of values and behaviors through trust, trustworthiness, and reputation building, with related emerging expectation probabilities of cooperative behavior of others, will help the parties attain mutual agreement and cooperation despite short-run hyper-rational incentives to defect (e.g., Elsner et al. 2015). A hybrid organization will impose informal behavioral rules on top of a formal-legal framework to improve the outcome.

This puts the Coase theorem in a broader real-world context, as under conditions of inevitably blurred (property) rights, any equilibrium that requires the two agents' identical rights will become unattainable (e.g., DiMaggio and Powell 1983). Blurred (property) rights and duties will create a public domain between the two rights. Given such complex real-world conditions (e.g., Greenwood and Hinings 1993; Lounsbury 2007; Pache and Santos 2010), we consider conditions and procedures to achieve superior outcomes over the market-vs.-hierarchy approach.

Hybrid organization had already been considered a theory of social entrepreneurship (e.g., Santos 2012; Greenwood and Suddaby 2006). However, this lacked a proper recognition of the real-world mixtures of allocative mechanisms.

Hybrid organization in our conception is also not solely driven by some institutional logics at the level of just individual agents (e.g., Thornton 2004; Jay 2013; Ansari et al. 2013; McGivern et al. 2015; Smith and Besharov 2019; Pache and Thornton 2020), when value and behavioral conflicts are considered the core problem (Pache et al. 2020) or when satisfying one demand would violate others (Pfeffer and Salancik 1978; Hirsch and Lounsbury 1997; Battilana et al. 2015). The institutional requirements for the emergence of hybrid organizations, as suggested by these studies, will be complemented by a perspective on problem-solving failures of allocation mechanisms and their related institutional arrangements. For example, the literature on commercial microfinance organizations combining business and charity (e.g., Battilana and Dorado 2010; Pache and Santos 2013) did not sufficiently recognize that their emergence resulted from market failures.

Our approach allows for a larger variety of hybrid organizations than considered in earlier organizational research, as for example, a combination of network and hierarchy (e.g., Powell 1990; Podolny and Page 1998), of government and market (e.g., Billis 2010; Brandsen and Karre 2011), or some public private partnership as, for instance, in the European Renewable Energy Cooperative Network (Huybrechts and Haugh 2018). In fact, numerous studies have dealt with multiple organizational forms and logics, but each in a more specific, narrower frame (e.g., Haveman and Rao 2006; Battilana and Lee 2014; Pratt and Foreman 2000; Albert and Adams 2002; Corley et al. 2006; Thornton, Ocasio and Lounsbury 2012; Pache and Santos 2013). Again, the case of commercial microfinance (above), in fact, illustrates the existence of two organizational identities, "charity" and "business", and two behavioral logics, a local-development logic and a banking logic and its interrelation with banks serves as a resource supply, by which the commercial microfinance organization can provide loans to the poor to fulfil its social mission.

Thus, hybrid organizations are never "loners", even if they are newly established ventures. A hybrid organizational system not only includes multiple and manifold organizational forms, identities, values, institutional logics, and interrelations, but

also a co-evolutionarily adopted hybridity within itself, a more comprehensive system-wide hybridity, as illustrated in our case studies.

5 Case studies of hybrid system governance and hybrid organizations: The Chinese “People’s Mediation Committees”

5.1 Overview and procedural stages

Currently, there are approximately 690,000 “People’s Mediation Committees” (PMCs) in China, basically covering all administrative villages, engaging 3.16 million People’s Mediators in China. They are handling over 9 million disputes of all kinds every year with a success rate of around 95% (Chinese Ministry of Justice 2013)¹. PMCs are considered “mass organizations established under villagers’ committees and residents’ committees. They are there to mediate civil disputes, and they operate under the guidance of people’s governments and courts” (*The Regulations for the Organization of People’s Mediation Committees* (2011)²).

According to this definition, it shows that the PMCs are neither departments of the government nor courts. Rather, they are mass organizations established by villagers’ committees, and mediators of PMCs are elected by villagers. Thus, these organizations are connected to the villagers’ social network, and their salaries are funded by the government. Moreover, PMCs operate under the guidance of the government and courts: On one hand, the government assigns staff from the Justice office to assist the PMC in the daily operations and hires legal counsels to provide professional legal services for mediation. On the other hand, the court also sends its staff to guide the PMC’s mediation and provide training programs for mediators. Evidently, the PMCs are organizations that combine social relations, court relations, and government relations, which are provided by different entities in the organizational triangle. Furthermore, the PMCs are supported by local governments, and local courts contribute by providing training programs for mediators and assigning court staff to serve part-time at PMCs. Hired mediators are typically members of the local villages and are often connected in various ways to influential local figures or people with high moral standing within the local network. They receive a fixed salary provided by the national government.

Unlike the government itself or the official courts, PMCs are hybrid organizations that, in the first instance, “hybridize” functions of governments and courts, while being neither government nor court. Further analysis will show that their settlements display characteristics of hybrid organizational arrangements as discussed above.

They “conduct mediation on the basis of the voluntariness and equality of the parties concerned” (*Regulations for the Organization of People’s Mediation Committees* 2011; italics added). They further “shall not charge fees for the mediation

¹ <http://en.moj.gov.cn> (in Chinese).

² https://www.gov.cn/zhengce/2010-08/29/content_2602246.htm?from=timeline&isappinstalled=0 (in Chinese).

of disputes among the people” (ibid.). This will encourage the parties to engage in transactions voluntarily, not least by reducing transaction costs. Finally, they “conduct mediation in accordance with laws, regulations, informal institutions, and policies, and where these do not apply, social ethics” (ibid.).

This defines the respective spheres of application for the formal and informal systems. PMCs let the parties freely negotiate similar to a Coasian way in an ideal market, with, in fact, low transaction cost, making the PMCs own a relation with the market by involving the price mechanism, contract mechanism, and bargaining process. The conflicting agents will then be embedded within a social network by the mediators, since PMCs are, in fact, considered mass organizations established under the regular public villagers’ local governance committees. Here, social institutions are then established to mediate the conflict.

In fact, a PMC is a local semi-state-semi-societal networked organization, publicly endowed with some authority. It thus represents multiple and diverse relations bridging a variety of organizational entities, including local commercial firms and other local private agents involved in externalities conflict, courts, and different societal interests. It is thus concerned with both private goods and the (local or even wider) commons, each governed by different institutionalized logics. In their mediation and problem-solving business, they have to acknowledge, integrate, balance, and adapt diverse objectives, values, and behaviors, including those of market firms, local networks, and public agencies involved with public goods, and occasionally even national public goods. Note that firms usually have to integrate public goods into their commercial goals and behaviors, and local societal networked entities (prominently including the PMC) acknowledge market requirements of the firms in their goals and decisions in turn. According to the PMC philosophy, private negotiation can replace judicial process or administrative ordinance through integrating those relations and incorporating diverse organizational values, objectives, and behavioral logics within the organization. Also, where there are transaction costs, and no reference prices are available, prices are to be set in the interests of the parties, subject to the publicly established (property) rights and duties.

In attaining comprehensive contracts, the process can be considered to be advanced by the PMCs in three stages. There is some “initializing” stage, where the individual agents in dispute put forward their interested appeals, having subjectively evaluated their potential losses and gains, and begin their negotiations initiated by the PMC. Agents engage in voluntary bargaining, moderated by the PMC, potentially reaching a “market” contract. While a creative transaction-value perspective in this stage has its limitations, a voluntary bargaining process in this stage, reflecting more of a transaction-cost approach, appears more appropriate. This stage, however, only consists of preliminary negotiation, during which both sides provide information that allows the PMC to learn about the situation.

If the negotiation is interrupted, before the case reaches the court, the process will enter the second stage, known as the “mediating” stage. Agents will engage in serious bargaining with the support of the PMC, using various informal and formal mechanisms to establish cooperative relationships. There will also be support from other agents and agencies. Court staff, government staff, and local social network members may participate and provide different values and perspectives to help reach

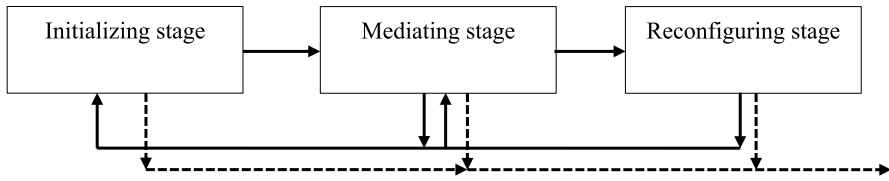


Fig. 3 Stages of the negotiation process under PMC guidance

an agreement. Some reciprocity in the future may be proposed by the local social network, more trust enhanced by government intervention or guarantees, and legal penalties envisaged by the court. Ideally, the process will end at this stage with an informal multi-agent, multi-level signed agreement or contract.

A third stage in the process may be called a “reconfiguring” stage. It will usually be entered when a signed agreement is breached, or the envisioned duration of the agreed cooperative relation is shortened. The reconfiguration may involve any party opting for a lawsuit, or pursuing a private-based market agreement, or even seeking help from the PMC once again. At this stage, disputants will either re-enter the PMC process or withdraw totally.

As mentioned, at any of the stages, the parties have an option to exit and opt for either “market-based” or court solutions. Also, at each stage, there may be the option to revert to the previous stage. The three procedural stages and their relations are shown in Fig. 3.

6 Key issues of the stages

Zero transaction costs	Multilateral learning	Breaching the contract
Free exchange	Using informal and formal mechanisms	Looking back
Potential market contract	Developing trust and a settlement	Regress to earlier stage
Potential exit to courts	Potential regress to “market” or exit to courts	Exit to court

In order to apply this framework and conduct further investigations into the nature of the PMC system, its procedures, and embedded settlements, we illustrate its hybrid organization through four cases of mediation on negative externalities.

6.1 Case 1: Zhang’s house rebuilding vs. Pan’s residential daylight availability

As an example, we illustrate the case of how the impact of Zhang’s two-floor house renovation affected Pan’s access to residential daylight.³ Zhang built a new

³ The case was provided by Shanxi Luliang Judicial Office in China: http://www.lvliang.gov.cn/lxgk/zfxgk/xxgkml/gbmwjsfj/zfxgkzn_55477/ (in Chinese).

two-story house on the foundation walls of his recently demolished one-story house. The construction of the second floor now reduced the amount of daylight reaching his neighbor Pan's house. Therefore, Pan requested that Zhang stop the rebuilding and remove the walls of the second floor. Zhang contended he had the required permissions for the renovations to his house. The local PMC stepped in to mediate the dispute.

The outcome of the mediation was that the delimitation of rights would remain subject to private negotiations. Mediation in this case was difficult since the right to daylight was not clearly defined in previous judicial practice. Article 83 of the *General Principles of the Civil Law of the People's Republic of China*⁴ stipulate that

“the persons entitled to adjacent rights in immovable property shall properly deal with adjacent relationships over such matters as water supply, drainage, passageway, ventilation, and lighting in accordance with the principles of facilitation to production, convenience for daily lives, solidarity and mutual assistance, and fairness and reasonableness. Anyone who causes nuisance or losses to his neighbors shall cease the infringement, remove the nuisance, and compensate for the losses.”

Nevertheless, there is no detailed explanation in the law for the criteria for determining the infringement on the right to daylight and on the scope of compensation. The settlement essentially rests on the defined rights and the ruling of the PMCs. This leaves room for a mediating role of social ethics and for the problem-solving (instrumental) role of social networks in motivating the parties to make concessions and conclude compromises, while considering their broader, longer-run reputation and standing in their community into consideration. PMCs, in this way, “hybridize” market forms, firm hierarchies if involved, social networks, and government hierarchies.

In the case at hand, in view of Zhang's behavior, the local PMC tried to have him see the situation from Pan's perspective: “If he were in Pan's shoes, how would Zhang deal with the daylight dispute?” In this way, Zhang recognized the moral dimension and agreed to compensate for Pan's losses. As for Pan, the local PMC emphasized the importance of harmony in the neighborhood. In agreement with this, Pan expressed no intention of severing his relationship with his neighbor and was willing to resolve the dispute by accepting compensation.

With respect to the divergence between the amounts of compensation requested and offered (Pan requested compensation of no less than 10,000 yuan, while Zhang was willing to pay a maximum compensation of 3000 yuan), the local PMC engaged members of Zhang's and Pan's social networks in the mediation, among them the village mediation director, the village party chief, and village chief. The parties reached an agreement on the amount of 6000 yuan as compensation, while the rights of the parties were delimited: Pan no longer interfered with the construction of Zhang's two-story house (delimiting the infinity of his right to daylight), and Zhang

⁴ https://baike.baidu.com/item/中华人民共和国民法通则/5020404?fr=ge_alia (in Chinese).

paid the compensation (delimiting the right to derive an income from restricting the neighbor's access to daylight).

Amongst others, the case indicated that where there are positive transaction costs and no clear boundaries of rights, rights may be delimited through private negotiations as procedurally embedded in PMCs.

The PMC, as an informal organization and, as such, a set of informal rules and institutions, established another informal institution among the parties, preventing an ongoing conflict, and thus socially embedding the two agents in a larger local network. Note that market relations might have triggered a costly cycle of actions and defensive reactions (Pan might have sought revenge in the future through costly measures hurting Zhang's living conditions, potentially resulting in a lasting conflict and hostility between the neighbors). Also note that, finally, hierarchy is present through the elected political leaders and administrative representatives, but such hierarchy cannot and does not operate formally. It functions as another informal factor, representing perhaps informal and personal authority, but not formal authority.

6.2 Case 2: The impact of Zhang's well-digging on Li's residence

Private negotiations are basically intended to delimit legal rights. However, as shown in case 1, private negotiation may require social mediation combined with some social institutionalization and network embedding, when the formal law does not explicitly provide for a clear-cut rights allocation in a particular case, which mostly will not be the case, and also, case law (Common Law) does not fully exist to help settling the case at hand.

Apparently, in any case, a hybrid organization can generate a solution to an externalities problem at lower transaction costs than law-making bodies or courts. Bearing in mind such a reduction in transaction costs, the private parties will be prompted to choose the least costly way of addressing negative externalities.

Another example is the case of the "impact of Zhang's well-digging on Li's residence."⁵ In this case, Zhang intended to dig a well at the edge of his house for easier water access and irrigation, but the construction vibrations caused cracks in Li's house. In Li's view, the well-digging endangered the foundation of his house, and Zhang's water intake might eventually lead to the collapse of his house. Li requested that Zhang relocate the well. Zhang refused on the grounds that he had the right to dig a well in his own property without any intervention from anyone. When private negotiations proved fruitless, Li filed an application with the village PMC. As a result of the mediation, Zhang re-sited the well upon the advice of a government's legal counselor, officials of the village committee, and an institute of natural resources.

The key to the mediation in this case lies in the delimitation of adjacent rights by the local PMC. Adjacent rights refer to

⁵ The case was provided by Sichuan Santai Judicial Office in China: <http://www.santai.gov.cn/public/column/13351?type=4&catId=4694231> (in Chinese).

“the rights to provide necessary convenience for owners or users of adjacent immovable property in the event of conflicts between their respective forms of rights.” (Article 288 of the Civil Code of the People’s Republic of China)⁶

Their delimitation reflects a balanced allocation of rights, with each party enjoying certain rights. The exercise of adjacent rights shall be limited to providing a minimum convenience to the parties (no exclusivity of just one right).

In this case, the local PMC considered that Zhang’s well-digging at the edge of his house was a lawful exercise of his property rights, but that the act clearly caused damage to his neighbor Li’s foundation and house, exceeding reasonable limits.

Article 103 of the “*Opinions of the Supreme People’s Court on Several Issues Concerning the Implementation of the General Principles of the Civil Law of the People’s Republic of China*” for implementation in trials stipulate that

“Where one party’s ditches, pools, cellars, and alike dug or bamboo and trees planted on the land of their own use threaten the safety and normal use of the other party’s structures, the competent authority shall order this party to eliminate the danger and restore the land according to the situation.”⁷

In accordance with this Article as well as Article 83 of the *General Principles of Civil Law*⁸, the local PMC provided a judgment requesting Zhang to relocate the well, and both parties agreed to the settlement. Note that a local PMC can do this with the support of a legal counsel who has professional legal knowledge and maintains a relationship with the local court, and when encountering legal questions, the court may support them. Although the court will not directly participate, the PMC may indirectly involve the court in the settlement. Also, staff of the governmental institute of natural resources participated, investigating whether the problem at hand belonged to their field, and provided the PMC mediator with material to achieve the settlement. Therefore, in several cases, public hierarchy is also involved in the PMC settlements.

6.3 Case 3: The impact of dust emissions from a concrete mixing site on neighboring crop

Prior to a delimitation of legal rights through a PMC, the PMC has to clarify some mutuality of harm in the mediation process and what economic implications the mediation agreement would have. According to several reports on mediation cases in different localities (e.g., Jilin province in China), mediators are mostly aware of the gains and losses associated with the mediation outcomes, particularly compensation payments. PMCs thus have both an indirect impact (via rights delimitations) and a direct impact (via payments) on resource allocation.

⁶ <https://baike.baidu.com/item/中华人民共和国民法典/19435116?fr=aladdin> (in Chinese).

⁷ https://baike.baidu.com/item/中华人民共和国民法通则/5020404?fr=ge_ala (in Chinese).

⁸ Ibid.

In the case of the “impact on crop brought by dust emissions from a concrete mixing station,”⁹ the local PMC determined that the dust generated by the concrete mixing station, involved in a road project and a wharf construction, did affect the crop planted by Chen, constituting a nuisance in the legal sense. It was also noted that more serious damage might be avoided through an amicable agreement between the parties. Upon investigation, the PMC acknowledged the importance of the concrete mixing station for the owner company and the local construction projects, and the fact that even if effective measures were taken, there would still be dust impairing the crop. The mediation agreement stipulated that Chen be paid compensation for lost crop sales so that the mixing station could be allowed to continue its operation. The settlement rested on the fact that the company’s revenue was maintained by the continued use of the concrete station, which outweighed the reduction of Zhang’s income from the loss of his crop sales. The agreement averted the potential harm caused to the company if Chen had continued to interfere with the operation or pursued a lawsuit in court. Eventually, the two parties reached a settlement: The company “paid” Chen 8000 yuan in crop subsidies per year during the 2-year project period and, in addition, took measures to curb the dust emissions.

Again, and similar to the first case, without clear-cut “market” reference prices at hand, the amount of compensation was to be determined through bargaining between the parties under mediation, so that the right is allocated to that party that needs it more and will correspondingly pay for it.

Also again, while formal, legal rights exist, they leave open a wide range of conflict, and while a “market” for the relative rights might exist, it fails to bring about a settlement that could end the conflict; and while hierarchies are in the game (e.g., a company), a superior hierarchy (a local or regional public authority) might be too powerful and not fine-grained and “subtle” enough for a case-specific fairness enactment, so it is better for them to remain outside the bargaining process. The solution to the externalities problem, thus, again, comes from an informal societal and socially embedded identity (the local PMC), which effectively settles the case through a ruling that establishes a social institution, prescribing behavior, preventing future conflict, thus embedding the disputing agents in the (local) social network. Another solution beyond the reduced and just ideal “perfect” conventional “market-vs.-hierarchy” world, an extension for the real world.

6.4 Case 4: Sheep eating watermelon seedlings

In another example, the “sheep eating watermelon seedlings”¹⁰ case, Lin planted several hectares of watermelons on a hill. Wang raised a flock of free-range sheep on the land near the watermelon field. The sheep wandered over to the field and ate lots of watermelon seedlings. In the dispute, Lin demanded that Wang pay

⁹ The case was provided by Yunnan Wuding Judicial Office in China: <http://www.ynwd.gov.cn/info/1433/21617.htm> (in Chinese).

¹⁰ The case was provided by Fujian Mingqing Judicial Office in China: http://www.fzmq.gov.cn/xjwz/zwgk/zfxgkz/zfjzfbcm/mqxs fj_12798/ndbg_12807/ (In Chinese).

a compensation of 5000 yuan for his loss, claiming that if no compensation were given by Wang, he would place poison in the watermelon field, targeting the sheep. Wang considered the requested compensation too excessive.

Articles 1245 and 1246 of Chapter IX of the Civil Code¹¹ stipulate that “Where a domesticated animal causes damage to another person, the keeper or custodian of the animal shall bear tort liability.” According to this Article, Wang clearly committed a tort. The local PMC found in their proceedings that Wang was unwilling to pay the demanded compensation because it was difficult to quantify the compensation, as the damage to the watermelon seedlings was hardly measurable. Wang considered the amount of compensation requested unreasonable.

The local PMC offered a settlement whereby Wang supported Lin in planting other crops on the former watermelon field, together with a moderate compensation of 500 yuan. The parties agreed to the settlement.

Apparently, if the compensation had been too high for Wang to accept, the sheep would likely have been poisoned, and the dispute would have escalated. The loss of sales of ripe watermelons based on market prices was estimated to be 5000 yuan. If Wang paid Lin 5000 yuan in compensation in the absence of an agreement, this would have been the total cost of the two parties. Under the settlement, where the new plants fully replaced the former watermelons, the revenue from the newly planted crop was 3000 yuan. With Wang’s compensation of 500 yuan and Li suffering a total loss of 2000 yuan (5000–3000 yuan), the total cost of both parties would be 2500 yuan. Thus, the mediation reduced the total cost of the two parties by at least 2500 yuan, and at the same time avoided more serious damage.

The case is similar to the “cattle eating crops” example originally discussed by Coase (1960: 2). In the present case, however, the ‘strong’ version of “Coasian efficiency” was achieved through a PMC in spite of positive transaction costs, whereas Coase assumed zero transaction costs. It is worth noting that cooperative action necessarily involves hierarchical form (which was the court here) and market form. This hybridity calls for the mediator as a rational man at the market and a judicial officer at court, and these roles come from the mediator’s involvement in both market and court relationships. Then the two parties are mediated through a contract settlement in which the existence of a comparative market price reassures the mediator that a contract to avoid more serious damage can be achieved. The precondition of the contract in this case depends upon the legitimate authority supplied by the court hierarchy to maintain the patience of the two parties and the standpoint of equitable compensation. In the end, cooperative action can emerge when it must meet the standards of reciprocity in a transaction, which Gouldner (1961) has mentioned as a common principle for collective life.

¹¹ <https://baike.baidu.com/item/中华人民共和国民法典/19435116?fr=aladdin> (in Chinese).

7 Discussion: The nature of the PMC system and the theoretical broadening of hybridity

7.1 The hybrid nature of the PMC system and its settlements

The case studies suggest that PMCs display characteristics of, and integrate, social networks, “markets”, and hierarchies (with firms involved, and with local and provincial governments as well as courts in the background).

Market involvement and market replacement. PMCs also involve the “market” by providing a kind of “market platform” resembling a market environment for the conflicting parties to freely negotiate under low transaction costs and given legal (property) rights and duties (facilitated through the embedded functions of governments (including e.g., the marketing department), courts, and social networks). The agents then sign a market-like contract.

The social-network embedding through the institutions of the mediation settlements utilizes the implicit societal contract of resource supply, replacing explicit relational contracts. Similar to hierarchies, in PMCs, too, one type of contract is substituted for another. The “contract” of PMCs is an implicit one (derived from the state/government, as mentioned above) on the supply of rights and duties, and their adaptation and modification in the settlements, whereas the “market contract” of the price mechanism would be a transaction on rights adaptations (as far as legally permitted). In this respect, PMCs are an implicit contract of resource supply in themselves, substituted for an explicit contract of the “market”, which, however, fails in these cases. PMCs, thus, partly replace “markets”. This implicit contract is nevertheless dependent on the explicit contract between the private agents and embedded in an explicit contract as a rule binding both parties.

Involving social networks. PMCs obtain the support of a variety of local agents and local social-networks members, considering the local social networks in the delimitation of private rights and duties. They avoid unnecessary trial and error, thereby improving efficiency, while obtaining support from various resource-supplying agents regarding mediators in the PMCs, which is an important background to the private mediation agreement. The mediation agreement, as a result of private bargaining, “hides” those internal transactions of resource-supplying agents.

Involving public hierarchies. In the case studies, the government remains indirectly involved through the PMCs by providing resources for PMCs, such as the salaries for mediators and free judicial services provided through the PMCs. This reduces the costs of the dispute for the parties. The government joins the hybrid organization in pursuit of a joint-value maximization while it bears the transaction costs. Transaction costs (for example, contracting costs) for the individual agents, thus, are lower. PMCs therefore may be considered from both a transaction-value and transaction-cost perspective.

The courts as well are always “in the game” as a more expensive alternative for the individual agents to refer to, should the private bargaining, with or without the PMCs, fail. By sending their staff to the PMCs, the courts are also involved.

The courts are more involved in the PMC system than the government, since numerous disputes will be settled through the PMCs and fewer would be brought to the courts. Courts pursuing transactional value thus require lower transaction costs, and joint coordination efforts will be very efficient from a transaction-cost perspective.

Hybrid PMC settlements: Explicit and implicit contracting. The PMCs first deploy a collection of explicit and implicit contracts. An explicit contract is embodied in the agreement reached under the guidance and witness of PMCs. An implicit contract manifests itself in the provision of resources for the private agents' disputes through the PMCs and the governments in their backgrounds. In this sense, we regard PMCs' settlements as broad hybrid arrangements, in both organizational and contractual sense, and PMCs in this way connect local "market platforms" as provided by them to the bargaining parties, formal (state) hierarchies, and the social networks of the localities that they stem from and are located in. To sum up, based on the nature of the coevolving hybrid PMC system, we suggest the concept of hybrid interrelation and contracting, that is, to regard hybrid organizations as systems with both explicit and implicit contracts.

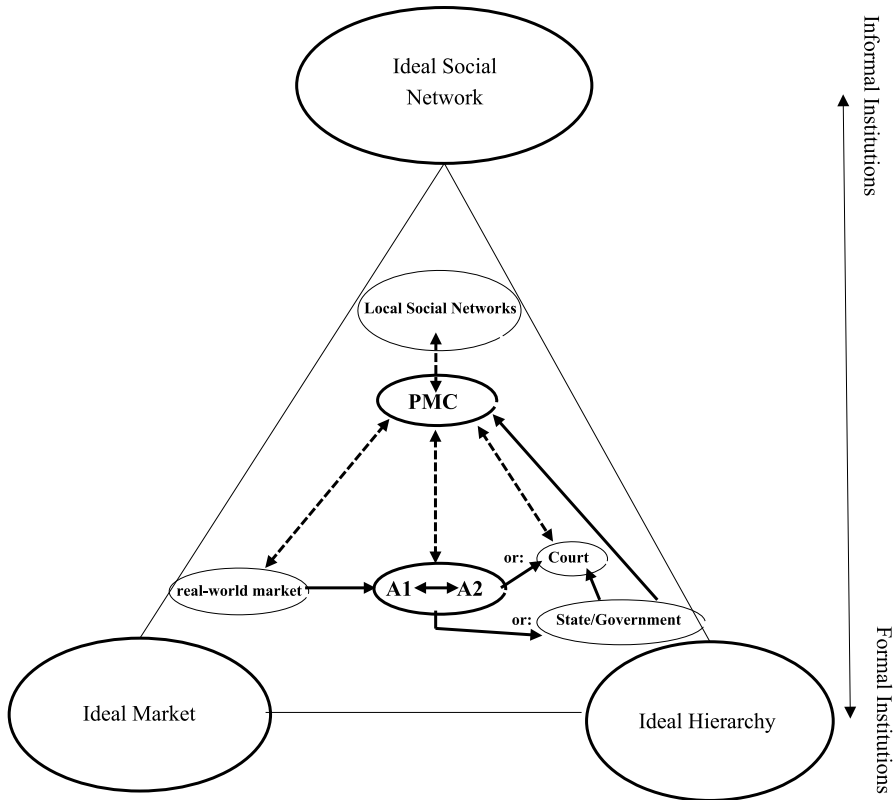
7.2 Substantiating the organizational triangle space through a hybrid arrangement

The conclusions drawn above indicate the need to further expand the conceptual framework. Particularly, attention should be paid to balanced and bounded rights and duties. The Coase theorem predicts that the movement of the boundaries of rights and duties will be subject to private negotiations. If there were some "public domain" intervening, the predicted outcome, and thus Coasian efficiency, would not happen.

According to the preceding cases and considerations, rights and duties must be, under complex real-world conditions, delimited essentially in informal ways, i.e., represented by social institutions as generated in the process of hybrid mechanisms of allocation and related settlements, and based on existing social networks, which in turn complement existing "markets" and hierarchies. Neither the "market" nor "hierarchy" alone can effectively solve the externalities problem under the complex real-world circumstances of collective goods or commons and related social dilemmas. As we saw, the PMC settlements combine institution-ruled social networks with the preexisting hierarchies (both firms and state) and "markets", by combining multiple relations created by sending staff and mediators from the social networks.

Also, the organizational triangle, as we have shown, combines with the dimension of explicit and implicit contracting. Any hybrid settlement generates a hybrid organizational combination that, at the same time, reflects a hybrid combination of explicit and implicit contracting.

The "market", for instance, failing as it is under complex social interrelations as given under commons/collective-problem/complex externalities issues, already calls for a hybrid organization, i.e., for embedded contracts, both explicit and implicit ones, as noted above. Through the case studies, we could illustrate that the relatively



- > **Explicit interrelations or contracts** in markets or state; as previous explicit market contracts/interrelations between the private agents, A1 and A2, exhausted their problem-solving capacity, explicit interrelations/contracts may be partly exchanged or complemented by agents by an implicit interrelation/contract within a hybrid PMC arrangement. Note that PMCs (as well as courts) are explicitly authorized by the state/government.
- - - - -> **Implicit interrelation or contract** in the hybrid PMC arrangement may be substituted by an explicit interrelation or contract if agents appeal to a court or directly may strive to obtain support from the government ministry (of justice). Note that PMCs equally receive implicit authority from the local/regional social networks.

Fig. 4 A hybrid organizational system of problem-solving in an organizational triangle space

freely negotiated and then socially embedded quasi-market contracts may bring about the advantages of formal and informal systems. This will be in terms of delimiting rights and duties and realizing the economic capacities of private mediation agreements by avoiding mutual harm in the mediation process.

PMC settlement arrangements in this respect are also quasi-market contracts with explicit and implicit contracts. Explicit contracts are signed between the conflicting

agents, and they can be changed. If the conflicting parties no longer agree on that contract in the future, they could renegotiate either in the market with its given structural power relations, or again in their social network, with or without a PMC, or before the court. They may amend the contract through any of those different allocation mechanisms. This choice of mechanism is embedded in an implicit contract, and the latter might be utilized in the future.

In all, therefore, this paper suggests thinking beyond the “organizational dichotomy” of conventional economics in two ways: First, in the organizational triangle with its hybrid organizations and hybrid arrangements of pure organizational forms, each conventional form (“market” and firm) will be “re-empowered” to contribute to the solution of the externalities problem by some embedding in social networks through social institutions. Second, these hybrid forms are mirrored by hybrid contractual forms and arrangements of implicit and explicit contracts. For an illustration, see Fig. 4.

Explicit interrelations or contracts in markets or state; as previous explicit market contracts/interrelations between the private agents, A1 and A2, exhausted their problem-solving capacity, explicit interrelations/contracts may be partly exchanged or complemented by agents by an implicit interrelation/contract within a hybrid PMC arrangement. Note that PMCs (as well as courts) are explicitly authorized by the state/government.

Implicit interrelation or contract in the hybrid PMC arrangement may be substituted by an explicit interrelation or contract if agents appeal to a court or directly may strive to obtain support from the government ministry (of justice). Note that PMCs equally receive implicit authority from the local/regional social networks.

Neither an ideal “pure” form of organization nor an ideal conventional organizational dichotomy nor a complete convergence of the three organizational forms, nor fully explicit or fully implicit contracts (at both governments/courts and firms) appear to be options in the real world. Should, however, the contractual effectiveness of any hybrid organization be lower than the contractual effectiveness of a delimitation of rights between private agents and the government, then implicit contracts in any hybrid arrangement will turn into explicit contracts.

The concept of hybrid contractual arrangements encompasses theoretical issues in three aspects. First, a hybrid contract emphasizes the transformability of the parties to the implicit contract in addition to the explicit contract signed by the parties, a feature that distinguishes it from the firm as defined by Knight (1921) and Coase (1937). Second, hybrid contract arrangements extend the conception of transaction costs. A feature of the firm in Coasian economics is that it serves as a substitute for the price mechanism. A hybrid contract arrangement, however, is formed for the purpose of saving transaction costs regardless of the explicit contracts between the private agents or of the implicit contract between privates and states. Hence, a typical feature of hybrid organizations and arrangements also provides a substitute for the price mechanism that typically has failed under given complex real-world conditions (e.g., Commons 1995 [1924], 1989 [1934]). Third, hybrid organizations encompass both explicit and implicit contracts, and this feature is underpinned by the access of hybrid organizations to the resources of different agents. Also, governments, courts, aspects of markets and firms, and social networks are taken into

consideration in conceptualizing the hybrid organizational arrangement by integrating multiple types of relationships. This hybridization has been left unnoticed so far, even in hybrid organization theory (e.g., Pollack 2003; Askim et al. 2009).

8 Conclusions

Coase had rightly stated that

“the relationship which governs the mix of market and hierarchy is extremely complex, and in our present state of ignorance it will not be easy to discover what the factors are.” (Coase 1992: 718).

This paper has argued that most critical ones among those factors can be obtained by a complexity approach, integrating the complexity of the real-world environments of economic agents with the traditional theory of organization, based on negative externalities and suggesting an ideal “market-hierarchy” dichotomy. We have reconceptualized, embedded, and extended the traditional approach with a social-network dimension into an organizational triangle and hybrid organizational forms, showing that broader real-world organizational arrangements also embrace hybrid contractual arrangements. Thus, a more comprehensive, three-dimensional organizational space is conceptualized, where the organizational triangle reflects a more complex theory of organization, thereby enhancing theory and strengthening the analysis of real-world organizational forms beyond just a simple dichotomy.

Any real organizational form will, however, deviate from ideal hierarchy, ideal market, and ideal social-network embedding, the three corners of the organizational triangle. While the edges of the organizational triangle will represent combinations of each two “pure” organizational forms, only the inner space is the space of real-world forms. We consider only forms in the inner space of the triangle hybrid organizations.

Hybrid organizations will merge the properties and functions of social networks, markets, and hierarchies through the establishment of what we have called a multi-layered functional hub which consists of multiple relations created by different entities embedded in the PMCs in relation to poles of the organizational triangle, blurring boundaries among the three pure forms and mobilizing the resources of the different mechanisms to cope with the complexity of real-world externality problems. So too with the hybrid system, with diverse interrelations and contracts, and coevolving entities that adapt and may become hybrid in structure, objectives, values, logics, and institutional behaviors.

We have also shown that PMCs settlements are also broader, double-hybrid arrangements, including hybrid arrangements of explicit and implicit contracts. An explicit contract is one signed by two or more agents in the conflict within the PMC settlement, which can be changed if the parties no longer agree to it. Then they may resort to the “market” or a court, and may amend the contract through different mechanisms.

This framework thus goes beyond simpler “dichotomous” thinking. Dichotomous organizational thinking has long persisted, but the rise of complexity sciences

has suggested the need to extend the field of organization economics for some time. While the reconceptualization and frame suggested above still need further specification, modeling, formalization, and data calibration, they will hopefully help advance the field of organization.

Author contribution Yanlong Zhang provided a original idea and half writings. Wolfram Elsner provided the part of writings and format editing.

Data availability No datasets were generated or analysed during the current study.

Declarations

Competing interests The authors declare no competing interests.

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