GOVERNANCE AND THE PRACTICE OF MANAGEMENT IN LONG-TERM INTER-ORGANIZATIONAL RELATIONS

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ABSTRACT

Outsourcing, strategic alliances and joint ventures are dominant forms of extending organizational reach. The scope and direction of these associations is set through management and governance of the inter-organizational relation. Yet, an understanding of the distinctions between management and government are often missing, both for those who initiate and for those who operate within a joint initiative.

This article reviews the concepts of management and governance in an inter-organizational context from the foundations of general systems and social theory. The motivations of efficiency and synergy are compared. Choices made about long-term alliances are highlighted in distinctions between designs that are complicated and designs that are complex, and between interactions that are loosely coupled and interactions that are tightly coupled. The influences of management and governance are considered in the cybernetic frame that distinguishes between external control and self-control.

Recommendations for business include considering of multiple lines of authority, as heterarchy; and the adoption of a social practice perspective that can include aspects of solidarity and style, uncovered in the disclosing of new worlds.

Keywords: governance, management, inter-organizational relations, complicatedness, complexity, control, heterarchy, disclosing

INTRODUCTION

Outsourcing and strategic alliances are consistent with the construct of division of labor depicted by Adam Smith in 1776, yet are timely arrangements for the "network economy" of today. They are seen to represent long-term inter-organizational relations, whereby each parent organization contributes specific resources to joint teams pursuing mutual interests. Unlike a joint venture operated as an autonomous independent organization funded through equity, these associations are interdependent relations that retain strong ties to their sponsoring parents. Managers and

employees are assigned or request to be seconded to work within joint teams. While these individuals may be designated as members of an outsourcing or alliance team, each continues to retain his or her identity as an employee of one parent or the other. While instructed to work as "one team", the individuals clearly come from different organizational roots and contexts. This is only the beginning of dilemmas that emerge in the development of an alliance.

Alliances are challenged to operate in order to capture the benefits promised at their formation. Failures to do so are later attributed to either management practices or governance structures. However, when a knowledgeable individual is asked, "what's the difference between management and governance?" there is generally a pause followed by definitions that tend to do little to resolve the question. As an additional challenge, it is not clear that the response is meaningful both in the contexts of traditional autonomous organizations, as well as in inter-organizational relations.

This article seeks to clarify and provide a meaningful foundation for discussing the context of inter-organizational relations, and the way in which these relations are and can be managed and governed. Concepts from general systems theory and cybernetics are used to clarify concepts and concerns about different approaches to inter-organizational relations. The article concludes with perspectives founded in organizational theory and social theory, and suggests how leadership within a contemporary inter-organizational relation accentuates different challenges from those found in traditional autonomous organizations.

ORGANIZATIONS EXTEND THEIR REACH THROUGH RELATIONS THAT DEEPEN INTERDEPENDENCE WITH OTHERS

Strategic alliances and formalized outsourcing arrangements represent an important alternative to arm's-length transactions in a faceless marketplace, as well as to mergers or acquisitions. Significant associations of this kind are selected arranged with few chosen partners. A declaration of more than a dozen "strategic" relations by any organization should be viewed with skepticism. A true alliance means that an employee from each organizational parent can, and does, act in the mutual interest. This is unlike an asymmetric relation, (e.g. one party acting as a broker for many others). To an external party interacting at an operational level, distinctions about who signs a paycheck can be transparent. Each person representing joint interests should provide consistent function and represent a unified identity.

An inter-organizational relation is a bilateral association of autonomous organizations

The most interesting inter-organizational relations are not those bounded within a single function, but those that have systemic impacts on multiple functions and on both parent organizations. These inter-organizational relations represent an organization-to-organization umbrella under which multiple initiatives and/or projects are included. As an example, an inter-organizational relation may contain a production initiative where just-in-time deliveries are of primary

importance, as well as a research initiative in which multi-year horizons are appropriate. As much as a business person would like to rationally separate out each initiative from others, growing interdependence between initiatives makes this difficult. A production line can exploit a multi-faceted relation to learn quickly from research discoveries. In a strongly-bonded inter-organizational relation, the temptation to separate "us" versus "them" is counter-functional. The "we" not only includes peer employees, but also members of a partner organization that have been deemed as critically important to joint futures.

Conduct in these inter-organizational relations is seldom guided by the rules and protocols of only one side. In more symmetric relations, both parent organizations need to have a say in what is "right" and "wrong". Different standards and practices represent both advantages and disadvantages to long-term alliances, so many issues are resolved situationally.

Objectives within the relation may include greater efficiency and/or synergy

Within a broad inter-organizational relation, various initiatives may be motivated by different potentials for mutual benefit. As an example, a supply chain initiative may seek to reduce costs by coordinating production with downstream demands, so that efficiencies are achieved through lower inventories. Such an interest may be in contrast to other initiatives within the inter-organizational relation. An interest of leveraging "synergy" should be scrutinized for meaning.

Buckminister Fuller describes that "an object shows synergy when, examining one of various of its parts (or even each and everyone of them) separately, it is impossible to explain or predict the whole's behavior".[1] Synergy thus represents not just quantitatively more of some result that can be independently produced by a part of a system, but instead a result that is qualitatively different and emerges only through the combination of parts. A synergistic initiative therefore pools resources to produce a result that can not be achieved solely by one organization. The development of joint technology demonstrates synergy when proprietary knowledge from two corporate entities is inseparably combined.

The distinctness and relative importance of one initiative over another within an inter-organizational relation can be a challenge both for management and for governance. The primacy of cost containment in one initiative may be incompatible with the speed-to-market of another. A mandate to standardize processes in one project may be at odds with improving flexibility and knowledge transfer in another. Leaders in the parent organizations may need to clarify their interests in the inter-organizational relation as a whole, versus the initiatives that make up its parts. An orientation that seeks to squeeze the maximum benefit out of a relation within narrow scope results in an operation different from a relation that seeks to expand collaboration on additional interests in the future.[2]

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[1] See the International Encyclopedia of Systems and Cybernetics, (Charles François, editor), K. G. Saur, 1997.
[2] This can be described as the difference between a "finite game" and an "infinite game". See Hampden-Turner & Trompenaars (1997).

INTER-ORGANIATIONAL INTERDEPENDENCE OCCURS WITH COMPLEXITY OR COMPLICATEDNESS, OF AND BETWEEN INITIATIVES

"Synergy" is often declared as a motivation for deepening a strategic alliance. Strict application of the definition above, however, requires that distinct behaviors or properties emerge from the complex of two entangled organizations. The systems community has an expression: "no matter how much you study hydrogen and oxygen, you'll never understand the property of wetness in water". If one party is able to produce a result by itself, and the other party serves merely as an amplifier to increase quantity, their joint initiative would be described as complicated.[3] Initiatives may be arranged as either complex or complicated endeavors, and an expansive inter-organizational relation may contain both types. The appropriate approach depends on the outcome sought, and the willingness to dedicate joint resources on a long-term basis. The pursuits of synergy and efficiency can better explored through an excursion into general systems theory.

Synergy emerges from complex initiatives, while complicated initiatives are sustained with less energy

Development of a long-term interdependence between organizations suggests a predisposition towards complexity. Each organization brings unique capabilities to the alliance with a necessity of being complemented by the other party. As an example, the development of cellular telephone standards has required handset manufacturers to ally with networking software ventures. The software is useless without a handset, and the handset will not function without software. The success of both organizations requires the combination of hardware and software working together. As such, this kind of alliance is unlikely to be left to chance, and requires the attention of senior business executives to negotiate participation, intellectual property rights and flows of capital. There may be cost advantages to working together as a complex whole, but those are not the primarily motivation for a complex initiative. Speed-to-market and/or breakthrough functions are outcomes that each organization may not be able to achieve incrementally, from independent capabilities.

Alternatively, a relation can be designed as complicated. Each organization may benefit by an economy achieved through mutual coordination, with a possibility to disassemble joint efforts at only minor inconvenience. The outsourcing of non-core operations, such as mailroom and cafeteria functions in most large corporations, is a good example. The routing of paper and feeding of employees are vital everyday functions in office life, but relatively few companies find it rewarding to become "world class" in those operations. From an employee's perspective, the prospect of being promoted from a job as a porter or fry cook into a profession position as an actuary or technician is small. The outsourcing of these functions into an organization that specializes in these services benefits both the client organization and the supplier. The client organization gains skilled workers with proven business processes at predictable levels of quality and expense. The supplying organization is able to pool expertise and learning across multiple

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[3] The distinction between complexity and complicatedness is described more fully by Allen, Tainter & Hoesktra (1999). For greater detail on "elaboration", see Appendix 1.

sites to transfer "best practices" in the interests of operating efficiently and profitably. Workers gain job mobility, both horizontally (in the possibility of transferring to another site) and vertically (as specialists in those business processes and/or supervisors).

Deep involvement by business executives reflects an orientation towards complexity, rather than complicatedness. If the function is not central to the client organization's reason-for-being, negotiations related to scope can be largely delegated to procurement staff, requiring only the sign-off of a senior manager. Such relations are complicated rather than complex, because each party to the inter-organizational relation may be "swapped out" for another. With proper planning, a supplier managing the cafeteria staff or mailroom can be changed with minimal impact to the client. In practice, some workers will move on to new clients, while others may choose to stay at the same location, accepting jobs with the new contractor. In a pinch, it's possible that the client organization may temporarily take over some tasks itself, albeit at a lower level of productivity. This decline in productivity is a characteristic of complicatedness, rather than the total loss of function that would be associated with the breakdown of complex system.

For business executives interested in financial justifications, an inter-organizational relation designed as complicated may be easier to sell than one that is complex. In systems terms, complicated designs require less energy to sustain. In a business context, this means that the impact can be quantified on some scale, e.g. an increment or decrement in service level at a named cost. Complex initiatives are less straightforward to quantify, as emergent functions or properties are only measurable as either present or absent. As an example, the amount of resource dedicated to encouraging an industry standard is difficult to justify. If the standard adopted by the industry favors the alliance, it can guarantee the long-term viability of each partner's investments into products. If the standard works against the alliance, the return on investment will be zero. The difficulty in calculation does not mean that a complex initiative does not have value. On the contrary, increases in organizational scope achieved through an inter-organizational relation may be key to the long-term competitiveness and viability of both parties. However, valuing the presence or absence of function within an endeavor is not an incremental exercise.

Complex relations reflect tighter coupling with greater benefits yet greater risks of failure

In addition to the above aspects of complexity and complicatedness, the design of initiatives should also consider the merits of demerits of tight coupling or loose coupling.[4] Tight coupling in a joint initiative suggests an "all for one, one for all" attitude, and the cultivation of synergy. Loose coupling suggests a "divide and conquer" approach. Distinctions about coupling may be related to, but not synonymous with complexity and complicatedness: a complex system suggests unified action associated with tight coupling, but a complicated system may be represented by closely-meshed parts that are nonetheless loosely coupled.

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[4] The mechanical concept of tight coupling and loose coupling is extensively developed in a social context of "normal accidents" in Perrow (1984). See Appendix 2.

A joint initiative designed with tight coupling may accelerate progress towards mutual interests, but failure for one organization means failure for both organizational parties. Interdependence as tight coupling means that the organizations are bound to each other, "for better or for worse". In addition, if the failed joint initiative cannot be isolated from the core of each business, the impacts can be spread systemically. In the automobile industry, the espoused coupling between the automobile manufacturers and tire manufacturers varies. As a production function, both would prefer tight coupling with "just-in-time delivery". Tires can easily be scheduled into an assembly operation, and reduced inventories represent lower costs for both parties. From a marketing perspective, however, some automobile manufacturers include the tires in the warranty for the car as whole, while others specify the tires as guaranteed separately by the tire manufacturer.[5] These distinctions are not normally brought to the attention of the purchaser, but the failure of tires on a specific model of automobile raises an issue of whether the designs are tightly coupled or loosely coupled. If the automobile model was only ever shipped with one brand of tires, tight coupling is suggested. A loosely coupled approach would offer the automobile model with a choice of tire brands from which purchasers might select.

Better utilization of resources certainly benefits both parties in an inter-organizational relation. This utilization may be improved either in tightly coupled or loosely coupled ways. In tight coupling, the coordination of resources reduces waste in the interface between two organizations. In loose coupling, the autonomy of each party to redirect resources towards other parties means that neither organization is totally exposed to the risks of the other. Within an inter-organizational relation as a whole, some aspects or initiatives may best serve the interests of both parties as tightly coupled, while other are loosely coupled. The interdependence between those aspects or initiatives, as parts, then position the inter-organizational relation, as a whole, somewhere between the extremes of arms'-length loose coupling and fully integrated tight coupling.

MANAGEMENT AND GOVERNANCE ARE DISTINCT BUT CO-OCCURENT IN THE GUIDANCE OF AN INTER-ORGANIZATIONAL RELATION

Leaders can guide an inter-organizational relation either through their practices as managers, or through the declaration of policies governing conduct. Management and governance should be seen as distinct concepts, although they blend together in operation. Some aspects of a relation may respond more directly through management, while others are better influenced through governance. A clearer understanding of the way each works may result in an improved alignment between organizations towards mutual interests.

An inter-organizational relation is guided both through external control and self-control

From a cybernetics perspective, control influences the direction of the inter-organizational relation as a whole, as well as behavior of individuals working within the relation. Effectiveness is indicated

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[5] Automobile warranties including tires became an issue in 2000, with the failure of Firestone tires on Ford trucks. Prior to that time, only General Motors guaranteed automobiles including tires.

through coherency, as a unified direction for the whole, and consistency, as an absence of counter-productive activities in the parts. These can be enabled either through external control, and/or through self-control.[6]

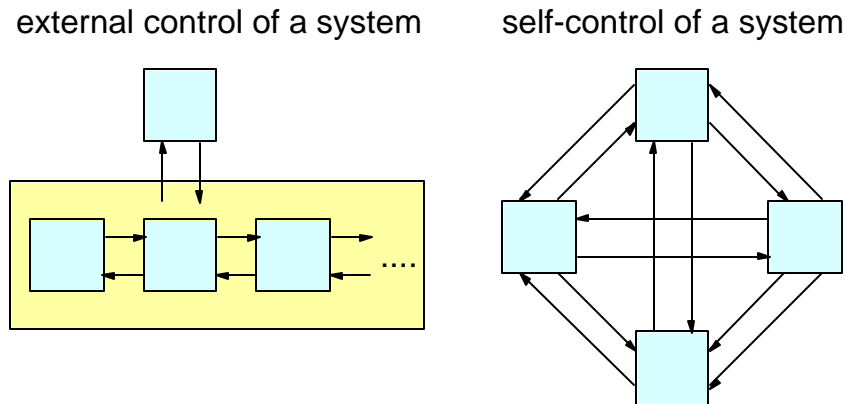external control of a system   self-control of a system

Figure 1: External control and self-control

External control is reflected in the influence of authorities outside of ongoing operations. These include cross-organizational executives appointed as arbiters for issues escalated for resolution, as well as advisory boards who review progress on behalf of the organizational parents to a relation. These roles are most interested in the "big picture" of joint initiatives and projects. Their function is to ensure that the principal interests of the long-term association are being served. These external perspectives affirm the continuing value of a deep relation. If their feedback and admonitions do not correct deviations away from desired paths, these leaders have the power and/or influence to dissolve the relation and redirect resources. If the relation is performing to expectations, external control may be effected casually, as periodic oversight on ongoing progress. If the environment is turbulent, or impropriety is in evidence, a more dominant style may be required, to ensure coherent direction and effective application of resources. As workers within joint teams get focused on the minutiae of day-to-day operations, external control can be an important contributor ensuring that the long-term interests of parent sponsors are being served.

Self-control is reflected in peer-to-peer elaborations of detail, and negotiations about activities, roles, and accountabilities.   In a social system composed of professionals, much of the collaborative work is not spelled out as rigid procedures that have been codified. Inter-organizational projects bring together individuals with appropriate skill sets, assigning them responsibility and authority, and expect that they will mutually adjust in a productive fashion. As examples, although professionals have clearly developed practices, it is the human element and not prescribed formulas that lead to "chemistry" in a high performance research team, and smooth handoffs in customer service teams working through complicated issues. The greater the extent of knowledge work, the more difficult is the supervision of activities.   Unlike production line

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[6] This approach to governance, understood as cybernetic control, is influenced by Kickert (1993). Kickert primarily focuses on public governance, but parallels to the domain of business are readily apparent.

"command-and-control" inspection of the results of work, the most practical judges of quality in knowledge work are not external arbiters, but the performers themselves. Professionals are closest to the work, most familiar with standards and challenges, and best able to estimate the difficulty and amount of work involved. In an inter-organizational setting, individuals from different backgrounds are brought together, and a give-and-take atmosphere must prevail. Intransigence and escalation are counter-productive and waste time. Self-control within joint teams relies on trusting professionals to "do the right thing".

In an inter-organizational relation with a single mission, the model of external control is more easily effected. Within a limited scope, sponsors from both parent organizations can align on a single overall direction, and set standards with appropriate rules. Leaders can easily set up a scorecard, and check progress. In more expansive relations where organizations are joined for multiple purposes, however, reality leans more towards the model of self-control. Multiple initiatives result in multiple agendas, and priorities and impacts may impinge on each other. These can lead to conflicts for individuals playing multiple roles across different projects, and/or dissention across organizational lines. These issues lead to a questioning about how well management and governance are working in the inter-organizational relation.

Management, as a practice, traditionally is oriented more to setting direction

Management is derived from the mid-16th century Proto-Romance *maneggiare*, from a Latin root of *manus* (hand). A constructed definition then describes **management** as:

> the general manner or specific action of applying skills or care in the manipulation, use, treatment, or control of things or persons, as in the conduct of an enterprise, operation, etc.

Its original sense comes from the French, who "encouraged" horses through the use of hands, carrots and sticks to perform in ways that served the trainers, but were not natural for the horses.

The application of "skills and care" is consistent with Drucker (1974), where management is described as a practice. Managerial activities are defined in the context of both business enterprises and public service institutions, and are suitable for management in both autonomous enterprises and inter-organizational relations.[7]

To carry out its responsibilities, management must perform three tasks:

- Management must define the specific purpose and mission of the institution.
- Management must ensure that work is conducted productively and that workers personally achieve satisfaction.
- Management must manage the social impact of the enterprise and responsibly serve external communities.

Moreover, as a fourth dimension:

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[7] These three tasks and the fourth dimension represent a paraphrasing of Drucker (1973), pp. 40-44.

- Management must balance the present and the future, both the short-run and the long-run.

Management effectiveness depends on leaders adequately giving direction, organizing for productivity, handling social issues, and producing results.

These descriptions are oriented more towards the model of external control, described earlier. In hierarchical form, a manager is a supervisor formally assigned with responsibility to oversee a group of workers. The description is also valid, however, in a context of self-management, where these activities can be distributed across individuals or rotated over time. Management of a team can be shared, with individuals each providing guidance along a different dimension (e.g. a project lead responsible for tracking progress and budget, and a technical lead for ensuring quality). Alternatively, the role of leader may pass from one person to another (e.g. leader of a study group for a month). The manager may be considered as a member of the work team, but is "more equal than others" as higher expectations and responsibilities are placed on the role. In a social network of equals, the person with greater responsibility and authority becomes, by definition, an outsider.

Governance is usually oriented towards setting and enforcing bounds

The Oxford English Dictionary (OED) presents governance as derived from the Latin word *gubernare* (to steer, direct, or rule), as well as the Greek *kubernan* (to steer). A definition for **governance** can then be composed as:

> the general manner or specific action through which a social body is guided, directed, steered or regulated.

In this definition, the phrase "social body" tends to rule out governing an individual person or things. Normally, governing involves a group of people, rather than a single person. A thing may have a governor built in, but the operation of a machine normally does not connote a human component as part of its mechanism.[8] The phrasing of this definition in a passive mode – i.e. "is guided, directed, steered or regulated" – suggests an approach of bounding or circumscription rather than direction. The social body may be led informally on a peer-to-peer basis, or through a formal authority charged with resources to enforce conformance. Governability, or the lack thereof, may be observed after principles, policies and rules have been established and communicated.

From a general systems perspective, governance suggests the model of self-control, described earlier. With self-control, the coherency and direction for the social group is set by members of the social group itself.

> Governance rests on the application of feedback … which ensure[s] that the [goal] is reached.

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[8] A more thorough classification of systems and their abilities to exhibit choice is addressed by Ackoff & Gharajedaghi (1996), and Ackoff & Emery (1972).

As most of the systems to be governed are complex and nonlinear, governance should not be taken as a simple (nor even complicated) deterministic procedure. Feedback … may very well in some cases fall wide of the mark.[9]

Feedback comes in positive and negative forms. Positive feedback, such as incentive programs or favored status, aims to encourage or enable some desired aspects within the system. Negative feedback is typically implemented as rules that regulate conduct, and the enforcement of penalties that discourage counterproductive behavior. Positive feedback might seem like a preferred instrument in the short term, but is not without long term consequences.[10] The use of the term "positive" does not necessarily mean "good", and may actually result in the contrary.

A positive feedback leads to divergent behavior: illimited expansion, explosion (runaway to infinity) or complete block up of activities (runaway towards zero) as "more" engenders "more" with a snowball effect … [or …] when "less" engenders "less" everything is shrinking.

A negative feedback leads to an adaptive or finalized behavior, i.e. converging towards an objective; maintaining a level, a temperature, a concentration, a velocity, a course.[11]

Exercising negative feedback through the establishment and enforcement of rules of conduct within an inter-organizational relation can be an economical way to encourage desirable behaviors. The demands and preferences of the multiple constituencies within an inter-organizational relation fill joint paths with dilemmas and contradictions. A long-term alliance has a potential for greater productivity than in the sponsoring parents. In contrast to the automatic assignment of citizenship rights to the native-born, or imputed continuing employment in autonomous (and sometimes unionized) organizations, the assignment of individuals to joint initiatives should be seen as a privilege. The leadership of the sponsoring organizations can choose the specific individuals to be included or excluded in joint initiatives or projects. The key criteria for participation in the relation should include assent to a joint mission, adoption of special rules of engagement within an inter-organizational context, and accommodation of the practices and beliefs of the organizational partner. If these criteria do not produce a sufficient number of qualified and motivated individuals from the sponsoring organization(s), the question of governability should be raised. Incentives and special privileges may provide short-term benefits, but the long-term viability of a successful inter-organizational relation may be at risk.

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[9] This definition, from François (1997), leans on a citation to G.G. Jaros, "Teleonics: a process based systems approach*", IFSR Newsletter* (34/35), 1994. The original citation read "feedback and feedforward", but the entry for **feedforward** in the Encyclopedia leads to dubious reapplication. "M.D. Rubin describes technical feedforward devices in the following terms: 'Feedforward occurs when a part of the input signal is also fed around the amplifier and is in some way combined with the output of the amplifier for further processing, in such a way that the output signal is *not* recirculated through the amplifier'. This is thus some kind of buffer device, used to damp possible wild fluctuations. 'Forward' seems to imply the *intention* to control these fluctuations, whose possibility is foreseen.

[10] Positive feedback follows the maxim that "no good deed goes unpunished". For a discussion of entropy related to negative feedback, see Hawk and Siikavirta (1998). For a commentary on the Faustian bargain, see Hawk (2000).

[11] François (1997) provides these excerpts from Joël de Rosnay, *Le Macroscope*, 1975, pp. 102-103.

Governance and Management in Inter-organizational Relations

A failure in management may be corrected by reassigning individuals in roles; a failure in governance may be pervasive and systemic

The interplay between management and governance is intricate, and generally unnoticed unless the inter-organizational relation proves to be unproductive. The question is then whether the fundamental issue in the joint association can be attributed to management, or to governance.

As a simplistic statement, management presumes a manager, and individuals or work groups that are being managed. In a localized context – possibly through trial-and-error – if an individual or work group is oriented towards activities on an unproductive path, replacing the manager or replacing the misdirected workers is an easy direct intervention. From the systems perspective, this is akin to replacing a nonfunctional part in an otherwise healthy whole. The repair of a bridge across a geographic gap and the substitution of an alternate diplomat in an international relation both represent activities that restore an unimpeded connection from one side to the other. In an inter-organizational context, management issues can be readily resolved when the authority of a manager over individuals from the partner organization is clear, and the inter-organizational reporting of those individuals is well-understood.

Issues with governance can be more subtle. From a systems perspective, these challenges have more to do with the compatibility of parts than the repair of parts. A bridge is practical only if both ends can be affixed to stable points. A diplomat is useful only if two nations have mutual interests to discuss. Replacing a part doesn't improve effectiveness if the whole rejects the transplant. Systemic problems may include unresolved cross-purposes in two organizations working together; the balances of authority, participation and/or investment by each party; and mutual incompatibility in organizational practices, beliefs and/or values. If the sponsoring parties are sufficiently motivated, a common ground can be reached, even if inter-organizational initiatives represent joint peninsulas to both sides. Within some scope, both parties need to be comfortable on a joint set of rules with which they will play.

In some cases, governance issues may be relieved through effective management. A joint team stalled by bickering may be led to a desirable result by a charismatic manager with the proper resources. Unclear standards of professional quality can be resolved by an executive who understands the specific circumstances at hand. Relying on the skills of a specific manager may, however, represent the risky bet that virtue in a critical part may overcome weaknesses in a system as a whole. When the heroic manager moves on in a natural course of turnover and attrition, the issue of governance may resurface, with longer term consequences built up.

Alternatively, management issues may sometimes be overcome by changes in governance. A maverick group pursuing a dream out of alignment with the principal motivation for an alliance can be spun off, or the breadth of the scope for the association expanded. An imbalance between organizations can be formalized with side payments and/or transfers of intellectual capital. Conflicts between organizations may be constructed into productive competitions, where multiple avenues are simultaneously pursued, with a prize when the "best team" wins. Changing governance in a circumstance when changing management would otherwise be adequate may,

however, represent overkill. The interests of the sponsoring partners may not be economically served, and unnecessary overhead and bureaucracy may creep into the relation.

Recognizing an inter-organizational problem as primarily one of governance, or primarily one of management, is likely an art. A remedy in one association may not be a remedy in another, and has the potential to trigger side effects.

LEADING IN AN INTERDEPENDENT CONTEXT MAY REQUIRE DIFFERENT STYLES OF MANAGING AND GOVERNING

The primary challenge for long-term inter-organizational relations may be the recognition that managing and governing requires different frame than that which is workable in autonomous organizations. Two key differences are the accentuation of multiple lines of authority, as described by research into heterarchy; and the accommodation of background social practices, articulated well in social theory associated with style and the disclosing of new worlds.

Continuing bilateral sponsorship of an inter-organizational relation requires recognition that a heterarchy is being managed

Joint initiatives designed as complicated arrangements can result in contexts similar to that of autonomous organizations. The identity of participants is clearly aligned with one organizational sponsor or the other, and small accommodations are expected. A truly interdependent joint initiative, on the other hand, becomes a complex initiative, where individuals need to play multiple roles and respond to pulls from multiple lines of authority. In an IT outsourcing arrangement, these pulls include goals of the client organization, the sponsoring organization and the community which operates on a day-to-day basis; the budget and accountabilities overseen by financial and audit authorities; technical architecture established by senior professionals watching industry standards and trends; and human resource policies that ensure fairness to individuals carrying out similar types of work. Although a senior executive might like to think that he or she can command each and all of these roles to carry out specific directions, he or she does so at the risk of undermining the devolved authorities. The more complex the inter-organizational relation, the more individuals will feel pulled in different directions. These symptoms are described by Jay Ogilvy as a shift towards heterarchy.

> The shift from bureaucratic hierarchy – in the corporation, in the economy, and in the self – does not entail a decay into anarchy. The problem is not, as in anarchy, the absence of hierarchy, but rather the proliferation of hierarchies. Following information theorist Warren McCulloch, I like to call this proliferation of hierarchies a heterarchy. We each serve many

masters. There is no single captain of the ship – not in the self, not in the corporation, not in society, not in the cosmos. Contrary to the fears of conspiracy theorists, no one is in charge.[12]

When no one is in charge, everyone is in charge. Inter-organizational relations formalize the orientations of governance and management away from the clarity of simple lines of authority towards multiple and potential conflicting pulls. Ogilvy sees this not just as a trend in business, but in society at large.

> Part of the trick in living with heterarchy lies in learning how to serve several masters. But isn't this multiplicity of authorities a central feature of the postmodern condition? Just as a patriarchical authority is giving way to feminism in the postmodern family, so the power of the boss in business is yielding to other powers: from regulators to consumer activists, from unions to foreign competitors, from stockholders to antitrust lawyers.

> We hear increasing calls for accountability precisely because it is often difficult to tell who is in charge. Knee-jerk hierarchy tempts us to identify one source of all authority, but anyone who knows the ways of a complex organization will be able to tell you that one officer will be able to help you with one kind of problem while another officer will be better at helping you with another kind of problem. One person is good at improving press relations, another is better with shareholders, a third is an authority on marketing, and a fourth is an expert on new product development. In serving several masters it's best to know who's who, and what they value.[13]

The primacy of a clear single strategy backed by a formally aligned organization is thus challenged. Recent research into communities of practice may provide an alternate foundation towards understanding inter-organizational relations. A shared identity within joint initiatives reflects and is reflected by shared practices. Jean Lave and Etienne Wenger speak of this in terms of participation in communities, rather than membership in an organization.

> We conceive of identities as long-term, living relations between persons and their place and participation in communities of practice. Thus identity, knowing and social membership entail one another.

> There may seem to be a contradiction between efforts to "decenter" the definition of the person and efforts to arrive at a rich notion of agency in terms of "whole persons". We think that the two tendencies are not only compatible but that they imply one another, if one adopts a relational view of the person and of learning: It is by the theoretical process of decentering in relational terms that one can construct a robust notion of "whole person" which does justice to the multiple relations through which persons define themselves in practice.[14]

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[12] Ogilvy (2002), p. 31. In the original text, there is an embedded citation to Warren McCulloch, "A Heterarchy of Values Determined by the Topology of Nervous Nets", *Embodiments of Mind* (Cambridge, Mass.: MIT Press, 1965), 40-44.

[13] Ogilvy (2002), pp. 147-148.

[14] Lave & Wenger (1991), pp. 53-54.

The learning orientation presented by Lave and Wenger is a perspective that tries to reflect the individual in the context of larger social groups. They overlay informal communities onto the context of formal autonomous organizations. This overlay can similarly be extended into the context of long-term inter-organizational relations, to understand how individuals and workgroups negotiate meaning and conduct themselves towards productive work.

The governance of an inter-organization relation needs to reflect ongoing accommodation of varied background social practices

Complicated initiatives tend to continue to anchor individuals to their original organizational parents. Workers thus tend to retain their prior identities, and modify practices only situationally. Complex initiatives generally require the development of a new and distinct identity with accommodated work practices. In a practice-oriented view of social systems, this bonding of individuals to a social group is expressed as solidarity. As a combination of practices originating from different heritages, developing solidarity requires the formation of a new social world with some aspects familiar from participants' home organizations, with other aspects that are slightly different or new.

Spinosa, Flores and Dreyfus describe solidarity as the ground of meaningful community. Their exposition in the context of nations may be cross-appropriated to inter-organizational relations.[15] Solidarity within an inter-organizational relation does not suggest that an individual must abandon other affiliations, but it does mean that he or she must adopt an identity as a member of the relation.

> We feel solidarity with our fellow citizens when we recognize that we have *already* been engaged in preserving and perpetuating certain concerns. That is, we recognize that when we act according to practices that produce our culture with its particular identity and produce ourselves as citizens with identities appropriate to our culture, we are all engaged in the activity together. The *together* here means that we do this as a "we".[16]

A "we" exists only if members within an inter-organizational relation conduct their practices in a shared *style*.

> All our pragmatic activity is organized by a style. Style is our name for the way all the practices ultimately fit together. A common misunderstanding is to see style as one aspect among many of either a human being or human activity, just as we may see the style as one aspect among many of a jacket. Our claim is precisely that a style is not an aspect of things, people or activity, but, rather, constitutes them as what they are.[17]

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[15] See Spinosa, Flores and Dreyfus (1997), p. 117. "We approach solidarity from the point of view of the nation because we have observed that many people still are willing to die for their nation who are not willing to die for their community or for social movements of which they have become members. … [The] substance of our claim … is that the best life is lived when the association whose recognition matters most is also an association for which one would be willing to die".

[16] Spinosa, Flores and Dreyfus (1997), p. 134.

[17] Spinosa, Flores and Dreyfus (1997), p. 19.

In the context of business, style is reflected in choices about organizational process. In this view of organizational processes, there are more than defined procedures and defined accountabilities.[18] Defined procedures are steps of an activity that can be codified, as in an instruction manual or a cookbook. A defined accountability is an agreement by an individual to accept a role to provide an outcome or perform some activities. Two organizations can have almost identically defined procedures and defined accountabilities, yet can still carry out activities differently, based on their differences in style. If some aspect of the activity is extremely important, it may be specified within an inter-organizational agreement as a standardized procedure or named accountability. Yet strong differences in style by organizational lines may still be in evidence, as a result of human nature. An activity can be performed with a style that reflects technical competence and speed, or with a style of illustrating personability and warmth. Some organizations portray a style of long-term expansiveness, while others emphasize a style of immediacy in response. Styles of creativity, humor and tradition may commonly be attributed to one organization, whereas another typifies practicality, sobriety and modernity. Style is grounded in the background practices of social organizations, developed over long histories of experiences. It represents ways in which members of organizational communities conduct themselves, without conscious thought. Style is therefore critical to performance in joint initiatives. If complex joint initiatives are to be coherent, individuals within the relation must find ways to converge upon a shared style.

The shared style within an inter-organizational relation develops as a disclosive space, based on backgrounds from the parent organizations that are intermingled.

> We call any organized set of practices for dealing with oneself, other people and things that produces a relatively self-contained web of meanings a disclosive space.[19]

> [When] people change their practices in meaningful ways, they do so on the basis of the style they already have. Style acts as the basis on which practices are conserved and also the basis on which new practices are developed. Thus style is the ground of meaning in human activity. A style, or coordination of actions, opens disclosive space and does so in a threefold manner: (1) by *coordinating* actions, (2) by determining how things and people *matter*, and (3) by being what is *transferred* from situation to situation. These three functions of style determine the way anything shows up and makes sense for us.[20]

The style that coordinates actions in social situations is often based on predispositions towards individuality and collectivity. One organization may have a proactive, individualistic disposition with an expectation and value towards one person "taking charge" and leading the group. Another organization may be oriented on a participatory teaming disposition, where alternatives are reviewed jointly, and roles are mutually negotiated. Shared procedures and accountabilities are only the starting point in reducing frictions that impede coordinated actions. Even where

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[18] Scherr (1993) defines both procedural and accountability dimensions to business process. "Considering people and their accountabilities in an organization is not a mere augmentation of the familiar procedural aspects of process definition. Rather, this consideration adds another dimension." [p. 81]

[19] Spinosa, Flores and Dreyfus (1997), p. 17.

[20] Spinosa, Flores and Dreyfus (1997), p. 20.

procedures and accountabilities have been clearly articulated, it may take some time for individuals to become comfortable in adopting a style that is more appropriate within the relation. Adopting the new style may still require a flexibility to retain aspects of prior style appropriate as continuing members of an organizational parent.

Style helps determines how things and people matter to an organization or community. It is enacted socially via protocols. [21] Protocols are not the beginning-to-end, step-by-step procedures for how work gets done, but are instead initial actions that a person will engage with another to negotiate meaning. As an example, workers seem to understand one protocol where a telephone conversation better resolves a context, whereas an alternative protocol of asynchronous e-mail clarifies in other ways. What is it about differences that make a difference? Would, or should, all members within an inter-organizational relation follow a similar protocol to choose to call on the telephone? A preference for redundancy of interactive communication may reflect some features that make a difference for an individual that should also make a difference for others in a similar role. Such practices in an inter-organizational relation should be carried out in a similar style, irrespective of the organization from which the person originates.

In an inter-organizational realm, the style being transferred from situation to situation needs to represent the "best of both worlds" from the parent organizations. The formation of a long-term inter-organizational relation suggests that each organization has something to contribute that would be lost either in arm's length transactions, or a vertical integration. An inter-organizational relation that fails to adopt practices from both organizations is either positioning one side as dominant, or devaluing the lesser practices as not worth preserving. The relation may have been premised on moving towards a style of openness or conservatism considered desirable and prevalent in one party. In the interests of solidarity, what is most important in an inter-organizational relation is that individuals consistently respond not only to situations with which the organization has had previous experiences, but also to new situations that emerge. Resolving these new situations will draw on the styles from the parent organizations, but eventually should converge on a style appropriate for the relation.

The degree of adaptation by both organizations to reach a common style may be incidental or history-making.[22] Individuals involved in inter-organizational activities not only have to be able to recognize disharmonies between practices normal within the parent organization as compared to within the relation, but also need to become comfortable with adopting those disharmonious

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[21] Sensemaking in organizations is an active research area led by Karl Weick that describes why organizations "behave" as they do. From a more prescriptive perspective, we have found protocols represent tools that people can apply.

[22] Spinosa, Flores and Dreyfus (1997) have a specific meaning for "history making". "Something that makes history, we shall argue, changes the way in which we understand and deal with ourselves and with things". [p. 2]

practices.[23] If a common set of practices for all members in an inter-organizational relation is not in evidence, solidarity will be weak.

Both heterarchy and solidarity reflect advances in social theory that can add to the rich foundation provided by general systems theory. Inter-organizational relations represent a focus on ecological, part-to-part interactions rather than the holistic or part-whole emphases normally considered. In practice, all aspects can provide valuable insights, but this exposition on inter-organizational relations suggests a view that has been underdeveloped.

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[23] Spinosa, Flores and Dreyfus (1997) provide a definition for "disharmonies". "Disharmonies are practices in which we engage that common sense leads us to overlook because they are n ot well coordinated with our other practices". [p. 23]

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APPENDIX 1: COMPLEXITY, COMPLICATEDNESS AND ELABORATION

An organization can extend its reach in one of two ways: through horizontal elaboration, or through vertical elaboration.[24] A short-term arm's length transaction is reflected in the former, whereas the second opens up the possibilities in a long-term inter-organizational relation is suggested by the latter. The advantages and disadvantages of each alternative can be discussed from the foundation of general systems theory.

Horizontal elaboration increases the number of functions available to the organization while maintaining the same number of vertical layers in the system, but increasing the number of parts horizontally. This approach extends reach by increasing *complicatedness*. This extra arm or leg is equivalent to adding a division or workgroup to an autonomous organization. Each horizontal addition is a part that contributes an additional function to the system. Flatness in the vertical dimension can be maintained by broadening the span of control. A complicated structure produces only a sum of parts, rather than emergent properties. Adding function or removing functions can be relatively straightforward, as functions are matched to the structure of elaboration. The energy to maintain this structure is relatively low.
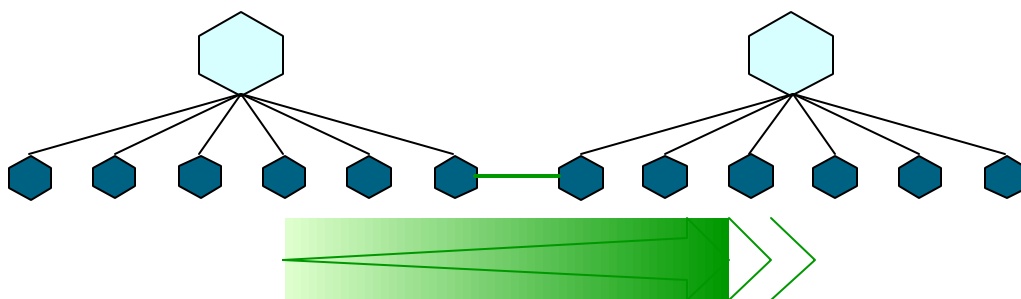

Figure 2: Extending reach through horizontal elaboration

Vertical elaboration increases the number of functions available to the organization, not by adding additional parts at the most basic level, but by sharing branches on the vertical structure. This

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[24] Allen, Tainter & Hoekstra (1999) use the terms "structural elaboration" and "horizontal elaboration", and "organizational elaboration" while we have substituted the terms "horizontal elaboration" and "vertical elaboration".

approach to extending reach increases *complexity*. Two like-minded organizations can create an inter-organizational relation that retains the distinct characteristics of each parent, yet blends attributes from each. Even if the number of vertical layers does not increase in the joint relation, complexity in the organization is increased. Undoing a relation is not just complicated, but will result in a loss of function that can not be attributed solely to the contribution of a single parent. Complexity encapsulates the behavior within a relation so that it can be simpler than that of two autonomous organizations working together. The energy required to maintain this structure is, however, greater.
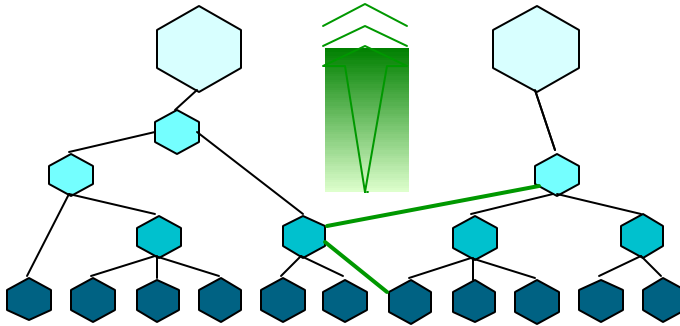

Figure 3: Extending reach through vertical elaboration

Which is more desirable: a complicated organization, or a complex organization? Allen, Tainter and Hoekstra describe horizontal elaboration as resulting in a short-term increase in complicatedness that produces immediate benefits, that is not sustainable.

> The benefit of [horizontal] elaboration is the solution to some problem that has risen as the latest in a long line of emerging challenges. The benefits of [horizontal] elaboration are ephemeral. [Horizontal] elaboration is a process wherein the system never gets ahead for long, for it is a continuing struggle to deal with the issues arising in business as usual. Furthermore, the benefits of [horizontal] elaboration in solving problems are at first great, but they diminish from there.[25]

In contrast, vertical elaboration is an increase in complexity that creates a leap in the resources available, but at a greater cost.

> If there is an increase in the elaboration [vertically], then there is an increase in the cost of organization. Unlike the fidgeting that amounts to [horizontal] elaboration, elaboration [vertically] is occasional and sudden. The emergence of a new level of organization has a prerequisite which is the availability of new or greater quantities of resources to fill the reorganization. The new level of organization may rise in response to a new resource base. There is an upfront payment, or at least credit worthiness, for the emergence of new levels of organization. The obligatory linking of the existence of a new level of organization to the resources to pay for it is a distinctive character of levels of organization in general.[26]

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[25] See Allen, Tainter & Hoekstra (1999), p. 406.
[26] Allen, Tainter and Hoekstra (1999), p. 406.

The issue is a trade-off between the creation of synergy, and the maintenance of sustainability. Maintaining the long-term inter-organizational relation comes, however, at a cost.

APPENDIX 2: TIGHT COUPLING AND LOOSE COUPLING

Coupling is a term commonly used in engineering that Charles Perrow reapplies to social systems:

> … *tight coupling* is a mechanical term meaning there is no slack or buffer or give between two items. What happens in one directly affects what happens in the other. [….]

> Loosely coupled systems tend to have ambiguous or perhaps flexible performance standards, and they may … have little consumer monitoring, so that absence of the intended connection remains unobserved. [….]

> Loose coupling, then, allows certain parts of the system to express themselves according to their own logic or interests. Loose coupling, however, is not the same as disorganization, unless we mean lack of centralized control by that term. [….]

> Loosely coupled systems, whether for good or ill, can incorporate shocks and failures and pressures for change without destabilization. Tightly coupled systems will respond more quickly to those perturbations, but the response may be disastrous. Both types of systems have their virtues and vices.[27]

Four characteristics associated with coupling, as described by Perrow, are particularly relevant for inter-organizational relations. The first characteristic is pertinent to inter-organizational relations centered on just-in-time supply and delivery of components.

> 1. Tightly coupled systems have more time-dependent processes: they cannot wait or stand by until attended to. [….] In loosely coupled systems, delays are possible; processes can remain in a standby mode; partially finished products … will not change much while waiting.[28]

Parties to an inter-organizational relation may choose to become less interdependent by creating buffers to handle interruptions and surges. The buffers may take the form of storage facilities for excess inventories, or short-term resources such as part-time employees to accelerate production or promotional specials to promote end purchases and consumption. Less interdependence may therefore mean that the parties can "buy time".

The second characteristic is related to inter-organizational access to proprietary know-how and/or resources.

> 2. The sequences in tightly coupled systems are more invariant. B must follow A, because that is the only way to make the product. Partially finished products cannot be rerouted to have Y done to them before X; Y depends upon X's having been performed.[29]

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[27] Excerpted from Perrow (1984), pp. 89-92.
[28] Perrow (1984), p. 93.

An inter-organizational relation may be formed to provide one party with access to specific competences and/or channels to customers. This may mean working jointly with a team of researchers, or through an existing sales channel. An alternative approach to accessing a competence would be through patent licensing or the negotiation of distribution rights. As an example, a manufacturer might choose to use the partner's field sales force as the primary method to reach large-volume purchasers of its products. However, the manufacturer might additionally license the distributor's mailing list of low-volume purchasers to be approached through telemarketing and Internet web channels. The manufacturer is therefore less dependent on the performance of specific salesmen at the distributor, and the distributor still receives some compensation for their knowledge. The tight coupling between proprietary knowledge and access to markets can therefore be relieved, to the mutual benefit of both parties.

The third characteristic may be of particular interest to inter-organizational relations with a vision of mass customization.

> 3. In tightly coupled systems, not only are the specific sequences invariant, but the overall design of the process allows only one way to reach the production goal. [....] Loosely coupled systems are said to have "equifinality" – many ways to skin the cat; tightly coupled ones have "unifinality".[30]

In a demand-driven environment, the final result of most interest is satisfaction of the end customer. All parties to an inter-organizational relation may contribute towards customer success, and flexibility may be key to customizing a product or service specific to a "customer segment of one". An inter-organizational relation that is designed as less interdependent may allow individuals on joint teams to draw on the resources and practices of their parent organizations. Not being "locked in" to procedures available only within the intersection of the two organizations allows for flexibility through autonomy and creativity. Less interdependence allows workers to not be tied down to the "lowest common denominator" of two organizations.

The fourth characteristic is related to the centrality of the relation to each organization's business in the long term. When an organizational partner becomes "mission-critical", risk of failure becomes a greater concern.

> 4. Tightly coupled systems have little slack. Quantities must be precise; resources cannot be substituted for one another; wasted supplies may overload the process; failed equipment entails a shutdown because the temporary substitution of other equipment is not possible. An organization makes a virtue out of wasting supplies or equipment, but some can do so without bringing a system down or damaging it. In loosely coupled systems, suppliers and equipment and humanpower can be wasted without great cost to the system. Something can be done twice if it is not correct the first time; one can temporarily get by with lower quality in supplies

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[29] Perrow (1984), p. 93.
[30] Perrow (1984), p. 94.

or products in the production line. The lower quality goods may have to be rejected in the end, but the technical system is not damaged in the meantime.[31]

Some business executives have experienced the misfortune of embarking on a grand business partnership that has brought down both enterprises. Although a long-term inter-organizational relationship can provide all participants with greater leverage, these benefits do not come without risk. Failure can mean joint failure, so that an organization's closest partner becomes too weak to help out in a catastrophe. Thus, a lower-risk approach may be to structure less interdependence between the organizations, to support greater robustness. Instead of restricting the relation to mutual exclusivity, an openness to alternative organizational partners may provide early signals of threats on the horizon, as well as alternate support systems if inter-organizational initiatives run into turbulence.

Tight coupling, in itself, is not necessarily a formula for disaster. The risk is in the combination of tight coupling with complexity. In an inter-organizational context, this is reflected in relations where parties not only choose to work together closely, but mutually share not only in benefits but in risks. In *Normal Accidents*, Charles Perrow describes the potential effect of tight coupling with complex systems.

> For the interactively complex and tightly coupled system (…, including nuclear plants, nuclear weapons systems, chemical plants, space missions, and DNA) the demands are inconsistent. Because of the complexity, they are best decentralized; because of the tight coupling, they are best centralized. While some mix might be possible, and sometimes tried (handle small duties on your own, but execute orders from on high for serious matters), this appear to be difficult for systems that are reasonably complex and tightly coupled, and perhaps impossible for those that are highly complex and tightly coupled.[32]

The scope and form of inter-organizational relationships are voluntarily constructed, often motivated by the prospects of greater efficiency or market power. The complexity of a long-term inter-organizational relation can be avoided by one organization taking over or merging with the other, or the sale of a business unit. This introduces other issues, but it removes the complexity of two organizations pulling a relation in different directions. If the complexity of a long-term inter-organizational relation is desired, however, the other alternative is to loosen the coupling between the two organizations. The expectation of joint organizations working as "one team" needs to be relaxed. Instead of always acting in unity, it may be sufficient for representatives of both companies to be operating in a "demilitarized zone", where cooperation is encouraged rather than rigidly enforced.

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[31] Perrow (1984), p. 94.
[32] Perrow (1984), p. 334.

APPENDIX 3: EXTERNAL CONTROL AND SELF-CONTROL

We presume there to be at least three situations of control: dependent, independent and interdependent. The first two are similar to the notorious slave/master relation found throughout literature,[33] and will not be addressed further herein. The third, interdependence, is clearly as desirable as it is elusive to come by or maintain. As such, it provides the focus for what we see as the most desired state of relationship governance and management.

The degree of interdependence in an inter-organizational relation is indirectly influenced and directly controlled directly by the qualities of both by governance and by management. As instruments for guiding a social system, each approaches control and self-control differently. Walter Kickert expresses the difference between external control and self-control.

> [Governance] is in reality control in complex networks. In system theoretical terms, not only the controlled system is complex and multiple, the controller itself is too, for the complex system consists of a multitude of actors, each of which is a controlling subcomplex, with a high degree of self-control of its own complex subsystem and mutual control between the subsystems. The distinction between controller and controlled system does not hold here.

> This yields an essentially different image of the concept of control. Control in a complex network is not a 'third' part, an influence from outside and above, but an influence which the actors exert on each other and themselves. Firstly, the control system is not singular but complex, composed of controlling parts. Secondly, control in such a complex is a form of self-control. The parts control each other and thus themselves.

> Governance is the achievement of balance between governing actors. Control is the balance of controls, a balance in a field of different, often opposing forces …. Governance is pushing and pulling on the many subjects that are at stake. Getting the sum of all forces on all these dimensions to zero, is balance. Attaining and maintaining an equilibrium in a complex of forces is quite different from a homeostat which keeps a variable constant via a feedback mechanism.[34] [p. 195]

Manageability is obviously best viewed as a problem for managers, yet the managerial level and model to be applied is less obvious. Insight into these questions can be gained by social experimentation: until adequate performance is achieved, a manager may replace some members of his work team (or vice-versa), or the manager may be himself or herself be replaced by a higher authority. Governability of an organization or situation is, however, a problem for all stakeholders and constituents on whose behalf the governance processes work. Any joint social action requires an implied consent of governed constituents to forego some individual privileges, in exchange for benefits that are available only in the collective.[35] In an uncorrupted system, governors are the focal point through which the will of the people is enacted. For governance to work as a system,

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[33] Fischer (1969), pp. 7-13.

[34] Kickert's exposition in the context of public governance is reapplied for our purposes in business. See Kickert (1993), p. 195.

[35] This is the key idea behind Rousseau, *The Social Contract*.

the large majority of constituents must choose to follow policies that support group action through their personal day-to-day activities. Without this, governance becomes ineffective.

In the context of inter-organizational relations, governance and management must be allowed to inter-operate, while maintaining a desired level of interdependence. If governance ensures that individuals within the relation are predisposed towards the joint interests of the organizational parents, then management should enable the coordination of resources towards productivity and performance of the relation. If management ensures that general issues are pre-resolved, then an appropriately designed governance system can enables workers to resolve unique issues originating from different backgrounds, and respond to the minor uncertainties that can cloud achievement of inter-organizational interests. Governance needs to blend of aspects of external control and self-control in inter-organizational subsystems will support the creation and capture of mutual benefits from a long-term association.