The hazard of collective opportunistic behavior:

The inability of hybrid modes of governance to cope with an adverse incentive in the Dutch office market

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Abstract – Hybrid modes of governance have characteristics both from the market and from the hierarchy. The degree of incentives that is maintained in hybrid modes of governance give them an advantage over hierarchies. On the other hand, the degree of incentives is also a threat for the stability of the hybrid, as it can cause opportunistic behavior. Hybrid modes of governance in the Dutch office market have implemented sufficient safeguards to mitigate individual opportunistic behavior. Nevertheless, they have still problems to perform due to a collective type of opportunistic behavior, which is not recognized in current hybrid theory. In this paper, the inability of hybrids in the office market to adapt due to this collective type of opportunism is analyzed. The research will start with a short overview of current literature on hybrid modes of governance. Then the dynamics on the Dutch office market are discussed. With insights from the Dutch office market the flaws of current hybrid theory will be explained. After which an approach is provided to deal with collective opportunism.

Keywords: office market, hybrids, governance, adverse incentive, opportunistic behavior, collective opportunistic behavior, safeguards

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1. Introduction

New institutional economics identify three modes of governance: The market, the hierarchy and the hybrid. In hybrids, different firms have still autonomy to behave competitive. At the same time, the firms renounce a part of their autonomy in favor of the hybrid, which enables them to cooperate (Ménard 2010). Thus, they have both characteristics from the market as from the hierarchy.

This provides at the one hand a degree of incentives to reduce costs and adapt efficiently. This degree of incentives enables hybrids to outperform hierarchies, which lack incentive intensity. At the other hand, they have the ability to cooperate, which enables hybrids to outperform markets (Ménard 2010).

However, the ongoing competition has a direct effect on the ability of the hybrid to cooperate. Hybrids have problems with stability and life expectancy due to the risk of opportunistic behavior among partners. In order to mitigate the hazard of opportunistic behavior hybrid theory provides a set of safeguards (Ménard 2010).

In a research to the effectiveness of hybrid modes of governance in the Dutch office market, Stelder (Stelder 2015) argued that despite fact that the risk of individual opportunistic behavior was sufficiently mitigated with safeguards; hybrids on the office market still have difficulty to perform due to the effect of an adverse incentive on the behavior of the partners. The partners of this hybrid do not act opportunistic amongst each other, but the partners act opportunistic as a collective.

In this article, I will propose a definition of collective opportunistic behavior as an addition of hybrid theory. I shall discuss what causes collective opportunistic behavior and I shall furthermore assess to what degree safeguards current hybrid theory provide to deal with opportunistic behavior are applicable for collective opportunistic behavior.
The research question of this article is: *What incentives cause collective opportunism in hybrids and how can collective opportunism be mitigated?*

In order to understand hybrid modes of governance, the paper will start with a brief discussion of governance in general. In the third chapter, hybrid modes of governance are elaborated upon. Then in the fourth chapter, the case study on hybrids in the office market shall be introduced. In the fifth chapter, the cause for collective opportunistic behavior in hybrids in the office market, in the form of an adverse incentive is discussed. In the sixth chapter a definition of collective opportunistic behavior is proposed. In the seventh chapter is discussed how collective opportunistic behavior can be mitigated.

2. **Governance**

Viewed from the transaction cost theory, governance is the way transactions are organized. The williamsonian hypothesis about efficient governance was initially focused on the classical tradeoff between make or buy (Williamson 1975): The distribution of goods is done or by the free market or by hierarchical integration.

The market is based on *competition*. Different firms in the market compete with each other on price and quality. If the free market does not function properly due to market failure or externalities, a government can intervene to coordinate the allocation of goods and services. In a hierarchy, all the transactions are done within the same entity: *cooperation*. The different firms are combined and become divisions under the same hierarchy.

The williamsonian hypothesis was extended with 'hybrid' arrangements, which are *'long term contractual relations that preserve autonomy but provide added transaction-specific safeguards'* (Ménard 2013). Hybrids have both aspects of the market as from the hierarchy. In a hybrid mode of governance, firms both compete like in a market and cooperate like in a hierarchy. The term form hybrids is *coopetition*.

Each of the three generic groups of governance differ in adaptation, incentive intensity and administrative controls and is supported by a different type of contract law (Williamson 1991, Ménard 2010), as shown in table one. These differences shall now be explained.

2.1 **Performance attributes**

Williamson acknowledges that economic problems always and only arise in consequence of change (Williamson 1991). He distinguishes two types of change. One where individuals are able to make the right decisions. Williamson refers to this adaptability as adaptability A, where A stands for autonomy. The other type of change is characterized by a bilateral or multilateral dependency, where the adaptability can only be achieved by cooperation. This adaptability is referred to as adaptability C. Markets are strong in autonomous adaptability, where hierarchies are strong in adaptability through cooperation (Williamson 1991).

2.2 **Instruments**

In markets, individuals are able to adapt autonomously, appropriating individual streams of net receipts. They have therefore strong incentives to reduce costs and adapt efficiently. In hierarchies, it is difficult to appropriate gains and losses, as due to bilateral interdependencies different divisions can claim they are causally responsible for gains of other divisions. Moreover, headquarters can use accounting systems to effect strategic redistribution. The consequence is that hierarchies have less incentive intensity and added bureaucratic costs due to its increased administrative control (Williamson 1991).

2.3 **Contract law**

The different types of performance attributes and instruments make that the different types of governance have need of a different type of contract law. In the free market, where there is no long-term bilateral dependency, classical contract law is used. Classical contract law is interpret in a very legalistic way. Neoclassical contract law and excuse doctrine is used when parties remain autonomy but are bilaterally dependent in a nontrivial way. This type of contract law is used for hybrids. Forbearance law characterizes the contracts in hierarchies (Williamson 1991).

In table one is shown that the market and hierarchy score or strong or weak on the
attributes. The hybrid mode is characterized by semi-strong incentives, an intermediate degree of administrative apparatus, displays semi-strong adaptations of both kinds, and works out of semi legalistic contract law regime (Williamson 1991).

### Table 1: Attributes of different governance forms (Williamson 1991)

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Market</th>
<th>Hybrid</th>
<th>Hierarchy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruments</td>
<td>+ +</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>Incentive intensity</td>
<td>0</td>
<td>+</td>
<td>+ +</td>
</tr>
<tr>
<td>Performance attributes</td>
<td>+ +</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td>Adaptation (A)</td>
<td>+ +</td>
<td>+</td>
<td>+ +</td>
</tr>
<tr>
<td>Adaptation (C)</td>
<td>0</td>
<td>+</td>
<td>+ +</td>
</tr>
</tbody>
</table>

* + + = strong; + = semi-strong; 0 = weak*

3. **Hybrid Modes of Governance**

Menard (2010) states that it must be asked why arrangements exist that deliberately avoid relying primarily on prices to coordinate activity without going as far as integration, in the hope of outperforming markets as well as hierarchies. The main notion is that hybrids proliferate because advantages of coordination and cooperation overcome gains associated with market competition, while remaining autonomous provides more flexibility and better incentives than an integrated structure can offer (Ménard 2010). However, hybrids have problems with stability, life expectancy and opportunistic behavior, due to tension between cooperation and competition. The instability of hybrids is discussed in paragraph 3.2. In the office market an adverse incentive is active. The notion of adverse incentive is explained in paragraph 3.3. Hybrid theory also provides safeguards to mitigate the hazard of opportunistic behavior. These safeguards are presented in paragraph 3.4. In the last section, a distinction is made between different types of hybrids. First, the added value of hybrids is discussed.

3.1 The added value of hybrids

In the previous chapter is explained that hybrids have both a high degree of incentives and administrative controls, which provides them the ability to adapt autonomously and to adapt through cooperation. In this paragraph is elaborated upon the notion of adaptation through cooperation and what strategies can be used in hybrids to provide the adaptability through cooperation.

#### 3.1.1 Value creation

When coordination problems occur in a market, Williamson argues that hybrids are the next best thing before integrated firms (Ménard 2010). The general idea is that a hybrid provides the ability to adapt both autonomous as through cooperation. Hybrids are created for a variety of reasons relating to the inability of one of the partners to solve an important problem (Borys and Jemison 1989). Value creation is a notion used by Borys and Jemison to refer to 'the process by which the capabilities of the partners are combined so that the competitive advantage of either the hybrid or one or more partners is improved.' Hybrids create value in a way that each partner individually could not (Borys and Jemison 1989). In Williamson’s definition: Hybrids provide the ability to adapt through cooperation in order to deal with multilateral dependency (Williamson 1991).

A hierarchy also provides the adaptability to deal with multilateral dependency. However, vertical integration is thought of as a governance form of last resort. This is because hybrids maintain a higher degree of incentives than hierarchies (Williamson 1991). These incentives are three dimensional 1) each firm remain residual claimant on payoffs provided by its own assets; 2) each partner can claim a share of the rent generated by jointly used assets; 3) all partners may cash rents from activities unrelated to the arrangement, thanks to spillover effects of their joint reputation (Ménard 2010). Parties accept mutual dependence because they expect increased ex-post surplus, which improves ex ante incentives to join and invest.

The autonomy of the different partners provide the first dimension of incentives. Partners have incentives to reduce cost and work efficiency as it increases the payoffs provided from their own assets. As they have autonomy, they can also better adapt to minor market changes (Ménard 2010).

The payoffs from shared assets can provide difficulties in hybrid modes of governance. In
many hybrids payoffs of type 2 and 3 are not or only partially contractible. Going hybrid might then be an efficient solution when cost of integration would be too high while contributions from interdependent assets are difficult to assess (Ménard 2010). Thus, choosing a mode of organization is a trade-off between costs of ownership and costs of contracting (Hansmann 2011).

Inadequate allocation of rents could challenge the comparative advantages of hybrids with partners: a) scaling back investments, b) adapting less, or c) forgoing activities that raise hazardous measurement problems. This explains why hybrids are often considered suboptimal (Ménard 2010). On the other hand, total integration might be too costly (Ménard 2010). Using a hybrid governance form instead of a hierarchy can therefore be more feasible.

3.1.2 Strategies to provide the ability to adapt through cooperation

The added value of hybrids can lay in the size of the hybrid, the complementary of different partners or in learning effects. When investments exceed the capacity of working solo, joint assets might generate economics of scale or scope. Mutual dependency becomes strategically valuable if it secures the supply of existing resources, allows access to new resources or facilitates diversification. When markets cannot adequately bundle tacit knowledge and capabilities, a hybrid can provide the platform for learning effects (Ménard 2010).

To be part of a hybrid means that potential partners have to give up some of their authority to the hybrid. Autonomous parties will give up authority only if it is clear they have a problem and that going hybrid is the way to solve that problem. Uniting around a common goal is only the beginning; the hybrid must also find a way to achieve that goal (Borys and Jemison 1989). Therefore, at the one hand, the sense of urgency for the problem has to be strong and at the other hand, it has to be clear in what way the hybrid could contribute to solve that problem. Thus, partners need to have clear incentives to be part of a hybrid. Due to the diverse nature of hybrids, Ménard provides a wide range of possible strategies that can provide incentives to be part of a hybrid. In general, these strategies provide arguments for organizations to let go of a part of its autonomy for the shared benefit of all participants. Such strategies can be, amongst others, developing joint strategies, sharing knowledge, sharing assets and implementing common standards (Ménard 2010).

3.2 Instability of hybrids

The strength of hybrids, combining both aspects of markets and hierarchies, is at the same time its weakness. The high degree of incentives can make firms behave more efficiently. However, they can also have incentives to neglect agreements in the contracts for personal gain. Partners weigh up the need to commit versus the risk of capture (Ménard 2010). Because of the high degree of incentives there is a continuous risk of strategic behavior among partners, which results in problems with the stability of hybrids (Ménard 2010). Many hybrids have therefore a short life expectancy (Borys and Jemison 1989). In order to create a stable governance form, the risk of opportunistic behavior has to be recognized and mitigated.

3.3 An adverse incentive

In the introduction is shortly mentioned that hybrids on the office market have difficulties to perform due to an adverse incentive.

In economic literature, the notion adverse incentive is used to explain perverse behavior. Arrow uses it to explain the incentive for people with insurance to behave more careless (Arrow 1962). Thus, devices to improve the efficiency the allocation of risk bearing may decrease its technical efficiency (Arrow 1962). The adverse incentive as identified in this research is not a result of policy to improve the allocation of goods of service. In the current office market the adverse incentive reduces the ability to allocate office space efficiently. Hence, the adverse incentive is defined as ‘an incentive that creates behavior which reduces the ability to allocate goods or services efficiently.

In a hybrid, with a degree of autonomy and therefore a degree of incentives, there is also a degree of the adverse incentive. Hence, besides incentives to neglect agreements, an adverse incentive provide an additional incentive to behave opportunistic.
3.4 Safeguards to deal with opportunistic behavior

Many of the early research on hybrids focused on this instability and searched for ways to maintain orderly relations amongst competitive firms (Borys and Jemison 1989). For stability mechanisms, researchers look outside the hybrid because hybrids often lack common history. Due to the risk of partner opportunism and the fact that hybrids are created with short life expectancies, a more robust characterization is required (Borys and Jemison 1989).

Hybrid theory has provided a set of safeguards in order to deal with strategic behavior among partners in order to create stable hybrids: Hybrids should (i) find the right partners, (ii) reduce tension among parties, (iii) constrain the risk of opportunistic strategies and (iv) implement procedures for arbitrating conflicts (Ménard 2010).

The first step to mitigate the hazard of opportunistic behavior is to find the right partners. With reliable partners, the risk of opportunistic behavior among these partners is lower. In order to find the right partners, not only the boundary of the hybrid and its environment is important, also the relation of each partner with the hybrid (Borys and Jemison 1989). To find reliable partners, the behavior of potential partners in past cooperation is important. Furthermore can be looked at indirect ties through third parties and the role of potential partners in in pre-existing alliances (Gulati and Gargiulo 1999).

Then, the tension between these partners has to be reduced. Informal ties are important: trust and reputation build on recurrent transactions among partners, familiarity amongst partners with the same background, information about past agreements with third parties and institutional roots (Ménard 2010).

The third step is to constrain the risk of opportunistic strategies. Straightening ties with the chosen partners helps in reducing the chance of opportunistic behavior of these partners (Ménard 2010). A very important aspect is to make sure all parties have shared goals and common expectations (Ménard 2010). Collaboration amongst sovereign organizations means that different goals must be reconciled and molded into a common goal (Borys and Jemison 1989). A common goal is especially important to hybrids as it provides institutionalized direction that acts as a legitimating mechanisms both among as within the partner organizations (Borys and Jemison 1989).

The short life expectancy of hybrids tell us that common goals are not only needed ex ante, but during the entire lifespan of the hybrids. The authority of a hybrid is based on consent rather than command. This means that partners continuously need to understand the benefits of the hybrid for this specific problem: the commitment of partners to the common goals is a process. The moment the partners lose their sense of urgency, the risk of opportunistic behavior among partners will increase.

As partners weigh up the risk of capture versus the need to commit (Ménard 2010), partners need to be monitored. Monitoring partners provides the ability to capture free riders. The last step is to implement procedures for arbitrating conflicts. When free riders are caught, they should be condemned. Checking free-riders exceeds the capacity of contracts and favors implementing specific control mechanisms, and ultimately a governing body (Ménard 2010). Therefore, procedures for arbitrating conflicts should be implemented.

3.4 Types of Hybrids

Hybrids exist in many forms and can be distinguished in various ways. In this research, the three main archetypes of hybrids as provided by Menard are used. Each of these archetypes has a different degree of hierarchy. Moving from spot markets to hierarchies, these archetypes are Information-based-network, Third party coordination and Strategic center. The type of hybrid that is preferable is dependent on various factors. The type of hybrids are shown in figure 2.3.

![Figure 1: Position of hybrid modes of governance (Ménard 2010)](image-url)
Shared information is a hybrid focused on the distribution of information. In this hybrid much of the authority is still assigned to the different firms; it is closest to the market. Due to the more informal nature of such a hybrid, the step for firms to join the hybrid is only little. This hybrid is useful if the multilateral dependency is not too high. The main problem is that if the risk of strategic behavior is severe, this type of hybrid does not provide suitable control mechanisms. In order to mitigate the hazard of strategic behavior, a hybrid with more hierarchy can be preferred. A third party can be used to control the different members. The hybrid with the most hierarchy is the strategic center. Strategic centers can be understood as a shorthand expression for institutional entities under which transactions are initiated, negotiated, monitored, adopted, enforced and terminated (Ménard 2010). The strategic center is more suitable if the multilateral dependency is higher.

4. Hybrids in the Office Market

The Dutch office market suffers from high vacancy rates. In the Metropolitan Region Amsterdam (MRA), the vacancy rates have increased up to 21%, the highest of all major European cities (E. Buitelaar 2013). In order to counteract the high vacancy rate, municipalities and provinces in the metropolitan area of Amsterdam and Eindhoven have organized themselves in hybrid modes of governance. In order to understand the functioning of these hybrids, first a short overview of the causes for the vacancies in the Dutch office market is provided. In paragraph 4.2, the actual hybrids are introduced.

4.1 Causes for high vacancies on the Dutch office market

One of the reasons for the current vacancy rates is off course the economic crisis. Due to the collapse of the economy, the demand for office space was under pressure. The honeycomb cycle is a known phenomenon in the real estate sector. This theory would suggest that the current vacancy rate could be explained by an overshoot of the supply when the market was already declining. When the economy will grow again, the vacancy will first drop and then the construction will follow to grow to complete the honeycomb cycle (J. Janssen 1994). However, the vacancies are not only the consequence of business cycles. It would therefore be naive to expect the market to redeem itself in better economic times. There are structural market changes and institutional causes that inflate the vacancies.

4.1.1 Structural causes

The structural market changes have an impact on the demand for office space. After years of an increase in demand, the demand will in the future stay constant of even decline. This is caused by a declining workforce in the Netherlands and a more dynamic type of working. Companies need in the future less space per employer with flexible work places (Minister Schultz van Haegen 2011, Ossokina 2012).

4.1.2 Institutional causes

Besides structural market changes, there are institutional causes for the high vacancies. For these institutional causes, it is important to understand that ‘the’ office market does not exist. Dipasquale and Wheaton (DiPasquale and Wheaton 1996) argue that it is more a network of submarkets. They identified three submarkets in their four-quadrant model: The market for real estate space, the real estate property market and the construction market.

The market players that are involved in the office market are all involved in different parts of the office market. Most offices are property of investors and not of the users (E. Buitelaar 2013). The actual users (tenants) rent from the owners (investors) in the market for real estate space. In this market, the height of the rent is determined. The investors buy property from developers in the real estate property market. In this market the price of offices is established. Based on that price the amount of new property is established in the construction market with developers and municipalities.

Buitelaar et al. (2013) state that the construction market has very loose coupling between the supply of office space and the demand for real estate by tenants. This can be explained by the mechanism of the three submarkets. The supply in the construction market is based on the demand of investors, and not on the demand of
tenants in the market for real estate space. This indirect link disrupts the alignment between supply and the demand.

The demand of investors is inflated due to several causes. First, the office market is a ‘thin’ market. This means that in the office market only few transactions take place, because of the size of the property involved. Therefore, valuation is used for the estimation of prizes. These valuations represent the prices ‘lagged’ and ‘smoothed’ (E. Buitelaar 2013). This means that market effects are slowly and incomplete translated into prices for investors. Furthermore the valuations are inflated by rent incentives (E. Buitelaar 2014). As an increase in price leads to an increase in the demand (E. Buitelaar 2014), the demand of investors is too high according to the price.

Furthermore, the return on investment is not as important as it might seem. Investors work with an investment portfolio, in which a combination on investments have to secure a stable overall yield on investment, real estate is often added not only for the yield itself, but also for the a-cyclic nature with other important investments. The commercial real estate market has provided investors high and stable yields in the past twenty years (Buitelaar et al., 2013). Commercial real estate has another cycle than stocks and bonds. For the entire portfolio of investors, offices therefore are, even when not fully rented, interesting investments. Therefore, the investors tend to estimate the profits too high or not important enough, which leads to higher demand for office space of investors than that of tenants.

4.1.3 An adverse incentive to facilitate newly built supply

Municipalities facilitate the high demand for new commercial real estate this mechanism creates, as active land development by local authorities is common in the Netherlands. For years Municipalities made profit with the acquisition of land and an integrative comprehensive planning style. In these plans, commercial real estate was a way to finance less profitable parts, and not an objective in itself. This made the supply of real estate less responsive to demand (Needham 1997). With the crash of the real estate market in 2008, many municipalities struggle with large losses on their land positions. Due to the integrated nature and seize of development projects development is paralyzed.

As the owner of the offices is in most cases not the user, there is still an incentive to keep developing new offices. New development can be profitable for investors, developers and municipalities. A new office on an attractive location is still able to get a tenant, the problem is that this tenant will leave an older less attractive office, for the new building (Buitelaar et al., 2013). This means that the municipality can sell the land positions, developers can build an office and investors have new property, with a tenant. This is an adverse incentive to the goal of minimizing the vacancy rate.

Municipalities had the freedom to act on this adverse incentive to facilitate this newly built supply as for the development of new office space few rules and little regional coordination is applied (E. Buitelaar 2013).

4.2 Governmental responses

Municipalities are indirectly harmed by the vacancy rates. First, the development market is paralyzed. This means that municipalities cannot execute their plans currently, which results in increasing pressure to downgrade on land estimations. Furthermore, the investment climate for business to locate in their municipality borders is directly influenced by high vacancies.

In order to bring down the vacancy rates, municipalities have to reduce their planned supply. In order for such measures to be effective, they are dependent on other municipalities in the region to act accordingly. Therefore, the municipalities and provinces in the Metropolitan Region Amsterdam (MRA) have united since 2005 in Plabeka, a hybrid governance mode. In the metropolitan region Eindhoven, municipalities and the province are united in the SRE.

4.2.1 Plabeka

In the MRA, 36 municipalities, the Provinces of North-Holland and Flevoland and the MRA are collaborating in Plabeka. Plabeka has enabled the municipalities to develop information on supply and demand, make joint reductions of planed supply, and share knowledge on transformation
and restructuring in order to create the ability to adapt through cooperation to counteract the vacancy rates. With these strategies the planned supply is, in two rounds reduced with 5.4 million square meters (Plabeka 2011).

Despite the efforts of Plabeka, the planned supply is still much higher than the expected demand. The Plabeka strategies were based on demand and supply estimations with a high economic scenario: the Global Gateway scenario (Plabeka 2011). The annual Monitor shows from 2009 onwards a negative expansion demand, while the Global Gateway scenario expected considerable growth (Plabeka 2014). Despite available knowledge on planned oversupply, Plabeka is not able to set new targets.

4.2.2 SRE

In the metropolitan area of Eindhoven, the approach is similar to that of Amsterdam. The main difference is that the partnership in Eindhoven is only becoming active on office policy since two years.

The SRE is the partnership of public bodies in the metropolitan area of Eindhoven. The 21 municipalities in the South-East of the province of Brabant that are part of the SRE have a long history of working together (E. Buitelaar 2014).

In the SRE, the same mechanisms can be identified as in Plabeka. The partners have agreed upon lowering the planned supply based on a too optimistic economic scenario.

The planned construction as identified in 2013 consists of 540,000 square meters. The planned construction is now reduced to 253,000 square meters until 2020 (SRE 2013). This exceeds the expected demand of 55,000 square meters abundantly.

4.2.3 Positions as mode of governance

The SRE and Plabeka are both informal collaborations. The core of Plabeka and the SRE is on sharing information and establishing joint strategies. The agreements in Plabeka are not legally binding; Plabeka has only informal tools to control municipalities. All these factors tell us that Plabeka is a partnership with a small degree of hierarchy: An Information-based-network.

However, the agreements made within Plabeka and the SRE are included in the structural concepts of the provinces. So the partnership itself might be informal, the results are made formal by the provinces. The province could be viewed as a third body that makes sure that the municipalities honor the agreements of Plabeka. Therefore, the hybrids are positioned in the middle between market and hierarchy as the interactions are informal, but the agreements are made formal: Third party coordination.

In figure 2 the hybrids of Plabeka and SRE are positioned as hybrid modes of governance.

![Figure 2: Plabeka and SRE on hybrid scale](image)

5. The Adverse Incentive in hybrids in the Office Market

In the previous chapter, Plabeka and the SRE were positioned as hybrid modes of governance. These hybrids were unable to align supply and demand in the region. In this chapter is explained why these hybrids are unable to coordinate the newly built supply sufficiently.

5.1 A trade-off between incentives

A hybrid provides a high degree of incentives for the partners. In the theoretical framework, three levels of incentives were presented: i) Each firm remains residual claimant on payoffs provided by its own assets, ii) Each partner can claim a share of the rent generated by jointly used assets and iii) All partners may cash rents from activities unrelated to the arrangement, thanks to spillover effects of their joint reputation.

As the municipalities remain residual claimant on payoffs provided by its own assets, they remain subject of the adverse incentive: the payoffs from land positions are still for the land owning municipality. Thus, they still have an incentive to facilitate newly built office space.
At the same time, the municipalities can claim a share of the rent generated by jointly used assets. The joint efforts of Plabeka and the SRE have resulted in a reduction of the planned supply of in the region and an increase in transformation and restructuring of old offices. Thus, the municipalities can claim a share of these joint efforts. However, the payoffs from a lower planned supply and more transformation and restructuring are hard to quantify. Especially as, despite the efforts of Plabeka, the vacancies in the region are still increasing. Thus, the incentives to reduce the vacancy rates are less obvious.

The two different incentives can be attributed to two different roles the municipality has in the office market. Their first role, as a government, is to make sure the market functions properly: the market master. The second role, as a private party, is to skim some of the profits to use for societal purposes: the market player. The trade-off between the two incentives are determinative for the performance of the hybrid. With a strong sense of urgency for the vacancy problems, the incentive for municipalities to act as a strict market master is stronger. With a lower sense of urgency for the vacancy problems, the incentive to reduce the planned supply decreases relative to the adverse incentive to behave as an opportunistic market player.

5.2 The effect of the adverse incentive

In the execution of the joint strategies in Plabeka and the SRE, no individual opportunistic behavior was recognized. This can partly be attributed to the safeguards Plabeka and SRE have implemented.

The mutual trust among partners, the monitoring of partners and especially the controlling role of the provinces makes it difficult for municipalities to act opportunistic.

There is however another reason that the risk of opportunistic behavior in Plabeka is so low. Besides the safeguards implemented to prevent opportunistic behavior, the municipalities have no incentive to behave opportunistic among each other because the planned supply is still much larger than the expected demand of tenants and of investors. If private parties want to develop office space, municipalities have all the room within the rules of Plabeka to facilitate that demand.

The question rises how it is possible that the planned supply is as high as it is. To answer that question we have to go back to the start of the emergence of Plabeka. The demand and supply estimation of 2006 that was the cornerstone for the first joint reduction of planned supply was based on the Global Gateway scenario, which is a high economic scenario. This seems a very optimistic starting point of the negotiations. The second demand estimation in 2009 was also based on the Global Gateway scenario. Thus, also the second joint reductions of planned supply were based on a high economic scenario. Furthermore, even when the monitor shows that the real developments were even less than the forecast of the lowest scenario of the demand estimation of 2009, no attempts are made to make a third deployment strategy.

Thus, the reductions of the planned supply of the municipalities in Plabeka are knowingly and willingly less than is needed to balance supply and demand of tenants.

In the second chapter is stated that unambiguous rents from shared assets could lead to partners that adapt less. However, while the benefits of lowering the planned supply are perhaps hard to quantify, it is clear for the municipalities what the added value is. Some municipalities want to reduce more planned supply.

The inability of Plabeka to adapt sufficiently can better be explained with the effect of the adverse incentive. Municipalities are willing to adapt, but are not willing to take (all) the financial consequences that are needed. Thus, they are cooperating to adapt, but are reluctant to set high targets as that would have too much of a financial impact on their budgets. The choice for a high economic scenario, made the reductions of planned supply less than would be the case with a lower economic scenario. Thus, with a high economic scenario municipalities had less financial burdens. It is a clear trade-off between adapting to the new reality and financial contributions.

In the SRE, the same mechanism can be identified. Due to the mutual trust, but mostly
because of the strict control of the province, the municipalities are not expected to behave opportunistic. Thus, the collaboration in the MRE faces the same problems as in the MRA. There is a strong adverse incentive to facilitate supply, with hampers the potential to set sufficient targets and adapt to the new reality.

6. Collective opportunism

It was expected that the adverse incentive would increase opportunistic behavior among partners in hybrids on the office market. However, there is no indication of opportunistic behavior among partners in neither Plabeka nor the SRE. Nevertheless, both hybrids have difficulty with setting sufficient targets to coordinate the supply.

Hybrid theory acknowledges that hybrids might be suboptimal if the payoffs from the rents are not or only partially contractible. If the allocation of rents is inadequate it might result in partners adapting less (Ménard 2010). However, the inability of hybrids on the office market to adapt sufficient is not caused by the inadequate allocation of rents of shared assets. It is rather the adverse incentive that makes the municipalities focus on the payoffs from rents from their own assets. This behavior is not recognized in current hybrid theory.

The adverse incentive causes the municipalities not to behave opportunistic among each other, but the municipalities behave opportunistic with each other; the entire hybrid behaves opportunistic. Hence, instead of problems due to individual opportunistic behavior, which is a common problem of hybrids, problems arise due to a collective type of opportunism. This type of opportunism is not yet identified in hybrid theory. Therefore, a new collective type of opportunistic shall be added to the hazard of opportunistic behavior. Collective opportunism is defined as ‘The conscious behavior of a collaboration as a whole to act according to a common conflicting interest for that collaboration’s overarching goal’.

Collective opportunistic behavior can occur if partners of a collaboration have two conflicting and shared interests. First, they have a shared interest that is the basis for the collaboration; the collaboration is founded to achieve an overarching goal. In case of the office market, this goal is to reduce the vacancy rates. Then, the partners have a second shared interest, conflicting to that collaborations overarching goal. In case of the office market this is the interest to facilitate newly built supply.

If all partners in a collaboration have the same conflicting interest to the overarching goal of that collaboration, they can agree upon opportunistic behavior to safeguard that conflicting interest. Collective opportunism is visible for all partners and agreed upon by all partners. This makes it possible to create a common acceptable trade-off between conflicting interests.

The instability that is inherent to hybrids due to individual opportunism is not an issue for collective opportunism, as collective opportunism is visible and agreed upon by all partners. Therefore, collective opportunism might even increase the stability of collaborations. However, as collective opportunism affects the ability of the collaboration to achieve the initial common goal, collective opportunism lowers the ability to adapt.

7. Minimizing the degree of collective opportunism

To reduce the degree of collective opportunism two main approaches are discussed. At the one hand, the root of the problem can be tackled. If municipalities in the hybrid have no adverse incentive to facilitate newly built office supply, they will have less reason to behave opportunistic, individual or as a collective. This approach is discussed in paragraph 6.1. At the other hand, safeguards could be implemented to mitigate the hazard of collective opportunism. This way only the effect of the adverse incentive is minimized. This approach is discussed in paragraph 6.2.

7.1 Increasing the degree of hierarchy

In the theoretical context, it has been explained that in a full hierarchical integration there is no degree of incentives. The more hierarchy is implemented in a hybrid, the less room for incentives and therefore the less room for the adverse incentive. Hence, it could be beneficial
for the Plabeka hybrid to increase the degree of hierarchy.

Plabeka is a hybrid with third party coordination. Figure 6.1 shows that increasing the degree of hierarchy of such a hybrid means to form a strategic center. In a hybrid with a strategic center, the hybrid gets more authority over the partners. This way the degree of incentives for municipalities is decreased, which also means less room for the adverse incentive. In hybrid theory this is used as a solution to reduce the degree of individual opportunistic behavior.

The crux is however that in the office market the problem lies not in individual opportunistic behavior but in collective opportunistic behavior. Thus, the question is if the adverse incentive is minimized in such a manner that municipalities will not behave opportunistic as a collective.

The strategic center exists of representatives from the municipalities; they make the decisions on reductions of the planned supply. These representatives have the same adverse incentive to facilitate newly built supply as the municipalities. Thus, the adverse incentive is not minimized; it is at the most transferred from individual municipalities to the strategic center.

As the representatives in the strategic center are still affected by the adverse incentive, they still have an incentive to behave opportunistic as a collective. Thus, the strategic center is not a solution to reduce the effect of the adverse incentive. More hierarchy in a hybrid does not lead to a decrease of collective opportunistic behavior.

7.2 Searching for safeguards

In this paragraph is searched for safeguards to mitigate the effect of the adverse incentive in the form of collective opportunistic behavior. The safeguards hybrid theory provides in order to reduce opportunistic behavior among partners in hybrids are safeguards to mitigate the hazard of individual opportunistic behavior. These safeguards fall in large extent short to mitigate the hazard of collective opportunism.

The safeguards as provided by hybrid theory focus on finding the right partners, reducing tension among parties, constraining the risk of opportunistic strategies and by implementing procedures for arbitrating conflicts (Ménard 2010).

Plabeka and the SRE have selected the right partners and have properly reduced the tension among those partners. Thus, these safeguards are not adequate to deal with collective opportunism. Furthermore, procedures for arbitrating conflict, which Plabeka lacks, are not suitable to deal with collective opportunistic behavior, as collective opportunism is visible and agreed upon by all partners. Therefore, it also not possible to constrain the risk of opportunistic strategies by monitoring the partners better, as all partners know what is happening.

However, the safeguards of Menard might still provide some clues to mitigate the hazard of collective opportunistic behavior. In order to constrain the risk of individual opportunistic behavior it is important to have a sense of urgency for a common goal.

Municipalities in the hybrids behave based on a trade-off between incentives to reduce the vacancy rates and the adverse incentive to facilitate newly built office space. The sense of urgency to reduce the vacancy rates is currently not very strong in Plabeka and the SRE. Therefore, the municipalities are more receptive of the adverse incentive.

Thus in order to reduce the degree of collective opportunistic behavior, the sense of urgency for the vacancy problems should be increased so that municipalities are less receptive of the adverse incentive. Hence, in order to mitigate the hazard of collective opportunistic behavior it is discussed how the sense of urgency can be increased.

7.3 Increasing the sense of urgency

A sense of urgency should include two components: parties should be convinced that there is an issue that has to be solved and parties should be convinced that this issue can only be solved by cooperation (De Bruijn and Ten Heuvelhof 2010).

Solely focusing on a substantive way to convince the municipalities that the issue of the vacancy rates has to be solved is not enough. Most
municipalities do know the importance, but choose to act differently.

However, the sense of urgency in these hybrids can be increased in another manner: by convincing the municipalities that the issue has to be solved through cooperation.

Therefore, the third body, should not only control the municipalities in the hybrid, they need to force them to cooperate. This can be achieved by use of fear of command and control. The fear of command and control may present an incentive to act more cooperatively (De Bruijn and Ten Heuvelhof 2010).

If the provinces in the hybrids in the office market set targets for the hybrid and state that they will intervene hierarchically if those targets are not met, it provides an incentive for the municipalities to set higher targets.

If the municipalities would not react on those targets, they will lose autonomy and they are expected to prevent that to happen. Thus, pressure of the third body can shift the focus of the municipalities to act less on the adverse incentive. Therefore, the degree of collective opportunistic behavior is decreased.

8. Conclusion and discussion

In hybrids in the office market collective opportunistic behavior is identified. Collective opportunistic behavior is defined as: ‘The conscious behavior of a collaboration as a whole to act according to a common conflicting interest for that collaboration’s overarching goal’. The research question of this paper was: What incentives cause collective opportunism and how can collective opportunism be mitigated?

An adverse incentive to the overarching goal of the hybrid can lead to collective opportunistic behavior. If all partners in a collaboration have the same conflicting interest to the overarching goal of that collaboration, they can agree upon opportunistic behavior to safeguard that conflicting interest.

In an attempt to look for solutions to reduce the degree of collective opportunism, it was assessed if increasing the degree of hierarchy could decrease the degree of collective opportunistic behavior. However, even in a hybrid with a high degree of hierarchy, the strategic center, the representatives are still subject to the adverse incentive and can therefore behave opportunistic as a collective.

The safeguards hybrid theory provides in order to reduce opportunistic behavior among partners in hybrids are safeguards to mitigate the hazard of individual opportunistic behavior. These safeguards fall in large extent short to mitigate the hazard of collective opportunism.

The only safeguard that is useful is to increase the sense of urgency for the common goal. The use of fear of command and control can be used increase the sense of urgency in the office market as municipalities are expected to protect their autonomy. Such an approach is however only feasible if there is a third body that has the tools intervene hierarchical when necessary. This approach therefore only feasible in hybrids of public bodies, wherein a higher public body can overrule.

Additional research could provide insight if collective opportunism is present in hybrid modes of governance in other sectors. If in fact collective opportunism is a hazard more hybrids are subject to, more research is needed to find more general safeguards against this type of opportunistic behavior.

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