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## **Value creation approaches of hybrid organizations and case studies in Japan**

### **Network-formation function and trust-building mechanisms**

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#### **Abstract**

Hybridity explores the policymaking system with another logic, business or civil society, and the community endorses the proceedings. Japanese Community-based corporations (CBCs) develop business models that meet the multiple needs of various sectors. They have supported economies by providing products with reliable and manageable supply chains to ensure the sustainability of their operations. The Green Fund Group has implemented 31 wind power generation projects with NPOs for-profit management structures. Its success factors include 1) a business model for social change, 2) a management system combining non-profit and for-profit activities, and 3) an integrated function of policymaking and business. The process that has integrated the renewable energy policies and projects formed a cross-sectoral network. The network formation function has four characteristics, five conditions for establishment, and four roles. CBCs respond to the needs of governments and residents by providing advocacy, products and services to build "trust" among all sectors' stakeholders. This trust-building mechanism has the function of strengthening the compromising and promoting the legitimating. It was found that although the CBCs share mixing, compromising, and legitimating concepts, the functions are not lined up chronologically but appear in areas where elements from multiple sectors overlap, encompassing multiple factors. A trust-building mechanism is at the heart of this complex social activity and business. The Japanese case study makes explicit the process of trust-building and suggests meaningful approaches in clarifying the value creation mechanism of hybrid organizations.

**Keywords:** Hybrid organization; community-based corporation; value creation approach; network; trust-building mechanism; capacity-building; social capital, resilient society

# **Value creation approaches of hybrid organizations and case studies in Japan**

## **Network-formation function and trust-building mechanisms**

### **1. Introduction**

#### *1.1. What is Hybridity?*

In order for programs to achieve social objectives, they not only have to be performed in accordance with the existing principles and defined missions of individual organizations, but must also carry a multidimensional principle and involve various organizations, be it in public policy, private companies' management, or citizens' activities. Public policy, efforts of private companies, and citizens' activities have roles that cannot be dissociated from one another (Vakkuri and Johanson 2021). Vakkuri and Johanson conceptualized the theoretical origins of hybridity, hybrid governance, and organization, and the approaches they created realized the value. Hybridity is defined as the interaction of the public, private, and civil society through different forms of ownership, parallel but often competing institutional logic, diverse funding bases, and various forms of social and institutional controls (Johanson and Vakkuri 2017, Vakkuri and Johanson 2021). Hybrid organizations are defined using two types of lenses. The two lenses are: (1) dimensions of hybridity (ownership, institutional logic, financing, and control); and (2) approaches to value creation (mixing, compromise, and justification). Why and how do these hybrid organizations with public, private, and social sector components emerge and grow? This research identifies the areas that help in overcoming the institutional differences between the public, private, and social sectors, and derives mechanisms from creating new value in such areas. Three approaches can be used to clarify this mechanism: (1) analysing the institutional domains and spheres at the level of public policy interface, private enterprise efforts, and citizens' activities; (2) illustrating the specific experiences of hybrid organizations with historical track records, adapting to the social contexts and multiple layers of society, and operating across institutions (hybrid organizations are defined as state-owned enterprises [SOEs], non-profit organizations [NPOs], social enterprises [SEs], and municipally owned corporations [MOCs]); and (3) Comparing institutional contexts and characteristics of hybrid organizations in different countries (Johanson and Vakkuri 2017; Vakkuri and Johanson 2021).

In this paper, along with this principle, provides new insights into identifying the features of community-based corporations in Japan (defined as social enterprises [SEs]) and presents new insights into the institutional contexts of hybridity studies.

## *1.2. The Purpose and relevance of focusing on community-based corporations from the perspective of hybridisation and value creation*

As we are faced with widespread, complex natural disasters and pandemics, it is necessary to have an organization that can play the dual role of managing these crises as well as protecting the livelihoods of local communities, transcending the boundaries of what constitute the public, private, and social sectors. Community-based corporations (CBCs) develop and implement business models that meet the multiple needs of the public, private, and social sectors. They support local economies by providing products with reliable and manageable supply chains to ensure the sustainability of their operations. Regional conglomerates (CBCs) contribute to creating regional economic systems (Katoh 2018).

The Green Fund Group, the embodiment of CBCs, has implemented 31 wind power generation projects, including a community wind farm with non-profit and business management structures. Its success factors include the existence of: (1) a business model for social change (Katoh 2017a); (2) a management system that combines non-profit and business activities (Katoh 2018); (3) an integrated function of policymaking and business impact (Katoh 2021a); and (4) a cross-sector network (Katoh 2021b). Their activities and projects have integrated the results of the renewable energy policies and projects. In this process, they have come to form a cross-sectoral network. This study focuses on this network formation function, which is essential for constructing a regional economic system, and clarifies its characteristics, the conditions for its establishment, and its roles. This means that we illustrate the specific experience of organizations with a chronological track record, adapt to the social contexts and multiple layers of the society, and operate across institutions.<sup>1</sup>

A hybridity study explores the approach of the government policy system with other logic (such as methodologies used in business and civil society), and the community goes on to accept the process (Vakkuri and Johanson 2021). This study aims to derive mechanisms to create value in the realm of overcoming the differences between public, private, and social sector systems. One of the solutions to this purpose would be to clarify the network formation function of CBCs.

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<sup>1</sup> In order to essentially reveal the themes of the various properties, governance, and management of hybrid organizations, and to understand deeply how hybrid organizations work in practice, it is important and useful to take a more in-depth and insightful approach to the internal workings of the organization than just doing external research or research using official documents.

### ***1.3. Research Methods***

The network formation function is one of the success factors of CBCs. There are two research questions that we attempt to answer in this paper. First, how were these functions formed (characteristics, conditions for establishment, and roles)? Second, what kind of value-creation mechanisms do the network-formation function of CBCs manifest? In the case of addressing the former, the characteristics and conditions for establishing the network formation function are extracted from the results of the organizational diagnosis conducted based on the organizational diagnosis tool used in 2016. In the case of addressing the latter, we conducted interviews (face-to-face questionnaires and semi-structured interviews) with the people responsible for clarifying the emotional interaction (the process of fostering 'trust') that occurs among the people involved in the formation of networks.

## **2. Case study : characteristics of the networking functioning of community-based corporations**

### ***2.1. What are the network's features?***

Since its establishment, the Green Fund Group (GFG) has been executing wind power generation projects to create public awareness, impart environmental education, and realize a renewable energy society. Community wind power (CWP) and the Japan Green Fund (JGF) are promoted through a scheme involving local governments, Seikatsu Club Co-op, and local power producers (Katoh 2019). There is a network and platform for dialogue and collaboration formed by citizens, local governments, and private companies that participate in these projects. The GFG collaborates with and supports local NPOs to hold events, seminars, lectures, and symposia on energy conservation as a part of its popularization and environmental education projects. Consequently, networks and platforms for collaboration have been formed among these NPOs, the local government, and the general public (Katoh 2021). In this section, we describe the functions of the GFG's network: (1) roots, (2) network, (3) dialogue with citizens, (4) collaboration, (5) capacity building, and (6) trust-building. This attempt to describe the functions is based on the data collected from an organizational diagnosis conducted in 2016 and from the semi-structured interview survey of Green Fund President Toru Suzuki, one NPO staff member, and four CWP staff members.

### *2.1.1. Roots*

(1) The three people who have been working for the GFG since its establishment worked for Seikatsu Club Co-op before the establishment of the GFG. They form a cooperative relationship to accomplish each project. (2) These members share the activities and business objectives of the GFG and maintain their motivation to achieve them. (3) They recognize that the GFG connects people to people and relates organizations with other organizations to create collaborative networks.

### *2.1.2. Network*

(1) The GFG and group organizations execute renewable energy projects, energy efficiency and conservation projects, and network formation projects. There are three networks: the network for the operators of wind power projects, the network for local governments that provide power generation projects and advocacy, and the network for NPOs that operate as collaborative partners in environmental education and awareness projects. The people and organizations participating in these networks are connected across sectoral boundaries. (2) The GFG operates a collaborative platform to examine the feasibility of energy projects when implementing the above network formation projects. The operator is the secretariat of the GFG.

### *2.1.3. Dialogue with citizens*

(1) The GFG's secretariat responds promptly to the opinions and requests of citizens, supporters, investors, organizations, and groups collaborating on the wind power project daily. (2) They ensure that there is smooth communication with every wind power project organization, group, and company. (3) They hold seminars and study sessions to provide citizens with easy-to-understand information in order for them to participate in wind-power projects and energy-conservation activities. (4) They respond to people's requests for support from urgent services. (5) They do not care about the sector, political, social, or cultural backgrounds of the entities they collaborate with within a wind power project. They promote a project from a neutral perspective. (6) They respond to the needs of the general public, elementary and junior high schools, high schools and universities, prefectural and municipal councils, local governments, NPOs, cooperatives, labour organizations, private companies, etc. to promote public awareness and impart environmental education.

#### *2.1.4. Relationships with collaborating organizations*

(1) The GFG holds partnerships with local governments, educational institutions, research institutes, private companies, NPOs, and intermediary support organizations. (2) It serves as a member of policymaking councils and as a secretariat/coordinator for the platforms of public organizations. (3) It evaluates the results of the activities of other NPOs and organizations collaborating in renewable energy projects. (4) It communicates the activities and results of the Green Fund and other organizations to the public. (5) Organizations that work with the GFG expect it to provide leadership and initiative in their projects. (6) They are becoming stronger because of the support of the GFG. (7) The GFG always accepts new participants. (8) Energy policy advocacy is implemented in partnership with other organizations.

#### *2.1.5. Capacity building*

(1) Most of the participants involved in the dissemination and awareness-raising efforts joined one of the networks. (2) Participants of awareness seminars and environmental education programs have formed organizations or established business companies. (3) Some people and organizations that have received lectures on renewable energy projects have set up their business entities. (4) The qualities and competencies required of team members are to conceptualize, communicate, coordinate, and build relationships to solve problems. (5) The ability required for new members is to understand the overall business value.

#### *2.1.6. Trust building<sup>2</sup>*

(1) The GFG's business activity reports will be made public, and the CWP and JGF will conduct risk analyses related to wind power projects and fund formation. This information is then used to gain governance and financial trust. (2) There is mutual trust among people (colleagues, management, group members, and collaborative organization partners) and among organizations (group organizations, corporations, NPOs, cooperatives, etc.). (3) The GFG has been continuously appointed as a council member in municipalities such as Ishikari City, Sapporo City, and Hokkaido. (4) The ongoing projects with private companies include the formation of a collaborative scheme for wind-power projects. (5) The GFG responds to requests from elementary schools and other educational

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<sup>2</sup> We define trust based on its meaning as described by the GFG members as follows: a feeling wherein people and organizations that share a purpose recognize their activities and projects mutually, expect each other's achievements, and mutually try to meet those expectations.

institutions to hold workshop events. (6) The GFG continues to engage in joint projects with environmental NPOs.

Based on the above results, we summarize the characteristics of the functions of the GFG. First, the network is built beyond the boundaries of the organizations to which the participants belong and the differences that exist between the sectors. It provides a platform for the people connected with the network to collaborate in devising new projects. Second, citizens and organizations acquire the information and skills necessary to become renewable energy business entities in a collaborative platform through this network. Third, the secretariat was responsible for building the network. Fourth, forming a network is also a process of building trust between people and organizations via responding appropriately to the community's needs.

## ***2.2. Process of formation***

This sub-section clarifies the phenomena that occurred in the formation of the GFG from the perspective of platform management, capacity building, and trust-building.

### ***2.2.1. Management of the platform***

The GFG's network has been formed through active interactions among citizens, local governments, private companies, educational institutions, foundations, and other organizations involved in the activities and projects of the GFG. The network has spread to multiple sectors and opened up a platform for new collaborative projects. For example, the Hokkaido Renewable Energy Promotion Organization, established in 2012, is one such organization based on a network formed through a practical process with local governments, researchers, companies, and technicians in Hokkaido. The Community Power Initiative, a network of community-led renewable energy providers, was established in 2013 by the National Institute for Environmental Energy Policy (NEP). In 2014, this organization was reorganized into a general incorporated association, 'National Local Energy Association, Representative Director: Yaemon Sato (Aizu Electric Power Co., Inc.)', with Suzuki as a director and Green Fund as a member of the Association. A number of organizations that have received support from the GFG and the Institute for Sustainable Energy Policies (ISEP) to establish local community-based power plants have joined the association.

The GFG holds symposia with environmental foundations and NPOs inside and outside Hokkaido for energy conservation awareness and environmental education projects. It cooperates with local governments, primary industries, and construction companies to construct wind power plants. In addition, they conduct research and engage in advocacy with policy advocacy NPOs when

participating in policymaking for national and local governments. These efforts lead to more opportunities to meet new supporters, investors, and business partners, and gain supporters and organizations, increasing the project's long-term impact.

### 2.2.2. Capacity building

Together with CWP and JGF, the GFG provides the methods for expertise, business planning, and fundraising required to start a power generation business by sending lecturers to study sessions held in each community (Hokkaido Green Fund, Activity Report 2012). The citizens seeking support and participation in the GFG's public awareness programs, lectures, and seminars can acquire immense knowledge and skills. They could also become the main actors in establishing power generation projects in their communities (Figure 1).

Figure1. GFG, CWP, and JGF provide support for the expertise (Katoh 2021b).

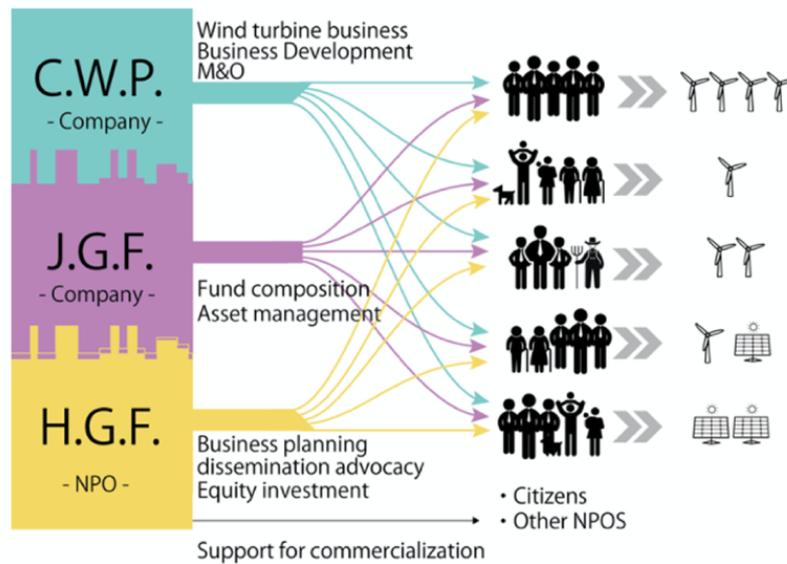
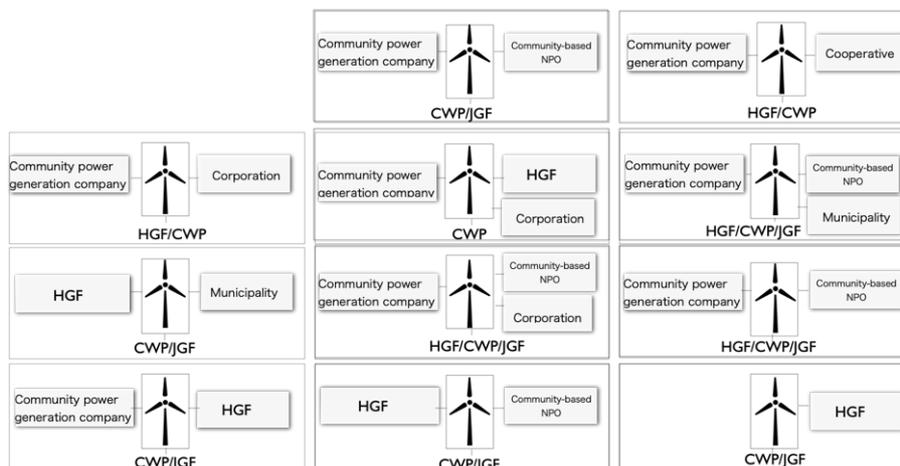


Figure 2. Eleven types of local power generation schemes (Katoh 2021b).



As a result of the commitment to citizens, 11 types of local power generation schemes have come to be created, depending on the local resources and practitioners in each region (Figure 2).

The GFG uses its network to help build a team of people and organizations that can connect and facilitate relationships with citizens and organizations, and promote the power of commercialization (team building). Its efforts to create a renewable-energy society is an attempt to have such an environment (ecosystem) in local communities. In the process, citizens are provided with knowledge, skills, and human networks related to the projects they want to try. Organizations that have acquired the knowledge and skills necessary to start up as energy entities are often affiliated with one of the networks of GFG, strengthening the organization's foundation. Efforts are put so that the benefits to the community increase with the emergence of empowered citizens and organizations in the community, for example, collaborative projects increase and scale up. This process of increasing the power of people, organizations, and communities to become sustainable has much in common with 'capacity building' (TCC 2015) (Figure 3 and 4).

Figure 3. Conceptual diagram of capacity building (Katoh 2021b from TCC 2015).

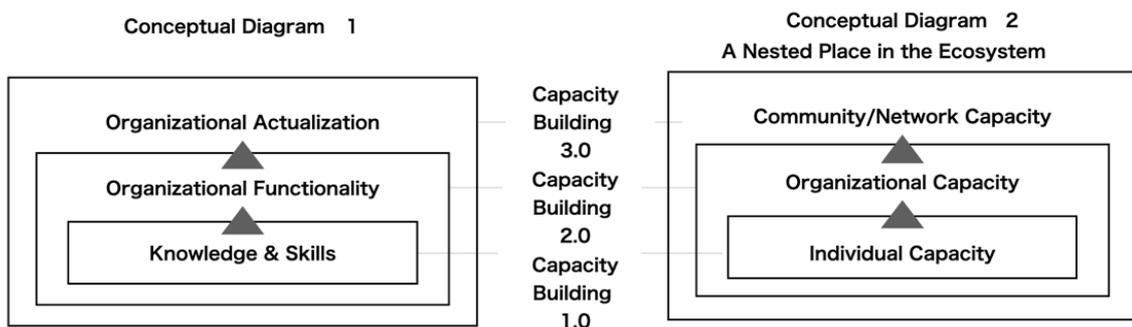


Figure 4. Basic direction of capacity building (Katoh 2021b from TCC 2015).

Who	What	How
Individuals	Knowledge	Training
Organizations	Skills	Technical Assistance
Groups of Organizations	Organizational Systems	Experiential Peer Learning
Ecosystems	Effectiveness	

### *2.2.3. Trust building*

As mentioned above, while promoting projects in local communities, the GFG interacts with residents to find schemes that can be organized in a collaborative relationship, and structures collaborative projects. When citizens or local governments ask for support from the GFG, its secretariat meets their needs and forms a 'collaborative relationship' with them. When assembling a power generation project, the Business Development Department of CWP and JGF enter into a relationship and take over the 'collaborative relationship' formed by the GFG to carry out the project. Based on interview data, the following is a detailed description of how the GFG has come to build the ability to coordinate and build relationships.

### *2.2.4. Habitual trust in people and organizations*

There are three indications of 'trust' among the members of the GFG. The first is trust in people, such as trust in each team member, trust in CEO Suzuki, and trust in the organization's people with whom they work. The second is trust in the organization, such as trust in the group organization and in the organization with which the group collaborates. The third is the trust that they gain from the community and citizens by responding to the external voices. These three types of trust are fostered through the following processes.

#### (1) Trust in people

A member of the GFG described the GFG leader, CEO Toru Suzuki, as follows:

Mr Suzuki was not only a desk-bound worker when he worked at the headquarters of the Co-op, but also an action-oriented person who would go out to the field in a delivery truck with his staff whenever he felt the need. Mr Suzuki, who always pays attention to the field, was trusted by the Co-op staff (HGF staff). He works for the people. However, he never revealed it on their face. That is still unchanged today (HGF staff). He is consistent and does not act authoritatively. If there is anything he can do, he does it, which is the same attitude as when the NPO was founded, and he is always paying attention to the entire organization, looking ahead and running (HGF staff). He never yells at his employees when they make mistakes, and he believes that he is responsible for asking his subordinates to do more than their skills (CWP staff). Mr Suzuki is a social reformer who came up with the green electricity tariff system and invested the capital gained from it to establish the Green Fund and CWP. I

am running with the same mind (Green Fund Akita CEO). Mr Suzuki does not force you to do anything, but they tell you that he will take responsibility and give you discretion in your duties. Suzuki is a manager with both non-profit and for-profit management skills. I work with human kindness and strictness during communication (CWP employee).

Based on the respective member's words, it can be seen that Suzuki has the managerial ability to balance the two roles of a 'social reformer' when leading an NPO and an 'executive with management skills' when leading a for-profit organization. Moreover, he prefers equal relationships. Suzuki trusts and entrusts group members with their duties. One of the directors of CWP, who was involved in the management of CWP and JGF, said that, when he was in his previous position, Suzuki offered to set up a fund division. This manager then became the director of both the companies following his involvement in the establishment of the JGF. It can be assumed that these leader preferences affect the feelings of mutual trust among the members as well as the overall atmosphere of the organization.

## (2) Trust in the organization

The GFG, CWP, and JGF trust each other's governance systems. The GFG trusts CWP's operations and JGF's funding projects, and CWP/JGF trusts the GFG's efforts to gain consensus in the community and advocacy. In addition, in the GFG, the board of directors trusts the secretariat to carry out its business, and the shareholders and investors of CWP understand the management of CWP. Moreover, of the trust that each organization has earned, all the interviewees said that they wanted to ensure they never undermined the trust of all the people in their work relationships.

This way, the trust fostered within the GFG has 'trust in people' as a small unit, and the next layer is 'trust in the organization', trust placed in each organization within the group. The trust that is fostered between individual people, between people and organizations, and between organizations and organizations is accumulated in the process of achieving the mission, and this is made into a habit.

## (3) Responding to the needs of the local community by providing business models and products:

trust-building

The Green Fund responds to the expectations of its supporters by organizing events such as windmill tours and candlelight nights, training councils and government officials, and providing environmental education products. They respond to the needs of local governments that expect advocacy in the energy-visioning process by providing advocacy services in council meetings. JGF responds to the

expectations of investors by delivering business results and dividends. The CWP meets the expectations of shareholders and investors by strengthening its financial base, power generation operations, dividend returns, and track records of supporting local businesses. Thus, the CWP and JGF have earned the trust of their stakeholders and investors by meeting their needs for business results and accountability.

A CWP staff member described to us the following:

In my duties, I am sometimes confronted by citizens who do not trust small and medium scale businesses. Sometimes I hear people expressing concerns about the technology and cost-effectiveness of renewable energy. We tried our best to answer any citizen's concern based on our trust in our supervisors, team members, Green Fund's achievements, CWP, and JGF. We have faced the concerns of citizens in this way. As for the people's comments that 'Wind power generation turbines are destroying the environment and threatening birds', I explained that we are conducting environmental impact studies and adopting power generation models that reduce bird strikes. Furthermore, we developed and operated sustainable power generation business and made it publicly available.

We responded to the people who say that wind power generation turbines are harmful to their health by talking to the people in the surrounding areas where wind power plants are located, holding multiple briefings, and disclosing the results of pre-and post-construction surveys.

Also, responding to the opinion that renewable energy is not economically efficient, we improved the European community-led business model into a power generation business model that can be implemented in Japan, conveyed the results of their efforts to secure profitability, and expanded the scale of our business (CWP employee).

The GFG's advocacy projects have helped answer the question of citizens, 'There is no reason to develop renewable energies unless the power lines are constructed'. They proposed the construction of transmission lines and development of storage batteries when the energy vision of Hokkaido was formulated. It can be said that the trust-building mechanism was not established with a strategic business intention, but rather as an inevitable consequence of the functions of the network formed in the process of achieving the mission of the CBC. In other words, it is the result of the secretariat's operations.

As described above, the CBC formed a network and acquired the features of its functions through the operation of the platform, capacity building, and trust-building processes. The Secretariat

responds to the needs of citizens and small organizations that aspire to participate in renewable energy projects but do not have access to the means in their way, by entering into relationships with local issues. They connect citizens and organizations with people, organizations and networks that have the means to create renewable energy businesses.

### ***2.3. Analysis results: characteristics of the network formation function of the CBC***

In this section, we conceptualize the characteristics of the formation function of the CBC network by classifying them into three elements (characteristics, conditions for establishments, and roles) (Table 1).

#### ***2.3.1. Characteristics***

Four features can be observed in the characteristics of the network formation function of the CBC: first, formation of multiple networks across sectors; second, there is a platform for collaboration to create various forms of business plans across the region; third, strengthening of the participants' capacity to carry out projects; and fourth, flexibility to respond to the needs of local governments, businesses, and citizens daily. Through the operation of the secretariat, CBC provides knowledge and skills to citizens, management skills to organizations, and ways to become a sustainable community to local communities in connection with the network. While the GFG's secretariat forms the network and manages the platform, the CWP and JGF's Business Development Department work with the GFG's secretariat to operate and take over power generation projects. This way, it will support local community businesses to become community-driven. There is a high expectation between practitioners and practitioners, and between organizations and organizations that the project will be successful, and there is a high level of emotional trust to meet these expectations.

#### ***2.3.2. Conditions for establishment***

CBCs mean that hybrid organizations acquire the potential to build a network formation function when they meet the following conditions. First, there must be trust between the people and organizations, a mutual expectation that the operation will be accomplished, and a commitment to meet that expectation. Second, there are systems of governance, finance, and information disclosure that earn the trust of citizens and communities. Third, they provide products and services that meet the needs of the local community. Fourth, they enhance the capacity of the people and organizations in the community and contribute to strengthening the community's human capital. Fifth, there must

be a secretariat responsible for networking, accumulating, and providing knowledge and skills that can be offered to the people and organizations. If the above conditions are met, a network will be formed as the project progresses, and the number of participating people and organizations will increase. As this progresses, the network expands, and a platform for collaboration develops. Citizens who are provided with knowledge and skills have the opportunity to understand and act on the value of sustainable local communities.

### *2.3.3. Roles*

CBCs, the hybrid organizations, play the following roles by forming a network. First, they mediate and appropriately join the stakeholders from different sectors. Second, they provide the necessary information to businesses in each region. Third, they invite them to the platform for collaboration. Forth, they lead the subsequent organizations.

The secretariat's accurate, consistent, and appropriate performance in these roles foster a trust-building mechanism closely linked to the network's functional characteristics in the following processes. First, people in the GFG network learn to trust people and trust the organization as habitual behaviour. Trust is exchanged and accumulated on a daily basis, and becomes the driving force for carrying out activities and projects that meet the needs of the citizens and communities. Second, CBCs progress their business models to solve the problems developed in response to the citizens' and communities' needs, and organize them into business models for non-profit activities and for-profit businesses. Through these achievements, they gain the trust of the citizens and local communities. Third, CBCs improve the business skills of their members and sometimes encourage them to promote careers in order to sustain the activities and projects of group organizations. Building the proficiency of the projects to be implemented increases their expertise. Increased expertise is a qualification to gain new trust from the citizens and local communities.

Which means, that the CBCs utilize their networks to connect this human capital to the platform for collaboration by mediating the emotions of trust (trust-building mechanisms). These human capitals are formed outside the organization, across sectoral boundaries, and are transferred to community-based organizations as knowledge and skills. Therefore, the network serves as a management resource when envisioning regional management and considering the entire community as a unified management entity.

Table 1: Features of Network Formation Function of CBCs (Kato 2021).

CBCs' networks features category	Network formation functions
Characteristics	a) Formation of multiple networks across sectors b) Collaborative space for the creation of various forms of business plans on a cross-regional basis c) Strengthening the capacity of participants to carry out projects d) Routine and flexible response to the needs of local governments, businesses, and citizens
Conditions for establishment	e) Interventions of cooperation and trust across organizational sectors f) Development of governance, financial, and information disclosure systems g) Provision of products and services that meet the local needs h) Strengthening the human capital of local communities i) A secretariat that manages non-profit and for-profit activities in tandem
Roles	j) Connect stakeholders from all the sectors k) Provide the necessary information to local businesses l) Attract stakeholders to the collaborative platform m) Lead subsequent organizations

### 3. Hybridity research and value creation perspective

In the previous section, we positioned CBCs as hybrid organizations, examined the functions of their networks, and conceptualized their features by categorizing them into characteristics, conditions for establishment, and roles. In this chapter, we reconceptualise these characteristics, conditions, and roles through the value creation approach of hybridity. There are three value-creation processes in hybridity: (1) mixing (combining other logics into policy formation), (2) compromising (combining different logics into the existing projects to achieve the objectives), and (3) legitimating (making practices acceptable to citizens).

Mixing is the process of 'combining' the elements of the existing value to form new variations, blends, and layers of value. Compromising is a mechanism for managing the 'competing, contradictory, and conflicting values' that exist between sectors and organizations, and for 'coordinating (compromising)' different value propositions and outcome measures. Legitimating is 'the process by which a hybrid organization proves its legitimacy (how efficiently it has created social value) and citizens accept it' (Vakkuri and Johanson 2021).

The characteristics (four) of the functioning of the network of CBCs, the five conditions for its establishment, and its three roles are classified into each category of the related value-creation approach with the following results (Table 2).

- (1) Two characteristics (formation of multiple cross-sectoral networks, collaborative opportunities to create various forms of business across regions), one condition (intervening cooperation and trust across organizational sectors), and three roles (joining the stakeholders from all the sectors, attracting the stakeholders to collaborative opportunities, and leading subsequent organizations) include mixing process spheres.
- (2) One characteristic (strengthening the capacity of participants to carry out projects), two conditions (strengthening the human capital of the local community and a secretariat that manages non-profit and for-profit activities in tandem), and one role (providing the necessary information to local businesses) include compromising management spheres
- (3) One characteristic (responding to the needs of local governments, businesses, and citizens daily basis) and two conditions (development of governance, financial, and information disclosure systems, and providing products and services that meet the needs of the community) include legitimating integration spheres.

Table 2: Hybridity's value creation approach and CBCs' network formation function (Katoh 2021b).

Category of value creation approaches	Network formation functions	CBCs Networks features
Mixing	a) Formation of multiple networks across sectors	Characteristics
	b) Collaborative space for the creation of various forms of business plans on a cross-regional basis	Characteristics
	e) Interventions of cooperation and trust across organisational sectors	Conditions
	j) Connect stakeholders from all sectors	Roles
	l) Attract stakeholders to the collaborative platform	Roles
	m) Lead subsequent organisation	Roles
Compromising	c) Strengthening the capacity of participants to carry out projects	Characteristics
	h) Strengthening the human capital of local communities	Conditions
	i) A secretariat that manages non-profit and for-profit activities in tandem.	Characteristics
	k) Provide the necessary information to local businesses	Roles
Legitimating	d) Routine and flexible response to the needs of local governments, businesses, and citizens	Characteristics
	f) Development of governance, financial, and information disclosure systems	Conditions
	g) Provision of products and services that meet local needs	Conditions

CBCs integrate the results of renewable energy policies and local energy businesses (Kato 2021a). Therefore, they can be considered to hold the functions of mixing process and compromising management. In this analysis, hybrid organizations' contexts of mixing, compromising, and legitimating in their value creation approach are also shared in the CBCs' network formation function. These features emerge in areas where non-profit and for-profit activities overlap in response to the needs of local governments, businesses, and citizens, while each element of the characteristics, conditions for establishment, and roles are multiplied.

Moreover, they are working in phases where the functions of (1) mixing, (2) compromising, and (3) legitimating are duplicated (Table 2).

The hybrid organizations' mixing operations are closely related to the people handling those organizations' business management skills. Therefore, it is crucial to understand the leader's mindset, the social and for-profit projects, and the staff members' behaviours when confronting external actors (Johanson, Vakkuri, N. C. F. and F. Giordano 2021). CBCs leaders' mindset of the organization and their staff members' behaviours are crucial elements. These interactions bring the 'trust-building mechanism', and the secretariat functions are the heart of the logistics of these complex activities and projects.

CBCs successfully manage their non-profit activities and energy businesses in a well-integrated system, utilizing the networks they have come to create. Hybrid organizations' compromising practices are linked to their leaders' daily business practices, which can be used for accountability and fundraising (Johanson, Vakkuri, N. C. F. and F. Giordano 2021). The features of the functioning of the network of CBCs classified as compromising (strengthening the participants' capacity to carry out their projects, a secretariat that joins and manages non-profit and for-profit activities, and empowering the human capital of the local community) indeed result in improved accountability and facilitated fundraising.

A study of municipally owned corporations (MOC) in Germany suggests the importance of trust and interdependence in illustrating a combination of governance in hybridity. If their supporters strongly trust them, the practitioners are given more autonomy to manage their businesses. In contrast, they have more room for external control if they are not trusted. The effectiveness of performance management depends on the measurability of activities and the participants' level of trust (Johanson, Vakkuri, N. C. F. and F. Giordano 2021). In CBCs' non-profit activities and for-profit business logistics, trust-building mechanisms are found to be the relationships of mutual respect between people and people, people and organizations, and organizations and organizations that have been built. The relationships developed by CBCs strengthen the function of compromise, which is required by different sectors in the community. In addition, the CBCs network facilitates the legitimizing function

of local community-building projects, which the local governments and collaborative partners implement.

This research shows that CBCs conceptualise the network formation function features through a methodology that hybridity research demonstrates. In short, CBCs form a network corresponding to each sector and operate a collaborative platform. Simultaneously, they acquire trust by responding flexibly to the multiple and complex needs of citizens, businesses, and local governments daily, contributing to discovering human capital in local communities and strengthening local management resources. It suggests one of the approaches to value creation in hybridity research, which finds the logic of mixing and integrating emerging value creation mechanisms in government and explores strategies to make them more acceptable to citizens.

#### **4. Remaining issues for the future**

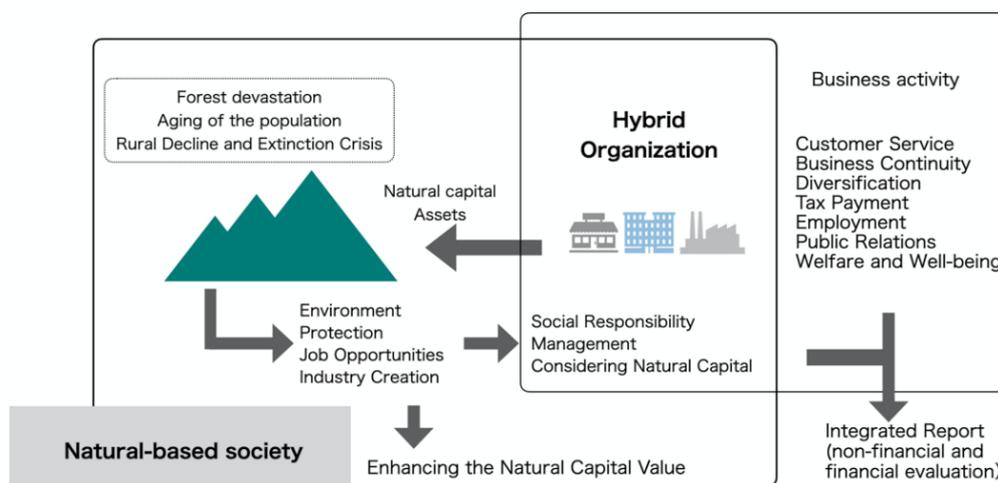
Two implications emerge from the above discussion. (1) It is important to design a mechanism to gain the trust of citizens and local communities while developing cross-sectoral projects. (2) The secretariat, who can integrate and manage non-profit and for-profit activities, is the key player in building and implementing the trust-building mechanism. The challenge is to find a way to build and operate the trust-building mechanism in a manner that does not depend solely on the skills of individuals. Social innovation theory, one of the methodologies for improving the existing industrial structure to make it sustainable, states that social innovation has no boundaries and can be found in all the public, non-profit, and for-profit spheres. Most creative activities emerge at these boundaries (Murray, Caulier-Grice, and Mulgan 2010). CBCs work with the public, private, and social sectors to implement non-profit activities and power generation projects, and integrate the results of these activities. Thus, they exist in a situation that makes it more likely to observe social innovations. They bring stakeholders from different sectors into the platform of collaboration through their network formation function, and form new collaborative projects with the stakeholders they meet. Do CBCs (i.e., hybrid organizations) such as this characteristic trend in Japan? Alternatively, can they be seen in the industrial sector other than community-based energy projects?

The answer is yes. Circular Forest Management in Shimokawa Town is one practice (Osaki et al. 2011). It is a town surrounded by forests that has lived together with the forestry industry. In 1953, Shimokawa began to purchase and manage state-owned forests actively. The objectives underlying the acquisition of national forests are as follows: (1) establishing a sustainable production system (cyclical age-grading), where logging and planting can be repeated indefinitely; (2) creating employment opportunities for forestry and civil engineering workers; and (3) stabilizing the forestry

industry by ensuring that all the productions are supplied locally. In 2005, a wood boiler was installed in a hot spring, the largest energy consumer that emitted the most carbon dioxide. Since then, this town has been working for many years to implement the measures to combat global warming, and revitalize the local community based on its recycling-oriented forest system. It has been certified as an 'Environmental Model City' and selected as a 'Biomass Industrial City'. They have introduced biomass energy into their public facilities, developed a raw material manufacturing facility to produce fuel chips, and used wood boilers to provide approximately 60% of the heat requirements in their public facilities (Kosugi et al. 2021).

Figure 5 illustrates Shimokawa's natural capital-based society and hybrid organizations. Hybrid organizations preserve the natural environment and create local businesses by holding natural capital as an asset in response to the threat of regional decline and disappearance of agricultural and forest communities (Honjo et al. 2021). The core of Shimokawa hybridity consists of two NPOs, a forest cooperative, and the local government. They are the heart of the network. The small-and-medium-sized social enterprises participate in the forestry supply chain. Hybridity as a phenomenon gives rise to management that considers natural capital as its foundation. Participating companies can include in their accounting reports their social responsibilities, and alongside the financial information of their businesses. This style of integrated reporting has become standard internationally. It is expected that such accounting reports will be developed in Japan, starting with listed companies.

Figure 5. Hybrid organizations of the forest industry: enhance the corporate value while enhancing the natural capital value.



Another practice was the reconstruction of Minokamo City's forestry industry. This project aimed to revitalize the forestry industry with new products and the policy formation process with

diverse citizens and organizations. It is a city where forestry is the core industry of the community, and an attempt has been made to create collaborative and co-creative value (Miyake et al. 2021). It formulated the Satoyama Millennium Initiative. The initiative is an approach to protect beautiful landscapes by preserving the resources that have been protected via human intervention in nature and incorporating new technologies (Satoyama). Based on this concept, the 'Satoyama Millennium Master Plan' was formulated in 2013 by the officials. It has set specific priorities to be pursued over the next 30 years. The plan includes the following activities: 1) hold events in forests and Satoyama, wherein citizens and tourists can experience nature and life in the past; 2) capture the needs of event participants; and 3) apply them to Satoyama development for a new era. Collaborative learning and value-creation approaches have come to be recognized in this project. The project's citizens, companies, and researchers collaborated to build a co-creation system. They use the social interface diamond mandala matrix (DMM) because of its advantages as a social device for formulating the community's collective goals (Miyake et al. 2021; Aoki et al. 2022). This project aims to have innovation facilitated by diverse people and organizations, and establish a policy formation process that strengthens relationships. In this practice, we expect more examples of collaborative learning and co-creative, value-creating business developments.

The success or failure of such social projects generally depends partly on the skills of the leaders of the participating organizations. Nevertheless, we need to find a mechanism to define a new industrial field by drawing the boundary between public policy, private enterprises, and civil society. The CBC's trust-building mechanisms indicate a model for cultivating ecosystems driven by hybridity. Shimokawa forest management represents a model of mezzo-level hybridity that transforms old industries into new ones. The Minokamo city model shows a methodology for community development that incorporates diversity by utilising social devices at the micro level. Which industrial fields are more sustainable and resilient? What are the approaches to successfully managing it, and what kind of complex hybridity can demonstrate such performance?

We believe that it is important for hybrid organizations to maximize natural and social capital by leveraging market mechanisms for the public management of rural areas. They could communicate the value of a resilient society in the forthcoming future to people through intelligent social interfaces. This form of social innovation brings people closer to a resilient society. While no organization has all those functions, some governments and organizations hold multiple functions and are bound to grow further. Hybrid organizations in the area raise the agenda for discussing international comparative verification.

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## Appendix

### Date of Interview

#### 1. Survey Date

1st interview: 2014.4.17, 2nd interview: 2014.5.17, 3rd interview: 2014.7.14, 4th interview: 2014.9.12,  
5th interview: 2016.1.21.

#### 2. Interviewees

- Mr. Toru Suzuki, CEO of the Hokkaido Green Fund and Community Wind Power Co.
- Hokkaido Green Fund's secretariat.
- Three Members of Community Wind Power Co.

#### 3. method

- Questionnaires
- semi-structured interview and unstructured interview

Questions	
<b>1 Questions about your roots</b>	
1-1 When did you start working with the GFG? 1-2 How did you start your activities? 1-3 What kind of activities have you been involved till date? 1-4 Are you motivated to achieve the mission of your organization? 1-5 What issues do you need to work on now?	5
<b>2 Questions about the network formation function</b>	
2-1 What are you doing to form a network? 2-2 Do you have a place where multiple sectors can meet to develop advocacy and education? 2-3 Do you have a place for multiple sectors to meet in order to promote renewable energy projects?	3
<b>3 Questions about dialogue with citizens</b>	
3-1 Do you respond to the needs of the social changes in the environment by paying attention to the latest social trends? 3-2 Are you working to identify issues and envision solutions? 3-3 Do you continue to explain your organization's mission and activities to the public? 3-4 Do you respond promptly to the opinions and requests of citizens, supporters, funders, and collaborators? 3-5 Do you ensure smooth communication with the people and organizations in cooperative relationships? 3-6 Do you take a politically, socially, and culturally neutral stance when dealing with diverse stakeholders? 3-7 Do you communicate in an accessible way as to how citizens can participate in renewable energy and energy conservation activities? 3-8 Do you respond to the demands of people who want to engage in renewable energy and energy conservation projects with practical urgency? 3-9 Are you simultaneously pursuing the existing activities and new business opportunities?	9
<b>4 Questions about your relationship with the organizations you collaborate with</b>	
4-1 Do you have a cooperative and transactional relationship with the government? 4-2 Do you have cooperative and advisory relationships with educational and research institutions experts? 4-3 Do you have cooperative and consensual relationships with local community organizations such as neighbourhood associations, civic organizations such as NPOs, and intermediary support organizations? 4-4 Do you have cooperative and consultative relationships with private companies? 4-5 Do you have principles and standards for entering into cooperation and collaboration with other organizations? 4-6 Do you evaluate the collaborative organization's activities and publicise them both internally and externally? 4-7 Does the organization you collaborate with expect you to take the lead in renewable energy projects? 4-8 Are your collaborating organizations available for your support and operation? 4-9 Are you always open to new participants? 4-10 Do you engage in policy advocacy with the organizations you work with?	10
<b>5 Questions about capacity-building</b>	
5-1 How many people of those who have participated in the awareness-raising activities joined your network? 5-2 How many people of those who have participated in seminars and educational programs started their activities? 5-3 How many people or organizations of those who have received lectures on renewable energy projects started their business entities? 5-4 What skills and abilities are you looking for in the team members of your group organization?	4
<b>6 Questions about trust-building</b>	
6-1 Do you trust your executives' management decisions and leadership? 6-2 Do you trust the team members of the group organization? 6-3 Do the people and organizations you collaborate with rely on and trust your organization?	3
Total	34