TI 2014-095/VI
Tinbergen Institute Discussion Paper

The Industrial Organisation of the Dance Industry in the Netherlands: a Transaction Cost Perspective on Hybrid Forms of Organisation

*Frank A.G. den Butter**
Jelle Joustra

** Tinbergen Institute.*

Faculty of Economics and Business Administration, VU University Amsterdam.

Tinbergen Institute Amsterdam
Gustav Mahlerplein 117
1082 MS Amsterdam
The Netherlands
Tel.: +31(0)20 525 1600

Tinbergen Institute Rotterdam
Burg. Oudlaan 50
3062 PA Rotterdam
The Netherlands
Tel.: +31(0)10 408 8900
Fax: +31(0)10 408 9031

Duisenberg school of finance
Gustav Mahlerplein 117
1082 MS Amsterdam
The Netherlands
Tel.: +31(0)20 525 8579

The industrial organisation of the dance industry in the Netherlands: a transaction cost perspective on hybrid forms of organisation.

Frank A.G. den Butter[a] and Jelle Joustra[b]

Version June 2014

Abstract

The organization of Electronic Dance Music (EDM) events has become a major export product in the Netherlands. In order to respond quickly to the new trends and needs, innovative forms of cooperation between producers are to be set up for the organization of exciting new events. A case study on how these EDM events are actually organised in the Netherlands shows that the best way to do it is through hybrid forms of organisation, which combine horizontal forms of organisation through the market and vertical forms through the hierarchy. As EDM events are characterised by much asset specificity, the perspective of transaction cost economics indicates why this industry relies on hybrid forms of organisation. Trust between the collaborating partners, intrinsic motivation to be professional in the design and creation of new, ground-breaking music sensations and an extensive use of social media play a key role in lowering the transaction costs in the dance industry.

Keywords: Industrial organisation, coordination costs, transaction cost economics, resource based view, cooperation in hybrid organisations, Electronic Dance Music (EDM) events, trust, use of social media.

JEL-codes: D23, D85, E23, F60, L23, L24, L82, O31, P13

[a] Corresponding author VU University Amsterdam, Department of Economics, RITM and Tinbergen Institute, De Boelelaan 1105, 1081 HV Amsterdam, The Netherlands; email: fbutter@feweb.vu.nl

[b] VU University Amsterdam, Department of Economics and RITM, De Boelelaan 1105, 1081 HV Amsterdam, The Netherlands. Joustra's research was partly financed by the "Transactieland.nl foundation".

The industrial organisation of the dance industry in the Netherlands: a transaction cost perspective on hybrid forms of organisation.

1. Introduction

The make or buy decision plays a key role in the strategic management of firms on how to organize production. According to the seminal contribution of Coase (1937) to the theory of the firm, the relative sizes of transaction costs are determinant for the decision whether to make part of the product in-house, or to outsource it and buy it on the market. In the supply chain of a product (or service) a distinction can be made between sheer production costs – also labelled as transformation costs – and transaction costs. In case the sum of transformation and transaction costs to organize part of production within the hierarchy of the firm are higher than the costs to buy it on the market – price to buy plus horizontal transaction costs – it is more profitable to outsource production. In case it is the other way around, the make decision is best. According to this theory of transaction cost economics (TCE), transaction costs are all expenses which indirectly stem from the production and exchange of products and services. A major contribution to TCE is made by Oliver Williamson, who explicitly discusses the link between TCE and management and organization theory: the decision to organise production via the hierarchy or via the market determines the industrial organisation of production (Williamson, 1975, 1985, 2010).

In today's world of fragmented trade and innovation a sharp distinction between organizing via the market or via the hierarchy is no longer viable. Many different kinds of cooperative organizational forms have emerged. These so-called hybrid organizations, which vary from cooperatives, partnerships, joint-ventures, alliances, networks and so on, can be considered as forms of organization in between the market and the hierarchy. Yet again, the selection of the best form of hybrid organization is governed by minimizing total production costs in the long run, i.e. the sum of transformation costs and transaction costs. The selection of the most appropriate form of organization depends on the skills of managing transaction costs in the specific institutional set up of the industry (Ménard and Shirley, 2005, Den Butter, 2012). This paper analyses why Electronic Dance Music (EDM) events in the Netherlands are organised in hybrid forms of organisation, and how transaction costs play, albeit intuitively, a major role in the selection of the form of organisation. The dance industry, which is part of the creative industry, operates in a fast-moving market where a high degree of strategic flexibility and adaptability are key firm capabilities. The EDM industry in the Netherlands is particularly relevant in this respect as it can be regarded as the world leader in this field. The Dutch market for large EDM events increased between 2002 and 2012 by almost 70% from 82 to 138 million euros (EVAR, 2012). The EDM industry accounts for more than one in twenty jobs in the creative industries in the Netherlands. The global market for EDM events is estimated to amount to 3.6 billion dollars at the end of 2012, while the EDM market including revenue from music sales and sponsorships results in a turnover of more than $ 5.7 billion (EVAR, 2013). A projection of EVAR (2013) predicts that global sales in 2017 will rise to nearly $ 6.7 billion for this industry. While the United States takes the lion's share in terms of market share, South America and Asia are increasingly seen as growth opportunities for EDM entrepreneurs. The leadership of the Netherlands in the global EDM industry is also witnessed by the fact that Dutch Dance DJ's like Hardwell, Armin van Buuren and DJ Tiësto score high in the international rankings - six Dutch DJ's appear in the top 10 of the composite DJ Mag (2013) list.

The Dutch market for EDM events has been dominated for a long time by a few large producers such as ID&T, UDC and Awakenings. Recently the dance event industry has witnessed a large inflow of small- and medium-sized firms. In this increasingly saturated and competitive environment firms are more and more exploring new forms of cooperation, thereby acting as game changer, also for other industries. Therefore, horizontal cooperation between EDM event related firms in a hybrid setting is seen as the emerging trend of the past 3-5 years. An example is the 'Valhalla festival of December 2012 in the Amsterdam RAI; an EDM event with 18,000 visitors that was realized through the combined efforts of eleven organizing parties and eighteen creative professionals.

To study the development of hybrid organizations in the Dutch EDM industry a total of nineteen semi-structured interviews with key players in the industry were conducted; fifteen with managers directly involved in a hybrid organization and the remaining four with industry experts. This analysis has three aims. First to assess the importance of transaction costs in shaping the industry. Secondly to highlight the ways in which firms can benefit from participating in hybrid organizations. The third aim is to explore the role of trust in relation to other governance mechanism of these hybrids organizational settings.

This case study analysis confirms that the conditions that lead to transaction costs in the Dutch EDM industry have changed over the years. Supply chain transparency and the upswing of specialized event production houses have led to lower transaction costs associated with production of events. Promotional transaction costs have decreased as a result of the use of social media in finding, establishing and retaining visitor communities. In addition, the changing competitive environment induced EDM event organizing firms to increasingly utilize cooperative hybrids for the organization of their business, which enabled them to benefit from both short-term cost savings as well as long-term strategic advantages. However, firms in a hybrid setting face interdependencies towards one another which lead to internal transaction costs. Traditional transaction cost theory asserts the use of either contracts or hierarchical control to minimize these organizational costs. However, this study suggests that goodwill- and competence trust are most important in governing hybrid organizations in the EDM event industry. Trust can be a sufficient condition for controlling hybrid relations, while contracts and hierarchy generally need to be complemented by some level of trust to function effectively. In the development of trust between organizations in the EDM event industry both social factors as well as calculative conditions were found.

The remainder of this paper is organised as follows. Section 2 discusses the relevant theory underlying our case study on hybrid forms of organisation in the dance industry. This section reviews the literature on governance of transactional relationships and the role of trust. Section 3 describes the methodological approach used in this study, which includes the research design, data gathering and applied data analysis strategies. Section 4 and 5 present the findings of the interviews and distinguish between the motivation and governance of hybrid organizations. These findings teach us about how the theoretical argumentation on the management of transaction costs translate to practice for these new and innovative forms of organising production. Finally section 6 concludes and considers the scope for future research.

2. Theory on hybrid forms of organisation

Hybrid organizations describe business settings in which two or more firms cooperate to achieve an agreed-upon mutual goal. Examples are among others collaborative alliances (Langfield-Smith, 2008), strategic alliances (Chen and Chen, 2002; Gulati and Singh, 1998; Judge and Dooley, 2006), constructive partnerships (Rangan *et al.*, 2006), joint-ventures (Kogut, 1988), networks (Thorelli, 1986), small firm networks (Hanna and Walsch, 2008), business networks (Lo Nigro and Abbate, 2011) or cooperatives (Hess *et al.*, 2012). The common feature of hybrid forms of organisation is that they represent coalitions of autonomous but interdependent firms that are willing to coordinate or even submit part of their activities and decision domains to centralized control in order to economize on transaction costs and achieve benefits that are greater than any single member can create independently (Möller and Svahn, 2006). Thus, this includes all inter-firm cooperation in which property rights remain distinct, while a subset of resources and decision making rights are shared.

The question why firms enter a hybrid form of organization has been looked at from various different economic perspectives: management control literature (e.g., Covaleski et al., 2003), network theory (e.g., Foss and Koch, 1996), new institutional economics (e.g. Ménard, 2005, 2010, Kong, 2011), strategic behaviour (e.g., Kogut, 1988), resource-based view (Wernefelt, 1984) and transaction cost economics (e.g., Oxley, 1997). Yet, in this literature on the arguments on why firms going hybrid, two theories dominate the debate: transaction cost economics (TCE) and the resource-based view (RBV). Amongst others, Bruce and Jordan (2007), Ding et al. (2009) and Jolink and Niesten (2012) discuss the benefits and limitations of both theories, whereas Madhok (2002) aims at synthesizing both theoretical points of view. As our paper focuses on the TCE perspective of why firms go hybrid, a major goal of our analysis is to evaluate the motivations of firms in the EDM event industry to participate in cooperative hybrids using the TCE analogy.

This study presumes that these resources can be used to enhance a strategy of competitive advantage due to lower intra- and interfirm transaction costs, in other words the heterogeneity of strategic resources may yield long-term transaction cost savings. Ciborra and Olsen (1988) have among others theorized this process. Managers indirectly economize on transaction costs by engaging in hybrid organizations, but possibly not consciously. However, engaging in *horizontal* cooperation with a former competitor means increased interdependencies, which due to bounded rationality and opportunistic behaviour will lead to higher organizational transaction costs. Hence, in the pluralism of governance settings all kinds of hybrid organizations emerge

The TCE perspective

Now that hybrid organizations have emerged in nearly all sectors worldwide (Ding et.al., 2009), organizational management practices are no longer focused on operating independently, but strategies are increasingly focused on flexibility and interdependency with other firms; either to obtain long-term competitive advantage, to minimize transaction costs, or both. However, increased interdependency with one or more other firms can in itself be a source of transaction costs, especially in the case of horizontal cooperation

TCE distinguishes three main transaction attributes which influence transaction costs, namely *asset specificity, uncertainties, and frequency*. When each of these transaction attributes is high, managers will perceive risk to the transaction to be high. Two types of transaction risks can be distinguished, namely; relational and environmental risk (Langfield-Smith, 2008). Relational risk is the probability and consequences of having to deal with a partner that does not cooperate. Performance risk is the probability and hazard of not achieving the agreed upon objectives, even when all partners fully cooperate.

First, *asset specificity* can be defined as the extent to which an investment in a contractual relation has more value in that specific transaction than in any other sense. Asset specific investments makes participants vulnerable to opportunistic behaviour in a business relationship, so increases relational risk. Secondly, *uncertainties* may mainly come from two sources; environmental variability and behavioural uncertainty (Rindfleisch & Heide, 1997). Environmental variability, such as technological change, deals with bounded rationality and the problem of foreseeing relevant changes in the environment. Such changes may cause contractual gaps and require amendments of the agreement and will thus increase both relational and performance risk. Behavioural uncertainty is based on the assumption of opportunism and the fact that transactional partners can't fully monitor and evaluate the behavior of their counterpart, increasing relational risk.

Third, higher transaction *frequency* may by due to a higher number of transactions between partners within a certain time frame, as well as a longer overall time horizon of repeated transactions between partners. All time spend on negotiating, communicating, dispute solving and coordination to control relational and environmental risks resulting from these three transaction attributes give rise to transaction costs. Hybrid organizational success is determined by the way hybrid participants are able to reduce these transaction costs in order to fully exploit the advantages of cooperation.

The efficient alignment hypothesis states that transactions, which differ in attributes and corresponding risk, are aligned with governance mechanisms, which differ in cost and effectiveness, in order to lower total transaction costs. A governance structure is the ordering which emerges under circumstances of risk and associated transaction costs in a business relationship. A spectrum of governance structures can be drawn, of which contractual agreements in a full market transaction and managerial control within the hierarchy of a complete merger are the two ends. Hybrids are compromise modes which entail hierarchy control and decision-making as well as the use of a contract law regime (Yang et al., 2011).Good management of transaction costs requires knowledge on the sources of transaction costs in business relationships and on the way formal governance structure and trust work together to minimize organizational transaction costs.

The role of trust

The role of trust as control mechanism in hybrid organizations, versus the more formal control-based workings of contracts or management, is the centre of an ongoing debate in the field of TCE (Jolink and Niesten, 2012). Most economic theories, including traditional TCE, have for years focused on the assumption of natural untrustworthiness between business partners. However, Williamson's (1975) assumption that business partners can only protect themselves with legal and contractual means, which make trust a rational and calculative process, has been challenged recently. While the assumption may be party valid in particular business environments, such as in the Anglo-Saxon model, evidence shows otherwise for regions such as East Asia and Rhineland model West (Ding et al., 2009).

Trustworthiness of a partner refers to the extent to which the trustor *perceives* the trustee's behaviour to be positive and reliable in the partnership (Judge and Dooley, 2006). From that perspective Nooteboom (1996), Das and Teng (2001) and Langfield-Smith (2008) distinguish between the *goodwill*- and *competence* dimensions of trust. Goodwill trust can be seen as the partner's *intention* to perform according to the agreement. Competence trust relates to the confidence in a partners *ability* to *perform according to the agreement.*

Despite the growing agreement on the importance of trust in the governance of business relations, there is still considerable debate on the question which processes enhance the expectations about goodwill- and competence trust. Generally, two points of view can be distinguished; a *social* notion of trust mostly used by sociologists and psychologists - also referred to as relational or personal trust - and a *calculative* notion of trust mostly used by economists (McAllister, 1995; Williamson, 1993).

Social trust can be considered as a process determined by social factors such as rules, beliefs, norms and institutions. Rules are like a code of conduct which guides behaviour, while beliefs and norms motivate actors to follow them. Institutions, formal such as political organizations or informal such as culture and routines, on the other hand can produce and influence rules and beliefs regarding a specific transaction. Barney and Clark (2007) denote this as the exogenous factors which facilitate trustworthiness in business relationships. From this point of view goodwill trust is derived from shared norms, values and beliefs. Competence trust is build through better information about each other's abilities, routines and management. On the other hand, economists have taken a more calculative approach to contiguous social phenomena such as trust. From this perspective trust is the outcome of a *calculative* process which is based on the idea that people (un)consciously assess if the probability that the other person will perform in a way that is not detrimental to them is high enough to consider engaging in some form of cooperation with that person. Managers understand their contractual relationship and manage them in a calculative way.

Game theoretic treatments of economic organization have used the notion of calculative trust as solution to the problem of exchange (Greif, 2000). The fundamental problem of exchange states that one will not enter into an objectively profitable exchange relationship unless the other party can *ex-ante* commit to fulfil his contractual obligations *ex-post.* This game can be solved by drafting contractual agreements and the use of legal sanctioning in the case of opportunistic behaviour. However, legal sanctioning in practice is time-consuming and costly, contracts are incomplete and the difficulty of verifying (past) behaviour reflects the limited effectiveness of legal institutions.

Control on the basis of calculative trust can be another solution (Greif, 2000; Kong, 2011; Barney and Clark, 2007). Calculative trust refers to beliefs in social sanctions and the loss of future business because of bad conduct. Crucial here is the assumption of repeated interaction. The game is set up in a way that sustainability of the cooperative equilibrium is guaranteed by the high costs of loss of reputation with the short-term gains of cheating. The threat of reputation damage creates an *ex-ante* linkage between past conduct and future income stream, by which each party can commit itself *ex-ante* to not behave opportunistically *ex-post*. Reputation in this sense works as a collective measure of trustworthiness constructed by the believes of a subset of people. Reputation can also provide information about the partners' levels of goodwill and competence trust which further reduces uncertainty (Den Butter et al., 2012).

The different effects of social- and calculative drivers of trust on mitigating transaction costs can be linked to the concepts of internal- and external motivation (or intrinsic versus extrinsic motivation). Internal motivation is driven by the joy of a certain activity and does not depend on external pressure. External motivation on the other hand refers to the performance of an activity to attain a certain outcome (Ryan and Deci, 2000). Common external motivations are rewards or the threat of punishment in case of misbehaving. In this respect social trust drivers are more in line with internal motivation and calculative trust drivers with external motivation to not behaving opportunistically to secure long-term beneficial transactions. Tirole and Bénabou (2003) show that external motivation (rewarding) by an informed principal can adversely impact an agent's perception of a certain task. Such incentives are only weak enforcers in the short-run, but do negatively affect an agent's commitment in the long-run.

The RBV perspective

For twenty years the resource-based view (RBV) has inspired the development of economic and managerial theory and practices. It's widely believed that acquisitions or mergers with related firms can increase the total economic value with more than the sum of their separate values through long-term strategic advantages (Barney and Clark, 2007). A similar argumentation holds for firms participating in hybrid forms of organization.

Resource-based theory premises that distinctive competences enable a firm to pursue a strategy of persistent outperformance of the market (Ding et al., 2009). This idea of a bundle of resources which produces heterogeneity among firms in the market was pioneered by Penrose (1959). Barney and Clark (2007) further developed this idea in a framework which identifies the resources of a firm that are able to generate *sustainable* competitive advantage. It is assumed that heterogeneity exists between strategic resources across firms, as well as a level of imperfect mobility of those resources. Whenever a firm does not hold the needed strategic resources or capabilities to be competitive in the market, it may try to develop these in-house or buy them from related firms. However, heterogeneity and immobility make strategic resources difficult if not impossible to buy or duplicate. Therefore firms should cooperate if cooperation provides access to certain strategic resources in a shorter time and/or at lower costs compared to developing the resources all by themselves (Ding et al., 2009).

Firms may use hybrids to gain access to so-called property resources such as raw materials, capital, human resources or technology (Boschma and Lambooy, 2002). Hybrid organizations also play a vital role in facilitating the transfer of knowledge resources such as organizational learning (Tallman and Chacar, 2011). Knowledge-based theory, an extension of the resource-based theory, states that in a service-orientated and globalized world information and ways of doing business are increasingly becoming the main sources of competitive advantage (Barringer and Harrison, 2000; Trkman and Desouza, 2012). An effective way of transferring knowledge can be the integration with other firms in a hybrid organizational setting. Informal ties, repeated interaction and trust between agents are micro-level mechanisms which stimulate the absorptive capacity of firms in a hybrid organization. The shared equity arrangements are believed to be more effective vehicles to transfer (tacit) know-how than non-equity arrangements and contracts. Furthermore, partner firms may have specific information about their local market which can strengthen the strategic decision to form a hybrid organization (Pavlovich and Akoorie, 2003). Therefore, while partners in a hybrid organization frequently will contribute similar advantages to the hybrid organization, such as sharing of risks of assets' investments, it appears that partners mostly contribute *complementary* property and knowledge resources (Ding et al., 2009).

The RBV and TCE debate

Both the RBV and TCE provide theoretical considerations for firms to arrange their business in a hybrid organizational setting. The RBV emphasizes the strategic relationship between partners with different core competences who share resources in order to create a long-term competitive advantage. Williamson's notion of TCE on the other hand predominantly focuses on the efficiency of hybrid organizations in minimizing transaction costs which stem from uncertainty and opportunistic behaviour. These theories take a fundamentally different perspective in explaining the motivations to form a hybrid (Ding et al., 2009); TCE looks at *individual* transaction characteristics and costs- benefits, while the RBV focuses on long-term strategic advantage of the *firm* as a whole. The strength of TCE lies with the ability of a firm to achieve efficiency by having a certain amount of hierarchical control over transactions. The RBV on the other hand is more applicable in describing the importance of unique competencies such as patents, knowledge, brands and technologies which firms can exchange in a hybrid organization.

While TCE is highly useful in analyzing outsourcing and vertical integration decisions, its applicability to firms' motivation to integrate horizontally in hybrid settings is more disputed. Its critics argue that horizontal hybrid formation is not driven by transaction cost-minimization, but that sharing strategic resources and learning represents a short-run *costly* but long-term more *profitable* opportunity (Kogut, 1988). Hybrids are formed when critical inputs required for value adding opportunities are inseparable from other assets of the owner firms and cannot efficiently be transferred through the market. Eisenhardt and Schoonhoven (1996) also conclude that not transaction characteristics and static efficiency but strategic and *social* factors drive firms to form strategic alliances.

Obviously, in our modern society any theoretical view alone is insufficient in capturing the total complexity of hybrid organizations. Therefore, in this paper the RBV and TCE will not be considered as substitutes but rather complementary theoretical perspectives in studying the rationale behind going hybrid. As Das and Teng (2000) argue, transaction cost economic theory is specialized in minimizing the costs involved in inter-firm transactions, hence in transaction cost *management*. In this view, the long term perspective and the weighing of short term transaction costs against long term costs and benefits is key to the strategic management of a firm (see e.g. Den Butter and Linse, 2008). In this respect, the resource-based view proposes that firms put significant emphasis on the resources of potential partners in deciding on going hybrid. Motivations stem from the intend to access and exploit the combined set of resources to enhance competitive advantage.

Here a parallel between TCE and RBV can be drawn. Some resources and capabilities are denoted as *strategic* given that they actually lower intra- en interfirm *transaction costs*. For instance human capital, such as great management skills, can be seen as a strategic firm resource because it increases productivity by reducing transaction costs between departments and among employees (Ciborra and Olsen, 1988). Another example is a good reputation which facilitates cooperation with other firms and thus reduces transaction costs to find and work with suppliers and business partners. A high-quality reputation will also reduce customer search costs, in which the time and money invested in obtaining loyal customers can be seen as transactions costs (Blokland, 2014).

Hence, Trkman and Desouza (2012) combine both theories to develop a framework for risk management in knowledge sharing. Knowledge is treated as a firm resource which is transferred across organizations to enable its combination, synthesis, and utilization for joint value creation. The authors define knowledge sharing as the exchange of experiences, expertise, know-how and learning of the partner firm(s). TCE provides the theoretical argumentation for the perceived risk of knowledge-sharing and the ways in which these can be managed by implementing governance structures. Firms may mostly motivate their decision to integrate on the basis of strategic resource accessibility, but subsequently mechanisms are needed to manage the increased transaction costs induced by closer cooperation.

EDM as part of the experience economy

EDM event organizations are no traditional providers of goods and services: they deliver immaterial economic value in the form of experiences. Pine and Gilmore (1998) were among the first to coin the term ‘experience economy’ to describe a new trend in creating economic value. The experience economy differs from the service industry in that services and products merely facilitate the building of experiences. Services work as the stage and products as the attributes which support the creation of a memorial feeling with the customer. The literature on the experience economy takes different views and perspective (Candi et.al, 2013). The first view sees experiences as the total of delivered services which generate a certain memorable feeling with the consumer. Zomerdijk and Voss (2011) for instance employ this view, sketching the customer experience innovation as the way in which firms systematically design and manage services which focus on customer experience rather than just on the functional benefits following from the products and services delivered. The second view links experiences directly to a brand name and customer’s perception on a company. Take as an example the ‘Heineken Experience’, a venue in Amsterdam where costumers pay a fee to ‘experience’ the Heineken brand. This goes way beyond a simple guided tour of the old brewery: by means of image, sound and all sorts of existing games and rides the visitor experiences something unique. Clearly, the Heineken experience does not focus on the experience as it core product, but as a way of promoting its global brand name.

Both views on experiences take the perspective of service management. A third way to look at the supply of experiences is to see it as a separate branch of products / services with innovates in its own way. This perspective implicitly differentiates between experiential and non-experiential services. Firms in the entertainment branch have already for decades focused on experiences as their distinctive product. Concepts like World Disney or the Hard Rock Café use the ensemble of artists, lights and sound, locations and drinks as the stage and attributes to create a unique experience with the customer. Candi et al. (2013) argue that the potential benefit of experiences can apply to all business. Experiential staging from this point of view is an innovation strategy in which product differentiation is reached by developing experiences. That is the viewpoint our paper takes in studying the EDM event industry.

3. Methodology for case study

Research design and data collection

In order to shed light on the various motives for going hybrid, and on governance mechanisms and the role of trust in managing these, this study uses a cross-sectional research design. Cross-section research in which several cases at a single point in time are studied is suitable for looking at patterns of association among participants (Bryman, 2012). This study uses the semi-structured interview because it allows for collecting data on some key factors, but leaves room to let new topics or insights emerge during the interview.

The research population of this study consists of all hybrid organizations of EDM event organizers in the Netherlands. EDM events in this definition include both indoor and outdoor Should be common knowledge? to realize a specific event. A non-random purposive method of sampling has been used. The advantage of this type of sampling is that participants can be identified on the basis of their presumed contribution to the research question, which in the case of an explorative study is particularly beneficial.

The strategy of non-representative purposive sampling in this study builds on a number of steps. First, a list of all *outdoor* EDM festivals in the Netherlands in 2013 is used to identify possible hybrid organizations. Unfortunately, no such complete list for *indoor* EDM events exists. However, the larger part of EDM festivals are organized by firms which are also active in hosting indoor EDM events. Moreover, substantial investments have to be made to realize an outdoor EDM festival, so firms which undertake this risky business generally are large firms with event planning experience. From the perspective of purposive sampling these firms are highly valuable as participants.

In order to identify which EDM festivals are organized by a hybrid organization, the website of each event was looked at to see if more than one firm is mentioned as either direct organizers or as stage ‘hosting’ partner. Such ‘hosting’ partner is responsible for managing the acts and decoration of a specific stage during the event. Most often part of the agreement will be that this host partner’s name will be linked to this stage. The level of involvement and responsibility with the overall event organization vary between different hybrid EDM event organizations. The result of the website analysis is a list of a subset of hybrid organizations in the Dutch EDM event industry. It is possible that some EDM festivals which do not list multiple firms on their website are in fact undertaken by a hybrid organization. These hybrids are left out in this step of the sampling process.

The second step is to contact the identified hybrid organizations. In total 27 hybrid organizations were identified, consisting of 110 unique organizing or hosting firms. A subset of 28 organizations of 24 listed hybrids was contacted either by mail or Facebook in case of missing contact information. Three hybrid organizations of this list were contacted in a later stage of sampling. Non-response of this round of sampling is 68%, as only 9 out of 28 firms were willing to participate. Contacting was done in the first and second week of July 2013. These weeks fall in the middle of the Dutch festival season which starts at the end of May and ends halfway September. Although most EDM event organizations were enthusiastic about the study, the high non-response must be attributed to the timing of this stage of sampling.

A third round of sampling was undertaken to enrich the sample of participants with some key players in the industry. The Dutch EDM event industry is characterized by strong social ties, so snowball sampling has been used to come into contact with managers and sector specialists with lot of experience in the EDM sector. Snowball sampling is a way of purposive sampling in which each participant is asked to suggest someone else who might be willing to appropriate for the study. From halfway July to the end of September 2013 another 11 participants were added by this method. All contacted potential participants received a brief description of this study and of the research goals. This ensured participants to match the study population and prepares them for the interview. During the interview more in-depth explanation of the research purpose and context was provided. Each participant was asked if he or she approves that a transcript of the interview is made and used anonymously in the analysis of this study. Afterwards the participants were asked if they would like to receive a copy of the research-summary.

In total nineteen semi-structured interviews were conducted during the course of this research. Fifteen participants are managers of EDM event firms which at the moment of interviewing all were engaged in at least one hybrid organization. The remaining four participants (firm #12, #16, #18 and #19) are industry experts with extensive knowledge of the EDM event business (see table 1 for a summary of the set up of the interviews).

Table 1 Participating organisations to the interviews.

	Organisations
Group of 9 first round participants (Utrecht: 5, Amsterdam: 2:, Groningen: 1, Delft: 1)	Meubelstukken (JV/ Amsterdam), Sekoia (Alliance / Utrecht), Deep Dish Chase (Expert / Utrecht), BandjeBandje (From Alliance to JV / Amsterdam), Paradigm (Alliance / Groningen), Kranck (JV / Utrecht), Elevation Events (JV / Utrecht), ZeeZout (JV / Delft), Toffe Peren (JV / Utrecht)
Second round participants according to snowball method (Amsterdam: 8, Utrecht: 1, Rotterdam: 1)	Next Monday’s Hangover (JV / Amsterdam), GirlsloveDJs (JV / Amsterdam), Apenkooi (JV / Amsterdam), Studio80 (Expert / Amsterdam), ID&T’s X-Lab (Expert / Amsterdam), Morgen.am (Alliance & JV / Amsterdam), Give Soul (JV / Rotterdam), Stekker (From Alliance to JV / Utrecht), FeestjesMetKorting (JV / Amsterdam), Shoeless / Nachtlab (Expert / Amsterdam)

Note: JV means joint venture

Interview duration ranges from 32 minutes to 89 minutes, with an average of 59 minutes. About one third (7/19) of the interviews were conducted by Skype, all other interviews were face-to-face. More than half of the interviewed participants operate in Amsterdam, which is not surprising since the Dutch EDM industry is highly clustered in this area. Other operating cities of EDM event organizations are Utrecht, Delft, Rotterdam and Groningen. In accordance with the high speed in which the Dutch EDM industry is growing, the majority of firms (11/15) are not older than five years. The oldest participating firm in this study was founded in 1997 and has since continuously hosted innovative EDM events. The semi-structured in-depth interviews in this study uses an interview guide which covers four general topics: (1) motivations for going hybrid, (2) the use of contracts and management as governance mechanisms in lowering transactions costs, (3) the role of trust as governance mechanism. In order to contribute to the Dutch government's goal of stimulating innovation in the EDM industry, a fourth topic was added, namely: (4) the role of government policy. These topics and associated questions functioned as a guide line and lay out for the interview.

Methodology for data analysis

The data analysis in this study reflects the qualitative nature of the research strategy. First, the recordings of each interview are transcribed. The interview transcripts are subsequently coded with MAXQDA. A codebook of relevant labels is developed in an iterative and inductive process. In this way key themes, patterns, ideas and concepts are developed during the analysis of the data. The codebook which has been the result of continuous redefining of categories during the coding process is available on request. After selective coding a content analysis is done in which frequencies are counted and sequences of words are looked for. All clustered and categorized data are used for conclusions-drawing. Moreover, conceptually coherent explanations of findings are used to alter or complement the lessons from our reading of the theory from the literature and of the empirical studies of others.

All interviews were in Dutch, the vernacular of the interviewer and interviewees. All quotes in the following sections are translated from Dutch to English. In order to enhance reliability - the extent to which research can be replicated - all procedures for selecting respondents, conducting interviews, and analyzing data are documented as transparent as possible. It includes the interview guide which has been used during the interviews and the MAXQDA codebook which has played the most important role in drawing conclusions.

4. Analysis of interviews: why going hybrid

This section provides an assessment of the importance of transaction costs and transaction cost management in the formation of hybrid organizations in the EDM event industry. In total 14 out of 19 interviewed participants in this study were engaged in one or more hybrid organizations. These interviewees were specifically asked about their motivations to team-up with competitors to jointly organize EDM indoor- and/or outdoor events.

Transaction costs management in the EDM industry

Event producing firms in the EDM industry act as orchestrators of a supply chain of elements that combined produce an event experience. Many organizations might host only a dozen or so events a year, especially during holidays, which make demand for inputs fluctuate. . Because of these peaks and lows in demands, in-house development of most activities is not feasible and EDM event inputs are outsourced to key suppliers and stakeholders. '*Some suppliers may be even bigger than we are in terms of turnover. We focus on the basis, which is delivering an experience*' (firm #19).

Two types of transaction costs in the EDM industry can be distinguished, namely: production and promotional transaction costs. *Production* transaction costs stem from asset specificity and uncertainty which lead to high financial risk. Most of an event's inputs are only useful on the event date, thus time specificity is very high (Malone et al., 1987). The riskiness of producing an EDM event is increased by the unpredictability of visitor behaviour and bad weather. Firms also face considerable *promotional* transaction costs versus the consumer or visitor of the EDM event. Search costs to find and target potentially interested consumers with promotional material have to be made. In converting the potential visitor to an actual visitor, transactions costs follow from the information gap between the firm and the visitor. Transaction cost management therefore is at the core of organizations in the EDM event industry (firm #19)

Three main competences which lower production induced transaction costs are mentioned by interviewees: (i) developing production experience, (ii) building a good reputation, and (iii) working towards a network of (trusted) suppliers and colleagues. First of all, most start-ups in the EDM industry are formed by young enthusiasts with a love for house music, but not necessarily with the skills and knowledge to manage a large-scale event. During the production of an EDM event all stakeholders need to know exactly what, where, when and how to deliver their goods and services. It is reported that inexperienced firms often take bad decisions, trying to bargain for cheap inputs and services which eventually lead to higher transaction costs and thus higher overall production costs.

Firm #12 sketches two examples which highlight the importance of experience. '*I often see inexperienced firms trying to economize on essential parts of an EDM event, for instance by hiring power supplies specialized for construction, which are cheaper. However, these power supplies are not as reliable as you want them to be; if the music stops on the day of your festival then at that moment you lose your core business. After two years you see these firms switch to professional suppliers with more secure and stable material*' (firm #12). In other words, specialized technological knowledge is crucial in managing transaction cost. Logistics can also be a major bottleneck. Non-specialized suppliers are often not familiar with the importance of the very tight time schedule which are important to the EDM event. A supply delay can jeopardize the whole preparation process, leading to drastically increased transaction costs. These technical and logistical know-how are developed in a learning-by-doing way, therefore building production experience is crucial in reducing transaction costs.

Secondly, building a strong reputation lowers production transaction costs. Eight interviewed participants point out that it often entails considerable transaction costs to receive a permit by the municipality. '*You need to talk to so many different authorities; first the district, then the emergency services, then the municipality. Speaking for Amsterdam, I would like some sort of a municipal nightlife service, with someone who knows what he's talking about. Not some old guy who's never been to a party and judges whether it will work or not'* (firm #18). Clearly, considerable search-, information- and communication costs stem from the process of permit application. Organizations with an established strong reputation will be more easily granted a permit by the municipality; '*we know the police, we know the municipality, we know the fire department and they know us. They know that if we host an event that they can expect a certain quality*' (firm #17). In addition, a strong reputation males a firm credible to bookings agencies and locations, making it possible to program bigger names in more exclusive venues (firm #11, #12).

Lastly, working towards an extensive and trusted network of suppliers and colleagues will reduce production transaction costs. '*Our network is our most important asset, that's inherent to the creative industry*' (firm #18). Working with a trusted network of suppliers decreases the risk of opportunistic behaviour, uncertainty about delivered quality, and chance of miscommunication or mismatch in ways of doing business (firm #12). In addition, networking with suppliers and colleagues yields goodwill which lowers transaction costs, for example by making it easier to obtain specific market information or a preferred location (firm #1, #2, #13, #14).

Besides management competences interviewees name two market trends which have lowered overall transaction costs in the EDM event industry over the years; (i) supply chain transparency and (ii) the upswing of event production houses. Gradually a vast amount of small and large suppliers specialized in EDM events have entered the market, which has decreased search- and information costs in the supply chain (firm #3, #9, #16, #18). '*Five or ten years ago it was much harder to just host set-up a festival. You really had to be ID-T or had to do it all by yourself. Today all sorts of small firms exist who can handle this for you, the whole festival landscape is just much more evolved in recent years*'(firm #3). Also, the clustering of EDM organizations and events in Amsterdam foster knowledge spillovers among event organizations (firm #16). '*You visit ten festivals and if you pay attention to how the fences and bars are placed, than it seems quite simple to organize a festival*' (firm #9).

Although the supply chain has become more transparent, the success of an event still depends on linking all parts together against minimal transaction costs. Firms can hire specialized event production houses to lower costs (firm #12, #13, #18). These production houses are experienced in hosting small- and large-scale EDM events and comprise extensive networks of trusted suppliers. An event organization can adjust the level of involvement and advice of production houses according to their own knowledge and capabilities, as well as the scale and uncertainty of the event. On a more specialist scale production houses also play an important role. For instance, Amsterdam-based 'Nachtlab' acts as a platform which links all sorts of artists and creative skills to offer EDM event organizations creative services from sketch to construction. Or, on an even smaller scale, production houses can take care of things like artist-handling; taking away all the hazards in coordinating that artists arrived at the event destination on time and are supplied with all their needed techniques and beverages.

The large inflow of small EMD event start-ups in the last couple of years is associated with this drop in sectorial transaction costs. Transparency and production houses have made it easier to organize an EDM event without considerable start-up costs to gain experience and social media has made it possible to rapidly avail of a visitors community. '*In our business it's not about knowledge, it is about networks and followers*' (firm #14). The large increase in number of EDM festivals over the years has made the festival landscape rather competitive. Artists have benefitted heavily from this trend, as event organizations are trying to outbid each other for the most popular DJs. There is a variety of supply for each EDM lover, though there are growing complaints on high entrance fees (Van Terphoven, 2012).

Role of social media

On the promotional side of events, the development of social media has drastically changed transaction costs of searching, attracting and retaining visitor communities. Visitor communities regenerate themselves every three to five years (Van Veen, 2013). For event organizations it is highly important to constantly find and bind visitors to their brand. In the early '90s building a visitor community was rather time consuming and costly as all promotion channels were physical; such as the collection of postal addresses or distribution of flyers and posters (firm #9, #11). In other words, building a visitor community used to entail considerable transaction costs. Nowadays, physical promotion merely supports the far more important channels of online promotion (firm #2, #5,, #9, #14, #18). Every weekend house music lovers can choose from an overflow of events, clubs and DJs. For potential visitors it is not only important which DJ is playing, but even more so where all your friends and fellow party people are going to. '*People want that feeling of togetherness*' (firm #5).

Facebook works as an platform to build such an (online) community against low transaction costs. All promotional event information can be communicated to the audience in an interactive way, for instance by uploading teaser movies, polls, links to music pages of artists or by advertising pictures from previous events. By ‘attending’ an event all a – still potential – visitor makes clear to his social network where he’s going that Saturday and allows any potential visitor to track which other friends are attending. Any visitor is free to invite other potentially interested people from their own online community to the event, while ‘like and share’ competitions more generically extend the events promotional reach. In addition, people can like an event organization’s page on Facebook which will automatically update them with information about new events. The best part is that this online ‘buzz’ can be created while making hardly any expenses. ‘*Online you can get very far without spending a single penny. If you have a lot of likes on Facebook you earn respect, it shows that you're doing something right*’ (firm #14). Facebook ads do entail costs, but are way more effective than newspaper ads for they can be focused on a target group specified by age, sex, and interests.

Against this background, it is not surprising that some event start-ups are spin-offs of online magazines or other online communities. Next Monday’s Hangover started out as Overdose.am; a popular online magazine which blogs about art, fashion, music and other cultural aspects of Amsterdam. In 2010 it started developing offline activities and was able to grow rapidly, not only due to their creative concept, but also through using their already established online marketing channel. Another example is Sekoia, which strategically chose to build an online community from which to launch offline events. In 2012 it started as an online platform on Facebook for sharing a specific sound of EDM, which in a year grew to over 4000 likes. Today it hosts its own monthly nights in cooperation with Claydrum events, and has participated in the Next Monday’s Hangover festival.

Summarizing, transaction costs in the Dutch EDM event industry have decreased over the years. Production transaction costs have decreased due to supply chain transparency and the rise of specialized event production houses. Promotional transaction costs have decreased due to the use of social media in finding, attracting and retaining visitor communities.

Motivation to form a hybrid organization

Both transaction costs considerations as well as resource-based motives play their role in pushing firms to horizontal hybrid organizations in the EDM event industry. To divide short-term and long-term arguments, this research considers the former as being primarily applicable to a specific EMD event, while the latter foster a firm’s long-term competitive advantage.

TCE: Lower transaction costs

Starting with short-term cost savings, participants named five ways in which forming a hybrid organization can lead to transaction cost savings. First of all, decreased financial risk was named by more than two thirds of participants as motivation to form a hybrid organization. Financial risks for many firms are such high that one major hiccup can jeopardize the financial health of the entire firm. ‘*Maybe you could do it on your own, but if it goes wrong you’re done because a festival can cost you up to half a million or a million euro’s to produce. So if you can do it with a total of five, you share the risks thought your profit is perhaps slightly less too*’ (firm #3). However, all saved equity can be put to work in other events. In this way firms can spread the financial risks associated with organizing EDM events.

Though not actively asked about asset specificity and uncertainty, some participants indeed quoted these as adding to the financial risks of organizing an event. When discussing financial risk firm #3 explains that investments in the start-up phase of an event can easily add up to sixty or seventy thousand euro's. Additionally, visitor behaviour and the weather are great sources of environmental uncertainty; '*If by change heavy weather comes up, or you just don't sell enough tickets, then you can just forget about it'* (firm #1). Hence, the hybrid functions as a collective insurance, which is apparently needed because of insurance market failure.

Secondly, firms cooperate to leverage their investment opportunities (firm #4, #9, #10, #13, #14, #15). EDM events are often fully financed out of equity, which limits organizations in their investment opportunities since most suppliers and stakeholders demand pre-payments for their products and services. Especially small start-ups have difficulty in financing their projects. The capital market for EDM events seems to fail as banks and investors lack industry knowledge and therefore avoid participating in these projects. In addition, organizations face transaction costs in receiving the revenues made of entrance fees. The ticket selling companies generally pay out a small EDM organization only two weeks after the event has taken place, while larger firms with a better reputation still can get only part of the payments prior to the event.

To overcome these obstacles, firms participate in hybrid organizations to lower transaction costs of attracting capital by leveraging their financial strength. '*When we were asked to participate, we had given some parties but we surely did not have a fat bank account which we could use to do large investments. Our partner did, so that was a good opportunity for us*' (firm #15). Because transactions costs of attracting financial resources and financial risk are lower, small- and large firms can more rapidly scale up the size and quality of their events. As firm #14, an one year old EDM event start-up, puts it; 'a*t a certain point we would surely have been able to do it ourselves, however, that's far more difficult. Now we have also been able to grow as a community which would also have taken considerably more time if we would had to build it on our own*'.

A third way in which hybrid organizations lower transaction costs of organizing an event is by combining visitor communities and marketing channels to lower environmental uncertainty. More than 85% of hybrid EDM event organizations quoted this argument. Most EDM event organizations own a website, twitter account and multiple Facebook pages. By adding all these marketing channels the hybrid can target a large group of potential party people. '*To launch a new event from scratch, an event this big, that is not easy. So we decided to combine all communities so potential visitors would be targeted from so many channels at the same time. When people start attending the event on Facebook this can then start a sort of snow-ball effect, which was really interesting for us*' (firm #9). Not only will the total reach of promotion increases, but followers which are in the community of more than one partner will be more likely to attend the event, which decreases environmental uncertainty for the hybrid organization.

Combing visitor communities is however also a strategic way of lowering long-term transaction costs. Considerable transaction costs are associated with finding, attracting and retaining visitor communities. Brand loyalty in the EDM event industry can't be bought but develops slowly over time. However, firms in a hybrid can save transaction costs of building visitors communities by combining all their marketing channels. Some hybrid organizations host events in which every single participating firm has its own stage. Loyal fans of firm A's concept will go to the event for that stage, but at the same time are introduced with the concepts of all other firms. Interviewed participants see this as an effective way of extending their visitor community against low transaction costs; '*by cooperating you bring together partners that may have some overlap in fans, but for to a large extent also do not. So it's an introduction for a lot of fans* (firm #1). For firm #12, forming a hybrid organization is also a strategy when trying to enter new geographical markets. By partnering with firms who have already established a significant visitor community in another region this firm is able to decrease environmental uncertainty.

Another long-term strategic argument, mentioned by half of the interviewees, is combining business networks as a way to decrease transaction costs of searching for partners, negotiating deals, and building business relations. Building strong network relations are a key competence for EDM event organizations which act as orchestrators in the supply chain. Especially start-ups face substantial transaction costs when building a trusted network of relations. By participating in hybrid organizations with more experienced firms these young enterprises can take a shortcut. As firm #13, a two-year old start-up, quoted: '*you just learn enormously from working together. Through the network of our partner we got in contact with people who simply with one call can arrange a festival'*.

Lastly, firms in a hybrid can benefit from lower information costs. Partners can share information about suppliers, for instance about what artist fees are fair in order to reduce negotiating time with booking agencies (firm #7). In addition, hybrid organizations will often share market information internally. Information bought-in through market transaction will most likely be either commonly known or out-dated in this high velocity sector. In addition, not many firms possess industry specific information and are willing to act as knowledge broker to other EDM event organizations. Three of the interviewed participants conducted a strategy of partnering up with local organizations to gain access to information about the markets they wanted to enter.

RBV related arguments

Although less important than the transaction costs economic arguments, interviewed participants did also name arguments of long-term strategic advantage which relate to the resource-based view on hybrid organizations. Two main groups of motivations be distinguished: (i) sharing unique capabilities, and (ii) sharing unique resources.

First of all, almost 80% of the participants quoted that partners can learn from each other's best practices in the production and promotion of an event. No blueprint or instruction manual for hosting a smooth and successful event exists. If a company thinks it lacks certain capabilities then asking advice or buying information is not sufficient because it misses the 'tacit' part of knowledge (firm #4, #7). Close cooperation in a hybrid setting fosters the exchange of difficult to transfer tacit knowledge which is essential for developing skills. Start-ups often lack necessary production experience and thus are motivated to learn from more experienced firms in a hybrid setting. '*Our partner knows the tricks of the trade, they* *work with a very good production house, so all of a sudden we were surrounded by people who knew what they were talking about and had a lot of experience*' (firm #15).

But sharing skills is also important for large and more experienced companies. Van Veen (2013) explains that it is essential for organizations to stay close to the market and refresh their concepts as visitor communities regenerate themselves every three years. '*The young should cooperate with the old to learn, and the old should cooperate with the young to know what's happening. That's a continuous ecosystem of cooperation*' (firm #7). Start-ups of young enthusiastic entrepreneurs know how the younger generation thinks and how organizations can attract these visitors. Two interviewees name the failure of Dance Valley in 2010 as an example of an event that was unable to innovative its concepts to get in line with the needs of younger generations of party people.

Apart from having a direct relation to experience, partners may simply engage in hybrid organizations to use each other's further strengths in organizing events. Some event organizations may for instance have clear competences in building a promotional buzz, while other firms are strong in the production side of events. Firm #9, a large firm participating in a hybrid with more than two firms: '*we are good at gathering sponsors, while our partners specialize in the conceptual or production side of the event. Over time a natural sort of work division develops*'. Moreover, firms cooperate to combine creative skills. Every firm in the EDM event industry tries to differentiate its event concept with music and style from the competitors. By forming a hybrid organization companies can increase the variety of an event by making use of the partner's specialization in music or style. In this sense, hybrid EDM festivals are like tribal gatherings; each partner defends its concepts with a stage on the event. Visitors are given the opportunity to compose their own experience by choosing between concepts that differ in sound and style. On the other hand, the exchange of creative ideas within hybrid organization can lead to innovative new concepts. '*Sometime new and exciting can develop if three partners share their musical vision, and especially in Amsterdam people love new things*' (firm #1).

Secondly, hybrid organizations are formed in order to share unique resources, which is mentioned by more than two thirds of the participants. Half of the participants mentioned that by joining forces they can increase their production and promotional workforce. '*By adding up your list of personnel or volunteers, you can achieve much more. Simply put, double the amount of promoters hanging posters in the city, and you double your promotional reach*' (#12). By joining forces firms increase their production capacity and are able to do bigger and better events, or shift some of their capacity to start-up other events. '*You are able to cumulative exponentially do more if your cooperate. You become bigger, more powerful, and faster*' (firm #7).

Another unique resource that firms in a hybrid organization are eager to share and economize on is reputation. For start-ups it is interesting to cooperate with established names in the industry because it increases their own credibility (firm #13, #15). For older firms participating in a hybrid can help to repositioned them in the market; '*we used to been seen as very commercial but now our stage stands between stages of a bunch of other very credible organizations. In this way our brand appreciates, because it's no longer seen as commercial*' (firm #3). Hybrid organizations are also able to book bigger DJs which positively affect the reputation of firms within the hybrid (firm #12). However, as firm #10 mentions, one has to choose partners carefully for their reputation may backfire yours.

Other arguments

The interviewees mentioned two other important aspects which can only be loosely connected to the TCE arguments to form a hybrid form of organization, namely (i) intrinsic motivation and (ii) economies of scale.

First, companies are motivated to cooperate with others because it is fun to work with likeminded people, which can be seen as non-monetary reward or welfare gain to the firm. This argument was named by more than half of the interviewed participants. '*Do not underestimate that we're also friends of each other and enjoy working together. Actually, sometimes there is no business argument behind closer cooperation, other than that it's fun*' (firm #15). Many, if not all, entrepreneurs started organizing events as a hobby, with the idea to develop something new and exciting with a bunch of friends. These enthusiasts see other EDM event organizations more as colleagues than as direct competitors, so hybrids are easily initiated.

In this creative industry it is often the passion for EDM music and culture which brings entrepreneurs together. This is even true for established events organising firms which host festivals of over 2000 visitors (firm #8, #11). '*Making a lot of money has never been my goal; I want to do things, create things, and to get a kick out of that preferably in a fun way*' (firm #11). On the other hand, some start-up participants explicitly quoted that business arguments for them are far more important than working with friends (firm #7, #10). '*I'm looking for a win-win situation, for me and the other firm. It may even be that we don't like each other but we do have mutual respect for each other's product or service and benefit from that*' (firm #7).

Secondly, hybrid organizations are able to host bigger events and can thus benefit from economies of scale (firm #9, #15). Especially outdoor EDM events involve significant fixed costs such as overhead, costs of permit authorization, or facility services. '*Hosting an event can be done at different levels. Small scale events are actually very inefficient*' (firm #9). Hence, in terms of economies of scale it's profitable for individual firms to form a hybrid organization and do one large-scale event rather than to separately host two medium-sized events.

Summary

The empirical findings show that hybrid organizations in the EDM event industry are motivated by both short-term cost savings as well as long-term strategic advantage. Short-term and long-term motivations may both stem from transaction costs economics, where saving on transaction costs in the long run can, in its turn, be an important aspect of resource based strategic decisions, and can, hence, also be deducted from a RBV perspective. This confirms that the notion of TCE and RBV providing complementary perspectives on the rationale behind the development and existence of such hybrid settings..

The interviews show the relevance of the following short-term motivations for going hybrid in the EDM event organisation: (i) sharing financial risk, (ii) sharing visitor communities and marketing channels, and (iii) leveraging investment opportunities. These three arguments decrease transaction costs in the organization of a specific EDM event. In addition, (iv) economies of scale relatively reduces production costs of an event.

EDM event organisers name four motivations which by lowering transaction costs build long-term competitive advantage: (v) extending business network, (vi) sharing supplier information, (vii) sharing market information, and (viii) extending the visitor community. All of these arguments lead to greater efficiency and effectiveness of EDM organizations and thus help strengthen a firm's position in the market. From the resources perspective interviewees referred to (ix) learning from partner's unique capabilities, (x) sharing creativity, and (xi) sharing reputation. In addition, a subset of firms is (xii) intrinsically motivated to form a hybrid organization with other EDM organizations.

5. Analysis of interviews: how going hybrid

After discussing the motivations why to set-up cooperative hybrid organizations, interviewees were asked about the function and relationship between different governance mechanisms of their hybrid organization(s). Subsequently, trust, central governance bodies, equity joint ventures, and contract were all quoted as governance mechanisms to mitigate these organizational transaction costs within the hybrid. Firms were also asked about the drivers of different types of trust towards their partners in the hybrid organization. This section discusses all these findings.

Internal transaction costs

All time spend on negotiating, communicating, dispute solving, coordinating and controlling the hybrid can be regarded as internal transaction costs for firms in a hybrid organization. In order to reduce these costs most established firms spend huge amounts of resources on communication and efficiency training. In some cases reorganization of the firm may even be necessary to control organizational transaction costs. The costs of aligning people within the organization efficiently may also be substantial in hybrids, even more so when independent firms within the organization differ in ways of doing business (firm #4, #6, #15). '*If we organize an event by ourselves then we all already know what our vision of that event will be. When we work together with a partner then we all need to get on the same page. That always takes time, and may produce some discussions*' (firm #15). This alignment becomes even more difficult as the number of participating firms or the time horizon of the hybrid is larger (firm #6, #8, #15)

Internal transaction costs stem from interdependencies among firms. Hybrid organizations are coalitions of autonomous but interdependent firms which will often differ in individual interests. As in buyer-supplier relationships, partners in a hybrid setting need to manage risks of opportunistic behaviour and bounded rationality. As the hybrid organization grows or the time horizon increases, negotiation costs over rents increase (firm #3). Moreover, how can you trust your partner in the hybrid organization, when that same firm is your competitor in the market? Close cooperation often entails sharing crucial business information which can be used by partners to behave opportunistically. In this respect two interviewed participants perceived internal transaction costs of a hybrid setting higher than all possible benefits (firm #6, #12). '*I don't participate in those collaborations because the risk of having to do concessions, having to learn to work together, all that time and energy which are needed, the chance of disagreement; I think it's a waste of my energy*' (firm #12). Hence, the success of hybrid organizations for a large part lies in the ability to manage internal transaction costs in order to fully exploit the advantages of cooperation.

Trust

To leave interpretation of trust as open as possible, participants were asked how they view the overall role of trust in the hybrid organization. The transcript of the interviews indicate that both goodwill trust and competence trust as governance mechanisms lead to lower (internal) transaction costs. Both calculative as well as social drivers can be linked to trustworthiness in hybrid organizations in the EDM event industry.

More than 85% of the participants named *goodwill trust* as important in the establishment and/or governance of the hybrid organization. Participants specifically mentioned two aspects of goodwill trust which lead to lower internal transaction costs of hybrid organizations.

First of all, goodwill trust diminishes behavioural uncertainty in the hybrid by mitigating the risk of opportunistic behaviour (firm #2, #3, #4, #8, #15, #17). '*I think an important aspect of good collaboration is trusting that you and your partners wish each other the best of luck. Some of our partners are really close friends, we trust they will not deceive us*' (firm #15). When goodwill trust is high, agreements do not have to be specified in length and detailed contracts. Not every decision a partner takes needs to be double checked. Time spend on controlling partners in the hybrid is reduced, as firms have confidence in each other's effort to behave according to the benefit of the total organization. As firm #2 mentioned about the distribution of rents; '*no contracts were signed, no terms of payments were specified, goodwill trust was high enough to assume partners would deliver on their promises promptly*'.

Secondly, goodwill trust lowers time spend on dispute solving (firm #5, #8, #17). Hardly any hybrid organization in this study shared office space with their partner companies. Coordination was done by telephone, email or meetings. This makes it rather difficult to check each other's input into the project. When goodwill trust is low and the hybrid organization encounters a setback, it is possible that a firm start questioning whether or not its partner did the best he or she could to make the event a success. This can lead to serious time-consuming conflicts. When goodwill trust is high firms positively perceive one another's intention to behave according to the agreement. Even if disagreements occur, these can be resolved without too much trouble. Firm #5 on goodwill trust; '*If something happens, you grab a beer, discuss it, and then it's done*'.

More than two thirds of the participants in this study quoted *competence trust* as important in lowering internal transaction costs. Competence trust relates to the confidence in the partner's ability to perform according to the agreement. This type of trust builds on having faith in the partner's strategy, business routines and management.

First, competence trust decreases transaction costs because of lower behavioural uncertainty (firm #1, #5, #7 #9, #10, #13, #17). '*You don't have to worry if something has been taken care of properly or not, you don't need to double check*' (firm #1). Being able to trust that a partner does not default on appointments and has the ability to deliver quality work is crucial to the hybrid's efficiency. Furthermore, firms need less control over their partner's behaviour if competence trust is high, which means tasks can be divided effectively without significantly increased coordination costs.

Secondly, competence trust lowers the probability of time-consuming internal negotiations about routines or strategy (firm #5, #14). During the organization of an EDM event, numerous strategically choices considering line-up, promotion, stage etcetera need to be made. Competence trust increases the likelihood that firms will share the same vision. In this way transaction costs which stem from all time spend on deliberations to get everybody on the same page can be avoided.

Lastly, competence trust lowers miscommunication and coordination costs stemming from differences in ways of doing business (#5, #17). Business routines in the broad sense entail all written and unwritten rules about ways of working within the firm. This may be as simple as setting up a budget plan. '*Everybody assumes that his way of working is normal. If my partner has a different method of preparing the budget, I need quite some time to getting used to that*' (firm #17). Another example is internal communication; some managers in this industry are accustomed to discussing matters in an informal setting, while others may value a structure of recording minutes and punctual business meetings. Competence trust will generally be higher when firms are accustomed to each other's business routines.

Interviewees were asked about the factors that influence their perception of goodwill trust towards the partner. These factors are subdivided in social- and calculative trust drivers. The former refers to processes that lead to intrinsic motivation to behave according to the agreement. The latter include all factors and conditions which diminish the payoff of behaving opportunistically and in this way lead to calculated goodwill trust.

The initial level of perceived goodwill- and competence trustworthiness is determined by shared personal characteristics as well as calculative conditions. First of all, more than two thirds of the interviewees named (i) *shared norms and values* as goodwill trust driver. Many entrepreneurs in the EDM event industry are motivated by a passion for house music and culture, which causes a sense of solidarity (firm #8, #14). To be sure, entrepreneurs take on all possibilities to seek information about partner's motivations and personal character. '*If you share the same motivation, trust is obvious*' (firm #14). If initial social ties are low, goodwill trust can be assured by engaging in explorative talks to yield information about norms and values (firm #5, #8, #11, #14). In addition, (ii) *mutual artistic vision* is a very important condition for competence trust. This driver was named by half of the interviewed participants. If firms prior to forming the hybrid organization feel they share the same vision of the event, they are more confident that lengthy internal discussion will not be needed: '*You don't have to agree an all things, but you definitely need some overlap*' (firm #5).

The EDM event industry is a community-like creative sector with much social interaction which makes *social ties* important in generating trust (firm #1, #2, #5, #8, #15). More than 75% of the participants quoted social ties as important in the establishment of the hybrid organization. Social ties as driver of trust can be categorized as working in both (iii) a social as well as (iv) a calculative manner. Through informal ties firms learn about each other's behaviour, which helps to build goodwill and competence trust. These social relationships are established when event entrepreneurs meet each other in informal settings, either during day-time, but mainly in the small hours while attending one another's event. At these parties, 'social networking' is as social as it gets, as friendships are formed by sharing ideas and business opportunities while enjoying a couple of beers.

Especially in Amsterdam and Utrecht the EDM scene is characterized by strong community-like ties. Participants do not view other firms only as their competitors, but rather as their colleagues. '*In that sense Utrecht is just as a village, if you occasionally organize an event or* *visit a club, you will definitely get to know each other at some point*' (firm #5). In addition social ties are reported to originate from prior business interaction (firm #1, #3, #4, #5, #8, #14). This might have taken the form of stage hosting on the partner's festival, as well as more arm-length's business such as design work. This type of non-integrated cooperation allows firms to gain knowledge about the counterpart's ways of doing business and may lead to personal friendships (firm #1, #2, #8, #11, #13).

On the other hand social ties can be seen as calculative trust driver for two reasons. First of all, information flows rapidly through the Dutch EDM event industry due to the dense network of social ties. '*The music business, it's a small world*' (firm #14). If firm A behaves opportunistically, firm B can easily spread the news by telling his befriended colleagues and let gossip do the rest. '*If you do not pay four times, in no time everybody will know*' (firm #3). Secondly, social ties enhance goodwill trust because managers anticipate their befriended partner will not default on his or her promises because the direct and indirect costs of breaking a friendship are significant. Although the old adage 'don't mix business with friendship' endorses the possible negative impact this could have on the friendship itself, from a business point of view social ties strengthen (calculative) goodwill trust as governance mechanism.

Another calculative driver of initial perception of goodwill- and competence trust is (v) *importance of reputation*. As in a community, firms use reputation to value goodwill and competence trustworthiness of other companies (firm #1, #3, #4). Firms can rank each other on subjects like amount of visitors, the DJ line-up, or the exclusivity of the location. If a firm has the reputation to sell-out its events, most likely other firms will have considerable competence trust in this firm (firm #2, #10). Social media makes it possible to gain insights into brand recognition and visitor communities, for instance looking at the amount of likes on the organization's Facebook page (firm #1, #9). In addition, firms with a good behavioural reputation will find it easier to find partners and engage in cooperative hybrid organizations because perceived goodwill trust will be higher.

The importance of reputation assures firms face considerable sanctioning in the form of reputational damage if they behave opportunistically (firm #1, #2, #3, #5, #8, #9 #13, #14, #15). As other EDM event organizations hear about misconduct they will exclude the relevant firm from any interesting possibilities in the future. Moreover, key suppliers, such as large production companies, may even exclude this firm from business. '*Eventually, it will only work out negatively for such a company. What I notice is that it changes their opportunities, things do not come to them anymore*' (firm #8). In this way a cooperative equilibrium is guaranteed because the threat of long-term reputation damage creates an *ex-ante* commitment to not behave opportunistically *ex-post*. On the other hand, as firm #1 and #4 mention, the community-like characteristic of the sector may also undermine sanctioning, as they say time heals wounds. '*Sooner or later you will meet again in this scene, so you also have to be somewhat cool about it*' (firm #1).

An interesting point in this respect was made by firm #13, a start-up firm that is partner to a larger firm in a hybrid organization. This firm had not signed any cooperation contract, while all ticket revenues were deposited on the account of its larger partner. Apart from goodwill trust developed from social factors, this company had considerable calculative goodwill trust in its partner because the latter had way more to lose in terms of reputation. '*To cheat on us does not benefit them, it rather hurts them. With something like that we could go to the press*' (firm #13). Hence, calculative trust can be especially important to start-ups firms which cooperate with larger and longer established firms.

The working of reputation as collective measure of trustworthiness is quite strong in the EDM event sectors of Utrecht and Amsterdam. '*Reputation is really important. In the future you may want to cooperate with other firms to do something bigger, so it's vital that you are credible and trustworthy. Of course you can 'steal' 10,000 euro and deal with all the trouble, but why not share that 10,000 euro and the next time help each other earn 25,000 euro*' (firm #5). However, no interviewees outside both cities named this calculative driver of goodwill- and competence trust. It suggests that informal ties and community-like characteristics may not be as strong in other geographical regions within the Netherlands.

Lastly, in today's competitive EDM event market cooperation is a valid strategy for business growth. This leads to the calculative condition of repeated interaction or (vi) *interdependence among firms* (firm #1, #8, #9, #13, #15). Though some established firms can afford to act independently, most firms intend on repeated interaction now or in the future. '*You never know when you'll need each other. So yes, it's not always sincere; sometimes it's favoritism. Everybody acts nice because they want sometime*' (firm #1).

Participants also quoted a number of factors which drive the development of trust during the life-cycle of the hybrid, many of which overlap with those for the initial perception of goodwill trust. Not surprisingly, goodwill trust is enhanced by (vii) *development of social ties* over time when working closely together (firm #1, #8, #11, #13, #15, #17). Also, firms value (viii) *transparency* of the counterpart's behaviour because it diminishes negative gut feelings about time amd effort spend on the hybrid's goals or any suspicion about opportunistic behaviour (firm #3, #13). As friendships develop the scope for more cooperation increases. '*It just feels right with these guys, we're already talking about more cooperation, that's just really nice*' (firm #17).

On the calculative side, for the same reasons (ix) *development of social ties*, (x) *importance of business reputation* and (xi) *interdependence among firms* can increase goodwill- and competence trust. Interestingly, firm #9 mentioned that companies may repeatedly interact with each other in different hybrid organizations at the same time, which increases goodwill trust in a calculative way. If one firm would behave opportunistically, all other firms in all other hybrid organizations would be notified, thus effectively placing a bomb under all collaborations. Finally, (xii) *stable business success* increases goodwill trust. When events are successful firms will anticipate on expected high and stable future profits by not behaving opportunistically. However, if an EDM event becomes less successful the incentive to behave opportunistically to gain short-term benefit will be larger, this worsens the trustworthiness between firms in a hybrid organization (firm #8, #15). On the contrary, rapidly growing concepts are prone to renegotiating efforts of hybrid participants (firm #3).

Central governance bodies and equity joint ventures

Quasi-autonomous governance bodies are formed when partners shift some of their decision-making rights and responsibilities to a central committee that coordinates the hybrid organization. Only three interviewees use such construct to coordinate their hybrid organizations (firm #8, #9, #15). These firms are all in hybrid organizations with three or more partners, which increases the need for of hierarchical control and decision making. '*I've noticed that the more people have something to say, the more complicated it gets. So I think* *it's good to have some structure, leadership, and decision-making. I can't imagine sitting with four different organizations in a room discussing everything, that's not going to work'* (firm #8). Firm #9 even installs an external manager to overview the hybrid cooperation. This benefits the organization as all partners can focus on their core responsibilities without the project becoming too fragmented. In this respect Den Butter and Ten Wolde (2013) show how an intermediary lowers organizational transaction costs by managing the comprehensive process of cooperation. In short, hierarchical coordination thus lowers transaction costs of communication, negotiation and coordination.

Although other interviewees did not mention the use of a central governance body, the interviews enable to make some interesting observations about hybrid coordination in general. First of all, in a large number of hybrid organizations decision-making is rather flat (firm #4, #5, #13, #17). The benefit of such a structure is that decisions are made in a very transparent setting in which all partners have equal influence. This decreases behavioural uncertainty and thus lowers internal transaction costs. Some form of leadership may arise when firms have invested an unequal part in the hybrid, still equality in decision-making remains an important way of keeping all partners committed to the organization (firm #1, #5, #15). Secondly, internal transaction costs can be minimized by installing financial checks. For instance, managers from both firms may share the responsibility to set-up and execute the budgetary plan. Financial transparency decreases the risk of opportunistic behaviour for both firms (firm #8). On the other hand, firms #4 and #17 let all receivables and payables flow through their own account, which one-sidedly diminishes risk of opportunistic behaviour of the counterpart. '*I like to keep control. In almost every cooperation I collect all revenue and do all payments. If that wouldn't be the case I would be more cautious*' (firm #17).

Apart from independent decision-boards, hybrids can be set up as independent private companies; the equity joint venture. Only three participants in this study indicated they used this governance structure in order to mitigate internal transaction costs (firm #3, #8, #9). Motivations to take on this governance structure are to lower financial risk and uncertainty of long-term hybrid organizations. The disadvantage of equity joint ventures is the costs of setting-up the private company as well as lack of flexibility. However, when transaction costs of financial risk, opportunistic behaviour and uncertainty outweigh those of committing to partners in an equity joint venture, this governance structure is to be adopted. An equity joint venture is especially advantageous to larger firms who run several event concepts at the same time. '*We prefer to structure every event or cooperation as independent as possible, so that the risk of one separate event failing does not affect all our other events*' (firm #9).

Contracts

Contractual governance is an *ex ante* commitment between two partners to avert *ex post* opportunistic behaviour. TCE predicts that firms in the EDM event industry rely more on contracts when asset specificity, uncertainty and frequency of interaction are higher. Half of the fourteen interviewees quoted large hybrid projects face considerable asset specificity and uncertainty which lead to financial risk. To cope with this financial risk firms sign contractual agreements. Another four participants cited the time horizon or frequency of interaction with a partner increases the need for specifying contracts. '*We do an evening here, a cooperation there and we should have contracts for all those nights but in reality ninety percent of them* *are only based on trust. When you do something bigger or long-term I think it's important to set-up a contract*' (firm #3).

However, contractual agreements between partners in the EDM event industry do not always exist (firm #4, #5, #9, #13, #17), or in many cases are not more than confirmed arrangements by email (firm #1, #2, #3, #7). Three factors underlie this lack of reliance on contractual agreements. First of all, participants indicate that an email confirmation counts as valid proof in court. Secondly, the EDM event sector is a high velocity industry, where time and resources to set-up detailed contracts often do not match with the pressure of event deadlines. As a deadline approaches all focus is put on promotion and production of the event; specifying the cooperative agreement itself tends to lose priority (firm #3, #9, #14, #17). '*Either you spend time finishing your line-up or spend time on the contract; at that moment your line-up gets priority. Before you know it the event has taken place and you haven't signed a contract. Nine out of ten times that's how it works with us*' (firm #3). Thirdly, experience plays a role in entrepreneurs' perception of transaction risk and the applicability of trust as governance mechanism. Start-ups seem to rely more on trust compared to their more mature colleagues. As start-ups grow in size most of them encounter some sort of opportunistic behaviour at first hand. These experiences can make them better informed about the net transaction costs of trust versus contracts as governance mechanism (firm #1, #2, #7).

Lastly, for some hybrid organisations in the EDM event industry the usefulness of contracts compared to relying on trust is doubtful. Drafting detailed contracts entails considerable costs (firm #3). Bounded rationality means not all possible terms and conditions can fully be specified, which leaves loopholes open for renegotiation and opportunistic behaviour (firm #8). Moreover, in the creative EDM event industry too much emphasis on the contract can be a sign of distrust to the partner (firm #14). Finally, small entrepreneurs lack the financial resources to prove their contractual rights in court when needed (firm #4). Therefore, eight out of fourteen interviewees in this study value trust as more important than contracts for controlling their hybrid relationships. Another four participants assess trust as equally important to contractual agreements.

Looking closer at the relationship between trust and contracts, two interesting findings emerge. First, it seems that an inverted relation exists between the perceived level of trustworthiness of the partner and the emphasis on contracts (firm #5, #11, #8, #13, #14, #17). For instance firm #13 underlines that its goodwill-, competence- and calculative trust levels are high enough to participate in the hybrid without having signed any cooperation agreement, while its partner company collects and controls all revenue. Secondly, since many firms lack the resources to go to court, contractual agreements rely on a certain level of trust between partners as well. High levels of trust secure that in case of problems firms will have less difficulty in coming to a mutually respected solution with the contract functioning as guidance (firm #1, #3, #5, #4, #8, #13). When conflicts can be mitigated on the basis of trust instead of diving into the details of the contract significant negotiation costs can be saved. In short, high levels of trust can be a sufficient condition for controlling hybrid relations, while contractual agreements generally need to be complemented by some level of trust to function effectively.

Summary

The inverted relationship between trust and perception of risk, suggested by TCE theory, is confirmed by fourteen interviewees for both goodwill- and competence trust. The interviews also reveal a positive relationship between asset specificity, frequency and uncertainty to the perception of risks. Asset specificity increases financial risk and a larger time horizon of the hybrid brings about an increase in frequency and more uncertainty; all leading to more need for control. Appropriability was not mentioned in the interviews. A possible explanation is that as firms are motivated to share information and skills, they worry less about creative ideas flowing back to the partners in the hybrid.

It is found that social- as well as calculative drivers increase the initial perception and development of trust in the EDM event industry. When initial trust is high and transaction attributes are low, perception of risk can be low enough for firms to set-up a hybrid organization relying purely on trust as governance structure. The caveat here is that experience, or professionalism, of a firm can have an influence on how it perceives risks and weighs different levels of trust in the hybrid organization.

With respect to transaction cost management within the hybrid organization, the interviews in this study indicate that trust is the most important governance mechanism of hybrid organizations in the EDM event industry. Trust can even be *sufficient* as governance mechanism. Contracts and equity joint ventures become important as the amount invested is larger or the time horizon of the hybrid is longer. Central governance bodies mainly play a role in hybrid organizations with multiple partners. The high velocity characteristic of the EDM event industry causes firms to rely proportionally more on trust as governance mechanism because practical organisational aspects of the event often have priority over drafting contractual agreements between partners in the hybrid.

6. Conclusions

In today's economy all sorts of hybrid organizations can be distinguished as alternative ways of organizing activities through arms-length market transactions or within the hierarchy of the firm. Hybrid forms of industrial organization entail all inter-firm cooperation in which property rights remain distinct, while a subset of resources and decision making is shared. The case study analysis of this paper, using semi-structured in-depth interviews, shows that the rationale behind choosing hybrid forms of organization in the Dutch EDM event industry, is, to a large extent, to reduce transaction costs. Although our methodology of data analysis has a qualitative nature and does not allow formal hypothesis testing, it provides a more broader view on the various reasons to go hybrid, than a full fledged quantitative analysis would do.

The focus of our research is on the arguments that transaction costs economics (TCE) give to select the way of cooperation between partners organising EDM events at lowest possible costs. Yet, in the academic literature the resource-based view (RBV) is put forward as alternative to TCE to explain the organizational strategy. The empirical findings show TCE considerations as well as RBV motives are important, indicating that neither theory fully grasps the rationale behind the formation of horizontal hybrids. However, long run arguments for strategic decision based on RBV can often also be explained as a way to reduce transaction costs on the long run. There can be a trade-off between saving on costs in the short run and being at risk to encounter larger costs in the long run. In this respect the interviewees mention that their strategic decisions in organising EDM events take into account both short-term transaction cost savings and long-term transaction cost advantages.

Short-term transaction costs motivations are sharing financial risk, sharing visitor communities and marketing channels and leveraging investment opportunities. These three factors lead to a decrease of, respectively, asset specificity, uncertainty and transaction costs of capital funding. Short-term resource-based motivations are sharing workforce and utilization of partners' production strengths. A firm's personnel and production strength are heterogeneous and immobile resources which produce cost-savings in the organization of an EDM event. Lastly, economies of scale reduce the relative cost of producing an event.

Participants named four transaction cost motivations which enhance long-term competitive advantage: (i) extending business network, (ii) sharing supplier information, (iii) sharing market information and (iv) extending the visitor community. Here a hybrid performs better than on the one hand in-house development which entails considerable time and expenses and on the other hand acquisition through the market which is not feasible due to the high intangibility of these assets. By participating in a hybrid setting firms are able to gain crucial information and extend their networks at the expense of incurring only low transaction costs, which improves the long term efficiency and effectiveness of the firm. Long-term resourced-based motivations are learning from partner's unique capabilities, sharing creativity and sharing reputation. In addition, a subset of firms in the EDM event industry finds intrinsic value in cooperation in a hybrid setting.

When being part of a hybrid, firms face interdependencies towards each other which lead to organizational transaction costs. These costs include all time and expenses spend on negotiating, communicating, dispute solving, and controlling relational risks. Traditional transaction cost theory asserts the use of either contracts or hierarchical control to govern risk induced by transactional attributes. In the EDM event industry this presumption holds. Asset specificity increases financial risk and a long-term time horizon for the business tends to increase event frequency and production uncertainty; all leading to more need for control either through contractual agreements or equity joint ventures. Central governance bodies play a role in efficiently managing cooperation of hybrid organizations with multiple partners, thereby reducing organizational transaction cost. Asset specificity also plays a major role in organising EDM events as these events have the character of experiences. Organisers make ample use of social media to provide information on these experience, which proves a neat way to minimise advertisement costs as part of transaction costs.

However, it can be concluded that trust plays a most prominent role in governing hybrid organizations in the EDM event industry. Eight out of fourteen interviewees in this study value trust as more important than contracts for controlling their hybrid relationships. Another four interviewees assess trust as equally important to contractual agreements. Trust has a reciprocal effect on perception of risk, therefore decreasing the need for comprehensive contracts or hierarchical control. Moreover, different types of trust can be *sufficient* as governance mechanism.

In summary, this study has expounded the ways in which firms can benefit from participating in hybrid organizations. However, these benefits can only be (fully) reaped if firms are able to effectively manage internal transaction costs. In this respect entrepreneurs possess a diversified set of tools, but the true challenge lies in balancing the trust mechanism with more comprehensive governance mechanisms. It makes transaction cost management a central part of business conduct, especially in the EDM event industry.

Scope for further research

This study of the EDM event industry shows that transaction cost management plays an important role in the success of businesses in this industry. Our qualitative and explorative research strategy has yielded a detailed story of the key concepts, drivers and associations of hybrid formation and governance in the EDM event industry. Further research could quantitatively test the significance and strength of these relationships with the aim to translate the arguments of this study on hybrid transaction cost management into an empirically tested model. However, no survey of firms in the Dutch EDM industry exists, which has been a great impediment to the effectiveness of this study. Therefore, a question for future research is what lessons for other parts of the creative industries, and more in general, for the organisation of experiences, can be learned from our TCE perspective on going hybrid. In that case, further research should look for creative or non-creative sector industries of which such extensive firm data do exist.

Furthermore, all interviewed participants in this study indicated to a greater or lesser extent the influence of experience and professionalism on the motivations to form a hybrid organization, but even more so on the perceived risk and the governance structure used. Designing a study specifically focused on the difference between start-ups and established firms may yield interesting findings in the effects of maturity on cooperation and transaction cost management in rapidly developing industries.

References

Barney, J.B. and D.N. Clark (2007), *Resource-Based Theory: Creating and Sustaining Competitive Advantage*, New York: Oxford University Press.

Barringer, B.R. and J.S. Harrison (2000), Walking a Tightrope: Creating Value Through Interorganizational Relationships, *Journal of Management*, Vol. 26 (3), pp. 367-403.

Blokland, E. (2014), Goodwill and Transaction Costs, in F.A.G. den Butter and H.L.F. de Groot (eds.) *Managing Transaction Costs in Hybrid Forms of Organization*, Stichting Transactieland.nl, The Hague, forthcoming.

Boschma, R.A. and J.G. Lambooy (2002), Knowlegde, Market Structure and Economic Coordination: Dynamics of Industrial Districts, *Growth and Change*, Vol. 33 (3), pp. 291-311.

Bruce, K. and J. Jordan (2007), Between Markets and Hierarchies: Towards a Better Taxonomy of Hybrid Organizational Forms, *Technology Analysis and Strategic Management*, Vol. 19 (1), pp. 7-16.

Bryman, A. (2012), *Social Research Methods*, 4th edition, New York: Oxford University Press.

Candi, M., Beltagui, A. and C.K.H. Riedel (2013), Innovation through Experience Staging: Motives and Outcomes, *Journal of Product Innovation Management*, Vol. 30 (2), pp. 279-297.

Chen, H. and T.-J. Chen (2002), Asymmetric Strategic Alliances: A Network View, *Journal of Business Research*, Vol. 55 (12), pp. 1007-1013.

Ciborra, C.C. and M.H. Olsen (1988), Encountering Electronic Work Groups: a Transaction Costs Perspective, *Information Technology and People*, Vol. 4 (4), pp. 285-298.

Coase, R.H. (1937), The Nature of the Firm, *Economica*, Vol. 4 (16), pp. 386-405.

Covaleski, M. A., Dirsmith M. W. and S. Samuel (2003), Changes in the Institutional Environment and the Institutions of Govervance: Extending the Contributions of Transaction Cost Economics within the Management Control Literature, *Accounting Organizations and Society*, Vol. 28 (5), pp. 417-441.

Das, T.K. and B.-S. Teng (2000), A Resource Based Theory of Strategic Alliances, *Journal of Management*, Vol. 26 (1), pp. 31-61.

Das, T.K. and B.-S. Teng (2001), Trust, Control, and Risk in Strategic Alliances: An Integrated Framework, *Organization Studies*, Vol. 22 (2), pp. 251-283.

Den Butter, F.A.G. (2012), *Managing Transaction Costs in the Era of Globalization*, Advances in New Institutional Analysis Series, Edward Elgar Pub.

Den Butter, F.A.G. and K.A. Linse, (2008), Rethinking procurement in the era of globalization, *MIT Sloan Management Review*, fall 2008, Vol 50 (1), pp. 76-80.

Den Butter, F.A.G., Liu J. and Y.-H. Tan (2012), Using IT to Engender Trust in Government-to-Business Relationships: The Authorized Economic Operator (AEO) as an Example, *Government Information Quarterly*, Vol. 29 (2), pp. 261-274.

Den Butter, F.A.G. and S. ten Wolde (2013), Borging van het Publiek Belang in Samenwerkingsverbanden: de Rol van Intermediairs bij de Verlaging van de Implementatiekosten van Overheidsbeleid, *Beleid en Maatschappij*, Vol. 40 (3), pp. 232-250.

Ding, Q., Akoorie, M.E.M. and K. Pavlofich (2009), A Critical Review of Three Theoretical Approaches on Knowledge Transfer in Cooperative Alliances, *International Journal of Business and Management*, vol. 4 (1), pp. 47-55.

DJ Mag (2013), *Top 100 DJ's* [online]. http://www.djmag.nl/dj/top-100-djs [cited on 14-11-2013]

Eisenhardt, K.M. and C.B. Schoonhoven (1996), Resource-based View of Strategic Alliance Formation: Strategic and Social Effects in Entrepreneurial Firm, *Organization Science*, Vol. 7 (2), pp. 136-150.

EVAR advisory services (2012), *Dance-onomics: the Economic Significance of EDM for the Netherlands*, Hoofddorp, The Netherlands.

EVAR Advisory Services (2013), *Global EDM Industry Worth Over US$5.7bn Annually*, ANP Pers Support [online]. http://www.perssupport.nl/apssite/persberichten/full/2013/10/17/Global+EDM+industry+worth+over+US$57bn+annually [cited on 17-10-2013]

Foss, N.J. and C.A. Koch (1996), Opportunism, Organizational Economics and the Network Approach, *Scandinavian Journal of Management*, Vol. 12 (2), pp. 189-205.

Greif, A. (2000), The Fundamental Problem of Exchange: a Research Agenda in Historical Institutional Analysis, *European Review of Economic History*, Vol. 4 (3), pp. 251-284.

Gulati, R. and H. Singh (1998), The Architecture of Cooperation: Managing Coordination Costs and Appropriation Concerns in Strategic Alliances, *Administrative Science Quarterly*, Vol. 43 (4), pp. 781-814.

Hanna, V. and K. Walsch (2008), Interfirm Cooperation among Small Manufacturing Firms, *International Small Business Journal*, Vol. 26 (3), pp. 229-321.

Hess, S., Lind, L.W. and S. Liang (2012), Farmers' Perceived Transaction Costs in Relation to Slaughterhouses of Different Ownership Structure, *Agribusiness*, Vol. 29 (1), pp. 1-16.

Jolink, A. and E. Niesten (2012), Recent Qualitative Advances on Hybrid Organizations: Taking Stock, Looking Ahead, *Scandinavian Journal of Management*, Vol. 28 (2), pp. 1149-1161.

Judge, W. Q. and R. Dooley (2006), Strategic Alliance Outcomes: a Transaction-Cost Economics Perspective, *British Journal of Management*, Vol. 17 (1), pp. 23-37.

Kogut, B. (1988), Joint Ventures: Theoretical and Empirical Perspectives, *Strategic Management Journal*, Vol. 9 (4), pp. 319-332.

Kong, X. (2011), Why are Social Network Transactions Important: Evidence Based on the Concentration of Key Suppliers and Customers in China, *China Journal of Accounting Research*, Vol. 4 (3), pp. 121-133.

Langfield-Smith, K. (2008), The Relations Between Transactional Characteristics, Trust and Risk in the Start-Up Phase of Collaborative Alliance, *Management Accounting Research*, Vol. 19 (4), pp. 344-364.

Lo Nigro, G. and L. Abbate (2011), Risk Assessment and Profit Sharing in Business Networks, *International Journal of Production Economics*, Vol. 131 (1), pp. 234-241.

Madhok, A. (2002), Reassessing the Fundamentals and Beyond: Ronald Coase, the Transaction Cost and Resource-Based Theories of the Firm and the Institutional Structure of Production, *Strategic Management Journal*, Vol. 23 (6), pp. 535-550.

McAllister, D. J. (1995), Affect- and Cognition-Based Trust as Foundations of Interpersonal Cooperation in Organizations, *Academy of Management Review*, Vol. 23, pp. 473-490.

Ménard, C. (2005), A new institutional approach to organisation, Ch. 12, in C. Ménard and M.M. Shirley (eds.), *Handbook of New Institutional Economics*, Berlin: Springer, pp. 281-318.

Ménard, C. (2010), Hybrid Modes of Organization: Alliances, Joint Ventures, Networks, and Other 'Strange' Animals, in R. Gibbons and J. Roberts (eds), *Handbook of Organizational Economics, Princeton*: Princeton University Press, pp. 1066-1108.

Ménard, C. and M.M. Shirley (2005), *Handbook of New Institutional Economics*, New York: Springer.

Möller, K. and S. Svahn (2006), Role of Knowledge in the Value Creation in Business Nets, *Journal of Management Studies*, Vol. 43 (5), pp. 985-1007.

Nooteboom, B. (1996), Trust, Opportunism, and Governance: A Process and Control Model, *Organization Studies*, Vol. 17 (6), pp. 985-1010.

Oxley, J. (1997), Appropriability Hazards and Governance in Strategic Alliances: a Transaction Cost Approach, Journal of Law, *Economics, and Organization*, Vol. 13(2), pp. 387-409.

Pavlovich, K. and M. Akoorie (2003), *Strategic Alliances and Collaborative Partnership: A Case Book*, Palmerston North: Dunmore Press.

Penrose, E.T. (1959), *The Theory of the Growth of the Firm*, New York: Wiley.

Pine, J.B. and J.M. Gilmore (1998), Welcome to the Experience Economy, *Harvard Business Review*, July-August, pp. 97-103.

Rangan, S., R. Samii and L.N. van Wassenhove (2006), Constructive Partnerships: When Alliances between Private Firms and Public Actors Can Enables Creative Strategies, The *Academy of Management Review*, Vol. 31 (3), pp. 738-751.

Rindfleisch, A. and J.B. Heide (1997), Transaction Cost Analysis: Past, Present, and Future Applications, Journal of Marketing, Vol. 61 (4), pp. 30-54.

Ryan, R. and E. L. Deci (2000), Intrinsic and Extrinsic Motivations: Classic Definitions and New Directions, *Contemporary Educational Psychology*, Vol. 25 (1), pp. 54-67.

Tallman, S. and A.S. Chacar (2011), Communities, Alliances, Networks and Knowledge in Multinational Firms: a Micro-Analytic Framework, *Journal of International Management*, Vol. 17 (3), pp. 201-210.

Thorelli, H.B. (1986), Networks: Between Markets and Hierarchies, *Strategic Management Journal*, Vol. 7 (1), pp. 37-51.

Tirole, J. and R. Bénabou (2003), Intrinsic and Extrinsic Motivation, *Review of Economic Studies*, Vol. 70, pp. 489-520.

Trkman, P. and K.C. Desouza (2012), Knowlegde Risks in Organizational Networks: an Explorative Framework, *Journal of Strategic Information Systems*, Vol. 21 (1), pp. 1-17.

Van Veen, G. (2013), *Mary Go Wild: 25 Jaar Dance in Nederland*, Uitgeverij Maslow.

Van Terphoven, A. (2012), Zijn er teveel festivals in Nederland, *DJbroadcas*t [online]. http://www.djbroadcast.nl/features/featureitem_id=1789/Zijn_er_te_veel_festivals_in_Nederland.html [cited on 8-11-2013]

Wernefelt, B. (1984), A Resource-Based View of the Firm, *Strategic Management Journal*, Vol. 5 (2), pp. 171-180.

Williamson, O. E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press.

Williamson, O. E. (1985), *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, New York: Free Press.

Williamson, O. E. (1993), Calculativeness, Trust, and Economic Organization, *Journal of Law and Economics*, Vol. 36 (1), pp. 453-486.

Williamson, O. E. (2010), Transaction Cost Economics: the Natural Progression, *American Economic Review*, Vol. 100(3), pp. 673-690.

Yang, C., Wacker, J.G. and C. Sheu (2011), What Makes Outsourcing Effective: A Transaction Economics Analysis, *International Journal of Production Research*, Vol. 50 (16), pp. 4462-4476.

Zomerdijk, L.G. and C.A. Voss (2011), NSD Processes and Practices in Experiential Services, *Journal of Product Innovation Management*, Vol. 28(1), pp. 63-80.