Housing Co-operatives’ Networks in Germany – Performance Enhancing through Hybrid Forms of Organization

Markus Mändle and Ina Wagner
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ABOUT THIS PAPER

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Housing Co-operatives’ Networks in Germany – Performance Enhancing through Hybrid Forms of Organization\(^1\)

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Housing co-operatives are an important supplier of housing in Germany. It can be noted recently that these medium-sized companies owned by private members enforce networking in the form of inter-corporate cooperation with the objective of enhancing their performance. Unlike in banking – where co-operative alliances result usually in an hierarchic form of unified governance caused by mergers – this is not common in the German housing industry. Housing co-operatives rather try to retain their independence by using networks as hybrid forms of organization for creating a surplus on their “member value”. This paper discusses the question which form of organization could be an appropriate way for enhancing housing co-operatives’ performance. Several factors are deducted which can be considered to determine appropriate forms of cooperation.

Keywords: housing co-operatives; networks; organization theory.

1 Hybrid Networking

Inter-corporate cooperation is a common phenomenon within the co-operative sector in Germany. Particular examples are co-operative banking associations. Recently a high number of horizontal mergers could be observed where primarily small-sized Volks- and Raiffeisenbanken gained a much larger scale. In the course of these mergers

\(^1\) We like to thank Iris Beuerle, Hanns Hub, Klaus-Dieter Kadner, Gerhard Licht, Siegfried Lorenz and Gisela Francis Vogt for their constructive comments and suggestions.

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considerable economies of scale and scope were realized. When economies of scale are realized there is a cost depression of the average costs \( AC \) due to an extended output quantity \( q \) up to the minimum optimal scale \( MOS \).

\[
\text{FIGURE 1. Economies of scale.}
\]

Economies of scope, however, emerge from synergetic effects that occur when the production of two different products \( a \) and \( b \) in a diversified firm causes lower costs \( c \) than the production in two different one-product-firms:

\[
c(a, b) < c_1(a) + c_2(b).\]

The realization of economies of scale and scope in the banking sector usually takes place via mergers – i.e. in an hierarchic form of unified governance. This applies due to the specific production structure of this industry. Without doubt, economies of scale and scope can resulting from mergers also be realized in the housing industry. However, in housing these cost advantages are often not sufficient to force a merger, i.e. it is possible that also relatively small-sized housing companies act cost efficiently and successfully on their local markets. The relatively small MOS of housing companies in relation to the market volume facilitates in many cases polyplontic market structures and offers each housing company the possibility to compensate dis-

\[3\] The organization of banking operation processes, like e.g. payment transactions, usually causes a considerable amount of fixed costs \( F \) – given a cost function of the type \( c(q) = c_v(q) + F \) – which leads, on a larger production scale, mainly due to the depression of the average fixed costs \( AFC = F/q \) to an appreciable amount of economies of scale. Economies of scope resulting from mergers, for example, emerge from the fact that the unified banking association no longer needs two different administration departments (like marketing etc.) within a single firm.
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economies of scale by different kinds of business cooperations whilst at the same time maintaining their entrepreneurial autonomy.

A business cooperation is defined as a voluntarily and contractually regulated form of cooperation between legally and economically independent housing companies with the objective of enhancing their performance (see Mändle 1997, p. 507; Bach and Mändle 2008, p. 619). It can be characterized as a housing co-operative cooperation if at least one of the partners is a housing co-operative (see Schlelein 2007, p. 51). A characteristic feature of a business cooperation is the fact that apart from only one or few operational fields for which the management gives up its responsibility, the company retains full autonomy. Of course, business cooperations assume to some degree a coordinated market behavior. Consequently they always include a certain form of cartelization. However, unlike the cartel, the main concern of a business cooperation is enhancing performance, not the restraint of competition.4

From the perspective of Institutional Economics business cooperations can be considered as hybrid forms of organization combining market-specific and hierarchic elements. Therefore organizations can be classified in a continuum where we have (non-hierarchic) market control on the one end and hierarchic forms of unified governance on the other. Intermediate we have hybrid forms of cooperations from loose collaborations to complex organizations like networks, cooperatives, franchise-organizations or joint ventures.

![Figure 2. Forms of Organization](image-url)

4 Nevertheless it can not be generally said what consequence for competition a certain business cooperation actually has. This has to be verified in each individual case.

5 Based on Sydow (1992), p. 102.
In this regard a housing co-operative cooperation regularly can be categorized as an *inter-corporate network*. Inter-corporate networks are a form of organization of economic activity that aims to realize competitive advantage by using complex-reciprocals, more cooperative than competitive and relatively stable relationships between legally independent, but partly economically dependent corporations (see Sydow 1992, p. 79). Networks represent decentral, specialized and ‘lean’ forms of organization in which internal relations are characterized by a large extend of autonomy and a high degree of trust as well as partner-like relationships (see Sydow 1995, p. 629; Wieg 2007, p. 492).

Networks therefore have the ability to use simultaneously the advantages of an integrated large-scaled firm (economies of scale and scope, but also transaction cost economies)\(^6\) and the advantages of a small-scaled firm (flexibility, specialization). At the same time they avoid the disadvantages of organizations with a large scale structure (dis-economies of scale). Often there is no superior authority in the network, so usually hierarchic forms of coordination (like orders or directives) are distinctly weaker than within traditionally functional organizations.

Generally networks can be classified according to their governance structure (hierarchic vs. heterarchic) and their stability in time (stable vs. dynamic) (see Sydow 2006, p. 393 ff.). Also strategic and regional networks – respectively hierarchic-pyramidal vs. polycentric versions – as well as networks with project attributes (e.g. time-limitation) can be differentiated.\(^7\) According to this typology housing co-operative cooperations typically are *regional networks* with a *polycentric structure*.\(^8\) This type of network can especially be found in the cooperation of similarly structured corporations which are at the same level of the economic process. The coordination within the network is carried out by negotiations and ballots, not by directives. In today’s world apparently the characteristics of networks are of particular significance as they are able to disseminate environmental changes within an economic organization by developing adequate and efficient solution statements (see Picot, Reichwald and Wigand 1998, pp. 2).

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\(^6\) Transaction cost economies mainly result from *institutionalized trust*, which means that a contractual partner can reasonably trust in being protected from opportunism by the governance structure of the institution (e.g. contract, market, firm etc.). According to Williamson (1975, 1985) the general determinants of transaction costs are specificity, uncertainty, frequency, bounded rationality and opportunistic behaviour.

\(^7\) See Wieg (2007), pp. 494 for a survey. Regarding the characteristics of *strategic networks* – they are usually led by a ‘hub firm’ – see Macharzina (1999), pp. 374, referring to Miles and Snow (1986), pp. 64.

\(^8\) There are exceptions, of course, like e.g. the nationwide acting ‘Marketinginitiative der Wohnungsbaugenossenschaften Deutschland e.V.’, which, in fact, is consisting of various regional networks.
2 Types of Networks

With respect to the organizational implementation of the housing co-operatives’ cooperation different types of inter-corporate networks can be differentiated:

2.1 Horizontal Cooperation

A horizontal cooperation is defined as an amalgamation of legally independent economic units acting on the same level of the economic process (see Schmidt 2001, p. 138; Mändle 1997, p. 502; Klein 2001, pp. 86; Bach and Mändle 2008, p. 620). Here at least one of the cooperation partners – however in most cases all of them – is a housing co-operative. In practice, different kinds of institutionalization have emerged:

– A working group is an inter-corporate network where the cooperating firms collaborate basically in a varied range of topics. The degree of formalization and institutionalization in this type of organization is usually rather low. The spectrum ranges from informal to formal-institutionalized agreements on special issues which normally hardly restrict the entrepreneurial autonomy of the cooperation partners.\(^9\)

– Some housing corporations collaborate in a project-cooperation to achieve performance enhancement in a topic-oriented or project-specific way. Quite often the partners recruit themselves from a working group as a basic network. Project-cooperations occasionally have an ac hoc-character. They can a priori be conceived as being limited in time. The degree of formalization and institutionalization varies – according to the type of project concerned – from an informal collaboration to a precisely formalized coordination of project-relevant topics.\(^10\)

– Rather uncommon are horizontal inter-corporate networks in the form of a strategic alliance. Strategic alliances are a collaboration of two or more legally autonomous housing corporations trying to team-up in certain business areas to unify their business excellence. This kind of network requires a much stronger abandonment of autonomy and self-government than the other forms of horizon-

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\(^9\) Typical examples of working groups are the local ‘Arbeitsgemeinschaften’ of housing co-operatives (Hamburg, Stuttgart etc.). See for instance regarding the Hamburger Arbeitskreis http://www.hamburgerwohohline.de.

\(^10\) For example, the marketing initiative of local housing co-operatives can be considered as a project-cooperation. See Kadner (2009), pp. 107, for the Stuttgart case. See also http://www.wohnen-aber-besser.de. The ‘projects’ therefore can also have a latent i.e. a continuing character.
tal cooperation. Therefore the degree of formalization and institutionalization is relatively high. With respect to the relatively high setup-costs strategic alliances mostly are aligned for a longer time period.\footnote{The setup-costs are ‘sunk costs’ and appear therefore as barriers to exit. An interesting example of a strategic alliance of three housing co-operatives is the cooperation “WohnPlus3” in Hamburg. See \url{http://www.wohnplus3.de}.}

### 2.2 Vertical Cooperation

A \textit{vertical cooperation} is defined as an amalgamation of a housing co-operative (respectively of multiple horizontally-cooperating housing corporations) with an economic unit acting on a higher or lower level of the economic process (see Schmidt 2001, pp. 139; Mändle 1997, p. 502; Bach and Mändle 2008, p. 620). For example, housing co-operatives can team-up with a certain architect, builder or developer to permanently handle the co-operatives’ entire construction planning. Due to the fact that – similarly to the strategic alliance – the specificities (which synonymously means the quasi-rents) are usually of considerable relevance, the degree of formalization and institutionalization will also here be rather high. Taking these organization costs into account, vertical cooperations offer the possibility to achieve long-term transaction cost economies.\footnote{Other strategic objectives that are usually combined with vertical cooperations – like the protection of acquisition- or distribution channels or the obstruction of competitors – shouldn’t be relevant in the case of housing co-operatives’ vertical cooperations.}

### 2.3 Conglomerate Cooperation

A \textit{conglomerate cooperation} is defined as an amalgamation of a housing co-operative (respectively of multiple horizontally-cooperating housing corporations) with an economic unit that is neither acting on the same level (horizontal) nor on a higher or lower level (vertical) of the economic process (see Schmidt 2001, pp. 140; Mändle 1997, pp. 502; Bach and Mändle 2008, p. 620). Conglomerate cooperations often refer to external service providers through which the performance of the co-operative – and consequently their ‘member value’ – can be enhanced systematically. Such cooperations can, for example, be arranged with a social-service provider (home care), removal-firms, craftsmen (repair and renovation), with an energy supplier or even with a financial service provider.\footnote{A cooperation model of 11 housing co-operatives in Stuttgart cooperating with a social-service provider is described by Schäfer (2009), pp. 115. Moreover, a remarkable example of a conglomerate cooperation is the collaboration between the...}
The specificities (quasi-rents) of a conglomerate cooperation usually also will be of considerable significance. So generally the degree of formalization and institutionalization will be rather high. Moreover, the immanent foreignness of the conglomerate-partners should also cause ceteris paribus high ex ante-transaction costs. On the other hand, conglomerate cooperations also provide an attractive opportunity to develop products and services creating a noticeable surplus regarding the member value.

If in a vertical or conglomerate cooperation the cooperation-partner is also a co-operative (e.g. a co-operative of architects, a social-service provider co-operative, an energy supplier co-operative or a co-operative banking association) we could speak of an external co-operative cooperation.

3 Evaluation

Depending on the situation, the cooperation-partners will choose different kinds of institutionalization. If there are eminent specificities (quasi-rents) at stake, institutional protection against opportunistic behaviour will become most relevant. Cooperations of lower relevance, however, often possess flexible adaptabilities. In extreme cases it is even possible to completely refrain from formal contracts by simply using oral gentleman’s agreements. Written contracts, equity-cooperations or joint ventures, though, represent more formalized agreements.\textsuperscript{14}

Transaction cost theory suggest however that none of these institutional solutions are for free: A higher degree of institutionalization (formalization) means ceteris paribus higher ex ante-transaction costs. On the other hand, concerted strict rules usually lead to lower ex post-transaction costs. In addition a higher degree of institutionalization generally leads to higher exit-costs of the cooperation.

As we know, a distinct form of trust in the partner’s behaviour can replace institutional protection against opportunism in a certain way and be regarded as a (low cost) substitute for safeguards. However, in this regard it must be pointed out that the decision to grant trust always bears the risk of being disappointed with the consequence of an

\textsuperscript{14} Actually housing co-operative cooperations mostly use written contracts (64 \%) and oral agreements (50.4 \%). 53.7 \% of the cooperation-partners that use oral agreements use written contracts as well; only 23 \% use oral agreements exclusively. Rather complex forms of organization, like equity-cooperations or joint ventures, are quite rare. See Schlelein (2007), pp. 152.
economic loss (see Picot, Reichwald and Wigand 1998, p. 124). The governance structure of housing co-operatives’ networks can – in terms of Williamson (1975, 1985) – be typically regarded as relational contracting. Therefore it should be considered that, in contrast to the (more hierarchic) relational contracting governance structure of a cooperative, the inter-corporate networks’ governance structure does not per se create institutionalized trust due to a lack of immanent sanction-mechanisms. Because of this, in practice, ex ante-activities of safeguarding – like the selection of an adequate partner or the a priori-commitment of clear objectives – are considered as most important success factors (see Schlelein 2007, pp. 207).

The effect of safeguards (like the commitment to strict rules, the use of reputation as ‘hostage’ etc.) is, eventually, a stabilization of the cooperation. However, there is always a trade-off between stability and flexibility of the coalition (see Theurl and Schweinsberg 2004, pp. 20). So the cooperation can only be successful if there is a delicate balance between stability and flexibility, giving the partners on the one hand adequate security and on the other hand the advantages of flexibility (see Das and Teng 2000, pp. 86).

Regarding the size of the coalition-group bi-, tri- or multilateral relationships can be found (see Schlelein 2007, pp. 158). Here it can be observed that smaller groups are generally effective when there is a need for an intensive (economic) teamwork or a trustful relationship. In this context excludability is of particular relevance: Is it possible to exclude outsiders from the cooperations’ benefits (e.g. by the collective purchase of software), smaller coalition-groups trend to be efficient because the benefits only have to be shared between the contributors. If on the other hand, however, outsiders can not be excluded from using the cooperations’ benefits (e.g. in a general image-campaign for housing co-operatives) there is the danger of free rider-behaviour. A solution to the free rider-problem could – at least to a certain degree – be achieved by selective incentives. In the case of free rider-problems, the coalition-group should reasonably not be laid out as a closed-shop.

According to the study of Schlelein (2007) housing co-operatives prefer to collaborate with other housing co-operatives, mostly in the areas marketing and sales. Consequentially horizontal cooperations are

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16 The ‘Marketinginitiative der Wohnungsbürgernossenschaften Deutschland e.V.’ adopts for example the method of selective incentives by giving only members the right to use the popular logo of the campaign (‘Bauklötzen-Logo’).

17 62.8 % of the cooperation-partners are housing co-operatives as well. They’re followed by other housing corporations (23.9 %), Non-Profit-Organizations (23 %),
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currently the most significant type of collaboration found in practice. This can be explained by the reciprocal awareness of the local cooperation-partners and the noticeable synergies that generally can be created between firms acting on the same level of the economic process.

In this respect working groups as well as project-cooperations are rather open networks with mostly large (multilateral) coalition-groups. The performance-enhancing aspect of these networks lies within clear synergetic effects – often regarding aspects which are appealing to the public (like marketing etc.) – that usually can be created by a lower degree of formalization. Hereby, a project-cooperation can be more efficient by resorting to a working group as a basic network. When public goods are produced, occasionally free rider-problems occur. Then in addition to the adoption of selective incentives, promoters (highly committed people, e.g. outstanding managers of participating co-operatives) can be helpful to overcome the free rider problem and, at times a domino-effect resulting in participation can be achieved. If free rider-problems do occur, generally an open structure in participation is advisable.

Strategic alliances, however, appeal to a penetrative economic and managerial cooperation-activity. They try to enhance their performance by creating member value- and business administration-related synergies in various areas. Due to the considerable specificity of the investments – which often means ceteris paribus prohibitive high ex ante-transaction costs – strategic alliances will be small coalition-groups (mostly bi- or trilateral) with a high degree of institutionalization. Even strongly formalized structures like equity-cooperations or joint ventures could come into place (e.g. regarding building activities). In general strategic alliances have a remarkable potential in performance enhancement: On the one hand economic cooperation benefits can be created, almost as intensive as if it was a merger. On the other hand in this hybrid form or organization the cooperating co-operatives – unlike in a merger – retain generally their individuality and autonomy. But one problem remains: strategic alliances are nevertheless a form of relational contracting and not of unified governance. That should not be a problem as long as the formally equitable leaders of the cooperation (usually the managers of the participating co-operatives) have a high degree of reciprocal personal trust and agreement in nearly all areas of their managerial activities. Should that not be the case, there is no possibility of a standardized-control of the cooperation like in a unified form of governance (resulting from a

service providers (17.7 %) and public enterprises respectively municipalities (13.3 %) (multiple nominations were possible). See Schlelein (2007), pp. 90, 162.
merger). Ineffective high ex post-transaction costs or – in the worst case – the breakup of the cooperation could be the result.

In practice, the biggest growth of activities is expected in the field of service-providing (see Schlelein 2007, pp. 90). Therefore conglomerate cooperations will probably be more important in the future. They can be bi-, tri- or multilateral and they usually create a win-win situation for all participants. Conglomerate cooperations generally provide an excellent chance for systematically enhancing the housing cooperatives’ performance. Specificities and the immanent foreignness of the partners, however, usually cause high ex ante-transaction costs that, in some cases, might even be prohibitive. Here the finding of a delicate balance in drawing up the contract seems to be important.

With respect to conglomerate cooperations we also regard a perceivable and convincing synergy to the housing co-operatives’ field of activity (product-synergy) as being important for success. The surplus achieved should consequently match the housing co-operatives’ core-product – housing. This is, for example, truly the case regarding the cooperation with a social-service provider, a removal-firm or an energy supplier. The cooperation with a financial service provider, however, could involve the risk that the cooperations’ benefits were merely regarded as an activity of product selling. It would generally be favourable if the external cooperation-partner also had a cooperative nature. So far, these external co-operative cooperations are in practice indeed exceptional (see Schlelein 2007, p. 162). But they provide the opportunity to complement product-synergy by cooperative synergy (transaction cost economies emerging out of institutionalized trust in the general co-operative governance system). Additionally, in conglomerate cooperations also local synergies could be useful.

A synopsis of these different kinds of inter-corporate networks is shown in Figure 3.
<table>
<thead>
<tr>
<th><strong>Criterion</strong></th>
<th><strong>Working group/Project-cooperation</strong></th>
<th><strong>Strategic alliance</strong></th>
<th><strong>Conglomerate cooperation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of cooperation</td>
<td>horizontal</td>
<td>horizontal</td>
<td>conglomerate</td>
</tr>
<tr>
<td>Cooperation partners</td>
<td>housing co-operatives</td>
<td>housing co-operatives</td>
<td>housing co-operatives and external partners</td>
</tr>
<tr>
<td>Localization</td>
<td>regional</td>
<td>regional</td>
<td>regional</td>
</tr>
<tr>
<td>Number of participants</td>
<td>multilateral (mostly)</td>
<td>bi- or trilateral (mostly)</td>
<td>bi-, tri- or multilateral</td>
</tr>
<tr>
<td>Group of participants</td>
<td>rather open</td>
<td>closed</td>
<td>rather closed</td>
</tr>
<tr>
<td>Degree of formalization</td>
<td>working grp.: rather low</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Contract type ex ante-transaction costs (TC)</td>
<td>project-coop.: various oral or written contract</td>
<td>written contract</td>
<td>written contract</td>
</tr>
<tr>
<td></td>
<td>various</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td></td>
<td>various</td>
<td>various</td>
<td>rather low</td>
</tr>
<tr>
<td>Governance structure</td>
<td>relational contracting</td>
<td>relational contracting</td>
<td>relational contracting</td>
</tr>
<tr>
<td></td>
<td>heterarchic</td>
<td>heterarchic</td>
<td>heterarchic</td>
</tr>
<tr>
<td>Autonomy</td>
<td>marginally restricted</td>
<td>restricted</td>
<td>marginally restricted</td>
</tr>
<tr>
<td>Range of topics</td>
<td>working grp.: various</td>
<td>various</td>
<td>specific</td>
</tr>
<tr>
<td></td>
<td>project-coop.: specific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main advantages of cooperation</td>
<td>– economies of scope</td>
<td>– economies of scale and scope (intensive)</td>
<td>– win-win situation</td>
</tr>
<tr>
<td></td>
<td>– virtual scale</td>
<td>– additional benefits (surplus on member-value)</td>
<td>– additional benefits (surplus on member-value)</td>
</tr>
<tr>
<td></td>
<td>– organizational flexibility</td>
<td>– virtual scale</td>
<td>– virtual scale</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>– co-operative synergy (possible)</td>
</tr>
<tr>
<td>Main disadvantages of cooperation</td>
<td>– promoters are needed</td>
<td>high ex ante-TC</td>
<td>high ex ante-TC</td>
</tr>
<tr>
<td></td>
<td>– rather high ex post-TC (possible)</td>
<td>restricted autonomy</td>
<td>absence of product-synergy (possible)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>personal trust is required</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>high ex post-TC in clash-situations</td>
<td></td>
</tr>
<tr>
<td>Free rider-problem</td>
<td>possible</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Stability in time</td>
<td>working grp.: stable</td>
<td>stable</td>
<td>stable</td>
</tr>
<tr>
<td></td>
<td>project-coop.: various</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exit-costs/Binding effect</td>
<td>working grp.: low</td>
<td>high</td>
<td>various</td>
</tr>
<tr>
<td></td>
<td>project-coop.: various</td>
<td></td>
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</tbody>
</table>

4 Summary and Conclusions

Housing co-operatives’ cooperations regularly can be considered as being an inter-corporate network. Typically they are regional networks with a polycentric structure. With respect to the organizational implementation of the housing co-operatives’ network we differentiate between horizontal (working group, project-cooperation, strategic alliance), vertical and conglomerate forms of cooperation. Typically the governance structure of these inter-corporate networks can be regarded as relational contracting.

In practice, housing co-operatives prefer to collaborate horizontally, mainly related to the areas marketing and sales. It can be observed, however, that collaborations in the field of service-providing – i.e. generally conglomerate forms of cooperation – will become more important in the future.

We have seen no form of organization that can a priori be regarded as superior for enhancing the housing co-operatives’ performance. The adequateness of a certain form of organization depends on the characteristic features of each situation. Several factors determining an appropriate form of cooperation were discussed in Section 3. We deduced the nature of the product (private good – public good), the degree of institutionalization – depending on scale economies and, especially, on transaction cost economies, mainly influenced by specificities (quasi-rents) and trust – and, resulting from that, the finding of a delicate balance for the cooperations’ stability and flexibility as relevant factors that should be considered to determine an appropriate governance structure. Altogether, we assume that potential for development can be found especially in the area of conglomerate external co-operative cooperations.

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