Mixed forms of organization: benefiting from the capabilities of governance structures

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Abstract:

Transaction Cost Economics (TCE) promotes the alignment of structure of governance and transactions' characteristics. This alignment is associated with higher performances. Indeed, the traditional TCE considers that actors may choose between several pure forms of governance to economize both on their production and transaction costs. These structures encompass market, hierarchy, network and bazaar, and they display respective strengths and weaknesses in terms of incentives and control. However, as underlined by numerous authors, the reality of governance structures shows that actors opt generally for mixed forms to govern their transactions. Thus, the aim of this paper is to address this puzzling reality and to search theoretically for rationales explaining the preferences towards mixed forms. Several explanations are reviewed. The traditional one in TCE consists in considering that mixed forms enables to remain efficient. Indeed, by taking characteristics from different forms, the mixed forms allow actors to counterbalance some weaknesses by the strengths of other structures in terms of incentives and control intensity. In this paper, we contend a different view of the rationale for mixed forms, adopting a strategic choice approach and arguing that governance structures depend eventually on contingent factors such as the characteristics of the transactions but also on the preferences of actors. Introducing preferences enable to propose a strategizing view in which actors try to reach strategic goals by introducing selected characteristics of other structures giving birth to the mixed forms. The contributions of this paper concern both economics of governance and strategy. Firstly, we try to introduce strategic goals and value creation in the economics of governance without relaxing the assumption of search for efficiency. In a nutshell, we try to reconcile strategizing and economizing logics but distinguish them clearly as the second is contingent when the first is not. By this, we reintroduce the intentionality of actors in a theoretical field where only calculus prevail. Secondly, by abandoning the ideal typical line of reasoning promoted by Williamson and embodied in pure forms, we find more fruitful to think about organizational forms as mixes of pure forms and we provide illustrations for each of these cases we find in the literature. Thirdly, we consider that the governance structures equip the actors to reach their goals and constitute the matrix for the capabilities of the firm. We conceived of this article as a first step to propose a strategic theory of the firm, namely "the capabilities of governance structure". A refreshing consequence of our framework is that making strategy consists finally in choosing between several strategic goals and implementing the most efficient governance structures to attain these goals.

Keywords: Structure of governance; Capabilities, Mixed forms; Efficiency; Strategic Goals

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Introduction

The study of governance structures has gained prominence over years in strategic field and has evolved from an ideal-typic view of mechanisms governing transactions to a more complex and realistic view. Some authors have introduced the necessity to study architecture of transactions, i.e. the way the same kind of transactions have multiple governance mechanisms within the same firm (Bradach and Eccles, 1989), others have introduced new forms of governance such as network (Powell, 1990), community or bazaar structures (Benkler, 2002; Demil and Lecocq, 2006). New theoretical developments have been also insufflated to provide both a more dynamic view of transactions (Argyres and Liebeskind, 1999) and to take into account economic advantages of transactions, that is, the benefits they may generate (Ghoshal and Moran, 1996; Blomqvist et al., 2002;).

In this paper, we start from these recent developments and continue the integration of the economics of governance and strategic management by studying the mixed forms of governance structures. Indeed, an important stream of literature shows that actors tend to implement mixed forms instead of pure governance structures (Powell, 1990; Hennart, 1993; Adler, 2001; Makadok et Coff, 2009). However, the explanations of the rationale for the existence of such mixed forms remain essentially based on transaction cost economics arguments. Thus, in this theoretical article our research question is why there is mixed forms of governance? To deal with it, we reintegrate strategic choice (Child, 1972) in the line of reasoning, meaning preferences and value creation seeking process. As a consequence we demonstrate that actors may have strategic goals and may try to reach them at the lesser cost while choosing a governance structure. We argue that the governance structures display capabilities allowing firms to attain strategic goals more efficiently. Thus, actors try – in accordance with their preferences (i.e. strategic goals) and their environment- to find the best mix between several ideal-typical structures to organize a transaction. Our most speculative argument is that each governance structure has capabilities that may equip the firm for the governed transaction and finally constitutes the matrix for the capabilities of the firm. We draw lessons for strategic management and the economics of governance from this framework we label “capabilities of governance structure”.

1. The pure forms and the limits of a discrete line of reasoning to choose governance structures

Following Commons who proposes to consider transaction as the basic unit of analysis of institutional economics, Arrow and Williamson picked up and developed some of the arguments of Coase (1937) to propose an integrative view of transaction cost economy (TCE). Arrow (1974) recognized that firms and markets are alternative way to organize economic activity. Later, Williamson (1975, 1985, 1991) studied governance structures in a comparative institutional and a deductive way, introducing especially the characteristics of transactions as the main determinant of the adequate governance structure. In TCE, the choice of a governance mode should be first aligned with the characteristics of the transaction, in terms of the specific assets required by the transaction. These specificity of assets may be human (e.g. learning or training), of site (e.g. particular localization) or physical (e.g. dedicated tools) and determine if assets may be used or not for other transactions, i.e. is a measure of the bilateral dependency. Finally, if transactions are properly aligned, firms enjoy superior performance (Silverman et al. 1997).

The core of this theoretical development is that transactions entail uncertainty about their outcome, due to the bounded rationality of actors which renders anticipation of all events impossible and their opportunism. The result is the impossibility to elaborate complete contracts (Williamson, 2002: 174).

Thus, to overcome this major uncertainty –which can be costly when the interdependencies in the relation are high due to the specific investments dedicated to the transaction- and as a means of reducing transaction costs, actors implement a governance structure that Williamson defined as "*the explicit or implicit contractual framework within which a transaction is located*" (Williamson 1981: 1544). The goal of any governance structure is to "*infuse order in a relation where potential conflict threatens to undo or upset opportunities to realize mutual gains*" (Williamson 1999: 1090). These structures enable actors to insure their exchanges at different costs. According the characteristics of the transaction, some governance structure will be less costly than others.

As Coase and Arrow, Williamson tends to consider pure forms of governance structures such as market, hierarchy, bureau and networks[1]. Consequently, TCE promotes an ideal typical view of governance structures, considering pure forms of organizational arrangements such as the market, the network and the hierarchy are polar and discrete forms that differ not only in kind but also in their attributes. This entails that hierarchies are not reducible to an extension of the market or to network forms. Their characteristics and functioning are radically different.

This line of reasoning helps to construct abstractly some forms, by underlining the fundamental characteristics of each institutional arrangement. For instance, market is characterized by coordination through a price system and hierarchy by the possibility to fix problems through fiat, promoting internal arrangements.

This ideal typical way of reasoning of Williamson has its pros and cons. The advantages are (1) to help to extract general characteristics from reality and to notice their empirical incarnations, providing order in the chaos of reality and (2) to allow a rigorous comparison between discrete structures, which is the basis of the institutional economics. On this particular point, Williamson follows a Weberian logic consisting in the elaboration of concepts abstractly, regrouping and accentuating the characteristics of a class of phenomena to construct ideal types. By doing this, research accepts that no pure form exists in reality and cannot be observed but forges a powerful tool to establish comparisons.

Market, hierarchical, network and bazaar structures can be considered as discrete structural alternatives for any transaction (Demil and Lecocq, 2006; Powell, 1990; Williamson, 1996), and each is supported by a distinctive contract. Indeed, TCE is above all a theory of contractual relations (Williamson, 2002).

Thus, markets are supported by classical contract law, in which the identities of the transacting parties are irrelevant and dependence slight. In this form of governance, strict adherence to contractual terms prevails and courts are appealed to in case of dispute. Firms, as hierarchical structures, are grounded on the principle of forbearance. As noted by Williamson, "*hierarchy is its own ultimate court of appeal*" (Williamson 1996, p.98). The parties in a dispute resolve their conflicts internally, drawing on fiat that cannot be exercised in market. Network forms of organizations are supported by neoclassical contracts, in which the identity

[1] Until 1985, Williamson considers hybrids as governance structures between markets and hierarchies. After this date, he gives them a status of discrete form that we called here 'network' in accordance with Powell (1990). We have to note that this status of hybrid is paradoxical in a framework which insists on the discrete choice between generic governance structures

of trading partners is crucial (Powell, 1990; Jones et al., 1997). Finally, bazaar governance is supported by the open license –such as the GNU general license- which promotes the abandonment of property rights on a technology or an asset (Benkler, 2002; Watson et al., 2005; Demil and Lecocq, 2006). Consequently, it enables people to share this technology and to develop freely add-ons on the basis of a 'copyleft'.

Beyond the contractual forms, each of the governance modes employs different means to regulate exchanges and is consequently characterized by trade-offs between incentives and controls (Williamson 1991). The market compels actors to be efficient but favors opportunism. On the contrary, the firm controls better its employees but displays comparatively a lack of incentives. Network is considered by Williamson as a hybrid of the preceding structures presenting moderate levels of incentives and control. Bazaar may be viewed as an unfavorable structure in terms of control and incentives but presents other advantages based on the repetition of transactions and the discovery of needs of users, i.e. the market. From these traits, we may identify in the literature different structures that can be contrasted according the contract law regime they are based on, and the incentives and control they generate (Cf. Table 1 adapted from Williamson, 1985, 1991, 2002 and Demil and Lecocq, 2006).

Table 1. A comparison of generic governance structures through the lens of Transaction Cost Economics

	Market	**Hierarchy**	**Network**	**Bazaar**
Contract law regime	Classical contract	Employment contract	Neoclassical (Relational) contract	Open license
Incentives intensity	High	Low	Intermediate	Low
Control intensity	Low	High	Intermediate	Low

If we try to go further the three main characteristics of a governance structure, each of them may be characterized by particular features. They are mentioned in the table 2 and are drawn from Williamson (1996), Powell (1990), Demil and Lecocq (2006), Makadok and Coff (2009).

Table 2. A comparison of generic governance structures: detailed features

Structures / ***Dimensions***	**Market**	**Hierarchy**	**Network**	**Bazaar**
Contract law regime	Classical contract	Employment contract	Neoclassical (Relational) contract	Open license
Ownership of asset	Agent owns asset	Principal owns asset	Co-ownership of asset	Nobody owns asset
Normative basis	Market exchange	Forbearance	Trust	Copyleft
Identity of the parties	Irrelevant	Irrelevant	Relevant	Partially relevant
Mean of communication	Price	Routines and hierarchical relations	Embedded ties	Product
Temporal framework	One-shot	Unlimited	Long term	Unspecified
Nature of incentives	Competition	Career advancement, status concerns	Reciprocity	Reputational concerns, Signaling, "Fun"
Tone or climate	Precision and/or suspicion	Formal Bureaucratic	Coopetition	Cooperation

Despite its predictive and theoretical power, the TCE's discrete line of reasoning displays several drawbacks and has been criticized. Firstly, it tends to see evolution of governance forms in terms of radical change. Transactions are insured by a given structure and then eventually – if total costs increase- by another one. Thus, TCE provides a "quantum view" of transaction management where actual forms of organization can be clearly delineated from one another. Secondly, TCE uses discrete line of reasoning but consider that market comes first and naturally. Thus, Powell (1990) criticized TCE because in this theoretical framework internalization of transactions within a firm is considered only as a consequence of market failures (Demsetz, 1988). However, authors have documented that each form has its own logic. Network, bazaar and hierarchy are not an adaptation of market but prevalent and distinctive forms that cannot be reduced to one or another and may be considered as alternative for any kind of transaction. In other words, instead of thinking about networks as a hybrid form, Powell considers it as a discrete form, distinct from the market and the hierarchy. Finally, ideal typical approach focuses on pure forms that are always more complex in reality. Frontiers between the different governance structures are generally blurred making the pure forms unobservable in reality (Bradach and Eccles, 1989).

2. Mixed forms: illustrations and definition

In the same vein, Hennard (1993) argue that few transactions are governed by pure forms. Indeed, market produces strong incentives on output by providing a measure of output and actors are rewarded on the basis of this output thanks to the price system. On the contrary, hierarchy rewards actors with salary whatever is their output. Consequently, the incentives to produce are weak, favoring the shirking behavior (Hennard, 1993) or the lazy behavior of workers (Taylor, 1906). But, by stressing output, markets tend to generate cheating on quality and price. Consequently, actors tend to organize their transactions by a mix of market and hierarchy that enables to minimize organizing costs related to shirking and cheating and to maximize incentive structure. For instance, piece work scheme is a way of reintroducing market evaluation of individual output within an organization.

New forms of relationships between employers and employees display also mixed forms. Muehlberger (2010) shows that the relationships for the self-employed workers in the insurance sector - that is, workers who are outsourced – are creating a mix of hierarchical and market relationships. Indeed, the outsourced employees are dependent from their employer and a hierarchical relationship occurs as in hierarchy, but their wages depend partially from their output as in the market.

These arguments and examples lead to think about the existence of combined forms of governance structures and appeal for a theoretical framework to describe and understand such forms. However, we have first to note that the label and the conditions to combine governance forms does not constitute a consensus and that we may identify in the literature plural forms, intermediate forms, hybrid forms or mixed forms.

Bradach and Eccles (1989) and Bradach (1997) introduce 'plural forms' and propose that the different control mechanisms characterizing each governance structure (price -market, authority, -hierarchy, and trust -hybrids) are generally used jointly for controlling transactions and are not exclusive. Thus, actors may use simultaneously different governance mechanisms for the same kind of transactions. For instance, franchising system consists generally in possessing company-owned units (hierarchy) and franchised units (network arrangement). This juxtaposition of governance mechanisms leads to plural forms and takes advantage of several structures but is also the probable result of idiosyncratic and micro decisions at a local level.

While Bradach and Eccles (1989) tend to focus on the fact that a given type of transactions can be governed through several forms of organization in the meantime other authors operate at the level of a unique transaction looking at the characteristics combination of several forms to govern that transaction. Such an approach supposes to distinguish between the institutions (markets and firms for instance) and the organizing principles to govern transactions, like price system or hierarchical line (Hennart, 1993), opening up the possibility to mix different coordination mechanisms within the same institution. For instance, some organizations, such as the multidivisional structure and its profit centers, display a mix between market and hierarchy (Chandler, 1962) to organize most transactions. Some network features may also appear within an organization (Ouchi, 1979). However, even if authors recognize the possibility to combine the characteristics of governance structures, they do not all share the same assumptions about the nature and status of such a combination.

According to Makadok and Coff (2009), 'intermediate forms' are arrangements that operate between two structures of governance in all the dimensions that characterize these structures. Thus, intermediate are in a middle position when two governance structures (for instance firm and market) are perceived as being on a single continuum. An example of intermediate form is the joint venture in which ownership, risks and rewards are shared by two partners. As the authors argue, *"prior theories have tended to view alternative governance as intermediate forms"* (Makadok and Coff, 2009, p.298). We share this analysis as it appears that authors like Williamson (1991), Hennart (1993) or Holmstrom and Milgrom (1994) suppose intermediate forms when they mention the arrangements between market and hierarchy. On the contrary, Makadok and Coff (2009) distinguish these intermediate forms from the 'hybrid forms'[2]. Adopting a multi-dimensional view, they suggest that hybrid structures are of mixed origin, meaning that they display some features from a governance structure on some dimensions and some features of another form on other dimensions.

Following Makadok and Coff (2009), we contend that governance structures may be mixed in many different ways and lead to various arrangements. However, we distinguished from these

[2] We have to note that most authors (see for instance Williamson, 1985, 1991) are using the phrase 'hybrid forms' even if they they are assuming 'intermediate forms' in the sense of Makadok and Coff (2009).

authors for two reasons. Firstly, following Powell (1990) we consider that pure governance structures are distinctive by nature and thus we do not treat network or bazaar as hybrid forms. Secondly, whereas Makadok and Coff define three dimensions to a governance structure (ownership, rewards, authority), we identify (through a fine-grained approach) more dimensions (See Table 2) leading to the identification of a huge potential number of forms through combination of characteristics. For these reasons, in this article we label 'mixed forms' a structure for governing transactions combining the characteristics of pure forms (described in the Table 2), taking from a governance structure on some dimensions and from other(s) governance structure(s) on some other dimensions.

Table 3 introduces some examples of such mixed forms. For obvious reasons of presentation, we have chosen here to mix only two structures of governance to elaborate the mentioned mixed forms. However, one can easily imagine that some characteristics of three or four generic forms may be combined to govern transactions.

Table 3. Examples of mixed forms from generic governance structures

Generic structures mixed with ↓	**Market**	**Hierarchy**	**Network**	**Bazaar**
Market	Pure form	M-form / Market-like features: profit centers, transfer pricing (e.g. Chandler, 1962)	Dynamic network (e.g. Snow and al., 1992)	Open source (e.g. West, 2003)
Hierarchy	Quasi-firm/ Contract as hierarchical documents (e.g. Eccles, 1981)	Pure form	Stable network (e.g. Snow and al., 1992)	Hierarchized community (e.g. McKelvey, 2001)
Network	Embedded arms length ties/ Repeated transactions (e.g. Uzzi, 1996)	Informal organization (e.g. Ouchi, 1979) Transnational firm (e.g. Bartlett and Ghoshal, 2002) Project-based firms (e.g.	Pure form	Epistemic community (e.g. Grabher, 2004)

		Whitley, 2006)		
Bazaar	Open innovation (e.g. Chesbrough, 2003)	Internal community of practice (e.g. Brown and Duguid, 2000) Hybrid-open source community (e.g. Sharma et al., 2002)	External communities of practice (e.g. Lave et Wenger, 1991)	Pure form

We do not pretend that the mixed forms mentioned in Table 3 are exhaustive. We believe that it is difficult and likely impossible to identify *ex ante* every possible combinations of features from the various governance structures. Indeed, creativity of actors may lead to the creation of new generic governance structures. For instance, Richard Stallman, a MIT engineer, has created in the 1980's the free software license and thus the bazaar governance in its pure form (Demil and Lecocq, 2006). But actors may also create new combinations of characteristics from existing governance structure to build new mixed forms. For instance, market may be infused with some network characteristics and lead to embedded arms length ties through repeated transactions between a firm and its supplier (as mentioned in Table 3), but may also lead to collusion, another form of organization mixed market and network features. From a general point of view, we contend that all the potential mixed forms of governance have not been crafted and implemented or, at the best, have not been identified and commented by researchers.

If we consider the empirical reality of mixed forms, the question of the rationale for such forms remains in our opinion underdebated and based on transaction costs economics arguments.

3. The rationales for mixed forms

As discussed previously, several works suggest that mixed forms insure the majority of transactions of economic actors and that actors craft generally mixed forms in empirical situations to adapt the governance of their transactions to their local situation. In real economic life, governance of transactions by "pure" forms is rare, not to say unobservable (e.g. Bradach and Eccles, 1989; Hennard, 1993; Makadok and Coff, 2009; Powell, 1987). Several reasons have been proposed to explain this puzzle.

A first reason can be attributed to the theoretical approach of Williamson himself. By adopting ideal-types as concepts and deduction as reasoning, it would not be surprising to observe finally that no one of these prescribed pure forms (Ghoshal and Moran, 1996) do exist in reality.

A second reason lies in the hypothesis of transaction cost economics concerning the behavior of economic actors. Indeed, they are supposed to have a bounded rationally. This entails that their capacity of calculus and their anticipative capacity are highly constrained by their cognitive limits. Thus, even if they would like to follow the theoretical prescriptions of TCE, they would not be able to do so and this would result in an imperfect implementation of a pure form. Indeed, comparing institutional arrangements require an ability to calculate and compare cost of alternative structures for a given transaction. During the implementation process of a structure, there would be probably distortions, false interpretations and errors that would make impossible to put into practice the theory of pure forms and would result in implementation of mixed forms.

A third reason of the existence of mixed forms relates to the environment -in particular institutional environment- and its evolution. As explained by Makadok and Coff (2009), legal and institutional structures in which the transaction is embedded may generate mixed forms. Indeed, the authors argue that some regulations or taxes can be avoided through the recourse to some characteristics of a given governance structure, that property rights regimes may also favor a governance structure, that some forms of control or incentives may be illegal in a given environment leading to the need to adopt some features of a given form. As a consequence, the legal and institutional constraints may oblige to adopt some hybrid forms. For instance, Muehlberger (2010) note that some operations related to human resources management are under institutional constraints. Thus essentially because of these constraints, outsourcing of employees displays a mixed form between market and hierarchy. Depending of the context, mixed forms can eventually be analyzed as transitional forms and reflect the incoherence of the environment. For instance, companies in China can be considered as hybrids due to the institutional environment and in particular the partial reforms engaged by the socialist state (Nee, 1992). Thus, status of marketized, non-marketized and private companies reflect different mixed forms based on configuration of traits such as autonomy, efficiency, budget constraints or local government intervention that have an impact on the transaction costs endured by the organizations.

A last reason for implementing mixed forms consists in arguing that they may constitute the most efficient arrangements that actors find to manage their transactions. They are not a choice by default. In other words, forging a mixed form helps to counterbalance the weaknesses observed in the pure structure of governance. This argument allows keeping the Williamson's hypothesis of efficiency, i.e. the implemented governance structures should be the most efficient according to the characteristics of a transaction. For instance, Hennart (1993) argues that to minimize costs of organizing transactions by price system or by hierarchy, actors introduce generally a balance of mechanisms. Williamson (1991: 280) himself considers that hybrid forms enable intermediate values of adaptability, conserving partially the capacity to adapt autonomously as in the market and the capacity to implement coordinated adaptation with partners as in the hierarchy. Thus, in the traditional view of TCE, hybrid forms may help to limit costs and to remain efficient. This last argument is probably the most used in the literature to justify the existence of mixed forms. However, most of time authors assume that actors are seeking to compensate and/or to cumulate levels of incentives and control (see Table 1) of the generic governance structures to improve efficiency. Indeed, problems in TCE tend to be reduced to a question of finding the adequate structure of incentives and controls in uncertain situation. As noted by Langlois and Foss (1999):"*the problem of organizations is one of creating governance structures to constrain the unproductive rent-seeking behaviour that imperfect information permits. In fact, the basic heuristic driving this literature is to reduce literally all problems of economic organization to problems of incentive-conflicts attendant on imperfect information*" (p.201). Hennart (1993), Holmstrom and Milgrom (1991, 1994) and Zenger and Hesterly (1997) among others also suggest that mixed forms adoption originates in the fact that actors are seeking the ideal incentive and control intensity to govern transactions.

If this line of reasoning makes sense, we can however argue, as researchers in strategic management, that actors may have another reason to implement mixed forms. Indeed, our argument here is that defining a governance structure for a given transaction may constitute a strategic choice in the sense of Child (1972). The author clearly states that recognizing strategic choice means assuming that organizational forms are not only the results of contextual variables in a contingency approach but the consequence of the agency of the power-holders within the organization. But within the strategic choice theory, actors are also defining relevant performance standards and have their preferences to orientate strategic action. What we suggest here is that actors may try to reach strategic goals (i.e. preferences) through governance structures they implement. Such an approach allows addressing one of the traditional critics and limits of TCE. It lies in the lack of consideration for the strategic dimension of performance. More precisely, TCE stresses above all cost efficiency to the detriment of value creation (Zajac et Olsen, 1993; Ghoshal and Moran, 1996). Consequently, some theoretical developments have been proposed to complement the TCE. For instance, Blomqvist et al. (2002) have proposed that resource based view and cognitive lens could add the benefit side of transactions occurring in inter-firms partnerships by underlining the production and cognition related issues more than transactional issues. This consideration leads to assume that organization does not supplant the market to balance its weaknesses in terms of incentives but that the choice of governance structure can help to obtain benefits beyond pure economizing.

This insistence on value creation converge also with the critics that TCE research has largely underestimated the role of agency and intentionality in the creation and evolution of organizational forms (Ghoshal, 2005). Following such authors as Rumelt (1982) and Foss (2005), research needs to better integrate strategic management in the study of governance structures, especially by taking into account the goals they are seeking. To sum up, we argue that when they implement a mixed form, the strategic actors try to reach strategic goals. This does not mean that we reject the hypothesis of economizing. Indeed, actors are trying to adopt or craft the governance structure that minimizes the cost to reach their strategic goals (as preferences). Thus, in our framework, actors are economizing while strategizing.

The question is then to identify how the governance structures may help actors to reach their strategic goals?

4. The capabilities of governance structures: incorporating economics of governance and strategic choice

Williamson (1991, 2002) has noted that the choice of a given governance structure depends on three factors: the transaction characteristics, -and especially the specificity of assets-, the attributes of the alternative structures of governance, and the "purposes served" (Williamson, 2002, p.180). Thus, Williamson himself recognizes that the choice of an organizational form may be related to the purposes of actors. In its view, the main purpose consists in adaptation to uncertainty. Market enables to handle the evolutions of supply and demand (autonomous adaptation), while hierarchy allows to allocate and coordinate internal resources to adapt to evolving conditions (coordinated adaptation).

However, for more than twenty years a very eclectic literature, encompassing essentially research focusing on the characteristics of a given organizational form, has documented the existence of some other benefits or advantages to the use of governance structures.

While Ghoshal and Moran (1996) have proposed an « organizational advantage », Kogut and Zander (1992) or Conner and Prahalad (1996) have suggested the superiority of the firm compared to the market to develop and manage knowledge. Teece (2006) and Pitelis and Teece (2009) build on this stream of research to argue that *"the advantages of organization (over the market) go well beyond savings in transaction costs"* (Pitelis and Teece, 2009, p.5). The authors support that the firm is the best governance structure to ensure innovation and capture value from it. More precisely, there is a superiority of firms' vis-à-vis markets to combine co-specialized assets and capture value from intangible assets. While Porter framework does not appear to be in a first stage a theory of the firm, it clearly states that the integration (the firm) yields a bargaining power and allows benefiting from monopoly power. Thus, from a general point of view, hierarchy has the capability to facilitate the capture of value.

Market appears also to grant some advantages to an agent. Indeed, a firm choosing market governance structure for a given transaction might benefit from a risk reduction related to operations and an increased flexibility (Blomqvist, Kyläheiko, and Virolainen 2002).

As noted by Dyer (1996, 1997), Jones et al. (1997), Dyer and Singh (1998) and Madhok and Tallman (1998) among others, network form of organization generates thanks to trust benefits such as investments in relation-specific assets, problem-solving and risk sharing through separate ownership of assets.

Finally, the bazaar form of governance has been documented as generating and enhancing innovation (Benkler, 2002; Sharma and al., 2002), diffusion of a product or technology, eventually through entry inducement in the industry (Lecocq and Demil, 2006), increased product diversity (Demil and Lecocq, 2006; Almirall and Casadesus-Masanell, 2010), better matching of products and consumer preferences (Almirall and Casadesus-Masanell, 2010) and as a whole effectuation of an asset through the discovery and actualization of the technological potential and market opportunities related to this asset.

Each governance structure seems to be appropriate to specific preferences (strategic goals) of actors. In a strategic view, the above mentioned characteristics of the various organizational forms appear to be more than 'benefits' (Blomqvist et al., 2002) or 'transaction values' (Madhok and Tallman, 1998) associated to operations. They constitute the capabilities of the governance structures has they allow actors to reach their goals at the strategic level. Indeed, following the strategic choice framework, we assume that actors are crafting and implementing structural forms in relation with their preferences related to strategic action (Child, 1972). However, following economics of governance, and particularly TCE, we contend that actors try to economize. But they tend to economize while comparing governance structures that allow them to reach their strategic goals. As actors generally have several (eventually conflicting) goals, they try to find the best mix between several ideal-typical structures to organize a transaction, crafting mixed forms. In our framework, the mixed forms are not a mean to equilibrate or compensate incentives and control intensity but a mean to economize on the attaining of several strategic goals.

The capabilities mentioned in table 4 are only examples of the advantages associated with a given governance structure as actors may discover capabilities of governance structures while using a given form. We have to note that any strategic goal can probably be attained through any of the governance structures. For instance, flexibility can be obtained most efficiently through the market while an increased negotiation power can preferably be obtained though integration. However, firms, network or bazaar may potentially lead to flexibility, and market, network or bazaar forms be used to acquire negotiation power. But in these latter cases, the costs to reach these goals will be higher.

Let's take the case of a firm *A*. On one hand, if an integrated firm wants to insure an important flexibility, it has to recruit and train totally polyvalent employees and non specific physical assets. On the other hand, if that firm *A* wants to discover and explore the full potential of a technology, the cost to search on the market (Rangan, 2000) and to internalize the production, test and diffusion of every product based on this technology would be prohibitive. However, in the first case, the use of market form to govern transaction will still lead to more flexibility for a lesser cost while in the latter case, bazaar governance will still insure the best effectuation of the technology while economizing compared to hierarchy. But choosing the pure bazaar governance for a given transaction *A* firm will fail to capture value from its technology and thus it may implement a mixed form to benefit from the capabilities of other governance structures such as market or hierarchy.

Thus, it seems that a governance structure (whether pure or mixed form) yield capabilities and may equip with it the firm for the governed transaction. Here, our argument is at the most speculative but it seems we may easily advocate that the capabilities of the organizational forms used to govern transactions constitute the matrix for the capabilities of the firm. The governance architecture of a firm (the architecture of every transactions and the structures used to govern them) induces the set of routines within that firm and with partners, leading to the emergence of the various kinds of capabilities.

Table 4. Some capabilities of governance structures

Generic Governance Structure	Examples of Governance Structure Capabilities	Authors
Hierarchy	• Learning • Value appropriation from assets • Increased negotiation power • Accountability • Adaptability to unanticipated circumstances (coordinated adaptation) • Generation of synergies	Ghoshal et Moran (1996); Kogut et Zander (1992); Conner et Prahalad (1996); Porter (1985); Powell (1990); Williamson (1991).
Market	• Adaptability to change in demand and supply (autonomous adaptation) • Risk reduction • Flexibility	Adler (2001); Blomqvist et al. (2002); Williamson (1991).
Network	• Investments in relation-specific assets • Joint complex problem-solving • Risk sharing through separate ownership of assets	Powell (1990); Dyer (1996, 1997); Dyer and Singh (1998); Jones and al. (1997); Madhok and Tallman (1998)
Bazaar	• Improvement of the product or technology	Benkler (2002); Demil and

	• Diffusion of a product or technology • Creation of complementary products • Increased product diversity • Matching of products and consumer preferences	Lecocq (2006); Lecocq and Demil (2006); Almirall and Casadesus-Masanell (2010).

Conclusion

In this paper, we have tried to build on existing but disparate literature to propose a different view of the rationale for the existence of mixed forms. Our argument have led us to combine transaction cost economics and strategic choice approach. We have contended that the choice of governance structures depend eventually on contingent factors such as the characteristics of the transactions but also on the preferences of actors. Introducing preferences has enable to propose a strategizing view in which actors try to reach strategic goals by introducing selected characteristics from several structures, giving birth to the mixed forms.

The contributions of this paper concern both economics of governance and strategic management.

Firstly, we try to introduce strategic goals and value creation in the economics of governance without relaxing the assumption of search for efficiency. In a nutshell, we try to reconcile strategizing and economizing logics but distinguish them clearly as the second is contingent when the first is not. Thus we contend that actors are economizing while strategizing. We also reintroduce the intentionality of actors in a theoretical field where economizing prevails. Indeed, whereas TCE assumes bounded rationality of actors, it does not consider that actors may seek efficiency while having preferences. This appears paradoxical and reintroducing preferences as we have done here is sufficient to find a way out from pure contingency in economics of governance.

Secondly, by abandoning the ideal typical line of reasoning promoted by Williamson and embodied in pure forms, we find more fruitful to think about organizational forms as mixes of pure forms and we provide illustrations and unified framing for the disconnected cases of mixed forms documented in the literature.

Thirdly, we speculate that the governance structures equip the actors to reach their goals and constitute the matrix for the capabilities of the firm. Indeed, a governance form, through its characteristics, is in the meantime creating value (the attainment of strategic goals) and organizing the transaction. Thus it may induce various levels of routines and eventually define the kind of dynamic capabilities a firm may build. Consequently, we conceived of this article as a first step to propose a strategic theory of the firm, namely "the capabilities of governance structure".

Finally, a refreshing consequence of our framework is that strategic management may consists finally in choosing between several strategic goals and implementing the less costly governance structure to attain these goals. Indeed, as professors in strategic management it worth to note that what we are teaching in class as corporate and competitive strategies is most of time reducible to the choice of governance structures. As our framework builds on both transaction cost economics and strategic choice theory, it allows thinking strategic goals and preferences at the level of the strategic action but also the implementation. Indeed, by locating the choice of governance structure at the level of the transaction (a micro-level), the capabilities of governance structure framework allows to move to the operational level, as implementation of the strategy becomes choosing the adapted organizational form at the transaction level.

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