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# Quasi Firms: Strategic Interorganizational Forms in the Health Care Industry

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*In response to significant political, governmental, and socioeconomic changes affecting the health care industry, health care organizations are forming a wide variety of loosely coupled interorganizational arrangements. In this article, loosely coupled forms are classified according to the extent to which they are designed to achieve strategic purposes. The quasi firm is defined as a loosely coupled arrangement created to achieve long-lasting and important strategic purposes. Mechanisms that are needed to ensure the continuity of quasi firms are explored, and an agenda for further research is given.*

Significant political, socioeconomic, and governmental changes are causing health care organizations to reconfigure and restructure in innovative ways. Some health care organizations have merged with others into tight bureaucratic structures. Others have entered into more loosely coupled multiorganizational arrangements which, although created to function as interdependent wholes, maintain each organization's separate legal identity. These loosely coupled forms are linked in a number of ways, including by subcontracts, leases, interlocking boards, and marketing agreements. The loosely coupled interorganizational forms emerging in the health care industry resemble those commonly found in some industries (e.g., residential construction) and selectively employed in others (e.g., automobile manufacturing and petrochemicals).

In general, existing models of organizational structures inadequately capture the essence of

the interorganizational arrangements emerging in the health care and other industries. In this article, a scheme is set forth for classifying interorganizational forms and for identifying a particular type—the quasi firm—that is common in the health care industry. Some of the distinctive features of quasi firms, particularly those characteristics that may be observed in emerging health care quasi firms, are explored. Finally, avenues for further conceptual development and empirical exploration of quasi firms are suggested.

## **Strategic Purpose and the Emergence of Quasi Firms in Health Care**

Historically, informal organizational interdependencies have been a part of the health care delivery system. Health care treatment and patient care systems have required intricate refer-

ral and network arrangements to ensure continuity of care and coordination among hospitals, physicians, support services, third-party payers, and so forth, all of which perform different but interdependent tasks. Historically, organizational and service delivery systems have been designed so that the autonomy of these entities would be preserved.

Recent developments, in combination with the traditional determinants of interdependency among health care organizations, have led health care organizations to consider alternative approaches to achieving organizational consolidation. The passage of Medicare and Medicaid legislation in 1965, heightened market awareness and activity over the last decade on the part of the corporate purchasers of health insurance, and changes in market and financing mechanisms have, together, produced a series of strategic reactions on the part of health care and health insurance organizations. An important early response was the formation of multi-institutional systems in both the hospital and long-term care industries, a strategy driven by a perceived need to capture the operating, purchasing, and market economies attributable to larger organizational scale. This was complemented in more recent years by experimentation with diversification and vertical integration, the latter particularly between hospitals and health insurance companies (Brown & McCool, 1986; Shortell, Wickizer, & Wheeler, 1984).

As health care providers and their organizations have turned to more formally structured relationships, they have been forced to balance shared objectives against the need to preserve highly valued autonomies. This balance has been achieved through a variety of structural compromises, many of which can be described as loosely coupled interorganizational forms.

The diversity of loosely coupled interorganizational forms emerging in the health care field is enormous (D'Aunno & Zuckerman, 1987; Provan, 1984). The arrangements may link together individual health care providers, provider organizations, third-party payers, individual con-

sumers, and/or groups of consumers. These forms, often characterized using simple acronyms, include health maintenance organizations (HMOs), independent practice associations (IPAs), preferred provider organizations (PPOs), alternative health systems (AHSs), third-party associations (TPAs), and medical staff-hospital joint venture companies (MeSHs). Such acronyms, unfortunately, fail to give meaning to the complexity of the emerging health care organizations, and they complicate the search for a clear understanding of their unique organizational features (Luke, 1985).

There are a number of reasons why health care organizations combine into interorganizational arrangements. They may do so to achieve operational efficiencies, to capture the advantages of scale, to increase market share, or to segment the market (Ermann & Gabel, 1984). Perhaps most important are those loosely coupled arrangements that have been created for strategic purposes because these organizations have significantly influenced the competitive structures of both health care and health insurance markets (Arnould & DeBrock, 1986; Goldsmith, 1984). In effect, such loosely coupled organizations function as if they were *firms*; they jointly pursue common strategic objectives in response to market and other stimuli.

Loosely coupled interorganizational forms, many of which are designed for strategic purposes, have been increasingly noted in the literature. For example, Blois (1972, p. 253) discussed situations "where firms gain the advantage of vertical integration without assuming the risks of ownership." Porter (1980) described a series of relationships among independent organizations that are less formal than full ownership, but far more structured than would be found among organizations dealing in the market. Harrigan (1985a, 1985b) and Hayes and Abernathy (1980) noted examples where nonequity arrangements are employed to structure relationships among vertically connected organizations. Thorelli (1986, p. 36) discussed networks of organizations that are intermediate "in terms of

a spectrum of arrangements from loose to tight, from arm's length bargaining to total integration." Ouchi (1984) identified "M-form organizations" in which the formal and informal set of relationships between a group of interdependent firms takes on the characteristics of a clan. In the health care industry, Provan (1984, p. 503) described hospital consortia as "an intermediate step along the continuum ranging from total independence to being part of an owned system." Interestingly, most of these organizational forms have been created as strategic responses to changed market incentives, contingencies, and constraints. Also, most have been formed to serve market functions that are common among more tightly coupled firm structures.

A general concept that can be usefully applied to loosely coupled arrangements that are created to achieve shared strategic purposes was suggested by Eccles (1981a, 1981b) in his analysis of the residential construction industry. Eccles used the concept of the *quasi firm* to describe the relationship between a general contractor and independent subcontractors.

The quasi firm arises in residential construction because of a constellation of contextual and technological conditions, many of which parallel conditions in the health care industry. Home building is characterized by a specialized and autonomous group of workers (representing the various trades), a relatively high degree of task complexity and uncertainty (houses are custom designed and often modified as construction progresses), and site-boundedness (materials are used and work is performed at a specific location). The market for residential housing is primarily local/regional in character, very competitive, and subject to problems associated with increasing resource scarcity. As a result, the industry is comprised of relatively small general contracting firms that maintain a network of stable relationships with a variety of subcontractors. Because of such arrangements, general contractors are able to respond quickly to changing task demands and conditions. Sub-

contracting preserves the autonomy of skilled workers, a strong tradition in such trades as carpentry, masonry, plumbing, and electrical work. Eccles observed that such arrangements tend to be enduring because general contractors come to rely on particular subcontractors, and some maintain such relationships for years (and even decades).

Similarities exist between conditions in the health care and residential construction industries. Health care firms face growing competition, increasingly scarce resources, and high levels of market uncertainty. The provision of personal health care services is site bounded, and it is regional and local in character (Luke & Begun, 1987). The increasing complexity and specialization of technology has necessitated greater interdependence among organizations and professional groups in the production of health care. In addition, these organizations and groups (hospitals, physicians, insurance carriers, and long-term care facilities, to cite only a few examples) possess specialized expertise, differing objectives and value structures, and, traditionally, they have experienced high levels of autonomy.

Eccles' discussion of the quasi firm, although useful for conceptualizing one type of interorganizational arrangement, is limited in its consideration of the distinctions between quasi firms and other loosely coupled firms as well as between quasi firms and more tightly coupled firms. In particular, it does not directly explore the role of strategy in loosely coupled organizations. Therefore, a conceptual scheme that distinguishes among the great variety of interorganizational forms according to the purposes that bring participants together is needed.

## **Classifying Interorganizational Forms**

In order to differentiate interorganizational forms by the degree to which they function as firms, it is essential to distinguish quasi firms from more traditional firms by the *tightness of coupling* that binds collaborating organizations

together. Interorganizational relationships vary significantly by the degree to which interdependent organizations are loosely or tightly coupled (Weick, 1976). Within loosely coupled interorganizational forms there is a minimum of structuring, and common ownership of member organizations is rare. Tightly coupled forms, by contrast, are those in which member units are bound together using more formal structures, and often these include common ownership of those units.

However, going beyond this concept, it is important to consider the degree to which joined organizations serve strategic, versus other less strategic, purposes. Although there are many dimensions along which differences in purpose can be measured, two dimensions highlight the strategic aspects of purpose—the *importance* and *permanence* of a shared interorganizational purpose. First, interorganizational relationships can be differentiated according to how important collaboration is to the survival of each participating organization (Luke & Kurowski, 1983; Morrisey, 1982; Shirley, 1982; Van de Ven, 1976). Differences in importance discriminate between purposes that are strategic (involving high importance) and those that are not (low importance). What constitutes importance, of course, is likely to be highly susceptible to differential perceptions by each organization (as well as by individuals within each organization). A simple indicator of whether a collaborative relationship is important would be the amount of time devoted to building and maintaining collective relationships by the leaders of each collaborating organization. Certainly, an estimate of the financial or competitive impact (measured in terms of expected gains/losses in overall competitive advantage achieved by the collective or the participating organizations relative to their rivals) of a collective effort would be a more direct measure of strategic importance.

A second dimension of strategic purpose is the intended permanence of interorganizational linkages. In order to be truly strategic, a purpose

must have long-term reach. Short-term objectives (implying less permanent linkages) are, by definition, not strategic (Shirley, 1982). Relative to the importance dimension, the anticipated permanence of an interorganizational relationship should be relatively easy to establish. It should be noted, however, that permanence is a dimension of purpose but not of the interorganizational structure per se. The actual achievement of permanence depends on many factors, not the least of which is an intention for a relationship to be permanent.

In sum, intended permanence and perceived high importance constitute two necessary conditions for the purposes of interorganizational relationships to be strategic. Further, strategic purpose in combination with the tightness of interorganizational coupling are essential dimensions for differentiating among interorganizational forms that function as firms and those that do not. We have combined these two dimensions to form a classification of interorganizational relationships, which is depicted in Figure 1. The classification scheme also distinguishes the *quasi firm* from other loosely coupled interorganizational forms. As indicated in Figure 1, tightly coupled organizations are classified as either firms or “latent” firms, depending on the degree to which strategic purpose is primary in determining the firm’s viability. Latent firms include those tightly coupled organizations that, because of a lack of stimulation in the external environment (e.g., they are natural monopolies) or because of their distinctive, often governmental, roles in society, are not primarily driven by strategic purposes. This could include a number of organizational types, including, for example, large public utilities, the postal system, police systems, schools, park management organizations, and some other service organizations. (For a discussion of such organizational types as well as their unique behaviors, given their distinctive environmental circumstances, see Lawrence & Dyer, 1983.)

Similarly, loosely coupled organizations are

classified in Figure 1 as either quasi firms or networks, again depending on the degree to which strategic purposes are the basis of the collective effort. A network could be formed between any two or more organizations that collaborate on activities that are not sufficiently important or long term to be considered strategic. Likewise, a quasi firm could be formed when the purposes are more important to the collaborating organizations and are intended to be permanent.

Given the above, we can now define the quasi firm as a loosely coupled, enduring set of interorganizational relationships that are designed to achieve purposes of substantial importance to the viability of participating members. Such an arrangement effectively functions as a firm that is absent the characteristic of ownership and many formal administrative structures.

### Creating and Maintaining the Quasi Firm

The quasi firm represents a critically important category of interorganizational arrangements. The formation of a quasi firm, for example, may represent a viable alternative approach for entry into new markets. Quasi firms may well facilitate more rapid and less risky entry (and exit) than would acquisition or internal expansion strategies. This is true because only limited amounts of capital are required to establish quasi firms when compared to what would be needed if more tightly coupled structures

		TIGHTNESS OF COUPLING	
		High	Low
DEGREE OF STRATEGIC PURPOSE	High	Firm	QUASI FIRM
	Low	Latent Firm	Network

**Figure 1. The quasi firm as a specific form of loosely coupled interorganizational relationships characterized by high strategic purpose.**

would be created (either through acquisition or internal expansion). In the health care field, for example, a major commercial insurance company could, during a matter of months, establish the necessary contractual relationships with selected physicians and hospitals that would be needed to offer an HMO to a local market. Entry through acquisition would require immense amounts of capital, and it would entail enormous amounts of time to achieve agreement, assuming, of course, that local providers could be acquired. This may account for the growing popularity, on the part of commercial insurance companies (that are seeking entry into many markets) and many other health insurance or health delivery organizations, of PPO and IPA insurance/delivery modes over the more tightly coupled closed panel or group model HMOs.

Other possible strategic advantages of the quasi-firm configuration include efficiencies of increased scale and scope, increased market share, and gains in legitimacy for some participants. Many of the potential advantages of the quasi firm, however, may not be realized because of the strategic inflexibility inherent in the structure of the quasi firm (Bresser & Harl, 1986). The ability to maneuver quickly in response to environmental change requires that quasi firms establish long-run stability and appropriate mechanisms for decision making—operational issues to which we now turn.

### Stability of the Quasi Firm

The “firm” status of the quasi firm introduces a number of important consequences unlikely to be experienced by either the less strategically oriented, loosely coupled networks or the more bureaucratically structured firms. By sharing in the important and permanent strategic purposes of a quasi firm, participating organizations intertwine their individual destinies to such a degree that powerful forces endogenous to the quasi firm, either convergent or divergent, could seriously complicate attempts to reconcile conflicting objectives. Giddens (1979) suggested that

convergent and divergent forces are separate but complimentary determinants of a continual pattern of restructuring within organizations, and Fombrun (1986) explored the structural dynamics of such forces within and between organizations. Both recognized that organizational restructuring is an ongoing response to the diversity of forces for change. In quasi firms, such forces could, indeed, put into jeopardy the delicate balance inherent in their loosely coupled interorganizational structures.

Divergent forces are likely to be "explosive" within quasi firms because they have the potential to unravel the loose, and relatively unstable, structures of quasi firms. Individual organizational participants, for example, could hold vastly different assessments of the probable contribution that the collective effort will make to the long-run viability of their own organizations. Thus, ultimately, they might differ significantly in their willingness to assume the risks of collective behavior and, in time, to continue participating in the quasi firm. Convergent forces, by contrast, are "implosive" because they could precipitate increasing formalization of the quasi firm's structure. This may be especially true for those quasi firms located in environments that are relatively uncertain and unstable. Loose coupling, for example, may provide insufficient cohesiveness within collective organizations for timely strategic decisions to be made in response to a changing environment (Bresser & Harl, 1986). Thus, powerful and simultaneous divergent and convergent forces have the potential for producing major structural change within quasi firms during a relatively short span of time.

### **Mechanisms for Strategic Decision Making**

In effect, the quasi firm may be an inherently unstable organizational form. Thus, in order for quasi firms to continue to function as loosely coupled organizations, they may need selected structural features that facilitate the making and implementation of strategy. Among these fea-

tures, three are particularly important. Quasi firms will need to develop mechanisms for (a) making strategic decisions, (b) ensuring a unity of effort among collaborating organizations, and (c) determining and modifying membership in, and establishing the boundaries of, the quasi firm as it evolves over time.

If quasi firms are to function effectively as firms, they must acquire a capacity for making strategic decisions or, in other terms, they must form a functional strategic apex (Mintzberg, 1979). By definition, a quasi firm utilizes loose coupling in order to achieve strategic coordination among collaborating organizations. In unstable and unpredictable environments (which currently exist in many sectors of the health care industry), strategic decisions inevitably will need to be modified, often within short periods of time (Ansoff, 1979). Thus, for such organizations, we can expect that the pursuit of strategic consensus will consume significant amounts of organizational energy (Quinn, 1980). Under such circumstances, a quasi firm could easily become impaired should it not evolve a functional capacity or mechanism for making and implementing strategic decisions. (Alternatively, the need to formalize decision-making mechanisms may be far less pressing in arrangements that have been organized to accomplish less important and/or permanent shared purposes [i.e., in networks] because collaborating organizations in such arrangements have less time, energy, and so forth, invested in collective behaviors.)

Where the capacity for making strategic decisions, the strategic apex, should be located within a quasi firm is problematic. We suggest that such location will in part be determined by the direction of linkages that exist among the participating organizations. Interorganizational relationships can be horizontal (across markets), vertical (along the production chain), symbiotic (across products/industries), or any combination of these (Ansoff, 1965; Astley & Fombrun, 1983; Pennings, 1981; Porter, 1980). The strategic apex of a quasi firm, for example, is likely to be most

centralized within a single organization in vertically linked collectives, relative to what might be expected in symbiotic and horizontal collectives. In vertical systems, strategic decisions depend heavily on actions taken in the markets in which the most downstream firms operate. Thus, in vertically structured quasi firms, leadership in strategic decision making may naturally evolve to the organization within the vertical chain located most closely to the final consumer. In residential construction quasi firms, for example, strategic decision-making mechanisms may not even need to be formalized because making strategic decisions is the role appropriately assumed by general contracting firms (perhaps accounting for the exclusion of this subject in Eccles' work), the most downstream organizations in the residential construction vertical structures. It is less likely, however, that any one organization will be in a position to assume strategic leadership in dominantly horizontal or symbiotic linked quasi firms. As a consequence, because interorganizational compromises are required in order that important and permanent decisions can be made, the creation of a strategic decision-making capacity should for the latter types of organizations be more of a challenge.

A strategic decision-making capability is only one of the firm-like attributes a quasi firm must adopt in order for it to continue functioning. Mechanisms for implementing quasi-firm strategy must also exist. The members of each participating organization, not just the leadership, must be aware of, and committed to, the quasi firm's strategic goals. This requires that management pay attention to creating an identity, a culture, and an information flow that crosses organizational boundaries. In doing so, quasi firms may need to invest considerable effort and resources in order to achieve interorganizational coordination in the pursuit of strategic objectives.

Just as we argued for the design of a strategic apex, mechanisms that are created to support

the implementation of quasi-firm strategy will vary substantially, depending on whether vertical, horizontal, or symbiotic structures are predominant. The specific mechanisms needed, the degree to which they are centralized in a collective, and the intensiveness of monitoring and/or coordinating activities will be determined by the direction of the relationships among member organizations. For example, if the organizations in horizontal quasi firms share common markets (i.e., they would be competitors if they were not coparticipants), more intensive efforts might be needed, when compared to organizations in which less competitive horizontal relationships are involved, to ensure a continuing culture of group interest and compliance with the collective's strategy. In quasi firms that are dominated by vertical linkages, a single organization could, perhaps, more readily be designated the coordinative role (e.g., as played by general contractor firms in residential construction quasi firms).

The existence of multiple interorganizational relationships introduces another problem for the quasi firm: determining its membership or, in other terms, specifying its outer boundaries (Laumann, Galaskiewicz, & Marsden, 1978). Identifying boundaries for firms may be particularly challenging in the health care field because of the complexity of interorganizational arrangements and the loose coupling that is frequently used to achieve interorganizational coordination. Some organizations in a loosely coupled firm may be heavily invested in shared strategic purpose, whereas others may have only limited dependency, and the number of the latter could be substantial for some collective organizations. One could argue, however, that the boundary of the quasi firm should only be drawn around those organizations for which the collective serves a significant and long-term strategic purpose. Organizations with limited dependencies would, in this case, not be counted members of the quasi firm.

The redrawing of boundaries over time,



though difficult, should be an important task for the quasi firm, especially if it hopes to maintain its stability over time. Rigidities introduced by heavy reliance on prior agreements to regulate collective membership and the distribution of both effort and profits/losses are likely to introduce significant complications for quasi firms as they grow and develop. The existence of hangers-on and/or collaborating organizations that are not rewarded commensurate with their relative contributions certainly will introduce pressures for a realignment of membership and the drawing up of new rules that govern participation. Thus, it is likely that mechanisms for accomplishing necessary restructuring of boundaries and conditions for membership will be essential for ensuring the survival of quasi firms.

### **Research Agenda**

A significant agenda for research is suggested by application of the concept of loose coupling in general and the quasi firm in particular to the investigation of interorganizational relationships. Such applications focus greater attention on interorganizational relationships that are designed to achieve strategic purposes, an area in which both conceptual and empirical work is lacking.

A future research agenda could be organized around four general areas: (a) further delineation of the quasi-firm concept, (b) conditions explaining the frequency of quasi firms in different environments and industries, (c) identification of the structural mechanisms that are necessary for the functioning of the quasi firm, and (d) evaluation of the performance of quasi firms.

We have proposed that quasi firms are distinguishable by the importance and permanence of their strategic purposes and the loose coupling that ties the collaborating organizations together. This scheme for classifying interorganizational forms includes only a few of the possible dimensions along which such systems might be classified. Organizations exchange many differ-

ent types of resources (e.g., financial, human, and technological), for which different kinds of interorganizational structures may be needed. It could be hypothesized, for example, that quasi firms are more likely to be used when financial resources become the primary medium of exchange, as is now often the case in the health care industry. Research is needed in order to assess the utility of the dimensions proposed here and by others that may provide insight into the great variety of loosely coupled organizational forms. In this effort, the recent work on the measurement of interdependence within organizations would be pertinent (Victor & Blackburn, 1987).

A second general area for future research is the identification of conditions under which quasi firms are found in significant numbers. As initially argued by Eccles, for example, when production is site bounded and requires the cooperation of autonomous or semiautonomous units, the quasi firm may be an appropriate organizational form. In their study of American industries, Lawrence and Dyer (1983) conceptualized the environmental conditions that are likely to produce differential strategic and structural responses by firms within industries. They also considered the circumstances under which quasi firms might be expected to evolve. We have suggested that loosely coupled relationships in general and quasi firms in particular may be effective interorganizational arrangements in selected industries that are undergoing rapid environmental change.

Third, it is important to determine the kinds of structural mechanisms that are needed to ensure the continued functioning of the quasi firm in the face of uncertainty and environmental change. We have proposed that quasi firms will need to create mechanisms for strategic decision making, strategy implementation, and boundary maintenance. The degree to which these are created as quasi firms evolve should be examined empirically. In his discussion of the quasi firm in the residential construction indus-

try, Eccles (1981a) did not examine these critical issues. We have suggested that this could be explained by a possibly unique feature of vertically structured quasi firms (which are predominant in the residential construction industry): the natural tendency for the most downstream organizations within the structure to assume strategic decision-making and coordinative responsibilities. Which organizations might take the lead or how strategic decisions would be made, however, is problematic in other industries in which a variety and mix of directions in interorganizational linkages are present.

In some cases, the strategic apex, as well as the other structural features needed to ensure long-term stability, may emerge naturally as a function of the technology of production or some other environmental/organizational factors. In other cases, it is likely that strategic leadership would be negotiated and some structures for sharing in and implementing strategic decisions would be created. In the latter cases, negotiations may require considerable organizational compromise, adding significantly to the instability of the quasi firm organizational form.

A final area of research involves the performance of quasi firms. It is unclear how well quasi firms perform as strategic entities. We can only speculate on their relative strategic advantages and disadvantages. We have argued, for example, that quasi firms represent relatively efficient entry mechanisms for otherwise uncoordinated and small-scale organizations. However, do they possess the same advantages in

overcoming mobility barriers, for pursuing low-cost strategies in their markets, or for achieving needed product differentiation? Although they might strengthen the competitive position of organizations in given markets, will they facilitate the formulation and implementation of a diversified corporate strategy? Further, in keeping with Bresser and Harl's thinking (1986), will quasi firms impede the strategic flexibility of member organizations?

A critical feature affecting the performance of quasi firms is their stability over time. It is important to determine, for example, how stable the quasi firm is, given the countervailing pressures for convergence and divergence that exist when two or more organizations combine in the pursuit of significant strategic purposes. To what extent are quasi firms merely stages in an evolving process from market-based to more bureaucratic structures, as suggested by D'Aunno and Zuckerman's (1987) study of one form of health care network?

Alternatives to bureaucratic forms should be given more prominence in both theory building and empirical research. Loosely coupled structures have become exceedingly important in the health care industry and occur with great frequency in other industries (e.g., automobile manufacturing and petrochemicals). Further exploration of loosely coupled interorganizational forms, especially those created to serve strategic purposes, will broaden our understanding of the incredible diversity of organizational responses to different market and technological conditions.

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