

## It takes two to tango: The interplay between trust and control in PPPs<sup>1 2</sup>

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## 0. INTRODUCTION

In the last decade, Flanders has increasingly relied on public-private partnerships (PPPs) for achieving its public services. Not only in Flanders, but also around the entire world PPPs became very popular in the public sector. Some even state that they have become an icon of modern public administration (Hodge & Greve 2009). Consequently, PPPs are a popular topic for public sector scholars to study (Hodge and Greve 2005; Pollitt 2005; Skelcher 2005). Some of the main issues in PPP-research, therefore, include the democratic quality of PPPs (Skelcher, De Rynck, Klijn and Voets 2008), their policy impact (McLaughlin and Osborne 2000), and management issues (Klijn and Teisman 2000). Nonetheless, little systematic knowledge is available about the design, the control, and, particularly, the performance of PPPs<sup>3</sup>.

To fill this gap, we have developed a conceptual framework to study these underexposed aspects of a PPP, in the context of a five-year research project sponsored by the Flemish government. The fundamental question of the research project is, therefore, the following: which factors - in terms of institutional design, control, and government capacity - influence/have an impact on the performance of PPPs?

In the paper '*Complexity and Control: How do they work in PPPs?*'<sup>4</sup> we already focused on how different elements of complexity affected the control - used by the public partner - within a PPP. The empirical evidence was gathered by comparing two local cases that were similar, but still had different aspects<sup>5</sup>. The present paper builds on this previous work and further elaborates on two components of the conceptual framework: the control-mix and the level of trust within a PPP. Hence, our research question for this paper states: How does trust and control interact within a PPP?

In the first section of the paper, we briefly discuss the conceptual framework developed to study the aforementioned fundamental question. The framework draws on a range of insights in PPP-literature, combining and testing them in a novel way. This conceptual framework is illustrated in Figure 1.

Each component of the conceptual framework is divided into a number of sub-variables. The focus of this paper, however, is the relationship between the use of control (the control cycle) and the level of trust. Therefore, most of the attention in this section will be spent on this aspect of the framework.

The second part of the paper discusses a case study involving the Flemish government with private (and other public) partners. This explorative case study is part of a wider set of cases currently studied in a long-term research project. The case study illustrates the usefulness of the conceptual framework, but also suggests some amendments.

Finally, we will conclude by sharing the lessons we have learned that are useful for our continued research, and by formulating some hypotheses to be tested in the next set of case studies.

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<sup>3</sup> Note that if we talk about PPPs, we refer to long-term infrastructure contracts (mainly DBFM-contracts) between public and private actors.

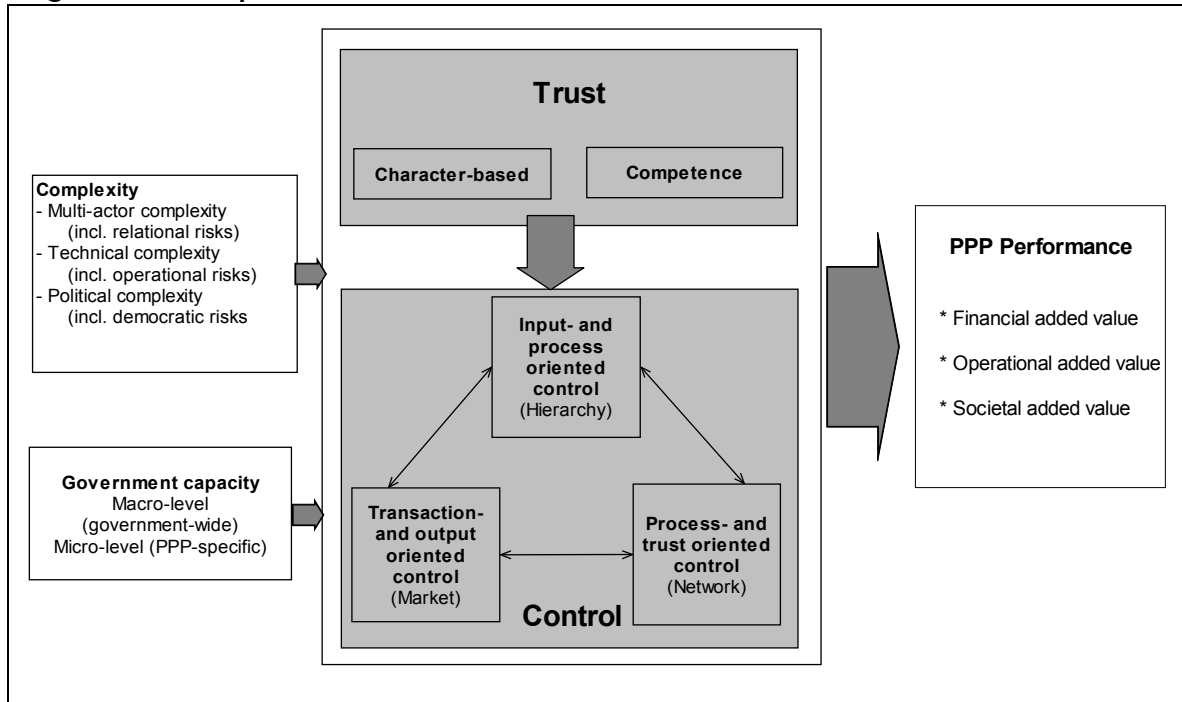
<sup>4</sup> Van Gestel, K., Voets, J. & Verhoest, K. (2009). Complexity and control: how do they work in PPPs?" IRSPM XIII 2009. 6-8 april 2009. Denemarken: Kopenhagen. 29 p.

<sup>5</sup> Two case studies concerning the DBFMO (design-build-finance-maintain and operate) of local sports infrastructure (swimming pools).

## 1. CONCEPTUAL FRAMEWORK

This paper draws on a more elaborate conceptual framework used in the long-term research project (see Figure 1). As the figure shows, key components are the type of PPP, complexity, government capacity, the control mix, trust and performance. Only the two boxes marked in grey are dealt with in this paper.

Figure 1: Conceptual framework

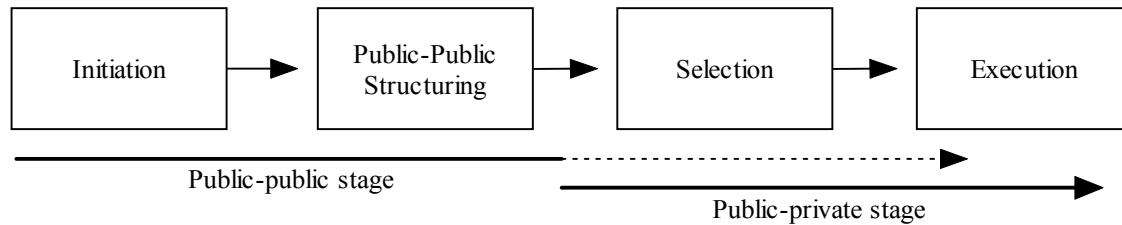


We assume that, during the lifecycle of a PPP, there will be an interaction between the use of control within the PPP and the presence or absence of trust, and vice versa. This interaction effect is represented by the arrow between the two boxes (trust and control) in grey.

### 1.1 PPP-stages

As PPPs are dynamic processes, interaction between the aforementioned variables is analysed in a dynamic way. To do so, we distinguish the different stages of a PPP. Based on the model developed by the centre of expertise on PPPs of the Flemish government ('Vlaams Kenniscentrum PPS'), the four stages we use are (Figure 2): the initiation stage (similar to the exploration phase), the public structuration stage (similar to the planning phase), the selection stage (a separate stage in which the private partners need to be selected), and the implementation stage (which bundles the realisation and operation stage). We can cluster the four stages into two components for case analysis: public-public stage and public-private stage.

**Figure 2: PPP-stages**



([www.vlaanderen.be/pps](http://www.vlaanderen.be/pps))

### *1.1.1 Public-public stage*

In the first component of this dichotomy, only public parties are present. Therefore, we will refer to it as the ‘public-public stage’.

The first phase is the initiation stage. Regardless of the purpose, forming a PPP involves considerable investments by all parties. The main incentive for governments to engage in a PPP is the pre-financing and possible lower costs of infrastructure projects. This is also one of the main critiques of the recent PPP-revival: it has only provided the government with a mega-credit card (Hodge and Greve 2007).

The initiation stage is, therefore, mainly concerned with the exploration of the possibilities of setting up a PPP to achieve public goals. The conclusion of this stage is the decision of the public party or parties whether or not to act as a ‘triggering’ entity (Doz et al. 2000) for the formation of a PPP.

The next stage is a stage of project structuring between all public parties involved, referred to as the public-public structuring phase. All implicated public parties are included in discussions about the project. The end of this stage is a shared view on needs and aims of the project, detailed in a plan of action, i.e. a project report.

### *1.1.3 Public-private stage*

The second component is characterised by the presence of (a) private partner(s), in this paper referred to as the public-private period.

The first phase is called the selection phase. The ‘triggering’ public actor should make the procurement procedure public, which includes stating the selection procedure publicly so it is open to every private party that wants to participate in the partnership. Depending on the procedure, there is more room for real negotiations and commitments between all public parties.

The second phase, referred to as the execution phase, involves the actual practice and management of the chosen form of public-private partnership in conjunction with the actual realisation of the project.

In this paper, we focus on PPPs involving infrastructure development (as they are the most common type, see Eggers and Startup 2005). This means that the execution or implementation phase can be divided into two different sub-stages. The first sub-phase refers to the construction of the infrastructure itself (i.e. the realisation stage), while the second sub-phase is the maintenance and/or management of the infrastructure (i.e. the operation stage).

## 1.2 Control

The crux of the conceptual framework is the black box of control. Control is used here in its broadest sense, namely as a cycle of guidance. Control (in its strict sense) and evaluation (Kaufmann et al. 1986) encompass the mechanisms and instruments used by government to intentionally influence the decisions and the behaviour of other governments or private partners in order to achieve government objectives (Verhoest, Peters, Beuselinck, Meyers and Bouckaert 2005).

In the context of PPPs, White (1991:189) defines control as the general mechanisms and more specific sets of instruments that public actors use to consciously influence the behaviour of other public and private actors in the PPP to achieve the public actors' goals.

The black box of control can fit into the well-known trinity of hierarchy, market, and networks (HMN). The distinction between hierarchies, markets, and networks as three fundamental mechanisms of control in social life is widely accepted in the literature (Thompson et al. 1991; O'Toole 1997; Kaufmann et al. 1986). A PPP can be considered a social system in which interdependent actors develop certain interaction and communication patterns -- with a certain level of endurance -- to deal with a policy problem or programme (Hufen and Ringeling 1990; Kickert and Van Vugt 1984). Table 1 presents their basic features.

**Table 1: Basic features of hierarchy, market, and network**

	<b>Hierarchy</b>	<b>Market</b>	<b>Network</b>
<b>Base of interaction</b>	Authority and dominance	Exchange and competition	Cooperation and solidarity
<b>Purpose</b>	Consciously designed and controlled goals	Spontaneously created results	Consciously designed purposes or spontaneously created results
<b>Guidance, control and evaluation</b>	Top down norms and standards, routines, supervision, inspection, intervention	Supply and demand, price mechanism, self-interest, profit and losses as evaluation, courts, invisible hand	Shared values, common problem analysis, consensus, loyalty, reciprocity, trust, informal evaluation - reputation
<b>Role of government</b>	Top-down rule-maker and steering, dependent actors are controlled by rules	Creator and guardian of markets, purchaser of goods, actors are independent	Network enabler, network manager and network participant
<b>Resources needed</b>	Authority power	Bargaining Information and Power	Mutual Cooptation Trust
<b>Theoretical basis</b>	Weberian bureaucracy	Neo-institutional economics	Network theory
(Peters, Bouckaert and Verhoest 2010:29, based on Thompson et al. 1991, O'Toole 1997, Kaufmann et al. 1986, Peters 2003)			

In our opinion, these three mechanisms provide a useful typology to analyse coordination efforts within the public sector. This trinity is used in very distinct ways

in inter- and intra-organisational research: to study different government levels (Hegner 1986), to label different state models (Van Heffen and Klok 2000), to name different ways to operate local government (Bouckaert et al.), and to analyse inter-organisational clusters (e.g. Osborne about bringing in third sector parties to provide personal social services or Lowndes and Skelcher to analyse partnerships). It is also used as a way to control staff departments in organisations (Vosselman 1995), to assess control within organisations in general (Ouchi 1980), or as a way of defining bureaucratic, market, and social mechanisms of control. Additionally, it might prove to be a powerful analytical tool that should be used to further the study of PPPs.

These three general mechanisms can be made more concrete in the form of control instrument typologies. In cybernetics, the control system contains three subsystems: an ex ante subsystem of planning and target setting; an ex nunc and ex post measurement and monitoring subsystem; and an ex post subsystem of evaluation, audit, and feedback. We use a control instrument typology that is based on existing typologies (see Van der Doelen, Lindblom, Dunsire, Etzioni) and developed further by Verhoest (2005) and Bouckaert, Peters, and Verhoest (2010).

### *1.2.1 Hierarchic control instruments*

Hierarchic control is closely related to the bureaucratic mechanism, which refers to the principle of the Weberian bureaucracy based on (arbitrary) rules about available inputs, required processes, and/or standards of results and quality.

There are a number of typical features in a hierarchy. First of all, control is top-down. Actors that are being controlled are considered relatively passive objects (hence, they are referred to as the single actor model). Secondly, authority is the interaction pattern. There is a clear distinction between politics and administration. Politics can control and decide on the strategic goals, and it is the basis of the control relationship. This enables the development of bureaucratic routines. Rules and commands are the basis of planning in a normative power relation, whereas supervision is the basis of management control. In terms of sanction (positive and negative), rewards and punishment are used. Finally, conflicts are resolved through authority, which is exercised by the controlling government.

These features can be translated into a typology of hierarchic control instruments. Control, focused typically on input and process, then is achieved by:

- Restrictive rules
- Veto power
- Power of annulment or the competence of a higher public body to annul decisions made by lower public bodies
- Ex ante rules and directions/regulations
- Detailed procedures (e.g. detailed step-by-step plans)
- Ex ante authorisation and approval
- Supervision or punctual inspections of primary processes (i.e. primary supervision)
- Recognition procedures
- Direct instructions
- Line item-budgeting, which involves a very detailed picture of expenditure (decreasing autonomy to allocate money differently)

### 1.2.2 Market oriented control instruments

The general assumption of the market mechanism is that actors base their behaviour on the price within a competitive market. The main difference between the market mechanism and bureaucratic mechanism is that there are no ex ante rules set by higher levels that direct implementation processes through which implementation can be monitored. The norms are set by the market in the form of a market price (Vosselman 1996).

The market mechanism is, therefore, based on a horizontal interaction relation between equal actors (Verhoest 2002). The control instruments used here are often formulated in terms of a principal-agent relationship. To reduce the opportunistic behaviour of the agent, the principal-agent theory points to three strategies (Verhoest 2003). The first strategy is monitoring, which means that the principal can observe, monitor, and evaluate the behaviour and/or results of the agent. Monitoring thus reduces the information-asymmetry between principal and agent. Secondly, bonding implies that the principal can incorporate ex ante safeguards to prevent the agent of taking actions that oppose the interests of the principal. The agent can also set up an internal control system of its own. A third strategy involves rewards and transfer of (typically operational) risks. The principal builds in sanctions and rewards to stimulate the agent. Transfer of risks also lowers incongruence of goals.

These features can be translated into a typology of market control instruments. Control, typically focused on output and transaction, then is achieved by:

- Contractual agreements
- Performance norms and monitoring
- Result-oriented reporting
- Transfer of risks
- Performance control and audit provisions (auditing internal control)
- Mediation and conciliation service (strong market orientation: very strict mediation, usually one round, followed by court)
- Contractual monitoring moments (e.g. revision of contracts every 5 years)...
- Secondary supervision (audit internal control mechanisms)
- Degree of competition
  - Before the negotiation
  - During the contract (e.g. evaluating the contract each 5 years, continuous pressure)
- Market-oriented financing
  - Result-oriented financing (result-bound financial incentives, e.g. finances dependent on visitor numbers)
  - Both result-oriented rewards and sanctions
  - Benefit sharing
  - Benchmarking (financing dependent on results in comparison to similar projects in the market)

### 1.2.3 Network control instruments

While networks have some features of the hierarchic and market mechanism, there are sufficient arguments to consider it a distinct mechanism (Verhoest 2002).

The first feature is that interactions are based on reciprocity. Trust, collaboration, and loyalty are key concepts in networks. Second, the network mechanism is based on the idea that actors are able to identify complementary interests. This leads to resource exchanges between actors that are based on interdependent relations, trust, loyalty, and reciprocity (Kickert, Klijn and Koppenjan 1997). Next, the third feature is the equal status of the government amongst other actors in the networks. Government does not hold a hierarchic position vis-à-vis other actors (although government is, of course, a special actor because it has a monopoly over a number of resources, like the use of force). Therefore, policy, as the fourth feature, is developed in a network instead of just being implemented. Typically, policy is the outcome of the interaction between independent partners, which causes the distinction between policy development and implementation to become vague. The fifth feature is in regard to how the network mechanism involves a specific set of management strategies (Kickert, Klijn and Koppenjan 1997) in which success is not necessarily measured in terms of goal achievement but (also) in terms of satisfaction of participants about the process itself and whether joint solutions for problems can be agreed upon. In network control, fine-tuning and flexibility take priority over generic instruments, like legislation and one-size-fits-all solutions. Networks are also featured by coalitions. To avoid the negative impact of fragmentation and proliferation, networks are set up by stakeholders, customers, or based on policy cycles. Finally, conflicts are solved using the reputation of network members.

These features can be translated into a typology of network control instruments. Control, typically focused on process and trust, then is achieved by:

- Network management (including culture and relations)
- Mutual control
  - Frequent (personal) contacts, extensive consultation and collaborative procedures
  - Control through people, based on social control, reputation, legitimacy, etc.
  - Advising, co-decision making
- Horizontal control and involving stakeholders and peers in the process, like:
  - User panels
  - Users in boards
  - Visitations (e.g. to benchmark each others' control systems)

The three-fold typology of control instruments can be used to map the extent to which they are present or not in a case. However, the formal presence of such instruments is only part of the control story. We are also interested in the actual control that takes shape in interactions between actors in the PPP. So, on the one hand, we use a typology of formal control instruments that fit one of the three control mechanisms. On the other hand - and this is where PPP-research often fails - is the level of the actual interactions between actors. The formal instruments are relevant, as they provide grounds for control, but their presence or absence says little about their actual use or relevance in concrete practices. A PPP might involve a wide set of control instruments that are not being used in the interaction between actors, and vice versa. It is the combination of the formal and factual picture that we aspire to develop further to enrich the PPP-research.



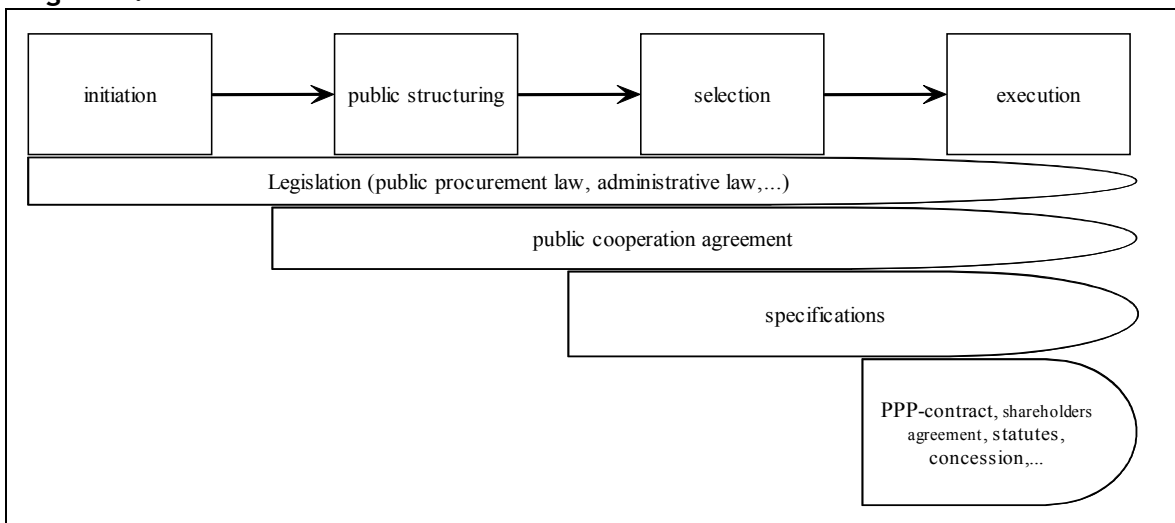
### 1.2.4 Formal content vs. actual behaviour of partners

We are interested in understanding the mix of these three types of control, in terms of their mutual interaction, and the overall impact of the mix on performance of PPPs. We refer to a control mix, since the three types are ideal-types that never occur in their pure form (Parsons 1995). In two case studies, both involving two neighbouring municipalities that cooperate to construct a swimming pool infrastructure by means of a PPP, Van Gestel, Voets, and Verhoest (2009) found that there was a distinction between the formal content and presence of control instruments and the actual behaviour partners developed. There is a distinction between formal control and factual behaviour. There also is a gap between the formal control mechanisms and instruments stated in formal documents, contracts, and legislation, and the actual use of control instruments in practice.

#### Formal control

With formal content, or formal control, we mean the set of control and steering instruments that are stipulated in formal and written sources related to a specific PPP. In other words, these written and formal sources are the carriers of formal control instruments. Figure 3 illustrates for each PPP-phase what the sources or carriers of formal steering and control can be.

**Figure 3: Formal control carriers**



Once a new carrier of formal control instruments is constructed (i.e. a PPP-contract), it will not easily change over time and eventually becomes an institutional element. For instance, a PPP-contract is designed to last up to 30 years. But this doesn't mean that during this period the contract can't be adjusted to adapt to changing circumstances.

#### Factual control

The main purpose of establishing these formal control instruments and mechanisms is to reduce the risk of opportunistic behaviour of the partner(s) and the risk of poor performance (Das & Teng 2001; Langfield-Smith & Smith 2003; Van der Meer et al. 2000). In this sense, formal control -- for example, the use of contracts -- narrows

down the scope and the severity of risks in inter-organisational relationships such as PPPs (Mellewigt et al 2007). Although the written and formal documents deliver the blueprint of how the interaction between the different parties in a PPP will take place, in practice certain dynamics can develop (Van Gestel et al 2009). The actual steering and control mechanisms used in the PPP can deviate from the formal control formulated in formal control carriers. In the previous research on PPPs regarding local swimming pool infrastructure, we have seen that the gap between the formal control and actual behaviour can be related to the degree of conflict and tension between the cooperating partners: the higher the degree of tension, the closer parties hold on to the formal control instruments, and vice versa. Therefore, PPP-practitioners often apply the metaphor of a marriage contract to PPP-contracts: once it is established one hopes it never has to be used. We will label the control and steering mechanisms and instruments used in practice as ‘factual steering and control’. It is not unthinkable that over time the factual control (different from formal control) becomes formalised in a contract.

### 1.3 Trust

A second important concept in this paper is ‘trust’. In what follows, we first will look at what the literature has to say about the importance of trust regarding to control. Secondly, we will elaborate the trust-concept in order to apply in our case studies.

#### 1.3.1 Exploring trust in relationship with control

In organisational studies there are two ways to treat trust (Sako 1998): either as a determinant of ‘governance structure’ or as a governance structure in itself. In other words, trust can be seen as a factor that influences control mechanisms or it can be seen as a(n) (informal) control mechanism on its own. In the latter, trust forms a trinity with market and hierarchy (Ouchi 1980; Adler 2001). Also we use a similar trinity (market, hierarchy, network) to distinguish different types of control.

We have stated that control instruments in PPPs are used by public actors to consciously influence the behaviour of other public and private actors in the PPP to achieve the public actors’ goals. By doing so, the public actor can reduce, on the one hand, the risk of opportunistic behaviour of the other partner(s) and, on the other hand, the risk of poor performance in accomplishing the public actor’s goal. Also trust can be seen as a mechanism to reduce complexity and uncertainty.

Rousseau, Sitkin, Burt, and Camerer (1998) define trust as “*a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another*” (p. 395). By having these positive expectations in the future behaviour of the partner in a PPP, the internal complexity of the PPP is simplified. Trust absorbs complexity insofar as the trustor acts as if the trustee’s actions are, at least to some degree, predictable (Luhmann 1989). In this context, trust can also be seen as a mechanism for reducing (perceived) risk<sup>6</sup>. We can conclude that trust and control have, in some way, the same function, namely that they both reduce uncertainties in cooperative relationships and, therefore, also reduce certain

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<sup>6</sup> see e.g. Arrow 1973; Fried 1982; Shapiro 1987; Williamson 1985; Zucker 1986; Das & Teng 2001

risks that are involved with the cooperation. The question that arises is in what way both concepts will interact in an inter-organisational setting, like PPPs.

The subject of the relationship between trust and formal control has received a lot of attention in the literature on inter-organisational relationships. Different theoretical perspectives on the significance of the relation between trust and control have emerged (Vlaar et al. 2007 p. 408). In particular, contributions have emphasised (a) that trust and formalisation may act as substitutes<sup>7</sup>; (b) that they may function as complements<sup>8</sup>; (c) that they have a variety of performance effects<sup>9</sup>; and (d) that they may develop along self-reinforcing cycles<sup>10</sup>. In our view, the first perspective -- that trust and formal control act as substitutes -- can be put aside, since formal control (e.g. a PPP-contract) is essential in a complex environment, such as a PPP. Because of the nature of trust, being that it has the ability to reduce uncertainty and, therefore, the perceived risk, it may have an influence on how the trustor uses the available formal control instruments (HMN). Hence, a possible explanation of the emerging gap between formal control and factual control can be attributed to trust. It is not unthinkable that, if a PPP is characterised by high mutual trust, partners will waive costly monitoring and control mechanisms.

The paragraph above assumes that trust has an effect on the use of control, but there can also be an effect in the opposite direction. We have stated that the presence of proper formal control instruments (e.g. contract) may reduce risks and decrease the possibility of failure. This reduction of risks through the use of proper control instruments can increase the level of trust (Goold and Campbell 1987; Sitkin 1995; Coletti et al 2005). However, Schoorman et al (2007, P. 347), stated that there is an important caveat to be noted: If there is a very strong system of control in an organisation, it will inhibit the development of trust. Not only will there be few situations where there is any remaining perceived risk, but trustworthy actions will be attributed to the existence of the control system rather than the trustee (cf. Strickland, 1958). In some cases, the very mechanisms that were created to reduce risk in transaction have the unintended consequence of reducing trust in relationships (Molm et al 2000). Therefore, the relation between trust and control can have a very ambiguous character during interaction.

Finally, trust can also play an initial role prior to or during the construction of the formal control instruments. Powell (1996), for instance, argued that in the absence of “natural” conditions for trust development -- such as familiarity based on past experiences or characteristics of similarity -- inter-organisational collaborations tend to rely more heavily on formal and institutional base arrangements, which can be more costly and time-consuming (Costa & Bijlsma-Frankema 2007 p. 398). The presence of initial trust can therefore have an influence on the complexity of the contract. PPPs are, at most, long-term partnerships where not every risk that can occur during the period can be foreseen. If trust initially is present, it is possible that contract-partners choose not to cover a certain risk in the contract, but apply a more network-like mechanism to deal with this risk (e.g. consultation structure procedures in case unexpected events occur). Because it is impossible to foresee every contingency that may arise in a relationship, and the costs associated with monitoring and enforcing contracts may be considerable, exchange partners might instead rely on

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<sup>7</sup> e.g., Das & Teng, 2001; Dyer & Singh, 1998; Gulati, 1995; Inkpen & Currall, 2004; Zaheer & Venkatraman, 1995

<sup>8</sup> e.g., Deakin & Wilkinson, 1998; K. J. Mayer & Argyres, 2004; Poppo & Zenger, 2002; Sitkin, 1995; Zucker, 1986

<sup>9</sup> e.g., Kern, 1998; Luo, 2002; K. J. Mayer & Argyres, 2004; Sydow & Windeler, 2003

<sup>10</sup> e.g., Ghoshal & Moran, 1996; Inkpen & Curall, 2004; Macaulay, 1963; Zand, 1972

trust as a means of managing risk and fostering collaboration (Macaulay, 1963; Sitkin and Roth, 1993; Gulati, 1995a; Uzzi, 1996; Jensen, 2003 in Malhotra and lumineau forthcoming p.3). In a low trust setting it is plausible that contract partners will try to grab for more market-based mechanisms (e.g. pinpointed risk deviation) in an attempt to make the contract watertight.

Anyway, most complex relationships rely on both trust and control simultaneously, since neither contracts nor trust can typically provide a complete solution to the problems inherent in exchange relationships (Poppo and Zenger, 2002). The above sketch of the trust-control relation, however, shows that this relation is far from clear. With this research, we want to clarify this relationship by testing our conceptual framework on real cases in practice.

### *1.3.2 Developing our trust-concept*

In the previous section of this paper, we briefly discussed the relation between trust and control. We already stated that trust can be seen as a psychological state comprising the intention to accept vulnerability based on the positive expectations of the intentions or behaviour of another actor. In this section we will further elaborate our notion of the concept “trust”.

Exploring the role of trust between partners in a PPP is a conceptual challenge because trust is inherently an individual-level phenomenon (Zaheer et al 1998). In the end, there are individuals who trust, not organisations. Zaheer et al. (1998) uses the term interpersonal trust to refer to the trust that an individual boundary-spanning agent shows towards her counterpart in the partner organisation. The term inter-organisational trust is, subsequently, the trust placed in the partner organisation by the members of a focal organisation. In an overview on the literature on trust, made by Zaheer and Harris (2006), a large number of scholars imply a close relationship between the two concepts<sup>11</sup>. In research on entrepreneur-investors relations, Sapienza and Korsgaard (1996) stated that inter-organisational trust is essentially equated with trust between the entrepreneurial CEO and the lead investor. Given the similar context of PPPs, where the interaction between the partner organisations runs mainly through the boundary-spanning managers of the respective organisations, we do not explicitly make the distinction between the two analytic levels of trust.

The review of the trust literature by Mishra (1996) identified four distinct dimensions or components of trust. He incorporated these four dimensions in the following definition of trust, which is founded on the notions of vulnerability (and expectations or beliefs):

*Trust is one party's willingness to be vulnerable to another party based on the belief that the latter party is 1) competent, 2) open, 3) concerned, and 4) reliable. ( P. 5 )*

Across the trust literature several typologies of trust were constructed in an attempt to capture these different dimensions (e.g. Muthusamy, Sako, Lewicky & Buncker,..). Although these typologies differ from each other, they are all based on two broad notions (Das and Teng 2001). Nooteboom (1996 p. 7) formulated this dichotomy as trust concerning a partner's ability to perform according to the intentions and

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<sup>11</sup> E.g. Heide & John 1990; Larson 1992; Moorman, Deshpande & Zaltman 1993; Aulakh et al 1996; Nooteboom, Berger & Noorderhaven 1997

expectations of a relation (competence trust), or his intentions not to defect willingly (behavioural trust).

For Das and Teng (2001 p 257), competence trust is based on the various resources and capabilities (capital, human resources, physical properties, market power, technology, and others) of a firm. These resources and capabilities provide the basis for the competence or expertise that is needed in alliances (Das and Teng 2001). When it comes to reducing perceived performance risk, competence trust is plainly the relevant antecedent. Closely related with competence trust is Mayer, Davis and Schoorman's (1995) conceptualisation of *ability* as a component of trustworthiness, which is seen as an antecedent of overall trust. Ability is the group of skills, competencies, and characteristics that are significant to alliance task and allow a partner to have some influence within some operational domains. Thus, ability highlights the task- and situation-specific nature of the trust (Zand 1972). For Sako (1997, P. 3), competence trust requires a shared understanding of professional conduct and technical and managerial standards. Questions that can be linked to competence trust (Muthusamy and White 2005) are: is the partner capable of performing its role in the alliance? Is the partner known to be successful at the things he tries to do? Is the partner firm well qualified for the alliance? Has the partner formed knowledge about the work that needs to be done in the alliance? How confident are you in the partner firm's skills?

Referring to *behavioural trust*<sup>12</sup>, Das and Teng (2001 p 256) use the term goodwill trust. For them, goodwill trust is about one's good faith, good intentions, and integrity. It is about whether a firm has a reputation for dealing fairly and caring about its firm's welfare in alliances. Sako (1992) distinguishes two types of trust linked with the behaviour of a partner: contractual trust and goodwill trust. Contractual trust rests on a shared moral norm of honesty and promise-keeping. It is based on the expectation that the other party entirely remunerates the prepared agreements (written or unwritten). 'Goodwill trust' is then the trust in a mutual, open commitment to a relationship, including the expectation not to be taken advantage of. Other scholars (Mayer et al. 1995; Muthusamy & White 2005) divide the 'behavioural component' of trust into an integrity dimension and a benevolence dimension.

Integrity is defined as (Muthusamy and White 2005, p 421) a trustor's perception that the trustee adheres to a set of principles that the trustor finds acceptable. Perception of integrity in a relationship is judged by the consistency of the trustee's past actions, the extent to which the trustee's actions are congruent with promises made, and belief that the trustee has a strong sense of justice. Benevolence (Muthusamy and White 2005, p 421) is the perception of a positive orientation of the trustee to the trustor (Mayer et al. 1995). Benevolence-based trust is based on the expectation that another individual or group will not take excessive advantage of the other party, even if the opportunity is available, or will not knowingly hurt the other's interests (Bromiley and Cummings 1992; Mayer et al. 1995).

We will not apply the distinction between benevolence and integrity or goodwill and contractual trust in our case analysis, but we will use these dimensions as the building blocks for the 'behavioural' component of trust. One reason for this is that the differences between these building blocks are too subtle to differentiate with the

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<sup>12</sup> Note that many researchers view **behavioural trust** as the manifestation of subjective trust. Here behavioural trust is used as a trustor's believe that a trustee will act fairly, predictable and consistent.

qualitative method applied in this research. To avoid confusion, we will use the term ‘*character-based trust*’ to refer to the second component of our conceptualisation of trust (Malhotra and Lumineau 2009). Questions that can be linked to ‘*character-based trust*’ are (Muthusamy and White 2005): Is the partner concerned with your welfare? Would the partner knowingly do anything to hurt your organisation? Does the partner look out for what is important to your organisation in the alliance? Does the partner have a strong sense of justice? Is the partner fair in business dealings with you? Does the partner stand by his word? Is the partner’s behaviour consistent? Do you like the partner’s values and ideals?

To summarise, what ultimately makes someone trustworthy is the perception of one’s reliability (being able) (*competence-based trust*), predictability (being consistent), and fairness (being willing) (*character-based trust*) (Zaheer et al. 1998).

**Table 2: Dimensions of trust**

	<b>Competence-based trust</b>	<b>Character-based trust</b>	
Das & Teng 2001; Nooteboom 1996	Competence trust	Behaviour trust (Goodwill)	
Mayer et al. 1995; Muthusamy and White 2005	Ability	Integrity	Benevolence
Mishra 1996	Competence	Open, Care,	Reliability
Sako 1997	Competence	Goodwill	Contractual
Zaheer et al. 1998	Being able	Being willing	Being consistent

## 2. THE CASE STUDY

The long-term research project builds upon a multiple case design. After the study of two local PPP-projects, we now make a jump to a case on the Flemish level. For the purpose of this research project, a total of five Flemish cases were selected, all with a varying degree of complexity, at different stages of the PPP, and with varying performance or of different types. This allows for cross-case comparisons based on key variables of the conceptual framework. In this paper, we look at the results of the first Flemish - first generation - PPP-project from the series of five: PPP in social housing. This case will function as an explorative case. In the first place, we want to test whether the conceptual framework is fit to analyse PPP practices. Secondly, we will try to formulate some hypotheses regarding the interaction between control and trust that can be tested in later research.

## 2.1 Methodology

Our research questions<sup>13</sup> and our process oriented approach forces us to make use of a qualitative method. Although quantitative research is often applied to measure trust, it is only a reliable instrument for measuring the *evolution of trust* when it is applied to a longitudinal case study. Because of the restrictions of our research project, it is not possible to conduct such longitudinal case studies. In-depth interviews can, therefore, be seen as a second-best solution for capturing this evolution. Secondly, a quantitative research method is not capable of capturing the complex and dynamic interaction between trust and control.

Data for this study was taken from official documents (contracts, calls, ...), grey material (personal notes, e-mails ...), and semi-structured interviews (8) with PPP partners (both public and private) and observers.

## 2.2 Social housing

### 2.2.1 Involved actors

Due to the complexity of the project, we will first introduce the main players in the social housing project:

#### The Flemish Housing Society (VHM) (Flemish level)

The Flemish Housing Society (VHM) was until 2006 responsible for social housing, both concerning renting, buying and borrowing of social housing units. The VHM carried out its tasks through the local social housing companies (LHIs). In this context, the VHM was expected to be a key player in the PPP-project.

#### Local social housing companies (LHIs) (Local level)

The LHIs were created from municipal initiatives (one or more municipalities) and take the form of commercial companies. The shares are mainly supported by (the) initiating local government(s), (the) local CPAS(s) (welfare organisms), the Flemish Region, the province and possibly by individuals and / or private companies.

#### aGI (Devison Subsidized Infrastructure)(Flemish level)

Before 2006 aGI was a part of the former ministry AZF ( General Affairs and Finance). It was/is responsible for the grants rewarded to infrastructure projects with social relevance.

#### Vmsw (Flemish level)

In 2006 VHM and aGI were merged together in the context of administrative reforms. In the past filled the VHM (besides its other functions) a supportive role towards the LHIs. This supportive role was intertwined with a monitoring function. As part of the administrative reforms, both features were split apart. The vmsw could thus concentrate on its support function.

#### Private partner

The private partner SOWO, was a consortium that was set up especially for the social housing project. The consortium consisted a bank and a large contractor.

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<sup>13</sup> How does trust and control interact within a PPP?

### 2.2.2 *Dynamic perspective*

Like we repeatedly have said, we want to analyze PPPs in an dynamic perspective. In what follows we focus on 'control on' and 'trust in'. To understand the relation, it is important to know from who trust and/or control comes from and to whom it is addressed to. In our case the sender (the trustor and the controller) is the initiating public partner. In the beginning of the public-public stage this will be the Flemish cabinet (initial conditions). Once the policy decision was taken to go for PPP, the sender will be the aGI (after the reform of 2006: vmsw). The receiver (the trustee and the controlled) will be the on the one hand the other public partners (LHIs) and on the other hand the private partner. The two pathways (towards public partners, toward private partners) will be discussed separately. Finally, when it is relevant, we will mention the trust-level from the LHIs towards the private partner.

### 2.2.3 *Prologue*

For several years, the social housing sector in Flanders has struggled with a chronic shortage of social housing units. Besides the traditional programmes, such as the Investment Program (IP) and grants for the construction and modernisation of social housing (SBR), several alternative financing initiatives were already taken in the past to deal with this shortage.

In the federal state elections in 1999, the Christian-Democrats suffered a historic loss, which caused her to lose her political dominance in Flanders. With the start of the new purple-green (liberals-socialists-ecologists) Flemish Cabinet in 1999, the concept public-private partnership appears for the first time in the coalition agreement, initially in regard to investments to address weaknesses in the Flemish transportation infrastructure. But pretty soon it was broadened to other policy fields.

One of those fields was the Social Housing Sector. At that time, no less than 65,000 families were registered on a waiting list for a local social housing company (LHI) and the waiting time had risen to five years. The turnaround of a traditional social housing project had an average of six years. By using the PPP technique, the Flemish government thought it could halve the duration of the turnaround so they could accomplish their objective of constructing 15,000 social houses in one legislature (HBVL, 29 mei 2001).

The above illustrates the context in which the pilot-project for a PPP in social housing started. The purpose of the project was to create additional social housing through the use of DBFM-contracting.

## 2.3 **Public-public stage**

In the public-public stage we focus on the interaction between the initiating public entity and the other public parties in the PPP.

### 2.3.1 *Initial conditions (Trust)*

According to Doz (1996), it is important to consider the circumstances related to the initial conditions that are present when a strategic alliance is formed (in Arino et al. 2001). In this paper, we are also interested in the presence of ex ante trust between



the partners in a PPP at the start-up of the project. Within a PPP, most (potential) partners already have a priori expectations of the behavioural standards of the other party, particularly that it will comply with those standards. Arino et al. (2001) claim that the bases for these expectations are found in what Meyerson, Weick, and Kramer (1996) describe as “*traditional*” sources of trust: “*familiarity, shared experience, reciprocal disclosure, threats and deterrents, fulfilled promises and demonstrations of non-exploitation of vulnerability.*” These sources of trust all presume a prior interaction between partners; though, this is not necessarily always the case. In what follows, we will sketch these initial conditions. We are especially interested in the level of trust of the initiator of the project, being the cabinet, because it is the level of trust of the cabinet towards the other partners that possibly influences the choice of control instruments and the way the project will be structured (by the cabinet).

The Social Housing Sector was traditionally a Christian-Democratic power bastion (De Morgen, 6 April 2002), whereas the new minister of Social Housing was from the Flemish Liberal Party (VLD), which won the elections of 1999. In this context, PPP was seen as a very liberal recipe that caused suspicion and resistance from the sector. In addition, in the same period a Flemish newspaper published a series of articles in which some scandals in the Social Housing Sector were exposed. Although the president of the Flemish Housing Society (VHM) was not involved, it increased the mistrust between the new cabinet and the Social Housing Sector. In March 2002 a statement from an anonymous source in the periodical ‘De Morgen’ outlined the situation:

*“It’s opposition from the inside. If they want to eliminate the VHM executives, we will boycott the PPP-plans”*

The confidence of the cabinet in the goodwill of the sector diminished. Furthermore, the cabinet was aware of a certain resistance from local housing societies:

*“Apart from one was encouraged or not, but in general there was a resistance against new issues. In many agencies there is fear for the new and the consequences of it on its own organisation. Because if those PPP’s get successful, will they need us still?” (the cabinet)*

*“They {the local housing societies} want to be builders and decide everything from a till z for themselves” (the cabinet)*

We can conclude that the initial conditions in terms of trust between the cabinet and the other public partners in the PPP-project are characterised by low character-based trust. The cabinet is not confident in the goodwill and cooperative behaviour of the other public players in the field.

### 2.3.2 Control

Because of their function, the VHM was expected to be a logical partner in the project. But in the initiation phase and the structuring phase the VHM initially was hardly involved.

*“During the entire start-up of the project we were not considered as a prior partner of the cabinet, actually we were not a partner. That the cabinet explicitly had chosen to install a structuring model first, above all a financing model and afterwards awarded the enactment to aGI (Devision Subsidized Infrastructure) of the former ministry AZF ( General Affairs and Finance)” (VHM)*

In 2001 external consultants were assigned to draft a first PPP-concept. After further exploratory work of the administration, a second study was ordered in 2002 to elaborate the PPP-concept more concretely. With further explanation of the project, a workforce composed of members of the cabinet, the external consultants, and some experts from inside the administration was set up. Besides the consultation of a number of actors out of the field, the project took shape in a very technocratic manner.

Around the same time as the elaboration of the concept, aGI started searching for appropriate locations. Besides some substantive criteria, like spread, rapidity of the possible start-up, nature of the area, and length of the waiting lists, the budgetary possibilities and goodwill of the local entities on PPP was also looked at. This resulted in 14 locations that were divided into three provincial plots. Once the selection was made, the Flemish government organised a road show where the principles of the project would be explained to the local entities.

It was 2003 when the selected local parties were asked to send their demands to aGI (still under the department AZF), which acted as the contracting government. According to the output-oriented specifications, the local parties were asked to note their demands on one A4-sized paper. For a number of local actors this stage of the PPP was the only moment their voice was heard. Once this document was transferred, no adjustments were possible:

*“It was like: give your program on that one piece of paper. I had forgotten to ask for terraces. I had like to have terraces. Now we don’t have them.” (LHI)*

Like we have seen in the previous part, the initial setting of the SH-project was characterised by low character-based trust. Additionally, the project itself was the first PPP-project of its kind in Flanders, so there was still little knowledge concerning the approach of such projects. This project was, therefore, seen as a pilot-project, so the public structuring of this project was tightly controlled. The initiating government instigated a lot of strict procedures, and there were few moments of participation for the local partners. Finally, the decision lines ran top-down, so we can conclude that, in the case of Social Housing, the steering and control from the initiating government (cabinet + aGI) in the public-public stage was strongly hierarchically oriented.

## **2.4 Selection stage (Public-private stage)**

### **A. Towards the public partners**

#### **2.4.1 Trust**

Because of administrative reforms that occurred at the same time as the project, the VHM and the aGI merged into ‘vmsw’<sup>14</sup>. The political tension between the cabinet and the sector dropped. The local parties (LHI) were asked to include their auspicious feelings toward the project and toward PPP in general. However, this did not remove all suspicion of LHI’s:

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<sup>14</sup> Note that with the Flemish elections of 2004 the Christian-Democrats took back the leading roll in the government. In the initial blueprint of the reforms the VHM disappeared from the plan, under the influence of the Christian-Democrats the current structure was drawn up.

*“The LHI’s, and this is important, didn’t have to pay anything. If we let them alone at the negotiation table, then it would have been a free lunch.”(aGI)*

#### 2.4.2 Control

The design of the project and the global draw-up of the output specifications were not only tightly held in the hands of the Flemish government, but in the selection stage the Flemish government also continued to have a strong grip on the process. The projects of the private candidates had to be judged on two parameters: the economics of the project and the architectural value.

*“During the negotiations we were asked to judge the designs of the participating consortia. There were still two private candidates in the race. Since we had two locations in the project we could send two representatives to the jury, but we had only one vote.” (LHI)*

The participation of the local parties in the judging commissions seemed to be an important network-oriented steering and control instrument. But, if we take a closer look, it becomes clear that it was transformed to a more hierarchical instrument. With one vote out of ten, the LHI’s were clearly in a minority position.

*“Without any inside knowledge we were asked to come to Brussels for the judgment. We had 1,5 hours to look at the plans of the private candidate. That was not serious and we wasted our time” (LHI)*

Also, the arbitrary division of the locations was a point of dispute.

*“You were in a minority position. The entire plot had to go to the same private candidate, even if you didn’t liked it” (LHI)*

The judgment of the economic part of the proposals was reserved for the aGI (vmsw).

*“Points were given two times, once for the economics and an other for the architecture. And in the end it was a ‘fait accompli’: it’s going to be [...] that private consortium” (LHI)*

## B. Towards the private partner

#### 2.4.3 Trust

In this stage, the public parties did not have prior interaction with the anticipated private partner. The level of trust had to be built, starting from the selection stage. However, there was a strong conviction that the private sector was a sector whose main goal was profit animalisation. This corporate goal is opposite to the goal of the public sector, who wants to serve general interest. This incongruence in corporate values would impact the use of steering and control instruments.

#### 2.4.4 Control

The most important carriers of control in this stage are the output specifications and the accompanying selection procedures, which were published in the bulletin of public procurement.

To increase the competence-based trust in the future private partner, the contracting government necessitated technical, financial, and economical minimum requirements from the private candidates. For the requirements of the project itself, the public parties had to meet the legal standards of social housing, which was stipulated in the existing common specifications for social housing. However, they also had special output-oriented specifications on the material-level, which were designed especially for the PPP-project in order for the future private partner to have more innovating freedom.

The public partners had estimated that the private market could build and maintain 450 houses for a period of 30 years within the provided budget of €25 million. This number was based on an assumption that the private market could reduce the building cost to 80% of the VHM-norms. To ensure that the private partner would keep to this norm, it was written down in the specifications.

Although there were a lot of private candidates, soon it became clear that the number of 450 houses was unrealistic. The vmsw considered that only the negotiation procedure could provide an acceptable amount of housing facilities. Therefore, they were not prepared to make a lot of concessions.

We can conclude that the contracting government holds onto a strict and dominant position, which is also true of their relationship with the private candidates. *When the limited* tender enquiry (in dutch: ‘beperkte offerteaanvraag’) didn’t appear to bring a satisfied proposal, the vmsw tried to find solace in the negotiating procedure. Although this last procedure can be seen as a more network- and market-like procedure, it wasn’t possible anymore to fully use its potential.

In addition, the private partner wasn’t satisfied with the procedure. Their main concern was the rigidity of the framework of the project:

*“They make that juridical framework so rigid out of fear to get rolled. The more rigid the framework is, the less open you can be”*

## 2.5 Execution stage

The execution stage includes both the construction and the exploitation of the social housing infrastructures. At the time this study was executed, the project was still in its building phase. The relations between the public and the private partners were still young, so it is too early to see the inter-relational dynamics take shape. However, by observing the first steps in this long-term relationship, we might discover an early pattern. In this stage for each location three main actors were at play: the vmsw, the local public entity (LHI), and the private partner.

### A. Towards public partners

#### 2.5.1 Trust

At the start of the execution stage, the vmsw didn’t have a lot of trust in the local entities to comply with the chosen blueprints for the new social houses.

*“It was after the tender procedure that there was slightly less confidence regarding to changes. We were a little suspicious and wary”(vmsw)*

### 2.5.2 Control

The PPP-contract stipulated that a steering group had to be created for each location, whose aim was the realisation and exploitation of the social housing units in mutual consideration and close collaboration with the different partners. The goal of those steering groups, as stated in the contract, was to structure the deliberation between partners and the optimisation of the cooperation. In this steering group the vmsw took the role of the dominant actor.

*“To hold the line tight. If we hadn’t done that, half of the houses would not be build and the other half would been build at double the price”(vmsw)*

The main reason for the vmsw’s concern was the lack of responsibility of the LHIs. In addition, the LHIs were not sufficiently involved in the public-public phase. The latter made it necessary for the vmsw to closely monitor the phase in order for the implementation to be smooth.

## B. Towards the private partner

### 2.5.3 Trust

During the first part of the PPP process, the local entities were not largely involved in the development of the project. In the selection stage they had access to the first drafts of the building plans, but it was only when the project was concretely enacted that they would know what they really would receive.

*“There was anxiety amongst the LHI’s towards the quality of the projects. That is one of the reasons why we are detached to the project. Using the classic procedures takes time. But if you take a look in Flanders, you will see that the social housing is of very high quality. The technical quality is on average much higher in comparison with the private sector.”(LHI)*

Unlike the local public actors, the vmsw had confidence in the competence of the private partner to make the project a success. After the contractual close, the partners were ready to start their 30-year partnership. In the first months of this new relationship, the character-based trust towards the private partner didn’t increase. The perception of the vmsw toward the private partner was ambiguous. On the one hand, the vmsw emphasised the good relations with the private partner:

*“They [the private partner] regularly demonstrated their goodwill. If we said: we could not afford something, they understood us quite well. The cooperation was good”(vmsw)*

On the other hand, the vmsw showed a lower character-based trust:

*“The way they [private sector] handled the contracts was very poor and old fashioned. Always trying to do other things. For instance trying to bill for things that weren’t included in the specifications. Maybe it was ignorance, if it is not, it is even worse”(vmsw)*

### 2.5.4 Control

In the execution stage, steering and control of the private partner was based on the contracts agreed on in the selection stage. The provision of adequate and qualitative

social housing facilities was the final performance that had to be delivered by the private partner, according to the technical and financial plans on which their selection was based in the selection stage. Procedures for supervision and control during the building stage and an accompanying penalty system were imposed in the specifications. During the exploitation stage, the maintenance section was a component in the PPP-contract. The task and responsibility division between public and private parties concerning the maintenance were mainly based on the Civil Code and was insufficiently defined (KC PPS, first evaluation). A detailed risk division concerning maintenance was also missing.

After the tender procedure, the vmsw wanted to step aside:

*“ we are only the contracting government. After the tender procedure the LHIs have to take action personally”* (vmsw)

When this case study was performed, seven projects were built and the issue of maintenance was not resolved. According to the contract, a steering group planned to clear out the operational and maintenance part of the project. In the meantime, one of the facilities already had a problem with a leaky roof. This made clear that the contracts were not well adapted to deal with this situation. There was no specific and adequate payment mechanism that foresaw that the necessary pivots - positive and negative (KC PPS). There was the possibility to stop payments to the private sector, since the unavailability of the facilities was caused by the private partner. But this penalty measure was too harsh and wasn't adapted in the case of minor failures.

In most cases when the contract does not provide clarification, a solution can be found through the building of trust and goodwill on both sides of the table (PPS KC 2007). But, in the previous stages of the PPP-project, little investment in trust building was made. A reason for the rather low level of trust can be seen in the rigidity of the legal framework of the project. The social housing project was one of the first large PPP-projects on Flemish level and considered a pilot project.

### 3. CONCLUSIONS

Our conclusions can be subdivided in four parts: 'control in PPPs', 'formal vs. factual control', 'trust' and 'control vs. trust'.

#### Control in PPPs

In our case-analysis we have tried to link individual control instruments to the threefold typology of hierarchy, market, and network (see index). By doing so, we have seen that there is a mixed use of hierarchy-, market- and network-based mechanisms in actual public-private partnerships. Nevertheless, it is not possible to just count the mere presence of certain control instruments in the formal documents (e.g. contracts) to determine which mechanism is dominant in a specific PPP. First of all, not every control instrument is equal in weight. Some control instruments are more frequently used or have a stronger impact on the actual PPP-process, while others are formally present but not used in practice (the latter is closely related with our distinction between formal and factual control). Secondly, in the early stages of a PPP, formal control carriers are not commonly present or still have to be built. Therefore, we rely on both formal documents and interviews with key actors to sketch a global picture of the use of control mechanisms through the stages of a PPP.

In the case of Social Housing, the interpretation of the data is represented in Table 3. We can conclude that the dominant control mechanism used by the initiating public partner (The Flemish government) towards both the other (local) public partners and the private partner was the hierarchical mechanism. Some reasons for the initial choice to use more hierarchy-based mechanisms can be found in variables that are out of the scope of this paper, but are covered by the conceptual framework of our research<sup>15</sup>.

### Formal vs. factual control

In the conceptual part of this paper, we mentioned our distinction between formal control and factual control. The case study of the Social Housing project showed that, in the first stages of the PPP (the public-public stages), the control that primarily existed was factual control. It was in this phase that formal control largely was constructed toward both public (e.g. public cooperation agreements,..) and private (e.g. specifications, tender procedure, PPP-contract...). It was only in the last stages (selection stage, but mainly the execution stage) that the formal framework was fully formed. It was also in the execution stage that the partnership between the partners really unfolded. Therefore, we expect that when a difference between formal and factual control emerges, it first and foremost will emerge during the execution stage of a PPP. With this in mind, we could not make a clear distinction between formal and factual control in Table 3. Control of the public partners, then, is mainly based on informal steering (factual steering = informal steering), while the control of the private partners is mainly based on formal steering. Further research on longer ongoing projects is necessary to clarify the concepts of formal and factual steering and control.

Although the execution stage of the social housing project was still young at the time of our case study, we did see some deviation from the formal control. The PPP-contract, for instance, stipulated that at least once a year a “steering-group”(in dutch: ‘stuurgroep’) would assemble (for instance to draw up the maintenance scheme). Although the first housing units were delivered, no steering-group was held until that time. In fact, this formal control instrument wasn’t used. But, most of all, deviation between formal and factual control was situated between the LHIs and the private partner. In this case, the factual steering and control complemented the formal control (or the lack of formal control).

**Table 3: Control through the PPP stages**

	Towards public partners			Towards private partners		
	H	M	N	H	M	N
<b>Public-public stage</b>	+++	0	+			
<b>Selection stage</b>	+++	0	+	+++	++	+
<b>Execution stage</b>	+	0	+	++	++	(+)

+++: dominant; ++: important; +: present; 0: not present

<sup>15</sup> E.g. The Social Housing project was a pilot project to build up expertise (government capacity). The project was politically salient; failure was not an option (political complexity). A lot of actors were involved (multi-actor complexity)

## Trust

Because it is difficult to measure trust in retrospective with a quantitative method, we chose to use a qualitative method, i.e. in-depth interviews. In order to keep the concept of trust tangible for the respondents, we divided trust into two main components: character-based and competence-based trust. The level of trust between partners can even vary from day to day, and it is impossible to capture these fluctuations. Therefore, for each stage of the PPP we reflected on the level of trust present in that stage. In addition, we assumed that for each partnership and for every stage in a PPP we were able to determine a standard level of trust (in Table 4 indicated as 'moderate'). Consequently, we were able to focus on deviation of that baseline ('high trust' or 'low trust'). Table 4 represents the results for the social housing case.

**Table 4: Trust through stages**

	<b>Towards public partners</b>		<b>Towards private partners</b>	
	<b>Competence trust</b>	<b>Character-based trust</b>	<b>Competence trust</b>	<b>Character-based trust</b>
<b>Public-public stage</b>	Moderate	Low	/	/
<b>Selection stage</b>	Moderate	Moderate	High	Moderate
<b>Execution stage</b>	Moderate	Moderate (low)	Moderate	Moderate (low)

## Control vs. trust

In this paper, we have further elaborated the second part of our conceptual framework. The concepts that are of importance here are 'trust' and 'the steering and control mix'. The relationship between these concepts is already heavily discussed across the literature of inter-organisational relations. The main discussion is whether formal control (contracts) and trust are substitutes (Macaulay, 1963; Gulati, 1995) or complements (Sitkin, 1995; Poppo and Zenger, 2002). Recent studies try to combine these competing views. Mellewigt et al. (2007), for instance, assign two functions to formal contracts, namely contracts deal with control and coordination concerns. In their view, high trust weakens the positive relationship between control concerns and contractual complexity, and high trust reinforces the positive relationship between coordination concerns and contractual complexity. Therefore, trust is simultaneously a substitute for contracting (regarding control concerns) as well as a complement of contracting (regarding coordination concerns) (Mellewigt et al. 2007 p. 834).

Malhorta et al. (forthcoming) elaborated on the work of Mellewigt et al. and made the distinction between competence-based trust and character-based trust. They found that the greater the number of control-oriented provisions in a contract, the lower the subsequent level of character-based trust. However, they also found that the greater the emphasis on coordination in a contract, the higher the subsequent level of competence-based trust, which is consistent with those who perceive a more complementary relationship between contracts and trust (Malhorta et al. forthcoming)



p 37). Lui and Ngo (2004) conducted a survey of 233 architect-contractor partnerships in Hong Kong to study the relationship between contractual safeguards and trust. Similar to Malhorta et al, they made a distinction between competence trust and a more character-based trust, but they observed contractual safeguards in the sole perspective of control mechanisms. The survey indicated that goodwill trust and control served as substitutes for each other, and had similar effects on satisfaction with projects and completion of projects on time. Competence trust, in contrast, functioned as a complement for control.

In our research, we observe the interactions between these concepts in a specific setting of inter-organisational relationships, namely PPPs. In our view, formal control is based on several control carriers (e.g. public cooperation agreements, specifications, PPP-contracts,..) comprised of a mix of control mechanisms (HMN), and our concept of trust is split into character-based trust and competence trust.

In our case, we differentiate between control and trust towards the other public partners (especially in the first stages of the PPP) on the one hand, and towards the private partner(s) on the other hand. The case study shows that we can not simplify a PPP as mere a partnership between a public partner and a private partner. Also between different public partners we can speak of an inter-organizational cooperation, namely a public-public partnership.

The initial conditions in the social housing project were characterised by a low level of trust in the other public partners. In line with Lui and Ngo (2004) (character-based trust and control are substitutes), we can assume that this also can be seen as a reason for the tight project structuring (and the dominance of hierarchical mechanisms<sup>16</sup>). This control pattern was extended in the selection stage.

In the case of competence, trust in the public partners there was normal. The project structure foresaw that the Flemish government would take a step back as soon as the project started its execution stage. A clear relation between competence trust and control is not detected for the social housing case.

In regard to the private partner, the initial conditions of trust were different. Selection criteria related to the competences of the private partner were included in the specifications. In this case, the specifications (formal control) create a base for competence trust. The private partner in the project stated that the rigid character of the project structuring and the bounded space for dialogue created a climate of distrust. Some aspects of the project could not be discussed openly. Based on this case, we cannot claim that there is a causal effect, but it is clear that the level of character-based trust had slightly declined. The start of the execution stage was characterised by a business-like and detached approach.

We, therefore, assume that strong control mechanisms (hierarchy and, to a lesser degree, market) create a climate where character-based trust does not grow easily. If the trustee acts in a trustworthy manner, this can be seen merely as a response to strong control mechanisms. A low level of character-based trust in turn will most likely lead to a tight monitoring of the contract (higher cost, less flexibility...). Hence, our hypothesis is that low character-based trust and strong control mechanisms reinforce

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<sup>16</sup> We assume that hierarchic- and market-based instruments contribute to a strong contract, as we see those instruments as hard control mechanisms, while network instruments can be seen as soft control mechanism which contribute to a more flexible contract.

themselves in a vicious circle. Alternatively, we expect that network mechanisms can stimulate a trust-building climate.

Finally, our stage-approach seems valuable for understanding the interaction between control and trust in a PPP, since control instruments, mechanisms, and practices in one stage present institutional constraints in the following stage (Van Gestel et al 2009). But there is more. Firstly, the terms of control and steering of the private partner are planted in the public-private stages. Secondly, the two trajectories in our case (public-public and public-private) unite in the execution stage. The lack of involvement of the LHIs in the social housing project caused a bumpy cooperation between the LHIs and the private partner in the execution stage. In this sense, the two trajectories (public-public and public-private) cannot be seen apart from each other. Finally, we conclude that the execution stage demands special attention. It is in this stage that we expect the interaction between trust and control fully unfolds. In addition, we also expect to observe differences in formal and factual control.

To conclude, it is clear that we are not able to unlock the full potential of the conceptual framework (the control-trust relation in particular) in our case study of the Social Housing Project, discussed in this paper. We expect that the relevance of the components will become more clear in cases where the execution stage has become more mature and where an personal interaction pattern has been developed.

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## Index: Control instruments through the PPP stages

	Selection stage	Construction stage	Exploitation stage
<b>Hierarchical instruments</b>	<p>Detailed procedures: e.g. process of the submission of the implementation plans</p> <p>Restrictive ruling</p>	<p>Supervision: Contracting Government (VL Government) exercises control and supervision on site</p> <p>Ex ante approval: e.g. building program changes, admission to start work</p> <p>Restrictive rules: E.g. Obligations partners</p>	<p>Ex-ante authorization: e.g. LHI-private partner: transfer to third parties only with prior consent LHI</p> <p>Restrictive rules: Vb. prohibition on property right transfer</p>
<b>Market instruments</b>	<p>Level of competition</p> <p>Explicitly prohibits: e.g. price fixing</p> <p>Restricted tender (3 tenders, bids 7)</p> <p>- Performance Standards: output oriented specifications</p>	<p>Contractual provisions: requirements promoter, LHI</p> <p>Dispute settlement through court or arbitration board</p> <p>Risk Transfer</p> <p>Financial sanctions: e.g. penalty for delay and tardiness,</p> <p>Standards and Performance monitoring: focus output specifications</p>	<p>Contractual provisions: requirements promoter, LHI</p> <p>Dispute settlement through court or arbitration board</p> <p>Risk Transfer</p> <p>Financial sanctions: e.g. penalty for delay and tardiness,</p>
<b>Network instruments</b>	<p>Co-decision: Selection commission (LHI and municipality: 2 votes to 10)</p>	<p>(Frequent) contact: Steering Committee (meets at least once a year)</p> <p>Co-decision: changes with the explicit permission of the 3 partners</p>	<p>(Frequent) contact: Steering Committee (meets at least once a year)</p> <p>Co-decision: changes with the explicit permission of the 3 partners</p> <p>Networking and relationship management: Obligation for the private partner to consult with the LHIs</p>