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A Wilderness of Mirrors: Quasi-Markets, Housing and the Welfare State

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2.1 Introduction

It is a truth universally acknowledged, that a policy initiative with fashionable appeal must be in want of research. This book is about the recent introduction of quasi-markets in the implementation of social policy. They are a response to growing problems in the welfare state, notably of control and aim. Some programmes had spiralled out of control and were systematically exhibiting effects that had never been intended. In addition, many programmes seemed directed at social problems that had begun to disappear or shift. The change to a quasi-market system was one of the proposed solutions to these difficulties. What it involves is the decentralisation of financial risks to suppliers coupled with the strict regulation of supply and demand. The expectation is that suppliers will adapt to become more responsive to current needs, while rules of conduct and performance standards will safeguard the public interest.

In a quasi-market, providers have more autonomy than they would have if held under direct control. This means that they will have more scope for voluntary decision-making and that efforts to control them will be more indirect. This, in turn, requires insight into how exactly they make their decisions. If organisations are to be tempted rather than coerced into acting in the proper way, it is vital to understand exactly what makes those organisations tick. Yet, curiously, this is an issue that has received relatively little attention. Policy documents rarely display clear notions of how exactly the various features of a quasi-market will affect the actions of providers. This book will explore the missing link in the policy rationale. It will try and fathom the depths of quasi-markets, in an attempt bring their inner dynamic to the surface. It does not focus on how these constructs should work, nor on the goals they are meant to serve; it looks at the actual effects of a quasi-market setting on the behaviour of providers.

The empirical case used for this analysis will be Dutch social housing. Although formally private, social housing providers had in the post-war period effectively become extensions of national housing policy. Through large-scale construction programmes, they were the state’s principal agents in eliminating the immense housing shortages. The housing market as a whole was governed by state regulation of a far-reaching kind. By the 1980s, though, the legitimacy of this arrangement was being questioned. The shortages had diminished considerably, weakening the case for intervention. Moreover, the tangled web of subsidies had grown so complex that it had become intransparant and difficult to contain. By the early 1990s these concerns resulted in a major liberalisation, one element of which was a shake-up of the system of provision. Providers themselves were given responsibility for the financial risks of provision, while simultaneously their behavioural controls...
were relaxed. This created the quasi-market that is the subject of this analysis. The question is how providers have reacted to their new setting. For close to fifty years, they had been impelled by hierarchy and philanthropy; under the new system, they were prodded with financial incentives. What direction will they choose?

This chapter will set out the issues and questions discussed in the remainder of the book. Paragraph 1.2 will describe the causes and nature of the recent changes in the welfare state. One of these changes is the transition to a governance paradigm. This will bring me to the subject central to this book, the introduction of quasi-markets. Paragraph 1.3 describes what quasi-markets are exactly. They raise a number of different questions, which will be discussed in paragraph 1.4. This study focuses mainly on how the quasi-market setting affects the behaviour of providers. Their decisions will be interpreted in light of the conditions that make a quasi-market effective. This, as paragraph 1.5 argues, is at least as important as looking at whether policy goals have been achieved. The theoretical approach for interpreting market behaviour will be introduced in 1.6. Finally, paragraph 1.7 will sketch the analysis ahead.

### 2.2 Policy changes: from planning to governance

#### 2.2.1 Causes of policy change

During the 1980s and 1990s, European welfare states have undergone major changes. It was argued that the grand edifices built in previous decades had simply become untenable. “Many believe that the welfare state has become incompatible with other cherished goals, such as economic development, full employment, and even personal liberties; that it is at odds with the fabric of advanced postindustrial capitalism” (Esping-Andersen, 1996). Whether such concerns were justified or not, the final decades of the millennium undoubtedly fostered a growing sense that change was inevitable. Assertions to that effect were usually backed up with reference to one or several problems believed to undermine the viability of welfare state arrangements. Some affect the overall capacity of the welfare state to maintain protective arrangements, while others affect only the ability to sustain specific arrangements. Whether real or fictitious, they have been a driving force behind many recent policy initiatives.

One class of problems undermines the welfare state’s general sustainability. Foremost among these are the supposed economic disadvantages that come with an elaborate welfare state. The costs and inflexibility associated with welfare state arrangements are supposed to give nations with an elaborate welfare state a competitive disadvantage in relation to those with a minimal welfare state.¹ “In an economy whose core markets for capital, goods and
services are increasingly integrated on a global scale, there is little room for vastly different welfare states, with similar levels of labor productivity and production quality” (Castells, 1997, p. 253). A second difficulty is the inability of national states to contain the overall financial burden that welfare state arrangements entail, either at present or in the future. The budget cuts that shook welfare states during the 1980s and 1990s were part of efforts to ease the huge debts that governments had incurred. Such interventions were not only a response to present problems, but also to problems that were expected to surface in the course of time. For instance, the steadily ageing population is likely to make increasing demands on health care and social security. If present social rights are left unchanged, costs may spiral beyond control.

Another problem is that a number of welfare state arrangements have become obsolete, at least in their present form. Past problems may have disappeared or evolved into other problems. For instance, the large-scale housing construction programmes of the post-war period were aimed at reducing great shortages that have now largely disappeared. This means that housing policy has had to shift its focus to issues associated with existing stock such as neighbourhood mix. Similarly, programmes may address the needs of a client population that has changed drastically. When this happens, arrangements may seem oddly off balance. For example, the breadwinner family notion that underpins many social security arrangements is somewhat out of date, because it does not take account of the great rise in female employment, the growth of single families and the change in attitudes that have occurred over the last few decades (Lewis, 1993).

Finally, there have been difficulties in the implementation of welfare state programmes. Some have proved particularly vulnerable to calculated manipulation by both clients and provider. A fine example of the former is the Dutch disability programme, which employers had come to use as a covert unemployment scheme (Green-Pedersen, 2001; Van der Veen and Trommel, 1998). It has also been suggested that programmes create their own constituents, who will defend their budgets and rights regardless of actual needs (Pierson, 1994). Quite apart from wilful abuse, arrangements had grown so complex that they had become difficult to fathom and virtually uncontrollable. By the 1980s, housing subsidy schemes had evolved into such a labyrinth that it was hard to see where the money was going (see chapter two). Finally, welfare state providers have allegedly become unresponsive and inefficient. “The debate about public sector reform in the welfare state countries is driven by an awareness about the inefficiency of the traditional institution in the public sector, the agency or public authority” (Lane, 1995, p. 257).

It is especially these implementation problems that the introduction of quasi-markets has sought to address. It was one of the measures that followed a change in the co-ordination paradigm, in thoughts about the relationship between government and society.
2.2.2 From planning to governance

Policymakers have come up with a number of solutions to these implementation problems. These invariably involve re-arranging the relationships between the state and other actors with a role in welfare state provision. Generally speaking, there has been a move from vertical to horizontal co-ordination, from hierarchy to markets and networks. These changes indicate a shift from a planning to a governance approach (Bressers and Kuks, 2001; Rhodes, 2000; Mayntz, 1998).

Post-war policy was pervaded by a planning ethic. Policymaking was considered a matter of weighing the alternatives and assessing the consequences of each option in the light of unambiguous and politically determined goals (Lindblom, 1959). Through the bureaucratic apparatus, it was possible to gather all the information necessary to make the best possible combination of means and ends. The central state was thus visualised as the ultimate rational actor. Policy could be designed and executed step by step. It is typical that the Dutch government’s chief research agency, founded in 1973, is called “the Social and Cultural Planning Bureau”. One element of the planning paradigm was that the national state was considered capable of controlling society from the top down. With the passage of time, confidence in this method began to erode. It appeared that society could not be “programmed” all that well (Boudon, 1982). State interventions were systematically characterised by unanticipated consequences. Examples are numerous, especially in housing. Subsidy methods based on the 1970s inflationary economy had disastrous effects for many providers when economic conditions changed. Efforts to meet the housing shortages consistently fell short of their target. Tax subsidies for home ownership were used for luxury expenses. Such events have often been explained away as incidents, but that may be somewhat deceptive (Engbersen and Van der Veen, 1992). “If one is always looking for unusual circumstances and dramatic events, he cannot appreciate how difficult it is to make the ordinary happen” (Pressman and Wildavsky, 1984, p. xii). Given the enormous complexity and potential for error in implementation, it is perhaps more striking that policy does not fail more often.

At the heart of the problem is that the central state has turned out to be less rational than expected, and other actors more so. In practical terms, it was impossible to take account of all relevant variables and to predict them with sufficient accuracy. A rationalistic planning approach proved unrealistic. “Although such an approach can be described, it cannot be practiced except for relatively simple problems and even then only in a somewhat modified form. It assumes intellectual capacities and sources of information that men simply do not possess, and it is even more absurd as an approach to policy when the time and money that can be allocated to a policy problem are limited, as is always the case” (Lindblom, 1959, p. 80). Post-war housing policy is a good example: projections of housing need and construction
proved consistently off the mark for decades on end. As advocates of “incremental” policymaking have suggested, one solution is not to be overly ambitious and to take it one step at a time (although, as I will argue in chapter six, this does not work well in quasi-markets). Another option is to enlist the help of other actors. They are closer to the action and therefore possess more accurate and up-to-date information. The problem is that these actors have minds of their own, which points to a second flaw in the planning paradigm.

Since policies do not carry out themselves, and national policymakers cannot do it either, there simply has to be an intermediary group of actors to fulfil this task. These actors are not mindless machines. For various reasons, they are likely to make choices of their own accord. In many cases, the state has deliberately granted a measure of discretion to its providers, in order to make better use of their professional skills or allow them to devise tailor-made solutions. This is common, for instance, in the medical profession. Furthermore, providers have to assure the continuation of their own existence, if they are to continue provision. This means that they have two types of goals, those relating to the organisation’s mission and those concerning its own welfare. Although the former should theoretically take precedence, organisational researchers have frequently observed that means may become ends in themselves (cf. Merton, 1964). When such goal displacement occurs, the organisation’s interests are more likely to direct its activities than are national policy goals. Some even go as far as to say that this is the natural state of affairs. For instance, public choice theorists have argued that the primary goal of bureaucratic officials is to maximise their budgets (Geveke and Steunenberg, 1995). There are thus good reasons to believe that formal policy is not the only variable that influences their decision-making process. Consequently, actual provision may be different from what was originally intended.

In time, it came to be questioned whether it was not the method of planning rather than the planning process that was wrong. With twists and turns, this culminated in the concept of governance: “a new mode of governing that is distinct from the hierarchical control model, a more co-operative mode where state and non-state actors participate in mixed public/private networks” (Mayntz, 1998, p. 7). The governance concept goes beyond the notion that the implementation of public policy is fraught with difficulties. It implies that the very idea that the state can impose policy upon society is naïve and, indeed, undesirable. Policymaking is not the prerogative of a single actor, but a process that involves many parties inside and outside the state. To what extent the advent of governance notions indicates a change of circumstances or merely a change of thinking is uncertain. It has been argued that society is in actual fact becoming more network-like (Mayntz, 1993). Whether this is the case or not, it has led to a new style of policymaking.

There are several ways in which the idea of governance has been realised. One type of measure involves a renewed emphasis on the responsibilities of actors other than the central state. Powers are decentralised to local
authorities, which are then expected to take a more active role in urban management. The unemployed are expected to search actively on the job market and participate in training schemes, unless they wish to be cut off from benefits. Another expression of governance is a change in the co-ordination mechanism that guides the interaction between different parties. Quasi-markets involve both: greater powers and responsibilities for non-state actors, as well as the switch to a different mode of co-ordination.

It is important to emphasise that the change in policymaking has not necessarily resulted in a radical break with the past. Many arrangements still remain under direct state control. Nor does the change imply that non-state actors have gained more influence. It has been argued, for instance, that deregulation in housing construction and allocation may actually diminish the autonomy of other actors (Peeters, 1992). Finally, there is no telling how much of it is going to last. Recent years have seen a tendency towards recentralising the decision-making process. It is as yet unclear whether this backlash constitutes more permanent retreat in reaction to failed experiments. Be that as it may, there is much to be learnt from the recent innovations. Quasi-markets are an entirely new method of managing society. Successful or not, they present a unique opportunity for learning about policymaking, and about the motives and processes that drive human action.

2.3 The nature of quasi-markets

Bartlett, Roberts and Le Grand have described quasi-markets as “institutional arrangements [...] designed to extend the principle of markets and competition to the provision of the services” which simultaneously upholding “the principle of free and universal access, fundamental to the concept of the welfare state” (Bartlett, Roberts and Le Grand, 1998, p. 1). Although welfare state provision is not necessarily free and universal, it is clear that quasi-markets aim to combine the benefits of both the free market and public sector arrangements. There are various descriptions of the concept, but they invariably involve two elements: the decentralisation of financial risks and the strict regulation of supply and demand.

The first element of quasi-markets is the decentralisation of financial risks. Organisations need certain resources, crucial to their survival. In welfare state provision, as elsewhere, the key resource is usually money. Hospitals, social housing providers and schools alike need it to pay their staff and buy goods necessary for carrying out their tasks. As long as they are part of the state machinery, their survival is guaranteed; indeed, such reliability is one of the strengths of direct state provision. However, this also implies that the state has to bear the financial risks of provision, even if they are caused by inefficiency or mismanagement on the part of providers. By shifting these risks down to the providers themselves, the state both sheds its financial responsibility and impels providers towards a change of behaviour.
The expected change of behaviour is based on the providers’ need to resolve uncertainty. This uncertainty is caused by competition, that is, by the threat of exit (Hirschman, 1970). When clients (or their representatives) are dissatisfied with the product or service they are receiving, they can take their money and acquire what they need from alternative sources. These include other providers as well as other types of provision. For instance, in the upper ranges of the rental market social housing providers may have to compete with other providers as well as with the home ownership market. If clients do use their exit option, the provider will suffer financial consequences. To avoid the risk becoming reality, the providers will, at least in theory, adapt their behaviour to attract new clients or to prevent present clients from leaving. It means they will have to become more responsive to the needs of their clients.

However, markets may create new problems as they solve the old ones. To begin with, there is the risk that the market structure may not arouse sufficient competition. The market may be divided into several submarkets, in each of which there are monopolies or oligopolies. Housing and hospital care represent well-known examples of fields where the mobility of demand is limited and suppliers geographically concentrated. On the demand side, clients may not have sufficient information to use their exit option properly. Hospital patients cannot easily see whether they get value for money and are not likely to have an overview of the total supply on offer. Alternatively, clients may not be sufficiently interested to use the exit option. For instance, small employers are obliged to contract for social insurance, but may care too little to bother spending much time on the contracting process (Bergsma, Van den Brink, Burger and Cordia, 1999).

Another potential problem is that certain activities that actors in markets undertake are acceptable in a “pure” market context, but not in welfare state provision. “Far from being a sensitive and flexible response to the welfare needs of modern society, the market is itself highly impersonal and responsive only to its own inner logic” (Stone, 1983, p. 594). For instance, “creaming”, favouring those clients who are most likely to meet standards or easiest to handle, is perfectly legitimate in commercial recruitment agencies; but not in state-sponsored job counselling, which should (also) focus on the difficult cases (Lipsky, 1980). Another concern is that public funds may leak away through profits or transactions. For instance, when public and private activities are conducted under the umbrella of one organisation, publicly paid overhead may be implicitly used to subsidise commercial ventures.

This is why there is a second element to quasi-markets, which is the strict regulation of supply and demand (Bartlett and Le Grand, 1993). It would be hard to find markets without some form of regulation, but quasi-markets are characterised by very strong intervention on a fundamental level. First of all, there are rules that influence the relationship between supply and demand. On the demand side, there may be an intermediary actor to represent individual clients. This is the case in Dutch health care, where insurance
companies conduct the negotiations with hospitals. The idea behind this setup is that insurers have more expertise and are therefore in a better position to enforce their claims. Demand may be compulsory, as in the case of underage education. Alternatively, it may be expressed through vouchers or tokens rather than through financial means. In addition, its mobility may be restricted to a specific class of suppliers or geographical area. For instance, clients in health care have only limited access to commercial clinics, unless they wish to pay for the treatment out of their own pocket.

Rules aimed at the supply side are designed to encourage competition between providers. While this may simply imply that suppliers should follow the rules that apply to all businesses (anti-cartel legislation and the like), it may take specific intervention to establish an effective market setting. Tasks that were originally carried out by a single provider may be divided into distinct activities, so that it is possible to support several suppliers during the initial contracting period and carry competition to the next. Alternatively, some activities may be kept out of the market because they could allow suppliers to hinder their competitors. Competition in public transport or communication usually involves separating the infrastructure of services from the services themselves. After all, a company that both maintains the network and delivers services could use the former activity to benefit the latter and thus gain an advantage over its rivals (Ouwersloot, 1997).

A second type of regulation tries to prevent behaviour considered undesirable in welfare state provision. This almost always includes rules to prevent activities that could endanger access to public arrangements. For instance, health insurers in the Netherlands must accept all applications and are therefore prevented from filtering out clients on the basis of their health status. Usually there are also limits on the kinds of ventures providers can engage in. They are usually allowed to engage in some types of commercial activities, but not all. For example, social housing providers are allowed to build housing for sale, but only within a limited price range. The money earned through commercial ventures is expected to remain “within the family” and not to leak away to private investors. That is why public provision and commercial activities must generally be kept strictly separate.

In short, quasi-markets involve the decentralisation of financial responsibility, combined with co-ordination through competition and regulation. They are entirely artificial constructs, built upon an existing foundation, but designed and imposed by state officials (cf. Pollitt, 1996, p. 181). It is this that makes them so interesting, and so risky. There are many variables involved in such a design and it is difficult to foresee whether they will work out as planned. This is why it is so important to know their logic, to understand how exactly they work. Accordingly, the analysis focuses on the following research question, specified for the field that will be empirically studied:

**How does the quasi-market in Dutch social housing work?**
It is a simple question, which, unfortunately, requires a complicated answer.

2.4 Asking the right question

Although the question seems simple enough on the surface, it comprises several implicit steps. Moving from the ultimate effects of provision to national policy, there are at least three questions involved: (1) by what criteria outcomes should be judged, (2) how provision affects outcomes, and (3) how national policy affects provision.

Tracking backwards, one should first wonder what criteria should be used to assess the effects of policy. Markets are usually said to enhance efficiency and effectiveness, but by choosing these values as evaluation criteria one is in danger of judging different methods by different standards (Stone, 1988). Markets may indeed enhance efficiency and effectiveness—although this is often disputed—but public sector organisations have traditionally been designed to safeguard not only these, but many other values. “Government organizations operate under greater public scrutiny, subject to unique public expectations for fairness, openness, accountability, and honesty. [...] Goals and performance criteria are more diverse, conflicting (with more difficult trade-offs), and intangible and hard to measure” (Rainey, 1991, p. 35). A quasi-market hovers between the public sector and the market, which makes it all the more difficult to evaluate. When they sum up the criteria by which the success of a quasi-market can be measured, Bartlett and Le Grand set typical market goals like efficiency alongside traditional public sector goals such as equality (Bartlett and Le Grand, 1993). Even if quasi-markets should prove more successful in attaining a goal like efficiency, there is the question whether this detracts from other goals. One would have to determine which criteria are relevant to an evaluation and what trade-offs can be deemed acceptable.

Second, there is the issue to what extent ultimate outcomes, like the well-being of citizens, can be attributed to welfare state provision. Let us suppose, for example, that one wishes to evaluate the results of government efforts to encourage home ownership. It is plausible that the generous tax subsidy for mortgages has contributed to the rise of owner-occupied housing. One would have to isolate the effects of this measure from the influence of the interest rate, rent levels, greater access to mortgages, favourable economic conditions (which, to complicate matters, were themselves influenced by the rise of home ownership), cultural changes and so on. An evaluation of state policy would be confronted with the grim task of isolating the effects of these variables. It is risky to judge the success or failure of policy solely by looking whether goals have been attained, because there is a serious danger of misinterpretation. There may be many variables involved of which policy is just one, perhaps not even one that is decisive.

Finally, there is the question to what extent the activities of providers, the
agents who implement policy, can be attributed to national policy. What affects society is not so much policy itself as the actions of organisations or individuals charged with putting it to practice. But, as has been argued above, these are autonomous actors, not mechanistic extensions of administrative will. Especially when they are faced with complex tasks, they are likely to face various and conflicting demands. Policy goals may be at odds with the interests or values of the providers in question. Professionals may find themselves caught between directives that demand efficiency and a professional ethic that favours quality. Organisations may feel that the present standards set by the government will set undue strain on their resources and threaten their long-term stability. Alternatively, the rules and incentives set by policy may (deliberately or not) leave room for radically different strategies. Some providers in quasi-markets may attain their goals by engaging in commercial ventures and channelling profits back to their traditional tasks, whereas others may choose a more conservative approach. It is also possible that there are many actors involved in implementation, both inside and outside formal organisations, and that the shape of provision is determined in a process of complex interaction. In all these cases, it is not self-evident how policy will ultimately affect provision. It will be just one of the variables influencing the choices of organisations charged with provision.

This book focuses primarily on the last step, on measuring the effect of policy of the activities of providers. The prime reason for focusing on this aspect of quasi-markets is that it has been least covered in overall research. Policy documents tend to focus on the attainment of policy goals and the formal quasi-market design, but rarely explore the logic of provider behaviour in any depth. Yet by its nature, manipulating market behaviour requires precise information about how incentives translate into action. Knowledge of actual behaviour is critical to interpreting the results of market-based policy correctly and intervening in an effective manner. It is all too often that evaluations of quasi-markets jump to the question whether provision has improved, without a precise analysis of the preceding step. The research question can therefore be specified as follows:

a. How does the introduction of the quasi-market affect the behaviour of providers?

b. How can their behaviour be explained?

2.5 The conditions for an effective quasi-market

2.5.1 Focusing on conditions rather than goals

If one can explain quasi-market behaviour, then the question that quickly follows is how this relates to the success of a quasi-market. After all, these
constructs were created for a reason, which was to improve welfare state provision. In their important study on quasi-markets, Bartlett and Le Grand defined a number of criteria by which provision can be evaluated, specifically, efficiency, responsiveness, choice and equity (Bartlett and Le Grand, 1993). They also mentioned a number of conditions that quasi-markets must satisfy if they are to be effective in achieving those goals: there should be a competitive market structure and providers should have sufficient information, limited uncertainty, financially-inspired motives and no incentive for discriminating against more expensive clients (“cream-skimming”). Policy proposals and evaluation pay relatively little attention to the conditions that make success possible, if only theoretically. They tend to focus on outcomes rather than the mechanisms behind market behaviour (e.g. competition) and the conditions that sustain such mechanisms. For example, there has been a strange lack of interest in market structure, when this is so crucial for maintaining competition (Bartlett, Roberts and Le Grand, 1998).

Yet if the success of quasi-markets is attributed to the existence of particular conditions, then obviously failures must foremost be explained by the absence of those conditions. It may in fact be highly deceptive to analyse a quasi-market only in light of its success in meeting certain targets. Quite apart from the question whether this achievement can be attributed to policy, it is very well possible that the quasi-market is threatened in the long run even when provision improves in the short term. For instance, providers may entrap clients with package deals that effectively thwart competition (cf. Van den Brink, Brandsen and Putters, forthcoming). In this case one could argue that providers offer better services, but that would show only one side of the coin and divert attention from the conditions central to the quasi-market design. It is striking how few studies and policy documents regarding market-based policy (including those concerning social housing) make a thorough analysis of the contingencies that make a quasi-market effective. In the face of this glaring gap, I have added the following element to the research question:

c. How does the behaviour of providers affect the conditions that make the quasi-market effective?

This means I will not evaluate behaviour by the attainment of goals, but by its effect on the conditions that make it possible to meet those goals. For the sake of argument, I will assume that the conditions implicit in the quasi-market design are in actual fact the conditions for success. This is not necessarily the case in practice, because some of the assumptions underlying the design may not be valid. For instance, providers may deliver good services even in the absence of competition because they are motivated by ethical considerations. However, that could hardly count as a policy success.

2.5.2 Redefining the conditions

Before this aspect of the research question can be addressed, it is important to
specify exactly which conditions should be met. Those that Bartlett and Le Grand identified were in some ways specific to particular quasi-markets (notably health provision in the UK) and to the authors’ neo-institutional economic framework. However, with a number of alterations they can be applied more generally. I will use the following:

- **Market structure**: all quasi-markets hinge on the premise that there is competition. "There should be many providers, each unable to influence the market price by changing their output, and many purchasers, each unable to influence price by changing their purchases. If there are not enough actual providers, there should be the potential for competition: that is, there should be an opportunity for new providers to enter the market relatively costlessly. There should also be the possibility of exit from the market: that is, providers should face the risk of bankruptcy, or, more generally, that if they consistently make losses they will cease to be a provider" (Bartlett and Le Grand, 1993, pp. 19-20).

- **Motivation**: the system can only work when providers are motivated by a desire to survive. This makes them sensitive to the financial incentives central to the competitive mechanism. In this analysis, it will be assumed that they have the proper motivation (see chapter three).

- **Information**: providers should find effective means of dealing with information problems. This is somewhat different from Bartlett and Le Grand’s original proposition. They argued that if providers and their clients have insufficient information about each other, they run the risk either of falling victim to opportunistic behaviour or of spending excessive effort on gathering the necessary information. This is a good point, but it can be developed further. Some areas suffer particularly from information problems. To take the example of health care, the quality of medical treatment is notoriously hard to determine. Other variables such as future demand and prices are also difficult to pin down. In other words, the uncertainty regarding the variables involved in the transaction is considerable, nor is it likely to be resolved. What has then been observed is that providers and their clients engage in long-term relationships based on trust rather than detailed monitoring (Bartlett, Roberts and Le Grand, 1998). This does not necessarily increase the available information, but it is a method of dealing with the problems that the lack of certainty could result in. In other words, what matters is not so much whether sufficient information is available, but what way the parties find to deal with the uncertainty. In the example of health care, providers might have opted for opportunistic behaviour. The interesting question for research would be why they preferred mutual trust instead. Chapter three addresses this issue and tries to devise a general model of how providers deal with this kind of cognitive uncertainty. In terms of conditions for an effective quasi-market, it is important that providers do find an effective way to deal with the many contingencies involved in market provision. If they do not, then the costs of acquiring the information they need (in economic terms, transaction costs) may grow so high that they exceed the benefits of a market-based system. In practical terms, they will be able to respond to
- **Intervention**: the state should have effective means for correcting undesirable behaviour. This is a radical re-interpretation of Bartlett and Le Grand’s suggestion that providers should not have an incentive to discriminate against particular clients. This suggestion in turn derives from the goal of equity. However, it is rather arbitrary to single out this one type of undesirable behaviour as a fundamental condition. One could equally well argue that providers should not have an incentive to waste resources, to provide low quality service and so forth. In other words, providers should not have an incentive to perform activities that are inconsistent with quasi-market goals. This is in itself a superfluous point, but there is a crucial message underneath it. It is always possible that the introduction of a quasi-market results in some form of undesirable behaviour, whether it be creaming or otherwise. Few systems of provision anywhere have run flawlessly from the start. But what Bartlett and Le Grand argue is that, if creaming should occur, the state could adjust the financial compensation formula for different types of customers. In that case, they change the market incentive so as to avoid undesirable behaviour. Alternatively, the state could add regulation that would prevent the impulse for undesirable behaviour from translating into actual behaviour (e.g. by imposing a distribution system that makes creaming impossible). The more general point is that the state should have effective means for correcting unacceptable behaviour. If it had no means to stop providers from favouring certain clients over others, it would seriously have to consider whether the quasi-market is an acceptable system of provision.

The meaning of these conditions for specific quasi-markets will vary. For instance, where the market structure naturally limits the scope for competition, the information becomes more important. Chapter two will discuss the specific conditions that govern the quasi-market in Dutch social housing.

Now that the research questions have been posed, it is time to consider how they can be answered. What is needed is a theoretical toolkit that is sensitive to the specific characteristics of quasi-markets and to the conditions that make them effective. This, as I will argue in the next paragraph, makes the traditional economic tools for market analysis less applicable and invites a more suitable sociological approach.

### 2.6 Choosing a theoretical approach to quasi-markets

#### 2.6.1 The limits of the neo-classical view

When one thinks of market analysis, one tends to picture the smooth curves
of demand and supply graphs, which join together at one point to provide the ideal solution. It is an image based on neo-classical economic teachings, an approach that has continued to dominate economic studies and that has informed many of the market-based policies of the 1980s and 1990s. This approach assumes that actors are atomised and that they have no direct social relationships with one another, or that these relationships are irrelevant. The interaction between actors is co-ordinated solely by the aggregate relation of supply to demand, which they cannot influence in any way. Moreover, it assumes actors to be rational only in an instrumental fashion. They compete for scarce means in order to maximise their own utility; no more. The neo-classical perspective also supposes the preferences of actors to be stable and exogenous, nor very much different between actors (Becker, 1976). Finally, it assumes these conditions to be universal and unchanging. In other words, these same assumptions are held to apply to every single market. This means that institutions are basically considered irrelevant.

This approach is not very suitable for the present analysis. One reason is that the kind of market to be studied here is completely unlike the idealtypical image of markets. In Dutch social housing, supply and demand are strongly regulated, so much so that concepts based on the free interplay between these forces seem slightly off the mark. But even a bare, untouched housing market would only faintly resemble the idealtype (Barlow & Duncan, 1994). Houses have the peculiar characteristics of being durable, fixed and costly (see chapter two). Even when there are surpluses in one place and shortages in another, the present supply of dwellings cannot be moved so as to bring balance. In addition, building new units is slow and costly. As a result, supply is less flexible than in most markets. Demand is also relatively immobile. Since one’s place of residence is tied up with so many things – work, social life, family, lifestyle- and moving is costly, people generally move about slowly and across small distances. Consequently, the housing market is in practice a constellation of geographically separated pockets of supply and demand. There is no efficient clearance, nor is the housing market as a whole at all transparent.

But there is also cause to criticise the neo-classical economic approach on more fundamental grounds. There is some risk in doing this, for it is a diverse tradition and one is bound to disregard one variety or another. As Bourdieu has noted, economics is like a hydra: chop off one head and another appears immediately. Critics will inevitably face the charge of being ignorant or unjust (Bourdieu, 1997). One must also make allowance for the fact that many assumptions of economic theory regarding the behaviour of actors are made for methodological purposes and do not claim to represent empirical reality as it is. However, the following three points can be said to apply on aggregate (Brandsen, 2001): (1) actors are embedded in a historically specific context; (2) this context consists not only of economic relationships, but also of other kinds of ties; and (3) actors not only passively adapt to their context, but also take an active part in constructing it.
The first is that action, including economic action, is embedded in a historically and geographically specific context rather than a universal void. The fact that economic analysis largely disregards the specific characteristics of actors could be justified, given that it focuses on the level of aggregate decisions. But even at the aggregate level, it is quite obvious that one market varies significantly from another. This is because there are many variables involved that are usually excluded, such as product characteristics, social networks, regulatory regimes and cultural conceptions. It is hard to maintain that these market characteristics ultimately do not matter. Markets may be similar when the variables that really distinguish them are not taken into account, but what does that kind of analysis say about the actual markets?

A second point is that actors are not related only through aggregate supply and demand (Mayntz, 1993). If they were, a great number of problems would arise. For instance, nothing could account for the basic order that must exist if markets are to function properly. Why do actors not all resort to crime to satisfy their interests? In Hobbes’ classic account of the “state of nature”, this problem is solved by complete surrender to hierarchical authority (Hobbes, 1985). In the neo-classical approach to markets, it results in total submission to the laws of supply and demand. In that sense, undersocialisation and oversocialisation are two sides of the same coin (Granovetter, 1985). But even when it is assumed that such ground rules are in place, problems remain. For instance, what happens when the economic context offers more than one optimal alternative; in other words, when there are multiple equilibria? Actors will make a choice, but neo-classical economics provides no tools for interpreting it. This is because this perspective recognises only one type of relationship that structures the choices of actors. As a result, its conception of rationality is rather narrow. Explanatory variables such as customs, fashions and trust also structure the way people act upon their preferences –not to mention the preferences themselves. While supply and demand relationships are no doubt important, they are unlikely to be the only variable that determines market behaviour.

A final point of criticism is that actors take a more active part in the construction of markets than is usually recognised in economic analysis. Actors find ways to diminish the strength of the incentives to which they are subject. This is why there is anti-trust regulation: market actors try to limit competition by creating monopolies or oligopolies. However, since economic analysis recognises only one type of relationship between actors, it also fails to see the many other ways in which they can create their own market. Actors can urge the government to revoke or create regulation. For example, private builders have in the past lobbied against the preferential treatment of social housing. They can create new perceptions about what constitutes proper market behaviour. For instance, social housing providers can restrict themselves to local competition, if they believe that is their natural battleground. Actors can also change the nature of the product (e.g. making a house on wheels) so that all established positions fall apart. The possibilities go much further than influencing the supply and demand relationship.
All this suggests that it would be better to use a different approach for this analysis. It tries to uncover the logic of this particular quasi-market, not of markets generally. What it needs is a theoretical perspective that is more sensitive to the specific characteristics of the quasi-market in Dutch social housing, which are so very different from those of an idealtypical market.

2.6.2 A sociological approach to markets

Fortunately, sociology offers alternative concepts and theories for the study of markets that are more suitable for the present analysis. These essentially date back to the founding days of the discipline. In recent years these have been given a boost by the visible failure of neo-classically inspired policies in developing countries and by the revival of the institutional approach in social science. They have their roots in Max Weber’s sociological discussion of economic phenomena (Weber, 1995; 1968). Essentially, they do not treat the economy differently from any other object of sociological study. Economic activity, though important, is simply a specific type of social activity (Swedberg, 1998). All the variables normally used to explain human activity—formal rules, norms, values, power, perceptions, social relationships—also apply in markets. This is not to deny the rationality of market behaviour. What this perspective suggests is that there are different kinds of rationality, each shaped by the particular context in which it is embedded. It is an actor-centred rather than a structuralist approach (Brandsen, 2001).

What this means is that the behaviour of the individual actors is taken as the starting-point of an analysis. This is marked departure from the neo-classical approach, which is ultimately interested only in aggregate behaviour. This means that it is not only important to observe how actors contribute to aggregate outcomes, but also to understand why they contribute to them in the way that they do.

It will be necessary for the analysis to incorporate these elements, because the introduction of the quasi-market has implications that go further than the adaptation of supply to demand. To begin with, there is more than one way in which social housing providers could have reacted. The decentralisation of financial risks implied that there was no longer any guarantee that they would get the money they needed. They have had to devise market strategies to avert the risks. Of course, what policymakers would like most is that they will try to entice their customers with better products. But, as has been argued earlier in the chapter, there are other ways to avert market risks. Organisations can instead try to spread risks or try to weaken the incentive that causes it by diminishing competition. One of the main pitfalls of quasi-markets is precisely that they are vulnerable to this kind of behaviour, which undercuts one of the conditions for their effectiveness. It is absolutely necessary to incorporate this possibility into the analysis and not simply to think of market behaviour as adaptation. It is for this reason that the analysis will use resource dependence theory, a sociological interpretation of market
behaviour that emphasises how individual actors can resist market pressure.

Another important issue is that providers may not know how to deal with the uncertainty they now face. Under the old system, providers had a largely administrative function. All of a sudden they have had to adapt to a completely new setting, in which old habits no longer apply. In effect, they are faced with two kinds of uncertainty. One is caused by the fact that they may not get the money they need, the other by the possibility that they may not know how to get it. They will have to find new ways of carrying out their tasks. This element of knowledge will have to be included in the analysis, for empirical studies have shown it to be an essential part of organisational change. In that respect, it is also essential to look at social and cultural relationships, because these are a major source of information. A lot of what people learn is not of their own making. They have picked it up from teachers, colleagues, friends, the media and so forth. Processes of innovation in markets are essentially similar and an analysis should therefore take account of the social networks that influence them. In doing so it will draw upon the institutional tradition in organisational sociology, particularly the cognitive variety. This variety of theory has focused specifically on the creation and diffusion of knowledge.

It is with the help of these two theories that the sociological approach to the quasi-market will be fleshed out. The analysis will attempt to bring out the real and complex issues that providers are faced with, yet within a framework that makes these both manageable and measurable.
2.7  The questions, object and structure of the book

2.7.1  The questions

One of the elements of recent welfare state reforms was the introduction of quasi-markets in the implementation of social policy. The research question has been defined as follows:

How does the quasi-market in Dutch social housing work?

This analysis will focus on the behaviour of providers within the quasi-market. It will interpret the findings in light of the conditions that make the quasi-market successful. The research question has accordingly been specified in the following way:

a. How does the introduction of the quasi-market affect the behaviour of providers?

b. How can their behaviour be explained?

c. How does the behaviour of providers affect the conditions that make the quasi-market effective?

2.7.2  The choice of object

The enquiry needs a well-chosen object, and social housing in the Netherlands is a very suitable one. It has two major advantages. To begin with, the quasi-market in this field was introduced relatively early and has not been fundamentally changed since. Furthermore, there are methodological advantages to housing that cannot easily be found elsewhere, because its market is so strongly fragmented.

Originally, the Dutch social housing providers arose as small semi-philanthropic institutions, founded by gentry and businessmen in the late 19th century. After the Second World War, they became part of the government’s drive to eliminate the immense housing shortages. This meant that all of a sudden these amateur organisations were eligible for vast subsidies. The flip side of the coin was that regulation concerning social housing became very dense, up to the point that these private housing providers effectively became extensions of national housing policy. This situation lasted up to the late 1980s, when the government announced its intention to liberalise the system. At that point, the providers controlled about 40% of the total housing stock. Most were fairly small. By the mid-1990s, they had been given financial responsibility for their own actions, in exchange for a relaxation of behavioural controls. Since that moment, the system has remained fundamentally untouched, which means that the reaction of providers to the
quasi-market context can be studied without all sorts of intervening policy measures. That is not at all the rule in such settings. Quasi-markets often suffer repeated top-down intervention and remain in a state of constant flux. Housing, with its slow and firm pace, offers an oasis of stability.

A second reason for choosing social housing as the object of study is methodological in nature. I will argue in the course of this book that behaviour is determined not only by an organisation’s efforts to acquire crucial resources, but also by its need to acquire knowledge and to co-ordinate its actions with those of other players in the field (see chapter three). An empirical analysis will have to disentangle the complex web of influences in which organisational decisions are shaped. The problem is that many actors in the organisational environment play different roles simultaneously. They are both members of the same community and rivals for the same resources. This has often made it difficult to determine by which considerations actions are motivated. The two are hopelessly intertwined. Yet it is only possible to uncover the logic of quasi-market behaviour when the two can be analytically separated. Housing offers somewhat better opportunities to do this than most fields, because it is divided into many local and regional submarkets (see chapter two). Whereas the community of social housing providers stretches across the nation, they only compete over tenants with the few other providers active in their local market. By studying the variation between national and local patterns of decision-making, it will be possible to trace the origin of decisions more accurately. Problems remain, particularly at the local level, but it is a step forward.

2.7.3 The remainder of the book

In the remainder of the book, each of the issues discussed in this first chapter will be dealt with more elaborately. From laying out the tools for the analysis, I will proceed through the empirical study to the point where the logic of the quasi-market can be unearthed.

Chapter two will describe the setting of the analysis. This will involve a description of the product characteristics of housing and of the history of Dutch social housing provision. This will set the context of quasi-market behaviour and specify the conditions necessary for the quasi-market to be effective. The chapter will also consider the position of this sector in welfare state research.

Chapter three will develop a theory to interpret quasi-market behaviour. This theory will consist of two main components. The first is resource dependence theory, which explains how providers can avert the uncertainty associated with acquiring resources in a market situation. The second component is the institutional theory of organisations, which focuses on how providers choose between means of averting uncertainty. The two types of theories will be combined into a single model that will serve as the backbone for the analysis.
The fourth chapter will then translate this theory into a practical framework for the empirical analysis. The data will be collected mainly through qualitative fieldwork within a case study design, but will be complemented with national statistics where available. The research focuses on the period 1994-2000, from the introduction of the quasi-market to the end of this research project. The logic of the quasi-market is complex and it takes elaborate evidence to bring it out. It is an effort that prepares the ground for chapter five, which describes the findings of the research.

Chapter six will analyse the empirical evidence from chapter five and examine whether the theory developed in chapter three has satisfactorily explained quasi-market behaviour. It will also reflect on the repercussions of this behaviour on the conditions that make this particular quasi-market effective. The chapter will end with a short epilogue on the future of Dutch social housing.

Next to the main body of text, there is an appendix. This contains a more elaborate treatise of the methodological and theoretical issues that were raised in previous chapters. I have felt it necessary to separate this part from the main body of text in order to allow the argument to proceed more smoothly. The few who care for such matters will find ample nourishment; the many that do not will be spared the effort of skipping several pages.
3 Social housing in the Netherlands: past and present

3.1 Introduction

In the previous chapter, it was argued that the analysis of a quasi-market requires sensitivity to its specific characteristics. This chapter will describe the two most significant features of Dutch social housing. First, it will discuss the nature of the product in question. Housing has intrinsic characteristics that raise particular dilemmas and shape the alternatives for choice. Next it will focus on the system of rules and structures as it has historically developed. This involves a brief description of past housing policy since the start of the 20th century. The chapter will conclude with a discussion of the position of housing in the welfare state.

The dynamics of housing are partly shaped by its characteristics as a product. The combination of consumption, capital and physical presence creates dilemmas and alternatives particular to this field. The historically evolved shape of housing provision and current housing policy determine how these basic properties translate into concrete arrangements. What is typical of housing provision in the Netherlands is that a major share of the housing capital is collectively owned by private non-profit organisations. Post-war housing policy has been largely directed by goals in other policy areas. It has also been consistently marked by strong intervention and by disagreement over who should control the housing stock. Recent reforms have shifted the dynamics of housing further downward and created the quasi-market that is the subject of this analysis.

In the previous chapter, the introduction of the quasi-market was described as an element of the attempt to re-establish welfare state arrangements on a new footing. However, one could wonder whether the policy change in housing should really be interpreted in terms of welfare state reform. For a start, housing may not have been part of the welfare state to begin with. It has been largely absent from recent welfare state debates. Moreover, the introduction of the quasi-market may signal the decline rather than the preservation of social housing. There has been a downward turn in social housing all over Europe. However, any doubts regarding the position of housing in the welfare state are unjustified. The exclusion of housing from mainstream welfare state research is caused by a conceptual bias for income transfer. It is a fate that has befallen quite a few other welfare state areas. Moreover, there are as yet no grounds for saying that social housing the Netherlands is in decline. Housing researchers have devised typologies for distinguishing between different systems of provision, which roughly boil down to two types: mass and residual. Dutch social housing is still firmly in the mass category.

Paragraph 2.2 focuses on the product characteristics of housing. Paragraphs 2.3 and 2.4 describe the historical development of the sector, the former the
period up to the 1980s, the latter the reforms of the late 1980s and 1990s. In this context I will also discuss the specific conditions that are necessary for the quasi-market in social housing to be effective. The position of housing in welfare state research will be examined in 2.5. The concluding paragraph 2.6 will sum up the most important conclusions from the previous paragraphs.

3.2 Housing as a product

Product characteristics are the inherent features of the commodity traded on a (quasi-)market. Barring drastic technological or cultural changes, these are of a permanent nature. They have received relatively little attention in welfare state research, because the latter has tended to concentrate on one type of provision only. The features of housing can be summed up as follows (Floor, 1971):

- Most of the costs of the good have to be borne in advance. The "consumption" of the good will take place over an extended period.
- Housing is very expensive, which means that individuals will usually pay for it either by pooling resources or by attracting loans.
- It consists of a large stock, which changes at a very slow pace;
- Houses are fixed to a specific geographical spot and cannot be moved.
- They are a necessary good and cannot easily be replaced with another type of good.

Since most of the costs are paid in advance and because these costs are considerable, a house is in effect both a source of housing "consumption" (having a roof over one's head) as well as a tradable financial commodity. "What makes housing unique among social programs is that it constitutes a stock of (sometimes literally) concrete assets, requiring very long-term investments. Although housing is a necessity, very few can afford to purchase their shelter outright. Various arrangements have to be made (e.g. renting, mortgages, public construction, provision, and subsidization) to spread the costs of housing over time" (Pierson, 1994, p. 74). The tension between one-off investment, limited affordability and protracted consumption can be resolved through a variety of arrangements that each have a different way of spreading costs and benefits over generations and populations.

Policymakers can use this property to pursue their policy goals, and not necessarily those of housing policy. In the context of welfare state cuts, Pierson has noted that housing "created tremendous opportunities for retrenchment advocates to buy off potential losers and lower the visibility of cutbacks" (p. 74). By selling council housing to present tenants at a discount, the British Conservative government could win popularity in the process of dismantling a welfare state arrangement – rare indeed. The new owners could pocket the surplus value of their homes, but did so to the detriment of present tenants who could not afford to buy, future tenants to whom this part of stock
was no longer available, and past generations of tenants and taxpayers who had effectively paid for the discount.

But the opportunity to shift and spread costs can also be used for less cynical purposes. The owners of a large stock of public housing can subsidise the rents of poor tenants with the revenues of others to dampen inequalities in living conditions. They can also invest profits in the construction of new stock, which will lower the rents of future tenants. When collectively owned stock can be continually renewed by re-investing its own revenues, it becomes a “revolving fund”, a self-supporting social programme. It will be able, not only to pursue public goals, but also to limit the risks of ownership. Since costs, revenues and the conditions that influence them have to be calculated years, if not decades in advance, ownership demands either luck or great foresight. Since dwellings are expensive assets, even relatively small losses or gains will be substantial. In collective rental housing, ownership and consumption are deliberately separated to protect tenants from the risks (and benefits) of changes in the market value of the property. Home ownership combines these two functions and spreads costs over time between generations, usually favouring the elderly. The profits of owner-occupied housing are usually spent either on upgrading the property itself or on consumption outside housing. From an individual perspective, the potential capital gains from home ownership are greater than those from rental housing, but so are the risks.

Another effect of the product characteristics is that the housing market is divided into a large number of local markets. This is because demand and supply are not very mobile. Not only do most people need a home, they will not easily change it. Moving requires a great investment of time, money and emotion. Moreover, people are tied to particular areas through their social networks and jobs. The effect of all this is that demand is relatively immobile. Supply is even less mobile, since houses do not yet come on wheels. Even if there is a shortage in one area and a surplus in another, supply cannot be transferred to where it is needed. This makes housing provision potentially risky, since investment is tied up for long periods. As will be shown in the course of the analysis, this partly shapes the reactions of social housing providers to the introduction of the quasi-market.

The physical nature of housing is a major component of the cities and villages as we know them today. The proximity of so many dwellings affects both the quality of consumption and the market value of individual homes. This is relevant to their owners, whether individual or collective. For instance, a house in a “bad” neighbourhood is likely to have a lower value than the same house in a “good” neighbourhood. The technical quality of the house will only be one aspect of the quality of consumption. This means that attempts to upgrade neighbourhoods are made not only for social reasons, but also (and perhaps more often) with an eye to potential financial gains. The physical aspect of housing also affects other areas of human life. Housing policy in the Netherlands originated in response to poor health conditions and the fear of
epidemics in the overcrowded inner cities. More recently, there have been concerns about the segregation of socio-economic and ethnic groups, which is believed to have been caused by the homogeneous construction programmes of the early post-war period. While it is not generally regarded as a problem in itself, some believe that it encourages crime, unemployment and all sorts of other social evils.\textsuperscript{13}

All in all, the complex and unique nature of housing makes it the subject of a multitude of pressures. Because it intersects so many spheres in society, it can be used for various purposes. This is indeed borne out by the history of Dutch housing policy during the twentieth century, in which it has been used for health improvement, economic reconstruction and income redistribution. Whoever can bring the enormous bulk of the housing stock in motion is bound to create an impact, even if the result is not always what was intended.

3.3 Housing as a policy area: a short history

There is controversy about the extent to which product characteristics determine the development of housing provision. Some argue that the capital aspect of housing makes it particularly vulnerable to exploitation and therefore untenable as a welfare state arrangement (see 2.6). Others believe the product only structures the choices actors make, without ultimately determining them. If this is true, the future of housing provision cannot be so easily predicted. Be that as it may, processes in the present quasi-market cannot be understood without taking into account how provision has historically developed. This paragraph will give a brief description of housing policy from the late 19\textsuperscript{th} century onwards, ending just before the reforms of the 1980s and 1990s.

3.3.1 The early years: before 1901

In the 19\textsuperscript{th} century, the quality of housing in many Dutch cities was deplorable. When Holland’s late industrialisation brought increasing numbers of workers to the major towns, great shortages arose. The housing private landlords were able or willing to offer was either too little, too expensive or of poor quality. The result was that the major cities were frequently confronted with plagues and riots. These problems finally made the gentry sit up and pay attention to the housing question. This was not regarded as an issue of significance in itself, but rather as part of the more general “social question”, the task of pacifying the working class and integrating them into existing social structures. Attention to housing issues was generated not exclusively by compassion and notions of solidarity, but also by self-interest. After all, the establishment benefited from an economically adequate pool of labour resources and feared social upheaval. The exact balance between self-interest and selflessness is a matter of
historical interpretation. In any case, concern for the working classes translated into attempts to regulate working conditions within working hours (like Taylorist management techniques) as well as attempts to prevent irregularities outside working hours. Intervention in housing was part of this. In its early stages it was seen largely as a health issue. This is only the first instance in which housing policy was driven primarily by considerations that had little to do with housing itself. A recurrent theme in the history of 20th century Dutch housing is its function as an “emergency exit” for other areas of state policy (Helderman, forthcoming). In that sense, one must beware of interpreting the historical development of housing policy as a consistent and rationally designed trajectory.

The first initiatives for improving the housing situation certainly did not come from the national state. The government was controlled by conservative liberals who were opposed to state intervention of any but the most basic kind. On the local level, wealthy citizens did take efforts to alleviate the worst problems. From the mid-19th century onwards members of the gentry and the industrial elite founded so-called social housing providers, private philanthropic organisations for the provision of rented housing to the working class. These people did not lose money in this charitable work. Their sense of social obligation was expressed in that they were willing to settle for a limited profit. This implied that rents were still at levels that were unattainable to all but the top of the working class, the educated and well-paid. In addition to financial mechanisms of selection, there were usually rigorous application procedures to ensure that only “decent” people came in. Some of the social housing providers even appointed professional overseers to check on the behaviour of tenants (De Regt, 1984).

It was only in the 1880s, at a time of more general social unrest, that the housing issue was extensively discussed in national politics. This was also encouraged by the availability of new and improved statistics, which clearly showed the miserable social conditions that large segments of the population were subjected to. Progressive liberals now took the upper hand and enacted various measures of social legislation, including the 1901 Housing Act.

3.3.2 After 1901

The 1901 Housing Act formally forced local authorities to set up a municipal housing policy. They were obliged to define minimum quality standards in a local housing act and to improve or demolish dwellings that did not conform to these standards. The law was broadly phrased, though, and local authorities were in practice free to determine the scope of their intervention. The Housing Act also extended the powers of the national authorities. What was especially innovative in the Dutch context was the ability to grant loans and subsidies for the purpose of lowering rents. Subsidies were attached to objects (the housing itself) rather than subjects (households). Object subsidies covered the gap between cost and price (rent), given that the former exceeds the latter. By implication, subsidies expanded as rents went down or costs
went up. That is why subsidies were accompanied by regulation concerning rent and cost levels. In time, this system would become increasingly complicated.

The 1901 Housing Act has left a legacy that can still be seen today. It made some important choices. Most significant in this context was the decision to subsidise rented housing rather than home ownership. Although there is subsidised rented housing for the poor in most developed countries, emphasis on this segment in housing policy is by no means common. In the UK, for instance, home ownership spread relatively soon (Harloe, 1995). But the policymakers of the time regarded Dutch workers as unfit for home ownership. Could one really expect these commoners to maintain their homes well? More likely, they would soon sell this valuable asset to solve their inevitable financial problems. This line of reasoning, however out of fashion nowadays, is partly responsible for the powerful social housing sector that exists in the Netherlands today. A second important choice enclosed in the 1901 Housing Act was that subsidies should be focused on two types of providers, local authorities and private social housing providers. The liberals in the government preferred the latter, since they were privately rather than publicly owned. Moreover, they were both less fragmented and less profit-oriented than individual landlords. Construction by local authorities was condoned, if not encouraged. The law was in that sense a clever piece of legislation: one that set the general direction for the future development of policy, yet accommodated various interpretations at the national and local level, as well as relatively easy adaptations of policy over time.

Since it gave financial support to privately owned providers, the government was forced to design regulation to ensure that subsidies were used for the proper purpose. Social housing providers were therefore pulled into a regulative framework that exists to this day, even if its content has been changed and expanded greatly in the course of the century. It effectively represents a permanent contract, trading autonomy for certain privileges. Privileges (subsidies, tax exemptions, priority treatment) were exchanged for control. This guaranteed a measure of security, but also tied the fate of the social housing providers to changes in national policy. The pre-1940 period shows this all too clearly. In the period directly after 1901, the government’s interpretation of the Housing Act was very limited. If subsidies and loans were granted at all, it was only for the replacement of the worst of dwellings. The government also decided (on economic grounds) that houses should only be let at market prices. Again, this shows that early social housing was an arrangement for the top of the working class and definitely not for the poorest, who were unable to afford rents at the market level.

The First World War temporarily forced the government to intervene more extensively. Although the Netherlands were neutral during this war, they did feel its effects through the general scarcity of capital and construction materials. Private building slumped and housing shortages increased. Simultaneously, speculators were making huge profits out of the crisis. The
resulting social unrest was greater than it had been before and the government found itself on the defensive, especially with the growing influence of Christian and social-democratic parties. For a short period it actively encouraged new constructing, starting an exponential growth in the number of social housing providers. It also froze rents to prevent private landlords from cashing on the scarcity. This in turn begged legislation for the protection of tenants, since without it the landlords could easily circumvent the rent freeze by evicting present tenants and reletting their houses at a higher price. This phenomenon was to occur time and again in the history of housing policy: each piece of legislation left gaps that could only be filled by another, leading to an increasingly complex and interlocking system of regulation.

But this is not to imply that the government should have abstained from tampering with the housing issue. The developments of the 1930s show well what a non-interventionist approach may entail. When economic conditions became somewhat more stable, the government withdrew its financial support in the blink of an eye. It consistently maintained its position that housing provision was a private matter, emergency situations excepted. The results were disastrous. The number of dwellings built with financial support collapsed almost entirely and social housing providers went bankrupt by the dozen. Their share in new construction collapsed from 87% in 1920 to 16% in 1926 (Van der Schaar, 1987a). Private builders did engage in construction, but only in the more expensive and most profitable segments of the market. They continued to do so even when surpluses began to appear in middle class segments, while shortages in working class housing were still growing.

But even though the potential of new legislation was used sparsely, the choices made in the Housing Act would prove to be very significant in the following years. They favoured rented housing over home ownership and introduced some policy instruments that would be extensively used in later periods. Moreover, they had established private non-profit organisations as the main agents of housing policy.

3.3.3 Housing policy as an instrument for reconstruction

At the end of the Second World War, the country found itself faced with immense housing shortages, higher than those of most European countries. During the occupation construction had ground to a halt and many dwellings had been demolished or destroyed. These developments had added significantly to the great shortages that had existed before the war. In other words, it was time to start building. However, the housing market of the time was (still) wholly incapable of meeting the shortages. Building materials and capital were scarce. Moreover, private builders delayed their investments in the hope that conditions might soon improve. The government could not possibly have refrained from action, even if it had wished to. But by this time power had shifted to parties who were in any case in favour of more active
intervention. The new governing coalition consisted of catholics and, for the first time in Dutch history, social-democrats. With broad support, it enacted a large-scale construction programme with extensive financial support.

Conditions were difficult, though. Many components of housing policy were not driven by considerations pertaining to housing, but served as support for policy in other areas. Economic modernisation had priority above everything else. In the first few years after the war, the available building capacity was used mainly for the reconstruction of industrial capacity and infrastructure. Consequently, it was only by the 1950s that new housing began to be built on any scale. The conditions for investment in housing, pretty awful in any case, had been made worse by the rent freeze enacted by the Germans in 1940 and maintained by the new Dutch government. At first this measure was meant to prevent the exploitation of scarcity by greedy landlords, but in time it became part of economic policy. The employers’ organisations and trade unions had come to an agreement that the latter would abstain from strikes, if the former promised to encourage full employment. The unions were willing to postpone demands for wage rises on the condition that increases in the costs of living (including rents) would be compensated for. This meant that rent rises would automatically translate into wage rises, which might undermine the international competitiveness of the Dutch economy. So even though rent rises would have encouraged expansion of the housing stock and would have enjoyed the support of virtually all actors in the housing sector, rents remained frozen until 1951. Until the 1960s, they were only allowed to rise sporadically.

Long-term regulation of rents may have unintended consequences. Because houses are let at a price below cost, it becomes necessary to provide subsidies in order to cover the loss. Since the cost of new housing increases perpetually (due to rises in building costs), an increasing gap emerges between the rents of newly built stock and those of existing stock. This will make newly built dwellings less attractive, which in turn will discourage potential investors. The low rents of existing stock may also discourage owners from investing in maintenance and improvement. Finally, tenants who occupy a high-quality dwelling in the existing stock at a low rent will not move (or be moved) easily. Entrants in the housing market are then forced into poor or expensive housing. These problems can be solved by forcing down the rents of newly built dwellings with increased subsidies or by raising rents in existing stock to the cost level or somewhere near it (“harmonisation”). The disadvantage of the latter option is that, unless compensation is granted, tenants are faced with a considerable rise in costs of living (as occurred in the 1980s). Then again, it may prompt tenants who rent cheaply to move away, vacating relatively cheap dwellings for those of modest means. In short, rent policy may have strong side-effects. But again it must be stressed that such side-effects are mirrored by failures of the housing market itself. Rents in existing stock generally adjust very slowly to rent rises in newly built stock, so there tends to be a gap between quality and price even when rents are not
regulated. The state can even choose to raise rents in existing stock artificially in an attempt to simulate the effects of an idealtypical market.

But until the end of the 1950s rent policy was driven mainly by economic considerations. Rents were therefore kept low. Oddly enough, even when wage and price controls were relaxed, rent rises continued to be low for years. Everyone agreed they had to rise, sure enough; but who was to profit from the extra revenues? Some thought landlords themselves should retain the additional income, so that they could finally invest in maintenance and improvement of their assets. Others, particularly social-democrats, argued that additional revenues should be pooled in a collective fund that could be drawn upon when necessary. This discussion expresses a fundamental question that always hovers over the social housing stock: who owns it? Since the capital is composed of contributions from tenants and the state, and formally owned by non-profit providers, there is no easy answer. The catholic minister Witte (1952-58) evaded the dilemma by keeping rent rises so low that there was effectively nothing to distribute. This was of no use to anyone, but it stifled conflict.

3.3.4 The implementation of housing policy

The implementation of policy also reflected a compromise. The social housing providers and local authorities were (again) the most important actors in the implementation of national housing policy. The former found themselves in a very comfortable position. They were expressions of private initiative, which made them the favourite of the christian parties. This was not unimportant, since from 1954 to 1974 the Ministry of Housing was controlled by ministers from the religious parties. The private nature of the organisations to some extent accommodated liberal preferences. The fact that they were non-profit oriented appealed to the social-democrats, even if the latter preferred local authority provision (cf. Aquina, 1992). They were also relatively easy to control through the legal framework from before the war. Through their national branch organisations they maintained close links with trade unions as well as with the catholic and social-democratic parties (Gerrichhauzen, 1990). All in all, they could count on broad support.

The support carried with it massive funds, which translated into an enormous expansion of their stock (see table 2.1). Nonetheless, there were many local authorities that took it upon themselves to build and maintain stock. This did have certain advantages. The local authorities controlled the distribution of land, the planning process and the distribution of stock, allowing for a more co-ordinated process. Furthermore, their administrative structures were far more professionally organised than those of the semi-philanthropic social housing providers, making them more suitable for co-ordinating large-scale building projects (Brakkee, 1997). Indeed, in the early post-war years, local authority construction outstripped that of the private social housing providers.
Table 2.1: Social housing stock by type of provider, in absolute numbers (x 1000) and in relation to the overall housing stock

<table>
<thead>
<tr>
<th>Year</th>
<th>Private non-profit housing providers</th>
<th></th>
<th>Local authorities</th>
<th></th>
<th>Overall share of stock</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount of stock</td>
<td>Share of total</td>
<td>Amount of stock</td>
<td>Share of total</td>
<td></td>
</tr>
<tr>
<td>1947</td>
<td>196</td>
<td>9%</td>
<td>69</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>1956</td>
<td>314</td>
<td>12%</td>
<td>286</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>1967</td>
<td>745</td>
<td>22%</td>
<td>462</td>
<td>13%</td>
<td>35%</td>
</tr>
<tr>
<td>1975</td>
<td>1277</td>
<td>29%</td>
<td>519</td>
<td>12%</td>
<td>41%</td>
</tr>
<tr>
<td>1982</td>
<td>1352</td>
<td>27%</td>
<td>339</td>
<td>7%</td>
<td>34%</td>
</tr>
<tr>
<td>1989</td>
<td>1808</td>
<td>32%</td>
<td>322</td>
<td>6%</td>
<td>37%</td>
</tr>
<tr>
<td>1994</td>
<td>2167</td>
<td>35%</td>
<td>122</td>
<td>2%</td>
<td>37%</td>
</tr>
<tr>
<td>1997</td>
<td>2355</td>
<td>37%</td>
<td>24</td>
<td>0%</td>
<td>37%</td>
</tr>
<tr>
<td>1999</td>
<td>2362</td>
<td>36%</td>
<td>14</td>
<td>0%</td>
<td>36%</td>
</tr>
</tbody>
</table>


3.3.5  The neverending story

But the important role of local organisations should not disguise the fact that the dynamic of policy was very much centralised, especially in the early post-war period. The state hierarchically determined the size and nature of the building programmes on the basis of estimates of need and building capacity. The drive for extensive housing construction, combined with the need for low rents, caused a swift proliferation of object subsidies, for newly built as well as for existing stock. Subsidies were no longer used only for replacing the worst parts of stock, as they had been in the interwar period, but for building housing for a broad segment of the population. After 1958, capital for social housing was provided directly by the state (up to 1968 at an interest rate below the market level). This was deemed necessary because the capital market was unstable and unlikely to support sustained construction. Regulation of rents diminished the scope for negotiation between tenants and landlords, which called for an extension of tenant protection. Housing distribution was strictly regulated through a system of permits and distribution criteria, so that scarcely available space might be allocated as fairly as possible. In short, nearly all phases of housing provision were under direct state control. Policy instruments locked together to form a complex system that became difficult to fathom.

When stringent macro-economic policy was finally rewarded with steady growth, the building programme could truly take off. Until the 1960s nearly all construction in housing was subsidised. The quality of dwellings was deliberately kept at a modest level to save money and building capacity. After all, quality improvement would cause an increase in cost and therefore a direct increase in subsidies. Limited budgets would not have allowed it, what with the large number of houses that were planned for construction. The
government encouraged the large-scale industrialised production of small, modest dwellings. There was little continuity in the production process, though, because construction was also used to fan economic growth and employment. If economic growth slowed down, construction was intensified and vice versa. Funnily enough, this type of policy often proved to have an effect that was completely opposite to what was intended. Due to bad timing, measures turned out pro-cyclical rather than anti-cyclical (Adriaansens and Priemus, 1986). Not only did construction fluctuate sharply, it proved incapable of dampening overall housing shortages. Because of the baby boom and the immigration from the colonies demand only kept rising and newly-built housing was sufficient only to keep the shortages in check. Policymakers made a habit of underestimating demand.

3.3.6 From quantity to distribution and quality

At the end of the 1950s, the emphasis in policy shifted slightly from building a lot of cheap dwellings to building a lot of cheap dwellings. Now that the worst of the crisis was over, attention increasingly focused on the distribution of scarcity. This was encouraged by the collapse of the catholic/social-democratic coalition in 1958 and its subsequent replacement by a protestant/liberal government. Most of the shortages were still in the bottom end of the market, since this was the segment most badly neglected before the war. The wish to build cheap housing effectively thwarted any attempt to reduce state-driven construction, since private builders generally operated in the more expensive and more profitable segments. The issue was politically very controversial. The protestant minister Van Aartsen (1959-63) tried to enact a programme of liberalisation, arguing that local authorities and non-profits should only build housing for the poor sections of society. He lowered construction subsidies and targets for social housing, while raising those for the private sector. Simultaneously, he attempted to liberalise rents, which inevitably involved rises. Although initially successful, he was in the end forced to retrace his steps as the effects of his reforms began to be felt. Construction rates were set to drop, which was politically unacceptable at that time; yet only local authorities and non-profits could be expected to meet the targets with any degree of certainty. There were also grave concerns that the rise in private construction would threaten the growth of cheap market segments, where shortages were still higher than in the housing market generally. The minister was forced to raise the construction targets for social housing closer to their former level. The liberalisation was over before it had truly started.

Van Aartsen’s successors of the 1960s, the catholic Bogaers (1963-67) and the protestant Schut (1967-71) realised that major reforms of housing policy would be impossible until the shortages had been alleviated. Accordingly, they quickly expanded the construction programme to record heights. At the close of the 1960s they finally succeeded in tilting the balance towards private construction (see table 2.2). This was possible because of the increasing desire
to add quality to quantity. Rising incomes had prompted demand for housing that was larger and more luxurious. The first of the regular national surveys of housing needs revealed that many people were living below their means. They wished to move to more expensive housing, but such housing was simply unavailable. Consequently, the technical quality of new housing was raised and rents were to some extent harmonised to address the need. However, it did not work out as expected because many newly-constructed units, in peripheral high-rise estates, were unpopular and therefore ill-suited to satisfy demand. The revival of private construction provided a welcome alternative, yet it was still unable to quench the ever increasing need. Demand was underestimated time and again.

Table 2.2: Housing construction in absolute numbers (x 1000), as spread over local authorities, private non-profit housing providers and for-profit builders.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>LAs</th>
<th>Non-profits</th>
<th>For-profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>1,6</td>
<td>0,4</td>
<td>0,2</td>
<td>1</td>
</tr>
<tr>
<td>1949</td>
<td>42,8</td>
<td>18,3</td>
<td>14,1</td>
<td>10,4</td>
</tr>
<tr>
<td>1959</td>
<td>83,6</td>
<td>24,7</td>
<td>22,9</td>
<td>36</td>
</tr>
<tr>
<td>1969</td>
<td>123,1</td>
<td>23,4</td>
<td>39,1</td>
<td>60,7</td>
</tr>
<tr>
<td>1979</td>
<td>87,5</td>
<td>2,6</td>
<td>23,8</td>
<td>61,1</td>
</tr>
<tr>
<td>1989</td>
<td>111</td>
<td>3,8</td>
<td>32,3</td>
<td>74,9</td>
</tr>
<tr>
<td>1994</td>
<td>87,4</td>
<td>1,1</td>
<td>23,6</td>
<td>62,7</td>
</tr>
<tr>
<td>1997</td>
<td>92,3</td>
<td>0,5</td>
<td>24,6</td>
<td>67,2</td>
</tr>
<tr>
<td>1999</td>
<td>78,6</td>
<td>0,4</td>
<td>17,3</td>
<td>61,0</td>
</tr>
</tbody>
</table>

Sources: CBS (1989) and Ministry of Housing, Public Housing in Figures

3.3.7 The social housing providers: coming of age

Nonetheless, the non-profit sector still retained a considerable share in the growth of supply. The local authorities had been dominant in this segment immediately after the war, but were soon eclipsed by the private non-profit providers. Although the role of these organisations in the implementation of housing policy was virtually uncontested, their position in relation to the state was increasingly controversial. They had originally been embraced as representatives of private initiative, but had effectively become little more than administrative agencies. What with increases in scale and the shift of control over distribution to local authorities, they had lost touch with their members. Because they were obliged to repay subsidies when possible, they were unable to build up reserves. Consequently, their financial autonomy was negligible. They were also heavily dependent on local authorities, which acted both as contractors, providers of capital and financial controllers. There were increasing calls to grant the private non-profits a greater share of autonomy.

In the early 1960s, the catholic minister Bogaers decided to act and dug up a
report by the committee-De Roos that had been resting in a drawer for two years. This report argued that the social housing providers should have a broad mission and greater freedom, complementing rather than replacing the for-profit sector. These recommendations were soon enacted. The obligation to repay subsidy was scrapped, which amounted to a gift of two billion guilders (Faber, 1997). Simultaneously, the influence of local authorities was curbed somewhat. They lost the ability to set additional conditions when locally allocating national state subsidies (a powerful instrument) and were relieved of part of their financial monitoring function. Finally, the government decreed that social housing providers would legally be favoured over municipal housing companies in awarding construction projects. These measures were very important, as they greatly strengthened the position of social housing providers both as the main providers of social housing and as (relatively) autonomous providers. But this in turn aroused controversy, as many criticised the privileged treatment of social housing providers over private for-profit builders. It prompted another significant policy move at the end of the 1960s: rather than reducing the existing privileges of social housing providers, the government introduced an equality principle into its subsidy system. This created similar eligibility criteria in awarding subsidies to non-profit as well as for-profit providers, allowing each to build in both the lower and middle segments of the housing market. In the end, this only strengthened the social housing providers. They took full advantage of opportunities to build in more profitable segments, while for-profit builders stuck to their traditional territory.

3.3.8 Increasing complexity and crisis

Construction numbers might have risen, but this came at the cost of an increase in the burden of subsidies. At the end of the 1960s, the government started to develop new instruments to control expenditure. One of these was individual rent subsidy, an instrument that concentrated financial support on the most needy. The idea was that this type of subject subsidy might help bring down the less discriminate object subsidies. But on the whole attempts at reform met with strong resistance. Successive ministers had tried to introduce elements of liberalisation in the course of the 1960s, but had faced fierce resistance from the powerful catholic and social-democratic parties. Minister Schut introduced a system of small yearly rather than large irregular rent rises, in the hope that rises would face less opposition if they were implemented in small steps. It proved to be a gross miscalculation: the intense discussion over rent rises now returned on a yearly basis. In the early 1970s the protestant minister Udink (1971-1973) tried a head-on approach, setting ambitious targets for the harmonisation of rents and the reduction of subsidies. The resulting commotion helped usher in the government headed by Den Uyl in 1973, the first ever to be led by social-democrats. At that time there was still no room for radical shifts in housing policy, since it was too strongly embraced by other policy areas.
The social-democratic cabinet was the first since the war to have a comprehensive vision on housing. With heavyweights like Van Dam and Schaeffer (1973-77) at the top, the Ministry of Housing was in a stronger position to develop a policy of its own, despite worsening economic conditions. The social-democrats discarded the assumption held by previous governments that housing policy was merely a response to unusual economic disturbances and argued instead that state intervention in housing should be permanent. Good housing was regarded as the right of every citizen rather than a mere market product for the few. To underscore this they strengthened tenant protection and extended individual rent subsidies. They also diverted attention from new construction to existing stock, starting large urban renewal projects. Yet despite all this, the social-democrats did not really create a break in the underlying dynamic of housing policy, in that they retained the basic instruments of housing policy and allowed the growth of private construction (especially for home ownership) to continue. Moreover, the extension of individual rent subsidies increased the scope for lowering object subsidies with rent rises. In this way, the social-democratic interventions paved the way for future housing policy.

The urban renewal projects, combined with suburbanisation, added to the spatial concentration of disadvantaged groups. These groups (many of whom were immigrants) used to live with private landlords, often in housing of poor quality. This was partly because rents were relatively low, partly because social housing providers attempted to keep them out (SCP, 1995). This type of housing was in many cases demolished or improved, leading to an influx of its inhabitants into dwellings vacated by more wealthy tenants who had moved to the suburbs (Van den Berg, Braun and Van der Meer, 1997). This resulted in socio-economically homogeneous neighbourhoods, as well as a shift in the composition of the tenant population in social housing.

The recession that came at the end of the 1970s resulted in the collapse of private construction and the value of stock. Again, the governments of this period found themselves forced to return to politics of crisis. Construction was encouraged by expanding subsidies, at a time when significant rent rises were politically unacceptable. Housing expenditure reached new records. The Ministry of Housing partially succeeded in suggesting budget cuts by inventive bookkeeping, particularly the transfer of state loans away from the regular budget. In reality, housing expenditure was spinning out of control.

When private building revived in the course of the 1980s, the end of overall shortages finally came in sight. Mission accomplished! But there was little cause for celebration. Now that housing shortages had all but disappeared, housing policy soon lost its political priority, especially now that a large share of the middle-class electorate had deserted the social housing sector for home ownership. Housing policy became an easy target for the spending cuts enacted by the christian/liberal cabinets of the 1980s. In 1986, a parliamentary enquiry into construction subsidies painfully exposed the intransparancy of
the housing policy network, in which the ultimate destination of subsidies often could not be accounted for. The housing professionals were strongly condemned. They might have attained their goal, but they did so at the wrong time. When housing policy was high up on the political agenda, it was accepted that the goal justified the means; however, at a time when efficiency and financial accountability were the dominant goals, the actions of the past were condemned in retrospect.

Criticism focused mainly on the open-ended nature of subsidy arrangements. Fictitious budget cuts were no longer sufficient. The government lowered subsidies by raising rents sharply, while at the same time cutting individual rent subsidies. The result was that housing expenses were a major factor in the growth of inequality (see table 2.3). After some years, crude cuts no longer proved to be sufficient and housing policy was completely revamped. Reforms were led by the christian-democratic secretary of state Heerma (1986-1994). It is typical that housing, once important enough to command a politically significant ministry, was now handled by a mere department headed by a secretary of state.

Table 2.3: Rent shares

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent share for all tenants</td>
<td>15,8</td>
<td>18,1</td>
<td>19,7</td>
<td>21,1</td>
<td>23,8</td>
</tr>
<tr>
<td>Rent share for target group</td>
<td>19,8</td>
<td>21,0</td>
<td>23,7</td>
<td>25,7</td>
<td>28,4</td>
</tr>
<tr>
<td>Rent share for other tenants</td>
<td>11,7</td>
<td>13,8</td>
<td>15,0</td>
<td>16,2</td>
<td>18,8</td>
</tr>
</tbody>
</table>

a. The percentage of net income used for paying rents, excluding rent subsidies.
b. Households with members under 65 years of age with an income below f 35000,- guilders (single-person) of f 46000,- (two or more) or over 65 with an income of 29.000,- or. f 39.000,- guilders respectively.

Source: CBS, Housing Statistics

3.4 Reform

3.4.1 The motives for policy change

The reforms in housing were massive, but strangely enough they were implemented with little controversy or even attention. They have therefore often been referred to as “the silent revolution in housing” (Klijn, 1996). It reflects the low priority of housing at this time, as well as the technocratic nature of the professional network in this policy area. The changes were justified with three main arguments (Ministry of Housing, 1989):

- The nature of the housing market was changing. The government felt the need to shift attention from new construction to existing stock. Now that the overall housing shortage had been all but resolved, persisting mainly
in the urbanised western part of the country, policy increasingly concentrated on the maintenance, improvement and distribution of supply, particularly in the inner cities. Moreover, it was considered desirable to encourage individual ownership. The Dutch housing market used to consist mainly of rented housing, but home ownership was fast becoming the largest segment (see table 2.4).

**Table 2.4: The shares of rented housing and home ownership in the overall housing stock**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rented housing</td>
<td>71</td>
<td>72</td>
<td>67</td>
<td>61</td>
<td>58</td>
<td>55</td>
<td>52</td>
<td>50</td>
<td>48</td>
</tr>
<tr>
<td>Home ownership</td>
<td>29</td>
<td>28</td>
<td>33</td>
<td>39</td>
<td>42</td>
<td>45</td>
<td>48</td>
<td>50</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: CBS, *Housing Statistics*, and Ministry of Housing, *Public Housing in Figures*

- The government aimed to target housing policy on specific segments of the population, such as low-income groups and the elderly. Object subsidies favoured anyone who happened to occupy a dwelling and were no longer considered proper when shortages were gone. The intention was to replace them with individual rent subsidies where needed.

- The government also desired to reorganise implementation, for a number of reasons. To begin with, it aimed to re-organise the system so that expenditure and the complexity of regulation would no longer run out of bounds. Furthermore, it wished to transcend traditional boundaries and encourage co-operation between professionals from different policy areas, non-profits, commercial businesses, and individual citizens. In urban development, for instance, housing professionals were encouraged to take part in programmes encompassing other urban issues such as welfare, education, economic policy and recreation. Finally, the government desired a shift from direct to indirect control. Rather than defining detailed targets and rules of process from a central vantage-point, it would instead allow providers to meet broad criteria in a manner of their own choosing, within limits.

The actual reforms comprised many different changes (Walker, 1998; Van der Heijden, 1993). They will here be discussed only insofar as they affected the quasi-market in social housing provision. It is possible to distinguish three types of measures: the decentralisation of financial risks, the deregulation of legal constraints on both supply and demand, and the creation of new procedures for accountability and supervision. Together, they created the new quasi-market.

### 3.4.2 The decentralisation of financial risks

The non-profit providers came to carry the risks of their trade. In a dramatic move, the government calculated the net value of future subsidies and paid
them out all at once, after deducting the loans that were still to be repaid. This amounted to a one-off subsidy for the social housing providers, after which formal financial ties were completely severed. The providers themselves were accountable for any miscalculations in this operation. In short, they were financially liberalised. The risks that they faced were somewhat dampened by a number of tax privileges and two large capital funds, set up before liberalisation. One was designed to guarantee their loans on the capital market (allowing lower interest rates), the other to rescue providers in financial trouble. It should be stressed that the existence of this backup fund does not remove the market incentive. Once the fund is forced to step in, the organisation in question will lose a major part of its autonomy and temporarily receive direct orders from the Ministry. If it is allowed to continue independently, it will be only after a financial cleanup and a major reorganisation.\textsuperscript{17}

There was also a change in the way that the few remaining subsidies were allocated. In the 1980s, local authorities only functioned as administrative agencies when it came to subsidies. The processes of awarding, paying out and monitoring funds were all co-ordinated centrally. This responsibility was decentralised and the budgets for various types of subsidies were merged, so that local authorities had some freedom in allocating the money (although the amount of money was significantly less overall). Subsidies were no longer tied to real costs, only to predictions of costs. If they proved too low, no compensation was awarded. The social housing providers therefore carry the risks involved in calculating subsidies, including those of future subsidies.

3.4.3 Deregulation of demand and supply

Housing regulation was liberalised in the course of the 1990s, both for supply and demand. On the demand side, the freedom for individuals to choose their place of residence was also increased considerably. It was no longer as easy for local authorities to refuse access to their local housing markets. On the supply side, social housing providers gained greater freedom in making their own decisions. To begin with, their ability to set their own prices was significantly increased. They used to be obliged to increase their prices by a fixed annual percentage; after a period of gradual relaxation, the government only set maximum and average rent rises, with providers free to create variation in their overall stock. There were also fewer instances in which providers had to ask permission for major decisions. This used to extend to basic activities such as sale and construction, but step by step it came to apply to an increasingly limited number of far-reaching decisions, such as mergers or the transition to a new legal structure.

However, despite the relaxation of behavioural controls, social housing providers were still closely guarded. There was still the requirement to reinvest profits in social housing, to prevent money from leaking away. Many behavioural controls remained, such as restrictions on the discount at which
stock could be sold, price limits on housing constructed for sale, limits on the geographical area in which providers were allowed to operate, allocation rules and so on. The regulatory element of the quasi-market was still quite strong, even if it was a far cry from the regime within which providers operated prior to liberalisation.

3.4.4 Accountability and monitoring

The change to a quasi-market system has not relieved providers of their public responsibilities, but it has cast them in a new form. Rather than setting detailed targets, the state has now defined a number of broad criteria for social housing providers to follow. These include the provision of housing for low-income families, the maintenance of technical quality, care for the built environment, the participation of tenants in decision-making and a sound financial position; in other words, criteria that could mean virtually anything in practice. They were meant to be the starting-point for negotiations between providers and local authorities, during which the real performance targets would be specified. In that sense, local authorities were put in a position similar to those of intermediary organisations in other quasi-markets, with the crucial difference that they were not the actual purchasers. Tenants themselves make individual deals with providers; local authorities must see to it that providers acted in accordance with the collective (local) interest. Given that local needs in housing differ sharply, the nature of the collective interest would be defined territorially and balanced against the private interests of the providers.

This element of the quasi-market was a deliberate attempt to shift the weight of policymaking to the local level. The targets coming out of the negotiations were meant to strike a balance between public and private responsibilities. This was reflected in one of the basic tenets of the new system, which was that local parties were “equal in principle”. However, it is obvious that equality in principle must be accompanied by practical equality if it is to become reality. If local authorities are in a weak position, there is little guarantee that the public interest will be in safe hands. But if local authorities make too many demands on the providers in their municipality, the autonomy (not to mention the survival prospects) of the latter would be severely affected. A perfect balance is never likely to be achieved, but one party should not come to dominate over the other. The local authorities were given no specific instruments to further their interests, but could (ultimately) call upon the Ministry if they felt providers neglected their duties. However, more important than legal instruments is the control local authorities exercise over public spaces and facilities. Investment in the private housing cannot be effective unless it is accompanied by investment in the built environment. To illustrate this in a simple way, the market value of a house diminishes considerably when it stands in an area where the streetlamps are broken and the pavement littered with garbage. This creates mutual dependence and
therefore gives local authorities a bargaining position. It has become their key asset in negotiations with social housing providers.

Formal monitoring used to be the province of local authorities, but their performance of this task was less than successful (Algemene Rekenkamer, 1996; Giessen and Gerrichhauzen, 1986). In practice, local officials proved unable to separate their roles as independent supervisor and local partner. Damning reports by the National Auditing Chamber and some well-publicised scandals led to a policy change that shifted monitoring to the Ministry of Housing and one of the national funds. These monitor whether providers live up to their performance criteria as they have been specified at the local level. The Ministry’s inspection bodies did not have the power to intervene directly, but could appeal for the minister to make a binding recommendation or, in the worst instance, to appoint a new manager. Again, this hardly ever occurred. In addition to external monitoring, the law also required providers to have internal monitoring bodies (Godfroij and De Jager, 1997).

There have been few fundamental changes to the system over the past years. Since the introduction of the quasi-market in 1994, when financial risks were decentralised, reform has proceeded incrementally. At the end of the 1990s, the Ministry of Housing evaluated the reforms and set out guidelines for future policy (Ministry of Housing, 2000). While the proposed changes show a slight tendency towards recentralisation, the discretion of the providers remains largely untouched. In social security, the quasi-market went through a major overhaul before it had even been formally introduced. But in social housing the system has so far proved stable.

3.4.5 The conditions for the effectiveness of the quasi-market

The quasi-market design that emerges from these changes is complex. It has never been quite clear how exactly the different mechanisms of co-ordination are mixed. However, the basic features of the system can be summed up as follows:

- **Competition**, though rarely mentioned explicitly in policy documents, is a logical consequence of decentralising financial risks, for providers that operate in one local market dip into the same pool.
- **Regulation** circumscribes the discretionary freedom of the parties involved and broadly defines the goals to which they should aspire.
- **Local negotiation** is the third basic ingredient. It is through this mechanism that the broad goals must be specified and realised.

On the basis of the previous description of the field, it is possible to specify the conditions for the effectiveness of quasi-markets identified in chapter one. As noted before, it will be assumed that the providers are motivated by
financial considerations (see chapter three). The conditions that make the quasi-market in Dutch social housing work properly will be assumed to be the following four, of which one is specific to this particular quasi-market:

- **Market structure**: there must be the potential for competition. What is distinctive in this quasi-market is that it is very fragmented. This means that competition must exist within each separate local or regional market.
- **Information**: providers must find a way of dealing with the uncertainty inherent in a market-based system. This condition applies to all quasi-markets and is no different here.
- **Intervention**: the state must have effective instruments for correcting undesirable behaviour. In this sense, the requirements for the Dutch social housing system are not fundamentally different from those in other quasi-markets either.
- **Local specification of targets**: the relationship between local authorities and social housing providers must be balanced. The two parties must agree on how to translate the legally proscribed performance criteria into practical goals. These goals should represent a proper mix between public goals and private responsibility. This, in turn, can only be guaranteed when the relationship between the actors is broadly symmetrical.

It is with reference to these four conditions that quasi-market behaviour must ultimately be evaluated, for they determine whether the system can be successful in the long term (see chapter six).

### 3.5 Housing as part of the welfare state

In chapter one, the introduction of the quasi-market in social housing was described as an element of welfare state change. It was interpreted as an attempt to preserve one of the areas of welfare state provision by establishing a system of implementation that could be more effectively controlled. However, there are reasons to doubt whether the change in housing policy should be described in these terms. For a start, one could question whether housing was really part of the welfare state in the first place, since it has been largely absent from the mainstream debate in social policy research. Its characteristics are not easily compatible with the theoretical concepts used in that debate. Moreover, the policy change could be explained as an effort to reduce the role of social housing rather than to preserve it. Social housing appears to be on the retreat throughout Europe, even in those countries where it has traditionally been strongest. Many have interpreted this as the end of housing as a major welfare state arrangement. What remains will be residual, of little significance in the overall housing market and of only minor importance to the overall welfare state. However, the absence of housing from mainstream welfare state concepts merely indicates a flaw in these concepts. There is no inherent reason why housing should be excluded from general welfare state research. It is also very doubtful whether social housing
in the Netherlands is fading into a marginal existence, at least in the short term. This paragraph will address the former issue, paragraph 1.6 the latter.

Housing is only marginally present in welfare state studies and remains confined to specialist discussions, usually in separate fora. This is because the dominant stream in social policy research has conceptually grounded the welfare state in the labour market. It has pegged the goals of enhancing material welfare and social integration to the position of the individual on the labour market. The need to acquire income through selling labour is then set against an individual right to receive income through welfare. The impact of welfare arrangements upon the social order is reflected in the way that they affect labour market inequalities. This assumption has marked effects upon welfare state typologies, which have become one of the most popular tools of social policy research in recent years. These are classifications based on idealtypical representations of national welfare states. Idealtypes should be constructed on the basis of significant components of the real-life object; however, the commonly used welfare state types have only limited relevance for housing, because they neglect those features of public programmes that are essential to an understanding of housing provision.

The most famous example is Esping-Andersen’s typology of three welfare states types or “regimes” (Esping-Andersen, 1990). It is a categorisation originally developed on the basis of a power resource perspective, more specifically, one that attaches great importance to the role of the labour movement. Esping-Andersen identifies three clusters of national welfare states (liberal, corporatist and social-democratic) which differ in terms of decommodification (the separation of provision from labour market position) and stratification (the relationship between citizenship and social class). This model can be interpreted as a reaction to studies that regarded the development of the welfare state as a linear and universal process, for instance, a phenomenon inevitably connected to economic growth and industrialism (Wilensky and Lebaux, 1958). Such studies have classified welfare states on the basis of spending levels. Esping-Andersen argues that this type of approach wrongly assumes that all spending counts equally. For instance, in one country most of the budget may be spent on luxurious arrangements for a happy few, while in another it may be spread equally. Moreover, it would be impossible to determine what extent of spending amounts to a welfare state without some additional criterion.

It is beyond doubt that the regime approach has made a significant contribution to the welfare state debate. It has spurred on discussions for a decade and refined the analytical categories designed by welfare scholars such as Titmuss (Titmuss, 1974). The problem is that its conceptual framework is based on income transfer and that it is therefore not easily compatible with the characteristics of housing. It is not surprising that Esping-Andersen excluded housing from his regime analysis, for it poses obvious difficulties. For a start, it is an area in which one of the central variables of his analysis, “decommodification”, appears to be less relevant (Harloe, 1995).
There is no capitalist welfare state in which housing is not closely linked to market spending power, even if the strength of the link differs between countries. Moreover, variations in patterns of housing provision cut right across the welfare regime clusters that can be identified in social security. In an earlier study Esping-Andersen himself noted that the housing arrangements of Sweden, Norway and Denmark could not possibly be any more different, even though these countries are all part of the social-democratic welfare cluster (Esping-Andersen, 1985).

Discussions on categories such as these eventually boil down to the question how the welfare state should be defined. A great number of welfare state researchers simply seem to equate the welfare state with mechanisms for income transfer. They often identify state activities connected to the labour market as the “core” sectors of the welfare state (e.g. Giddens, 1998; Kuhnle, 1996; Schuyt, 1991). However, it is difficult to see any systematic line of reasoning behind such a core/periphery distinction. It could certainly not be based on individual need, as there is no reason to assume that income is more significant to well-being than access to good health facilities and housing. Nor could the distinction be based on spending levels, for that would imply a return to the kind of argument opposed by the regime approach. Another argument is that goods and services necessary for individual well-being can only be acquired with money and that this money mostly comes in the shape of income, which is in turn acquired through labour market participation or public arrangements that replace such participation. However, a lot of state funding is channelled through the providers of welfare state arrangements rather than through their clients. In housing, for instance, construction subsidies used to be far more important than individual rent subsidies. To focus on income-based programmes is to ignore the large-scale investment in supply. The right to receive adequate shelter and the existence of rent subsidy schemes have no practical consequence unless there is sufficient stock to house people. All in all, the exclusion of housing from mainstream welfare state research appears to have no logical grounds.

3.6 Towards practical insignificance?

3.6.1 Mass and residual housing provision

Throughout Western Europe, social housing has been on the retreat in recent years. “The social rented sector is on the defensive and will probably remain so for years to come” (Priemus and Dieleman, 1997, p. 424). Some go as far as to say that this heralds the end of social housing as a mass welfare state arrangement (Harloe, 1995). They believe what little will remain of housing policy will be targeted at the poorest sections of society. This implies that, even if there is no conceptual basis for ignoring housing, there may be practical grounds for doing so—if not now, in the foreseeable future. If this
also applies to the Netherlands, then the introduction of the quasi-market should be interpreted as the beginning of the end of social housing, not as an attempt to preserve it.

But does this general decline also affect social housing in the Netherlands? To answer that question, it is necessary to define more clearly what “decline” means exactly. In housing studies, it usually refers to the notion that welfare states will converge towards a single type, one similar to the marginal facilities found in most of the Anglo-Saxon countries. Decline could then be described as the move from one type of provision to another. However, as noted in the previous paragraph, the concepts that mainstream welfare state research uses to describe types of provision are based on income transfer and are therefore unsuitable for housing. Fortunately, a major share of the welfare state debate of the 1990s has concentrated on expanding and redefining the analytical categories used in identifying different types of welfare states (Abrahamson, 1999). This has led to a proliferation of modifications, additions and alternatives, each trying to incorporate some new angle or new area into popular typologies. For instance, some critics have argued for adding further types, such as a Southern European or an Antipodean one, reworking the regime categories in the process (Ferrera, 1996; Castles and Mitchell, 1993). Esping-Andersen has recently given the family a more prominent place in his own classification, although the change has not been as radical as some of his feminist critics have argued for (Esping-Andersen, 1999).

Similarly, there have been attempts to modify the categories for use in housing research, while retaining its basic framework (Kleinman, 1996; Barlow and Duncan, 1994). Others have gone further. They have retained the notion of different categories, but have fundamentally reconsidered the criteria for defining them. The classifications they have developed are applicable to housing only and make no claim to cover the entire welfare state. Indeed, Harloe has questioned whether such broad classifications are at all useful. “There is no reason to believe that, in the absence of contrary evidence, that theories which have been developed to cross-national variations in one, albeit major, aspect of the welfare state will be equally applicable to other sectors, let alone to the overall ‘regime’ (if such a holistic conception is thought to be empirically identifiable and/or of analytical utility)” (Harloe, 1995, p. 535).

The categories developed specifically for housing can be roughly reduced to two major types, even if researchers have different views on how they come into being and where they are headed. Harloe has named the two “mass” and residual” housing provision, terms which I will retain in this analysis. In the mass system of provision, social housing comprises a large section of the overall housing stock and covers various segments of the population, including a large share of the middle classes. There is no stigma attached to social housing, because it is not regarded as a facility for the poor. In a residual model, by contrast, social housing is a welfare state arrangement targeted at the poorest, who cannot procure a dwelling of adequate standards
on the regular housing market. It is low-quality and somewhat disreputable, which is why those who can will opt for home ownership. The mass model can be found in countries like Sweden, Germany and France, while the residual model is common to the Anglo-Saxon countries. While there is overlap with the distribution of social security arrangements, the distinction between the social-democratic and corporatist regimes becomes problematic.

3.6.2 Will Dutch social housing become residual?

The two types of provision help to define what it means if social housing is in decline. It can be described as the move from a system with the characteristics of mass provision to one with the characteristics of residual provision. More specifically, it would entail (1) a significant drop in the share of social housing in the overall stock, combined with a rise in home ownership rates, and (2) a shift within social housing from a diverse, high-quality to a low-quality, targeted stock. This is what is implied in Harloe’s definitions of mass and residual housing provision. The Netherlands still clearly have a mass system of housing provision. In fact, the social housing sector is still the largest of the capitalist world. In 1994, social housing covered 37% of total stock, when it was 22% in Sweden, the nearest rival, and 18% in the EU as a whole (Balchin, 1996, p. 70). By the end of the research period, the market share had only dropped by one point. In addition, the social housing providers own stock of high quality, with financial reserves that are strong on average (Helderman and Brandsen, 2000). Consequently, there is as yet no ground for arguing that the introduction of the quasi-market has led Dutch social housing to the margins.

Of course, that could still happen in the long term. Social housing is losing many tenants to home ownership, even though its market share has so far remained stable. It is at this point impossible to tell whether this trend will continue to the point where home ownership becomes the dominant form of tenure. There are also doubts whether all of the social housing stock can be kept on board. It is possible that the government will force the sale of parts of the stock, like in the UK, or that some of the providers will opt out of the system. Each of these events would bring residualisation several steps closer. Chapter six will take a peek into a future and discuss these doom scenarios in more detail.

3.7 Conclusion

This chapter has described Dutch social housing. These were the most important points:

- Housing allows many different opportunities to shift or spread costs, benefits and risks over time.
- Until the 1980s Dutch housing policy favoured rented housing, owned and maintained by private non-profit providers.
- The bulk of state support was channelled through supply rather than demand.
- The liberalisation of the 1990s shifted the risks of provision down to the social housing providers themselves.
- Simultaneously, rules regarding the behaviour of providers were relaxed. Their behaviour was to be evaluated on the basis of broad performance criteria, specified at the local level during negotiations between providers and local authorities.
- The introduction of the quasi-market must be regarded as an attempt to preserve social housing provision rather than to reduce it.

The characteristics of social housing have major consequences for the analysis. For a start, the activities of providers will have been directed by the type of product and by the system of rules in which they operated. The risks associated with housing provision are caused largely by the inflexibility of the product, because investment in housing is so strongly tied up. In other words, one should interpret quasi-market behaviour as an attempt to overcome this inflexibility. Furthermore, the regulation forecloses and enables the alternative choices they can make. In short, the features of social housing provision described in this chapter structure the way providers react to the quasi-market, even if they do not determine it. Chapter three will develop a general theory of (quasi-)market behaviour. The fourth chapter will place this theory within its present context and develop methods for interpreting the raw empirical data.

The design of the quasi-market described in this chapter implies five conditions which should make the quasi-market work effectively, at least according to the blueprint:

- The market structure must be competitive within local markets.
- Providers must be motivated by financial considerations (this will be assumed to be the case).
- Providers must find adequate ways to deal with uncertainty.
- The state must have effective instruments for intervention.
- The relationship between local authorities and providers should be balanced.

Chapter six will examine how the behaviour of providers affects these conditions in practice, using the empirical evidence described in chapter five.
4 A theory of (quasi-)market behaviour

4.1 Introduction

This chapter will provide the tools for the analysis. The first chapter described recent changes in the welfare state, one of which was the introduction of quasi-markets in the implementation of social policy. It was a whole new situation for providers and one that required more than a little flexibility on their part. The question is how they have responded. This chapter will argue that the quasi-market confronted them with two kinds of problems. To begin with, they no longer had the certainty that they would get the resources they needed to function independently. Second, the old methods of handling housing provision no longer applied in a quasi-market context. Providers have had to devise new ways of dealing with uncertainty.

Now that the financial risks of provision have been decentralised, social housing providers no longer have the guarantee that they will receive the money they need to ensure their financial continuity. This means they will have to find ways of keeping the money flowing. What policymakers had hoped for, of course, is that the increase of uncertainty would impel providers to improve their products with the aim of enticing customers. However, there are other ways of averting the risks of provision. For instance, expansion into other markets will make providers less dependent on any particular group of customers. This chapter will describe a theory that is very suitable for explaining these kinds of decisions, the resource dependence theory. It shows the various ways in which providers can acquire the resources they need, even those that run counter to the quasi-market design.

But the social housing providers also faced a second kind of uncertainty. Under the old system, they knew what to do, but with the introduction of the quasi-market at least part of that knowledge became irrelevant. The routines that worked when they were in effect administrative agencies were inappropriate in the new setting, where they were forced to think in a more business-like manner. As resource dependence theory will show, there are a number of alternative actions they can pursue to replace the old ways. But it is by no means certain that they will be aware of all these options, nor that they will know which to choose. Even if they have chosen a general approach to the quasi-market, they may not know how to translate it into concrete decisions. In other words, they face a problem of knowledge as well as of resources. This aspect of behaviour will be analysed with the help of the institutional theory of organisations, which has many interesting things to say about limited rationality.

Paragraph 3.2 will describe resource dependence theory and note its benefits and shortcomings. Although very useful in some respects, it pays little attention to the cognitive dimension of action, which has been at the heart of
recent institutional organisation theory. This will be discussed in 3.3. When old habits no longer work, as can be expected in such a different kind of setting, actors will need new knowledge. There are several ways of meeting this need, individually and collectively, all summed up in 3.4. Together, these theories go a long way in explaining quasi-market behaviour. Not only do they highlight the different kinds of uncertainties that providers face, they also correct each other’s weaknesses. Paragraph 3.5 will combine them into a single theoretical model. To expand this into a theory, two more steps have to be taken. First, the action needs to be placed in context: when can be expected to make which choices? Second, the actions themselves must be spelled out in more detail, if they are not to be misinterpreted. These issues will be dealt with in 3.6 and 3.7 respectively. It will allow me to complete my theory of (quasi-)market behaviour in 3.8. The concluding paragraph 3.9 will examine whether the theory has any direct implications for the conditions that make a quasi-market operate effectively.

This chapter will take a fairly straight path towards its goal, with few stops and detours. The theories will be treated solely as instruments for the analysis ahead. Paragraph A.2 of the appendix contains a more elaborate description of the traditions from which they arose.

4.2 Resource dependence theory

4.2.1 Environments through resource exchange

The first building block of the theoretical framework is the so-called “resource dependence theory” (Pfeffer and Salancik, 1978). It is an interpretation of market behaviour that is very suitable for demonstrating the benefits of an actor-centred approach. Its core assumption is that the behaviour of organisations is governed by their relations with the organisational environment. It rejects the focus on the internal workings of organisations that characterised many studies of the 1950s and 60s. The latter conceived of organisations as rational instruments for the attainment of a set of goals and stressed the importance of individual leadership. The next generation of research shifted its perspective outward and began to study the ways in which organisations are influenced by their environments. It suggested that organisational action cannot be understood only by studying the organisation itself. An analysis must place organisations within their surroundings and take account of the various demands made upon them. Only then will it be clear why they make particular choices and how they manage to survive. Resource dependence theory picks up this thread and combines it with an emphasis on the political nature of action.

The theory conceives of interaction with the environment as the exchange of resources. This comprises not only the exchange of goods and services for
money, but, as Zald has nicely phrased it, “the exchange of goods and incentives that bind men to each other” (Zald, 1970, p. 19). Since organisations are rarely entirely self-sustaining, they will need to enter into exchanges with their environment to acquire the resources they need to survive (Levine and White, 1961). To borrow an example:

Even seemingly self-sustained organizations require some transactions with their environment for survival. The convents and abbeys that flourished during the Middle Ages were designed to be virtually self-sufficient. Needs were kept to a minimum; foods were grown within; and many required utensils, tools, and clothing were made by the abbey’s available labor. An attempt was made, consciously, to isolate the organisations as much as possible from the secular world outside. But abbeys were peopled by people, usually of one sex, and humans are mortal. This meant that new members had to be recruited from the outside, which required the organization to maintain relations with sources of recruits – prisons, wealthy families with illegitimate offspring, and so forth. Recruitment on the outside, therefore, imposed on the organisation a need to devote some energy to elaborate socialization and indoctrination procedures. Moreover, these religious organizations had land, and to maintain their land, it was necessary to ensure a position of social legitimacy and political acceptance so that other groups would not attempt to seize the land for themselves (Pfeffer and Salancik, 1978, pp. 2-3).

If this applies to abbeys, then it does even more so for organisations in a market context. Given the assumption that they wish to survive, they will need to acquire staff, tools, and money. In social housing, that would include financial capital for investment, building materials, land, offices, as well as expertise and manpower to carry out tasks such as construction, maintenance and administration. Organisations will depend on other actors to provide those resources. This, in turn, means that they will have to maintain relationships of dependence with various actors in its surroundings. For instance, they need suppliers to buy raw materials from and customers to get money. The organisation is even indirectly dependent on its competitors, for they are all fishing in the same pool. Its ability to get money from customers hinges critically on the (in)ability of other organisations to attract these same customers.

The flow of resources may not be assured. For instance, customers may decide to spend their money elsewhere, even though the organisation needs that money to survive. This creates uncertainty, a situation in which future conditions cannot be predicted to a sufficient degree. As organisations prefer a predictable environment that can be relied upon to provide critical resources, they are likely to try and reduce the level of uncertainty. It is this kind of logic that underpins the introduction of quasi-markets. Providers need resources to carry out their tasks and within the fold of the public sector these resources are guaranteed to arrive. When the state carries the financial risks of provision, it ultimately does not matter whether customers stay or not. The loss of income their exit incurs will be compensated for. But when the risks are decentralised to the organisations themselves, they will have to find other ways of ensuring that the money keeps coming in. They may have to stop customers from leaving.
When one actor needs another more than the other needs him, the latter is in a position to exercise influence over the former. For instance, customers may use their exit option to influence the products that suppliers bring to the market. Similarly, when customers are solely dependent on one company for a crucial product, the latter may exploit this situation by demanding extravagant prices. Whether dependence relations are “asymmetric” is determined not only by the importance actors attach to particular resources, but also by the overall distribution of resources in the environment and by the rules governing interaction. Asymmetry arises when resources are concentrated in one or a few actors and when these resources cannot easily be replaced. The oil market is a good example. OPEC countries have been able to raise price levels more or less at will, because they have the single largest stock of an essential type of fuel. Regulation may affect relationships of dependence by increasing or diminishing the significance of a particular resource, by restricting or enabling access to it and by encouraging its concentration or diffusion. For instance, the state may force underage citizens to undergo education, making it indispensable; then it may go on to award grants and set maximum fees so that even children from poor families will have access to educational facilities; finally, it can encourage diversity among schools so that parents will have a greater degree of choice.

Asymmetric dependence relationships are uncomfortable for the organisation at the wrong end of the bargain, since there is always the threat that the other will withhold his resources or make unreasonable demands. Faced with this situation, it is likely that the organisation will look for a way to strengthen its position. It is in the recognition of this kind of behaviour that resource dependence theory really distinguishes itself from the contingency theories that preceded it. Contingency theorists argued that an organisation has no choice but to adapt to its environment (Lawrence and Lorsch, 1967; Woodward, 1965). If the organisation wants to survive, it simply has to accede to the demands of the system, whether these concern its technology, its structure or any other decision. It is also conceivable that an organisation will try to adapt the environment rather than vice versa. Indeed, there is a lot of evidence to show that systems can be unravelled and undermined from within. Government agencies insulate themselves from unfavourable policies. Businesses band together to thwart competition. Interest groups lobby the government and fund political campaigns in order to change regulation. Resource dependence theory stresses that actors are able to manipulate the context in which they are embedded, to the point where they can avoid or even defy pressure from other actors.

There are basically three strategies for reducing dependence. To begin with, actors can try to control other actors who are in a position to affect the former’s dependence on a particular resource. One way is to control those who control the resource. For example, businesses can incorporate parts of
their supply chain so that they will be less dependent on outside producers. Since they are indirectly dependent on competitors, they can also choose to band together horizontally through cartels or mergers, in order to command more resources and weaken their dependence on competitors. The existence of anti-trust policy implies a recognition of this possibility (Pfeffer, 1979). A second strategy is to find alternative sources, so that dependence on any single source is diminished. Businesses may try to attract different groups of customers, so that the loss of one type of customer will not immediately plunge them into ruin. Finally, actors can reduce their dependence on a particular resource by finding an alternative that fulfils the same need or simply by kicking the habit. For instance, the Western world could reduce its dependence on oil-producing countries by developing alternative types of car fuel not based on oil. It could also abandon car travel.

It is comforting to know that, at least in theory, actors have the option to resist outside pressure. It is a major source of change in contemporary society. The problem is that such change may not always be welcome. The example of anti-monopoly regulation shows that it may take a watchdog to keep organisations within bounds. This is one of the main problems associated with the introduction of quasi-markets. Providers may well take other actions than were taken account of when the quasi-market was designed. Their actions may even eat away at its very foundations. For instance, providers may establish long-term relationships with their clients that are based on trust rather than competitive contracting (Lapsley and Llewellyn, 1997). This kind of inner erosion, so undesirable from the perspective of policymakers, will also surface in the analysis ahead.

4.2.3 The political nature of organisational action

Given the fact that organisations need to acquire several resources from their environment, their goals and efforts will reflect the various demands of other actors. To balance these may be difficult, for they may be contradictory or too great a burden. “Many of the problems organizations face in attempting to adapt to their environments stem from the inability to predict or assess the potency and demands of various interest groups, how these demands conflict, or how they constrain the organization’s actions” (Pfeffer and Salancik, 1978, p. 84). This is fairly self-evident in the case of state bodies, one of whose main tasks is to juggle with the claims of diverse interest groups. Yet the same applies to other types of organisations, such as commercial businesses. For example, a food producer may have to balance shareholder interests with the demands of consumer groups and state authorities. The former’s demand for quick profits may collide with the latter’s insistence on investment in safety. The organisation’s strategy will somehow have to strike a balance between these competing claims. This means that organisational goals should not be regarded as a coherent and neutral set of objectives, but rather as a temporary compromise. Again, this notion is directly applicable to quasi-market issues, particularly to the potential contradiction between public responsibility and
commercial sense. For instance, housing providers may wish to target more profitable segments of the market, when local authorities would rather they focus on low-income groups.

Although resource dependence theory has focused mainly on interaction with the external environment, its extends its logic to the internal dynamics of organisations. The outside world may consist of actors with diverse interests and resources, but so does the organisation itself (March, Simon and Guetzkow, 1967). They are not machines singularly focused on the attainment of goals, but “loosely coupled” systems in which subunits have considerable autonomy (Weick, 1995). The extent to which they are coherent differs radically and depends on the kind of organisation concerned. For instance, small military units may have a tight chain of command. But hospitals and schools, where professionals have a larger measure of discretion, will probably be far more fragmented (Meyer and Rowan, 1992; Moss Kanter and Summers, 1987). Some units may be more closely allied to actors in the environment than to other units within the organisation.

Organisational units may encourage specific methods of coping with the environment, in the hope that the success of these methods will boost their power within the organisation. For example, the general shift to diversification strategies in American businesses was accompanied by the rise to power of marketing specialists within those businesses (Fligstein, 1990). Organisational goals should therefore be regarded as the outcome, not only of interaction with the environment, but also of internal conflict. Indeed, some interactions with the environment are pursued primarily for their internal effects.

4.2.4 Benefits and shortcomings of resource dependence theory

The basic tenets of resource dependence theory can be summed up as follows:

- Organisational action is shaped in interaction with the environment;
- The interaction with the environment is conceived of in terms of resource exchange;
- An organisation’s need for particular resources forces it to maintain relationships of mutual dependence with other actors;
- When relationships are asymmetric, one actor may exercise influence over the actions of another;
- The relationship between an organisation and its environment is not one-way. The organisation’s actions are influenced by its relationships of dependence with the environment, but it may try to manipulate those relationships;
- Organisational goals and actions represent the interests of actors inside as well as outside the organisation. They are not of a neutral or technical nature.
The theory thus combines the notions of exchange and power, while refraining from normative assumptions concerning the outcome of organisational action. It is this combination of elements that allows it to absorb and integrate various other theories. Hasenfeld goes as far as to speak of a “converging framework” (Hasenfeld, 1983, p. 43). Its flexibility is certainly a great merit: it is applicable to various types of organisations, levels of analysis and organisational issues. It has traditionally been applied to market contexts, but can also be adapted to organisations in quasi-markets and in the public sector. Its scope potentially extends from large organisational fields down to the individual level, with the ability to shift between various units of analysis. This is a talent it shares with mainstream economic theory. As noted before, it is also suitable for bringing out the double-edged nature of interaction between organisations and their environments. However, there are also drawbacks to the theory’s generous nature. For a start, it ignores the element of cognition: the fact that action is not only based on interests, but also on knowledge. Second, there is an inherent tension in resource dependence theory that leaves a gap in its explanation of market behaviour.

Resource dependence theory fails to incorporate the role of cognition in explaining organisational processes. Actions are not inspired by the environment as it is, but by the environment as it is perceived. They act upon the environment as they know it, weighing the alternatives they are aware of and using the means they know how to use. In their description of resource dependence theory, Pfeffer and Salancik do touch upon this issue: “The events of the world around us do not present themselves to us with neat labels and interpretations. Rather, we give meaning to the events” (Pfeffer and Salancik, 1978, p. 72). They then go on to list determinants of organisational perceptions, such as the organisation’s system for processing information, filters for screening out undesired information and informational politics. They argue that information, like other aspects of the organisation, is subject to manipulation and conflict. “One would suspect that subunits, which are themselves concerned with their own survival and power in the organization, would collect information which enhances their own value in organizational decision making or which convinces others in the organization that they have information needed for organizational problems. In either case, attentional processes are determined by the organization’s own structure of influence” (p.77). However, this discussion falls short of a systematic link between an organisation’s strategy to cope with environmental demands and its perception of those demands. The role of perceptions could easily be left out (as, indeed, it often is) without impairing the theory as a whole. This gives a mechanistic tinge to the theory, as if actors simply adapt to an objective set of circumstances (Donaldson, 1995).

A second problem with resource dependence theory is the tension between autonomy and control. One of the assumptions of the theory is that organisations will try to reduce their uncertainty concerning crucial resources.
When they are dependent on others for those resources, they will try to reduce the dependence. On the one hand, this should cause them to pursue autonomy, freedom from the rein of dependence relationships. On the other hand, control over resources can often be gained by joining with other organisations. This entails a loss of autonomy, but also a stronger grip on crucial resources. It is not self-evident which of these options should take precedence. This reveals a gap in the theory’s line of reasoning, which may cause a serious—although not easily detectable—problem in the interpretation of empirical events. It can only be solved by looking beyond resources and recognising other environmental influences that may sway a decision one way or the other.

For instance, what makes organisations choose between mergers, cartels and the various other forms of interorganisational co-operation? Pfeffer and Salancik argue that organisations will opt for others forms of co-ordination only when control through ownership is impossible. This appears plausible, given that ownership allows for greater control. However, they also argue that these forms of co-ordination are more flexible, since they require less commitment. Therefore it could be argued with equal plausibility that mergers are a less preferable option than other types of co-ordination, since they diminish the autonomy of the organisations involved. This problem may fail to surface in empirical studies, because it does not show on hindsight. It requires a thought experiment: why did they not do something else? On a fundamental level, resource dependence theory cannot resolve the dilemma, which flows from a problem in defining the organisation. According to the logic of the theory, the organization’s boundaries are “where the discretion of the organization to control an activity is less than the discretion of another organization or individual to control that activity” (Pfeffer and Salancik, 1978, p. 32). Yet this discretion is itself defined by the organization’s boundaries. When an organization merges, one could argue both that it loses or gains discretion over resources, depending on whether one takes the old or the new organization as the unit of analysis. This is what happens when organizations are viewed only in terms of resource control, without consideration of more durable features like history and culture. These also identify the organization as a distinct unit.

These shortcomings limit the theory’s otherwise considerable potential to interpret market behaviour. Fortunately, both can be overcome. To do this, I will call in the aid of institutional theory, particularly of its branch in organisational sociology. This is a tradition that has in recent times focused specifically on the cognitive aspect of organisational environments. As I hope to demonstrate in the remainder of this chapter, incorporation of the cognitive element not only enriches the theory, but also helps to resolve the autonomy/control dilemma.

### 4.3 The limits of rationality
4.3.1 The cognitive aspect of human behaviour

It has come to be recognised that actors do not see or know anything. Reality is extremely complex, too much to grasp for our limited information processing capacities. At best, we can achieve only limited rationality (Cyert and March, 1963; Simon, 1945). Obviously, this has implications for the process of making decisions. When actors are faced with something they perceive as a problem, they will have only incomplete information about possible actions and their ultimate consequences. Therefore they will not go for the very best solution that is objectively possible, but for one that is satisfactory. This modest claim has proven crucial to understanding organisational behaviour.

The only way to grasp an overwhelming reality with a limited capacity for understanding is to simplify. Consequently, actors direct their attention only to a selective number of characteristics of reality. They filter out information that has no relevance within their scheme. At that point, information becomes knowledge: the overflow of impressions is reduced to a limited selection of pieces of information, connected in a meaningful way. There are various ways for organisations to handle information processing. Organisations are themselves means to focus on a limited number of tasks and to handle these in a standardised, selective manner. Routines, rules and habits make behaviour predictable and therefore reduce uncertainty (March, Simon and Guetzkow, 1967). When I act on tradition, I have no need to consider whether I am going about things in the proper way or, indeed, whether I am pursuing the right goals. Habit must therefore not be interpreted as mere passivity, but as an effort to reduce complexity.

Depending on the level of uncertainty, organisations will use different means to reduce complexity (Galbraith, 1977). When uncertainty is low, the organisation can rely on procedures (formal or informal) to manage its environment. When the amount of information that needs to be processed is relatively low, it is easy to plan a standardised response in advance. But as the environment becomes more complex and less predictable, this is increasingly less viable. An alternative is then to create the capacity for dealing with a higher level of uncertainty. This usually involves a less tightly coupled, more flexible organisation (cf. Lawrence and Lorsch, 1967). For instance, changes in the global economy have forced certain kinds of businesses to reorganise their production processes. It is no longer possible to organise them step by step: different departments have to work on the same product simultaneously. Coordination relies less on formal systems and more on sophisticated communication systems and trust (see 3.6.3). Another alternative is to reduce the need for information by controlling outputs rather than processes. Finally, organisations can try to reduce the uncertainty in their environment, in order to diminish the strain of always keeping up-to-date and staying on top. This is where cognitive theory links up with resource dependence theory.
4.3.2 Knowledge as a resource and as an institution

There are two ways of looking at knowledge, one instrumental, the other institutional (cf. Scott, 1991). To begin with, knowledge can be treated as a tool for dealing with technical problems. Like money, labour and time, it is simply one of the resources necessary to accomplish a task. In this sense, knowledge can be consciously adopted, rejected, traded or used at will. According to resource dependence theory, organisational information processing systems can be subject to calculated manipulation. For instance, many people use statistics to support their claims, knowing very well that they could easily find statistics that say the opposite, and not caring. On a more constructive note, knowledge can also be a tool for identifying and solving problems. When I have to perform a task that is unfamiliar to me, I can go the library and look up what I think I should know. Taken in this sense, knowledge is created very consciously, carefully sifted from the huge amount of information that comes available. It will be open to question and its use will have to be justified.

If everyone come to shares a particular notion about how things work, then it will after some time become difficult to imagine that there is any other way of thinking. It will become a self-evident truth. When this happens, knowledge grows beyond instrumental status and becomes a frame of reference, a way of thinking that has an objective appearance (cf. Berger and Luckmann, 1967). Interpretations of reality will be internalised and actors will detect and solve problems on the basis of mental scripts, usually recognised as such only when they are broken (Garfinkel, 1967). There will be less and less need to justify ideas with reference to their merits. They will be passed on as facts. “Transmissions of acts high on institutionalization is not problematic. The actor doing the transmitting simply communicates them as objective fact, and the actor receiving them treats them as an accurate rendition of objective fact” (Zucker, 1991, p. 87). Knowledge will be “institutionalised”. At this point, the filtering process will become very strong. Information that does not fit the dominant interpretation of reality will be ignored, explained away or simply left unseen. “An institution then starts to control the memory of its members; it causes them to forget experiences incompatible with its righteous image, and it brings to their minds events which sustain the view of nature that is complementary to itself” (Douglas, 1986, p. 112).

Of course, there is a whole range of stages between knowledge that is fully institutionalised and knowledge that is merely instrumental. The less institutionalised knowledge is, the more vulnerable it is to change. The highest degree of institutionalisation has occurred when knowledge is so taken-for-granted that it is no longer even consciously perceived. Such a cognitive institution remains stable because no-one even thinks of questioning it. As actors become more aware of the knowledge they use, they are more likely to question it. Whereas institutionalisation creates order, de-institutionalisation creates choice (Jepperson, 1991). Knowledge that was once
accepted as natural may become no more than an alternative up for consideration, one of many potential interpretations of reality. In that case an institution that has endured for long a period will have gone through a cycle of growth, stability and decline. First it has structured a disorderly situation, leading to repetitive rather than random or improvised choices; its basic structure became more refined and expanded; the institution endured; and then it fell.

De-institutionalisation takes either a dramatic external shock (a “critical juncture”) or internal friction to break down a view that has been so strongly internalised. The shift from Keynesianism to monetarism, two entirely different interpretations of how the economy operates, has been attributed to the oil crises of the 1970s (Hall, 1993). These undermined the effectiveness of the firmly entrenched Keynesian policy paradigm and greatly boosted the credibility of monetarist critics. A second cause of change is inherent friction that slowly but inexorably wears down the institution (Beck, 1992). Markets have the tendency to eliminate themselves through their own mechanism of competition. David Stark has likened them to the boardgame of Monopoly: the aim is to drive all the other competitors out of business and end the game. The two causes of change are not mutually exclusive. The de-institutionalisation in the Dutch social housing sector could be explained with reference to the external shock of liberalisation; yet one could also argue that this liberalisation was merely a reaction to previous institutionalised practices, which in their sustained and successful quest to meet housing shortages ultimately undermined their own political basis.

The interest in bounded rationality was sparked by members of the Carnegie school in organisation theory. “March, Simon, Richard Cyert, and their colleagues have developed an array of insights that students of organization now regard as foundational elements: the importance of uncertainty and its reduction through organizational routines; the notion that the organization of attention is a central process out of which decisions arise; the concern with the implications for decision making when choices are made under conditions of ambiguity about preferences, technology, and interpretation; and the many insights that follow from the view of decision making as a political process involving multiple actors with inconsistent preferences” (DiMaggio and Powell, 1991a, pp. 18-19). These ideas of the Carnegie school gradually seeped into various other disciplines, in a process known as the “cognitive turn”. In organisational sociology, they have had various applications. Resource dependence theory has obviously picked up on the notions of multiplicity and ambiguity; the institutional theory of organisations has instead focused on the stability and endurance of processes and structures. A major shortcoming of the latter used to be that it had a determinist streak and did not recognise how actors could break away from established ways of thinking. More recent work has explicitly tried to infuse institutional theory with concepts of action and change. The analysis in this book must be viewed as part of this attempt (for more on the history of institutional theory, see the appendix).
The term “institutions” will in this analysis refer to spatially and historically distinct, stable, socially constructed and shared frames of reference or definitions of situations (cf. Scott, 1995, p. 47). Though it may not look it, this is a narrow definition, because it only uses the term “institution” in a cognitive sense. The analysis will take account of phenomena that have been called institutions in other studies: legal rules, organisations, shared values, official guidelines and so forth. However, to avoid confusion it is imperative to choose a single clear definition. The choice to describe institutions in terms of knowledge is a deliberate departure from the institutionalist studies of the past that usually referred to them in normative terms. A cognitive focus is more consistent, not only with recent work in organisational sociology, but also with the other pillar of this analysis, the resource dependence theory. The latter explains behaviour on the basis of self-interest, defined as survival in a (quasi-)market. As shown earlier in this paragraph, this assumption is easily compatible with the notion of bounded rationality and the pursuit of knowledge. But when behaviour is inspired by norms, it is the norm that must take precedence, not the actor’s self-interest. That makes a normative approach less compatible with resource dependence theory. Of course, it may turn out that quasi-market behaviour cannot be adequately explained without taking into account norms and values, but that would be an empirical finding rather than a theoretical assumption.

4.3.3 **The benefits of institutions**

There are two ways in which institutions reduce uncertainty in (quasi-)markets. In the first place, actors will know what their problems are and how to handle them. “Market actors live in murky worlds where it is never clear which actions have which consequences. Yet, actors must construct an account of the world that interprets the murkiness, motivates and determines courses of action, and justifies the action decided upon. In markets, the goal of action is to ensure the survival of the firm. No actor can determine which behaviors will maximise profits (either a priori or post hoc), and action is therefore directed toward the creation of stable worlds.” (Fligstein, 1996, p. 659). Routines save actors from complexities they may not be able to handle. At the very least, they save energy.

But institutional knowledge not only reduces uncertainty because it provides solutions to technical problems. The very fact that other actors have internalised the same concepts means they are bound to act in a predictable manner. This in itself reduces uncertainty. They may still compete with one another, but on the basis of a shared view of competition. By creating shared notions of how a market works, institutions also help interpret what competitors mean when they undertake particular actions. “Actors in two different markets might use product diversification, but one might view it as diversifying the financial portfolio (a financial perspective), while the other might see it as carrying a full line of goods (a marketing perspective).
[Institutions] allow actors to interpret what a particular strategic move by competitors might mean.” (Fligstein, 1996, p. 660).

This is also the basis of recreational games. What makes them recreational is that they are relatively easy to learn and less harmful than ordinary life. If it was necessary to invent the rules during the game, it would hardly be relaxing. It would be impossible to devise a strategy, because the behaviour of the other players would be completely unpredictable. If football players suddenly decided to use their hands as well as their feet, all traditional football tactics would become worthless. Moreover, there would be no guarantee that players would be shielded from harm. A game of chess is the more enjoyable because the rules of conduct forbid my opponent from suddenly hitting me on the head. In a game of boxing, I would expect this and prepare myself as best I can. In these cases it is very helpful that the game rules are generally known and accepted. But what happens if there are no rules and there is no-one to impose them?

4.4 The process of institutionalisation

4.4.1 The need for innovation

Rational choice theories, and resource dependence theory among them, assume that actors know how to handle uncertainty. For example, when caught in an asymmetric relationship of dependence, they will pursue one of the strategies mentioned before: control the actors who control the resources, find an alternative source etc. Presuming they have decided on the goals they wish to pursue, they devise a strategy and carry it out. But, as institutional literature shows, actors may not know what their goals are, or what strategy is best, or how to implement their strategy. What happens if they do not know what to do?

This question is of considerable importance for the analysis of social housing provision. Until the financial risks were decentralised, providers were shielded from the rigours of the market and most decision-making responsibilities. They had little room for initiative and could largely function as bureaucratic extensions of national housing policy. The introduction of the quasi-market has changed everything. It has made old routines inappropriate, for a bureaucratic ethic is unlikely to work well in a market context. In other words, the providers face a serious cognitive gap. If they are to survive, they will most likely have to go through a process of de-institutionalisation, shedding the scripts that have guided them for decades. These will have to be replaced by others more suitable for the new conditions. This process will be referred to as “innovation”, the deliberate effort to replace old routines in order to achieve organisational goals (in this case survival). But it is not at all certain they will be able to cope. The organisations were not designed for
these conditions, nor were their staff recruited with the quasi-market in mind. How will they manage? Will they manage at all?

When old routines no longer apply, actors can invent new ideas by themselves. For instance, a social housing provider could think of where to position itself in the housing market, what new products to present, what groups to target, how to remodel its organisational structure. But this is a very demanding process. It involves shedding deeply ingrained habits, which is in itself difficult, and simultaneously finding new ones. It requires energy. Only when knowledge has become institutionalised will it start to require less energy. “A pattern of given complexity, once stabilized, uses less energy than was required to bring it into existence. [...] To write of institutions as complex patterns of information [...] should lead to considering the amount of energy used for making a particular kind of institution and how it is deployed in a more complex or less complex pattern” (Douglas, 1986, p. 112). Actors do not all possess the same level of innovative capacity. In other words, they are not equally capable of creating new knowledge autonomously, especially when there is pressure to change quickly.

Some people are more creative than others. Similarly, some organisations have the people, the culture, the structure or the funds to come up with more ideas than others. It is one of the most important assets in a competitive environment. Those with little innovative capacity may find themselves in troubles, for they may not be able to adjust as well as they should. Fortunately, there is an alternative to individual innovation. Just as knowledge can be maintained collectively, it can be created collectively. This occurs through processes of collective innovation.

4.4.2 Collective innovation through reciprocity

There are two ways to innovate collectively, the first of which is through reciprocity. In a process of repeated resource exchange, actors may reach joint decisions that are innovative in nature. This phenomenon has received special attention in studies on corporatist policymaking. “By deliberate mutual adjustment and repeated interaction, these comprehensive, monopolistically privileged actors avoid the temptation to exploit momentary advantages to the maximum and the pitfall of landing in the worst possible situation. In short, they avoid the prisoner’s dilemma through inter-organizational trust” (Streeck and Schmitter, 1985, p. 13). This is not simply a matter of reaching a collective decision, but also of creating a decision that did not belong to the previous institutional repertoire. Collective action is given a cognitive twist: joint decisions create new alternatives for action. This is possible because the repeated interactions allow the actors to become more familiar with each other, create shared understandings and to build up a relationship of trust (see 3.6.3). “Strategic capacity is low if the individual members, or the subgroups, of a collective are committed to divergent or even incommensurable cognitive maps, and it increases as the worldviews and causal theories of relevant subgroups converge on common –and empirically
true-interpretations of a given situation and of the options and constraints inherent in it” (Scharpf, 1997, p. 58). Through this type of exchange, it is possible to find creative new solutions for collective action problems.

A well-known example is provided by Visser and Hemerijck’s description of the so-called “Dutch miracle”, the economic success brought about by negotiations within the Dutch corporatist system (Visser and Hemerijck, 1997). Employers, trade unions and the state made a famous bargain in which moderate wage rises were exchanged for the creation of new jobs. This forced the actors involved to forego their short-term interests, but by doing so they created a new, long-term solution that eventually benefited all: the Dutch economic consensus model that in subsequent years led to remarkable job growth. In the process that Visser and Hemerijck describe, corporatist decision-making structures put the actors in a position where they could influence policy more directly than would otherwise have been possible. However, it also made it more difficult for them to take the easy way out. This made co-operation a more feasible option and as a result policy innovation was encouraged, if not guaranteed. In a similar vein, Helderman has described how the difficulties of dipping into the rich resource pool of Dutch social housing eventually allowed social housing providers to be privatised, an option that might otherwise not have existed (Helderman, forthcoming).

4.4.3 Collective innovation through reproduction

A second method of innovating is through reproduction. This is a process not dealt with by resource dependence or in fact any theory of scarcity, since it does not necessarily involve exchange. When innovations are reproduced, they are transferred from one actor to the other without the former losing it. The voluntary adoption of an innovation is therefore not necessarily an exchange, since the innovating organisation may gain or lose no resources as a result of the action. It may of course lose or win indirectly. For instance, imitation by others may cause its innovation to become less distinctive and therefore less valuable. Then again, imitation may create a stability and predictability in its environment that works to its advantage. This is not to say that the reproduction of innovations never involves exchange. Knowledge may be bought at a price – consider, for instance, an author’s fee- but in theory innovations could be reproduced almost infinitely. In this analysis, it will be assumed that knowledge can be freely passed on.

One of the best-known mechanisms of reproduction in an organisational context is institutional isomorphism (DiMaggio and Powell, 1991b). DiMaggio and Powell suggest that, once organisations are structured into a field, forces come into play which encourage similarity. In each organisational field there are a few true innovators who have the desire and the capacity to improve their performance by coming up with innovations. Other organisations will copy the ideas of these innovators, rather than innovate themselves. Particular innovations will thus gradually spread throughout the field. The
aggregate effect of change will be diminished diversity, if not outright homogeneity, in the community that shares the innovations. One of the mechanisms through which this drive towards homogeneity occurs is imitation. Organisations voluntarily copy strategic elements from other organisations in their field (“mimetic isomorphism”). Another way is for people with similar educational backgrounds to come to dominate within fields of organisations (“normative isomorphism”). As they become more widespread, the innovations become more legitimate simply because they are widespread. Finally, the state or other powerful bodies in the environment may force organisations to adopt particular changes (“coercive isomorphism”).

Fligstein illustrates these processes in his study of large American corporations (Fligstein, 1991; 1990). Over a century of competition, he identifies four distinct “conceptions of control”, cognitive views that businesses had on how to control the environment. Such conceptions were generally shared by the largest companies, but were each replaced by another after a few decades. For example, whereas in the late 19th century the key to success was to incorporate or neutralise competitors through aggressive tactics (the conception of “direct control”), from the 1920s onwards this changed to a vision in which integration of the entire production process was considered vital (a “manufacturing conception”). These conceptions of control arose within the very largest companies and then spread across to other organisations in the field, setting a new standard for proper market behaviour. These developments were in part forced by the large companies themselves with the power they could exercise through their production networks; however, they were also spurred on by the voluntary adoption of new conceptions by other businesses, who could benefit from the guidance they offered. This process is also known to occur at the level of nation-states (Dolowitz and Marsh, 2000). For instance, it has been used to explain the diffusion of monetary policy across member states of the European Union (Radaelli, 2000). In the Dutch context, Grit has described the diffusion of market-based concepts in the public sector (Grit, 2000).

4.4.4 Institution-building through innovation?

When actors innovate collectively, they may establish new institutionalised routines in the process. Because they adopt similar knowledge, the use of this knowledge may again become self-evident and slip into the unconscious. This not only diminishes uncertainty, but also re-inforces or creates group boundaries (DiMaggio and Powell, 1991b). Organisational “fields”, as they are known in organisational sociology, are themselves institutions. Like any social group, they depend on the recognition of its members that they are in a group. “The existence of organizational fields is established by the mutual recognition of actors in different firms of their interdependence. These actors share a similar conception of legitimate action and the place of each organization in that field” (Fligstein, 1990, pp. 5-6). Knowledge of the playing
field in itself reduces uncertainty considerably. By implication, a field that is no longer held together by shared knowledge may fall apart. Actors may perish, join other fields, or stay caught in a permanent state of flux.

There is every reason to believe that the introduction of the quasi-market has impelled Dutch social housing providers to innovate. Although formally private, their post-war activities were for the most part controlled and directed by state policy. They were public agencies all but in name. This is reflected in the internal structure common to these organisations. Until recently, it invariably consisted of a financial, an administrative and a technical department, organised along bureaucratic lines (see 5.9). Although useful for its former purpose, it is very doubtful that such a structure would be sufficiently flexible and responsive in a market context. The question is whether providers have proved capable of adapting. Have they been able to develop new routines? Has there been a process of re-institutionalisation or has the organisational field evolved towards a state of fragmentation?

4.4.5 Conclusion: the benefits and shortcomings of institutional theory

Institutional theory is very diverse and it must be stressed that this discussion focused only the tradition in organisational sociology and specifically, on the cognitive variety. Its features can be summed up as follows:

- Actors cannot understand reality as it is. To deal with its complexity, they simplify.
- To do this, they create or adopt routines that shut out complexity and alleviate uncertainty.
- When a group share routines, these can become taken-for-granted and beyond questioning. Knowledge will become institutionalised.
- It will take either a great shock or systematic internal friction to dislodge such deeply entrenched ways of thinking.
- When institutions topple, actors have to create new ways of reducing complexity. This process is very demanding. It can be conducted individually, with each actor relying on his own innovative capacity, or collectively, through exchange or diffusion.
- When actors collectively create new knowledge, it may again be institutionalised.

The strength of this theory is its ability to show how knowledge affects action. People struggle to grasp the complexity around them and somehow manage to cope with the help of various tricks, sometimes individually, sometimes as a group. By delving into this complex process, institutional theory makes organisational environments richer and more colourful. However, despite efforts to strengthen its “micro-foundations”, it still lacks the kind of crisp theory of action that characterises rational choice theory. Past institutional theory, best known through the work of Berger and Luckmann, was accused
of being too static. It focused mainly on how actors reproduced existing institutions. More recent varieties of the “new” institutionalism have faced similar criticism. For instance, the isomorphism concept has been called “crypto-deterministic” because it focuses primarily on processes that lead to continuity and stability (Hemerijck and Helderman, 1994). Oliver has also noted the tendency of institutional theory to emphasise conformity to institutional pressure (Oliver, 1991). But this is just one side of the coin. Even if most of their time is spent in maintaining institutions, actors do occasionally rebel against them. If not, change could only come from the outside and man would simply be at the mercy of uncontrollable forces. As the self-destructive nature of competition shows, actors can actively contribute to institutional decline. However, institutional theory has paid little attention to such processes (Scott, 1995; Trommel, 1995). It is for this reason that the match with resource dependence theory will prove fruitful.

4.5 Combining the two theories

Together, resource dependence theory and sociological institutional theory meet the criteria set out in the first chapter. The former excels at showing how actors cope with influences from their environment and how they sometimes manage to alter that environment in their favour, rather than always going with the flow. This is especially relevant for an analysis of quasi-markets, many of which suffer from the calculated exploitation of weak spots in their design. However, it is basically a rational choice theory: it assumes that actors will know what to do. Institutional organisational theory has shown, by contrast, that actors have only limited rationality and that they do not always know how to proceed. There are various ways, individual and collective, to create new knowledge, which may ultimately result in shared perceptions of the environment. This too is very helpful for the present analysis, since the introduction of the quasi-market is exactly the kind of change that will spark a search for new knowledge. The problem with institutional theory is that it does not show for what purpose actors need knowledge. Moreover, it is better at showing how actors conform to their environment than how they change it. The strength of one theory is the flaw of the other. The logical course of action is to combine them and take the best of both. There is no fundamental problem in this, because the theories share some basic assumptions in common:35

- Both start from the premise that the nature of action is largely determined through interaction between the organisation and its environment. They both conceive of interaction in terms of the reaction of an organisation to developments in its environment.
- Both identify the need to cope with uncertainty as the basic motive for organisational action, even if they focus on different kinds of uncertainty.
- Both place action within a historically and geographically specific environment. While it may be possible to make general claims about organisational action, these are always contingent rather than universal.
- Both are neutral to the “objective” outcome of action. In other words, they reject the economic claim that the outcome of action in a market context must necessarily be optimal. This assumption separates these theories from mainstream economics and even most of institutional economics.

This means the two theories can be combined into a single model. At the basis of this model is the assumption that actors wish to survive in the market. They are faced with two major sources of uncertainty. To begin with, they need to secure resources for their survival. The quasi-market design has made them more dependent on their clients, creating an asymmetric relationship. Resource dependence theory claims that actors will try to alter the balance and names three kinds of actions for doing this: (1) controlling the actors who control the resources, (2) finding alternatives sources, and (3) finding alternative resources. The second source of uncertainty is of a cognitive nature. The organisations have no real experience with markets and may not know what the options are or which works best.

First they must decide how they should proceed. If they can, they can innovate individually. Otherwise, they must take part in collective processes if they are to innovate. This process will produce an action that will help them to survive in the quasi-market, that is, one of the possibilities suggested by resource dependence theory. Analytically, the decision-making process can be conceived of as a sequence of two steps, the first to reduce cognitive uncertainty, the next to reduce uncertainty about the flow of resources. The more actors choose to innovate collectively, the more likely it is that the newly-adopted knowledge be institutionalised. This will have the effect of re-inforcing the boundaries of the organisational field, or, if there have been great shifts in the population of actors, it will establish a brand new one. If, however, some organisations follow this strategy and others that, re-institutionalisation will not occur and the field will become or remain fragmented.

In collective innovation processes, individual actors can take up two different positions. They can be innovators, devising their own strategy, and take the initiative in processes of exchange or diffusion. The others will be followers and adopt whatever the innovators propose. In other words, innovative capacity determines whose choices become popular. This distinction between innovators and followers at least partially fills up the gap within resource dependence theory. When organisations are faced with the control/autonomy dilemma (a cognitive problem) they may look to their peers to sway them one way or the other. What this means is that the two theories are locked in a perfect embrace. While resource dependence theory supplies institutional theory with a basic drive for action, the latter refines the former and helps it to proceed where it falters.

**Figure 3.1: Coping with uncertainty**
The theory of market behaviour used for the empirical analysis will be constructed on the basis of this model. However, it needs fleshing out. It should spell out under what circumstances actors can be expected to choose particular courses of action. Paragraph 3.6 will describe the conditions that favour different kinds of innovation. The theory should also have a more refined notion of market behaviour. Decisions are not holistic entities, but layered processes of choice. If this is not recognised, an analysis of organisational behaviour can run into serious measurement problems. This is the focus of paragraph 3.7.

4.6 The conditions for collective innovation

4.6.1 Innovative capacity and the need to innovate

Actors can only be expected to innovate when they need to. It is an activity that by its nature demands more effort than following routines. One of the main purposes of routines is to economise on the energy involved in innovation. Actors will therefore usually innovate only when they feel they have no choice. In many organisational studies, including this one, this sense of urgency is created by the market incentive. The market incentive creates uncertainty, with which organisations feel they have to cope if they are to survive. If there is no immediate threat that spurs actors into movement, it can be artificially created. In Visser and Hemerijck’s study, the unions and employers were encouraged to innovate by the “shadow of hierarchy”: the threat that the state would curtail their involvement in policy-making unless they came to some sort of agreement (Visser and Hemerijck, 1997).

The question that remains to be answered is when actors will opt for which type of innovation. Resource dependence theory starts from the assumption that they will try to reduce their dependence on others. Collective innovation is a process that does imply dependence, because some organisations will need others to acquire knowledge (a resource). Logically, one should
therefore assume that these organisations will prefer to innovate autonomously without depending on their colleagues. If they do not, then it must be because they are unable to. This ability will be referred to as innovative capacity: the ability to generate new knowledge without the aid of other providers. If actors do not have sufficient capacity, then they must find a collective way of coping with uncertainty, or not innovate at all—which would threaten one of the conditions for an effective quasi-market. When this capacity is unevenly spread across organisations, those with high capacity can be expected to be the innovators in the process, the others the followers. It is not necessary for knowledge to be new in an absolute sense. That is virtually impossible in any case. What matters for organisations to be innovators is whether they are capable of innovation regardless of their peers. If they are, then they are innovators in their community. This could mean, for instance, that they pick up an idea from TV which others have not seen or failed to associate with their own needs.

But collective innovation will not occur because it would make the quasi-market more effective. That kind of reasoning would be bad functionalism. The process is possible only under certain conditions, and even then it is not guaranteed to occur. These conditions are mutual dependence (in the case of reciprocity) and a suitable social structure.

4.6.2 Mutual dependence

In an exchange situation, actors must have something to offer each other. After all, the theory assumes that actors are selfish: they will not knowingly give away resources, including knowledge. If one actor believes that interaction will yield few benefits or that it will mostly benefit others, he will have less reason to take account of the others. Innovation through reciprocity therefore rests upon a degree of mutual dependence and symmetry in the resources of the actors involved (Streeck and Schmitter, 1985). By implication, it should be seen most in those areas where mutual dependence is highest.

As far as reproduction is concerned, there is no need for mutual dependence to spark a process of diffusion. Given that innovations cannot be patented or kept secret (which is doubtful in the context of welfare state provision) they can be copied without any kind of exchange. The actor supplying the knowledge may not know that his ideas are being studied and copied. He even stands to lose from this, for another actor’s choice to imitate him diminishes his distinctiveness.

4.6.3 Social structure

Finally, collective innovation is encouraged by certain types of social networks. Roughly speaking, collective innovation through reciprocity is
most likely to occur in closed networks, whereas reproduction requires elaborate social networks.

Resource dependence theory argues that when actors are caught in dependence, they will try to reduce it. This could involve escaping from the relationship (e.g. by entering another market) or making it asymmetrical in its favour. Yet it was noted before that the process occurs only after sustained interaction between actors who have something to gain by co-operating (Scharpf, 1997). By implication, attempts to diminish dependence also diminish the chances of collective innovation through reciprocity. The process is therefore most likely to occur when there is a structure of social ties, formal or informal, that stops actors from walking out and keeps them roughly balanced. This social structure should be such that it effectively keeps actors within a situation of mutual dependence, from which they can only profit by engaging in exchange. Streeck has coined the notion of “productive constraints”: in certain cases, structures that prevent some actions may induce others that are considered more desirable (Streeck, 1997). Quasi-market regulations have been known to have the same effect. When entry and exit are foreclosed, the interaction between supply and demand takes place between a limited number of providers and clients. This encourages them to develop a mutually beneficial working relationship.

Reproduction also flourishes within a specific kind of social structure, but one that is somewhat different. If innovations are to be reproduced, the actors that could adopt them must be aware of them. Therefore there must be adequate channels for carrying innovations across interorganisational boundaries (Leene, 1997). These can be media, schools, formal and informal social networks, shared projects and even shared advisors. When organisational fields are stable, like when the same actors have been working in the same line of business for many years, such communication channels are more likely to be in place. As DiMaggio and Powell have noted, “fields that have stable and broadly acknowledged centres, peripheries, and status orders will be more homogeneous both because the diffusion structure for new models and norms is more routine and because the level of interaction among organizations in the field is higher (DiMaggio and Powell, 1991b, p. 77).

But in both cases, social ties are not in themselves sufficient. Actors still run the risk of being taken advantage of or of betting on the wrong horse, and this may stop the development of innovations dead in its tracks. Even when they are condemned to look each other in the face, actors are unlikely to co-operate when they are wary about how the other parties will react to their efforts. After all, they would risk moral hazard, the possibility that their willingness to make concessions is taken advantage of. Such a situation can result in a complete stalemate. One example of this is the “immobile corporatism” that once paralysed Dutch economic policy (Hemerijck and Helderman, 1994). Nor can actors be expected to imitate just everyone. They will only copy innovations from sources that they consider reliable. It would be foolhardy to imitate someone who has a bad record or no record at all, especially when
there is little information about the effectiveness of the innovations themselves. Their feelings of uncertainty must be alleviated by trust.

In recent years trust has become a popular subject in organisational theory. Trust in exchange relationships can be defined as consisting of three elements (Lane, 1998, p. 3): (1) interdependence between truster and trustee; (2) the ability to cope with risk or uncertainty in exchange relationships; and (3) the expectation that the vulnerability resulting from the acceptance of risk will not be taken advantage of by the other party. This is based on the work of Simmel, who first used the concept to explain the leap of faith that accompanies joint action (Simmel, 1950). If I am to define predictions about market behaviour, it is important to know whether such faith is likely to exist in the context of the analysis. That, in turn, requires knowledge of the origin of the phenomenon. Zucker has identified three types (Zucker, 1986). One is trust is built up incrementally as a result of past successful exchanges, for instance, when business partners have worked together for years. The second is based on shared characteristics, such as those that members of social communities share. Finally, there is impersonal trust, tied to institutions that impart legitimacy to actors or innovations, regardless of their history or identity. For instance, the state can provide the minimum of trust necessary for trade by guaranteeing property rights and the validity of contracts.

The definition and typology described above apply mainly to reciprocity. In the case of reproduction, the nature of the relationship between the actors is somewhat different, since there are other benefits and risks to consider. The imitating party does not run the risk of opportunism so much as the risk of receiving “bad advice”. Trust is still crucial for the interaction, as the problem still boils down to one of time and foresight: the imitator does not always have the resources to gather sufficient information about the object of imitation – as in housing, where the effects of decisions take long to materialise- nor does he have any guarantee that what worked for someone else will work for him. The risk can be partially averted when an innovation is flexible and adaptable to the specific needs of the organisations that adopt it.

The degree of trust is likely to be greater when several types of trust are combined, such as when people belong to the same social group and also know each other well from past encounters. Research indicates that imitation is often founded on characteristic-based trust, since organisations will copy from others with which they share certain characteristics (Lane, 1998). But the likelihood that imitation will occur is greater when there are other forms of trust to back up these shared characteristics. Certain organisations may achieve the status of opinion leaders through an incrementally built reputation. Third parties may alleviate the risks associated with imitation by providing aid when there are serious financial losses. They may also lend legitimacy to innovations by awarding quality certificates or setting up test cases. Only empirical study can show which type of trust is strongest, but it can be safely stated that imitation is most likely to occur when there is a combination of trust types.
4.6.4 Conclusion

Summing up, collective innovation has the highest chance of being observed under the following conditions:

- When there is a need to innovate and actors generally do not have the capacity for doing it all by themselves.
- When there is strong mutual dependence
- When the social structure creates a “no exit” situation and/or when there is extensive scope for communication.

Table 3.1: The conditions under which collective innovation is most likely to occur

<table>
<thead>
<tr>
<th>Type of collective innovation</th>
<th>Innovative capacity</th>
<th>Relationships of dependence</th>
<th>Social structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reciprocity</td>
<td>Low</td>
<td>Mutual dependence</td>
<td>No exit, infused with trust</td>
</tr>
<tr>
<td>Reproduction</td>
<td>Low</td>
<td>No need for mutual dependence</td>
<td>Communication channels, infused with trust</td>
</tr>
<tr>
<td>Determines:</td>
<td>Whether actors need to innovate collectively; who are innovators and followers</td>
<td>In what areas collective innovation through reciprocity will occur</td>
<td>Whether collective innovation is possible or not</td>
</tr>
</tbody>
</table>

4.7 Goals, strategies and decisions

Until now, I have mostly spoken of organisational actions as if they comprised a single choice. However, they are in fact composed of a number of choices, piled on top of one another (cf. March and Olson, 1976). There is no end to the detail with which actions can be dissected, but this analysis will distinguish three layers of behaviour:

1. Goals, like “survival”, “risk avoidance” or “utility maximisation”, are at the basis of all organisational action. They posit what the organisation ultimately wants to do. However, they are usually so abstract that in practice they are often a theoretical assumption rather than an empirically verifiable phenomenon. In themselves they have little empirical significance since they can be translated into virtually any number of practical actions, depending on the definition of survival, risk or utility. For instance, the tendency of large groups of lemmings to throw
themselves off cliffs has been interpreted as a survival tactic. In this analysis, the fundamental organisational goal is assumed to be survival in the quasi-market, in line with resource dependence theory. The empirical analysis will focus on the next two layers of behaviour, strategies and decisions.

2. Strategies comprise “an explicit understanding of the goals of the organisation and the construction of appropriate courses of action for reaching those goals” (Fligstein, 1990, p. 12). They translate the fundamental goals into more specific (though still abstract) principles that guide behaviour towards the attainment of those goals. They imply views on which aspects of the environment are relevant and how these aspects are related. In this analysis, strategies tell social housing providers how to secure the resources crucial for their survival in the quasi-market. For instance, a strategy of diversification (discussed in the next chapter) tells the organisation that it should spread its dependence over a number of sources, so that the loss of one source will not immediately threaten its livelihood.

3. Decisions are the choices that organisations ultimately make. They translate the strategy’s abstract principles into concrete actions. Contrary to the other layers of behaviour, they can be directly observed, simply by looking at what providers do. For instance, one can watch them build a house or knock it down with large bulldozers.

It is often assumed that these three layers of behaviour are logical extensions of one another. For instance, Chandler’s famous statement that “structure follows strategy” suggests that the decision to choose a particular organisational structure follows directly from the strategy the organisation has adopted (Chandler, 1962). Indeed, it is only logical that the choice of a particular strategy should result in a predilection for certain types of decisions and the exclusion of others. A strategy of diversification encourages providers to focus their efforts on several groups of customers and operate in various markets, so one would expect them to adopt an organisational structure that consists of a number of market- or product-based divisions. However, although the layers of action influence each other sequentially, they each imply a separate choice. In other words, none of the steps usually determines the following step completely.

One reason for this is that there are many different strategies that are in accordance with one goal, and many decisions that are consistent with one strategy. For example, resource dependence theory mentions three strategies that all serve survival (see 3.2.2). The choice between these alternatives is not simply a matter of logic, but also of circumstance. A second reason is that different layers of behaviour are not necessarily consistent. Organisational theory has shown that structures and activities may be incoherent and even contradictory (March, 1999; March, Simon and Guetzkow, 1967). For instance, an organisation with a diversification strategy may have a classic bureaucratic structure. There may be various reasons for such dissonance. It may be a compromise or an involuntary decision. For instance, the state may have
forced the provider to adopt a bureaucratic structure in order to improve its accountability. Alternatively, decisions may be inconsistent with strategy because the provider is not yet capable of creating a better one. Perhaps it is hoping to adopt a divisional structure in the future, but does not have the resources to do so at present.

The distinction between layers of behaviour allows greater choice. Previously, it was argued that providers could either innovate collectively or individually. But if strategies and decisions are separate choices, it is possible that providers innovate individually on one layer and collectively on another. For instance, they can invent a strategy individually and then copy a decision that is consistent with it. This is possible because the strategy usually does not specify the exact decision that should follow upon it, but only the characteristics that this decision should have. For example, a strategy of specialisation dictates that the provider should look for a group of customers that it can target and develop special products for. However, it does not specify which group or which products. So if the provider hears that others are targeting the elderly with home care packages, it may decide to copy this interesting idea. Its strategy (specialisation) will be individually invented, its decision (making home care packages for the elderly) by imitation. The reverse is also possible: a collectively chosen strategy followed by an individual decision. For instance, the state may force providers to target only low-income groups in the housing market, yet without specifying how. Some providers may then approach this segment with elaborate package deals, while others will focus on providing housing that is as cheap as possible. The strategy (specialisation) is collective, but the decision (competing on the basis of quality or price) is individual. Of course, it is also possible that both are collective or individual. Instead of two kinds of innovation, there are now four.

4.8 A theory of (quasi-)market behaviour

Paragraph 3.5 defined alternative types of (quasi-)market behaviour. The refinements proposed in the previous two paragraphs affect these in two ways. The distinction between goals, strategies and decisions (in paragraph 3.7) has expanded the number of options open to providers in terms of innovation. Specifying the conditions for collective innovation (in paragraph 3.6) has shown when providers are expected to choose which option. They combine into a theory that helps to interpret quasi-market behaviour. It distinguishes four different types of behaviour, each of which is expected to be chosen under a specific set of conditions (see figure 3.8). Analytical methods discussed in chapter four will help to separate strategies from decisions and collective from individual innovation, so that it will be possible to distinguish the alternate kinds of behaviour in practice.

The first option is that providers invent everything by themselves. This is expected to occur when innovative capacity is high and mutual dependence
low. Alternatively, actions can be completely determined by collective innovation processes. This is expected to happen when there is high mutual dependence, low innovative capacity and a social infrastructure that encourages the exchange and/or diffusion of knowledge. Under these conditions, the chance that knowledge will become institutionalised is highest. The other two options fall in between and will be chosen when the conditions are mixed. One is that providers choose their own strategies, but pick up decisions from their environments. This will save them the energy of coming up with new ideas of their own, while still plotting their own course. Why re-invent the wheel when there is something good around? Another option is that they have shared strategies, but that they implement these according to their own logic. For instance, suppose that a few large companies are caught in a price war that harms them all. They meet secretly and decide to compete over quality, keeping the price at a minimum level. Because they are so strongly dependent on one another, they choose to compete on the basis of shared principles that limit harm (cf. Fligstein, 1996). However, that does not prevent them from trying to distinguish themselves on a less fundamental level.

The empirical evidence will be interpreted in light of these alternatives. If the theory is an adequate representation of reality, providers will choose each of these options when they are expected to. Whether correct or not, it will serve as a tool for helping to understand the logic of quasi-market behaviour. Of course, the closer actual and expected behaviour come together, the easier it will be to understand what has happened.

Figure 3.2: The choices actors are expected to make
4.9 The implications of the theory for the quasi-market

This chapter has constructed a theory of (quasi-)market behaviour, which has tried to strike a balance between realism and applicability. It is a theory that builds upon the sociological approach to markets and attempts to combine calculation and cognition in a single model. It will help to explain quasi-market behaviour and thus to answer part of the research question. But what does the theory tell us about the effectiveness of the quasi-market? Chapter one suggested that this issue should be approached by looking at the conditions that (so it is assumed) make the system work as it should. These conditions were that (1) the market structure should be competitive, (2) providers should find ways to deal with uncertainty, (3) the relationship between local authorities and providers should be balanced, and (4) the state must have effective instruments for correcting undesirable behaviour. Supposing that providers choose one of the theoretical options identified above, does that tell us anything about how their behaviour will affect the conditions?

This is not the case for the conditions regarding market structure and the relationships between providers and local authorities. Although the theory can help to explain behaviour that affects these conditions, it cannot draw a direct link between alternative kinds of behaviour (e.g. collective or individual innovation) and particular effects on the quasi-market conditions. For example, the research may show that providers undermine competition
as part of a collective innovation process, but this does not follow from the notion of collective innovation in itself. In theory, one could equally well find that these actors sustain competition in the course of collective innovation. What happens in actual reality depends on many variables and can only be deduced from empirical evidence.

It is different for the other two conditions. Given that innovative capacity in the organisational field has its limits, then it is clear that widespread collective innovation will help providers to deal with uncertainty more effectively. This is because the knowledge that exists will be shared across a larger population. It is due to an interesting characteristic of this resource: if it is passed from one actor to another, the former does not lose it. The theory also has implications for the fourth condition, which is that the state should be able to intervene effectively when it detects undesirable market behaviour. To explain this, let me return to the basics of the quasi-market. It consists of two main components: market incentives and regulation. The incentives increase the level of uncertainty for providers, which (it is hoped) encourages them to change their behaviour for the better. However, experience indicates that they could also respond to the incentives in ways that are not considered acceptable. Given that the quasi-market is a system for welfare state provision, the definition of what is acceptable will be tighter than in regular markets. This is why there is strict regulation to keep behaviour within the proper bounds. When the state observes undesirable developments after the introduction of the quasi-market, it can add further regulation to counter it.

The problem is that this can only be done sparingly. To understand this, one has to look back to the period before the quasi-market. One of the major problems of the previous systems of provision was that providers adapted to their systems of rules and incentives. The latter learned to skirt the rules, to exploit gaps and inconsistencies, and to buffer themselves from incentives. This lead to a cycle of policy accumulation (In ’t Veld, 1995). The state would react to their behaviour by imposing new regulation, which in turn would incite a reaction from providers, and so on. Especially when many actors were involved in provision, the more difficult it became to prevent the proliferation of policy. One rule invited another. For example, when the Dutch government imposed an economic policy of wage moderation, it was subsequently forced to create new legislation to keep rent rises low. However, there was a danger that private landlords would evict some of their present tenants and offer the dwellings to new tenants at higher rents. In this way, they could have skirted the price restrictions. The government therefore felt obliged to strengthen tenant protection (Brandsen, 1999; Van der Schaar, 1987a). When actors are caught in a spiral of mutual adaptation, the only way to break free is to wipe the sheet clean and devise an altogether new system that escapes this perverse cycle. This is exactly what quasi-markets are expected to do.

By implication, this means that regulation to correct undesirable developments can only be used within limits. If the state is forced to intervene again and again to arrest developments that it does not like, the cycle of
policy accumulation may simply start all over again. In the end, the behaviour of providers will be so constrained that their autonomy is severely reduced. That would defeat the whole point of the quasi-market. This, in turn, means that the quasi-market can only be successful when it does not systematically produce undesirable behaviour. To rephrase that, the market element of the quasi-market should not systematically produce such behaviour. Policymakers should be able to rely on the assumption that this will not happen. This implies that the market should of itself encourage some kinds of behaviour and discourage others. Since the market operates by way of uncertainty, it means uncertainty should give some direction to quasi-market behaviour.

However, the theory suggests that this cannot be the case, because the level of uncertainty does not in itself determine the nature of quasi-market behaviour. There are various ways to deal with uncertainty, which are chosen on the basis of a number of variables, notably innovative capacity, relationships of dependence and social structure. By implication, market incentives cannot be used as an instrument for correcting undesirable behaviour. Even when they are increased, they do not ultimately determine the choices providers make. The consequence is that the state lacks effective instruments for intervention, should the introduction of the quasi-market result in continued deviations from accepted practice. Incentives will not correct behaviour and additional rules will eventually stifle the system they are meant to save. In short, if the theory affords a correct interpretation of quasi-market behaviour, then it may be difficult to sustain this system of provision in the long term.

Of course, it is quite possible that the theory does not work and that the problem will not materialise. For example, providers may have ethical considerations that make them do what is right of their own accord. But at the worst, the quasi-market will run out of bounds and end up on the heap of ambitious, but failed experiments. There is an old Jewish story about Rabbi Löw, who created a man out of clay.1 This man-made man, the “golem”, worked well enough when he was given clear orders and was of great service to the community. On Friday afternoons, the rabbi would give his orders for the Shabbat in advance, because he believed he should not give orders on the day itself. But once Rabbi Löw forgot to do so, because he left the house earlier than usual. “The golem was sitting idle in the rabbi’s house for many hours and his strength was accumulating, like the water of a river constantly gathering behind a dam that stands in its way. Late in the afternoon he felt so much strength that it was impossible to hold him back. Like a madman, he broke out from the rabbi’s house into the streets, sprang up and tore off shop-signs, broke and crushed everything that got into his hands”. Finally the rabbi caught up with him and ordered him back home. Later Rabbi Löw remarked to one of his pupils: “Don’t forget this event. Let it be a lesson to you. Even the most perfect golem, risen to life to protect us, can easily change into a destructive force. Therefore let us treat carefully that which is strong, just as we bow kindly to that which is weak. Everything has its time and place.” Are quasi-markets an inventive solution to current problems, or will they present
us with a modern version of an old tale?
5 Putting the theory to practice

5.1 Introduction

Let me turn back to the starting-point and see what all this theorising has been good for. There were three questions: (1) how the introduction of the quasi-market affected the behaviour of providers, (2) how their behaviour could be explained and (3) how it affects the conditions that make the quasi-market successful. The theory built in chapter three is an explanation of market behaviour, which will need to be confronted with empirical reality. Unfortunately, organisational decisions do not neatly present themselves in terms of the theory: as this or that strategy, of individual or collective innovation. The raw data will have to be analysed and classified in terms of the alternative choices the theory recognises. This chapter will describe the methods used for this process (4.2). The first of these looks at the variation in patterns of decision-making as an indication of whether decisions are collectively or individually inspired. The second method investigates whether the decisions providers make are in harmony with the strategies they have defined for themselves. This determines to what extent these decisions are really collective or individual. To make this method work, it is necessary to provide a definition of potential strategies (4.3) and the kinds of decisions that are in accordance with them (4.4). The third and final method consists of obtaining accounts of what has happened from the actors themselves, which can then be compared with the findings from the other two methods. The methods for measuring the intermediary variables will be discussed in 4.5. The manner in which data have been collected is described in 4.6.

With the use of this research design, it will be possible to answer the first two research question. The third focuses on the implications of the findings for the effectiveness of the quasi-market. This system of provision can only work successfully when certain conditions are in place: (1) a competitive market structure, (2) a balanced provider/local authority relationship, (3) effective ways of dealing with uncertainty, and (4) effective instruments for state intervention. The behaviour of providers could affect these conditions. However, as was noted at the end of the previous chapter, it is not always possible to derive any conclusions directly from the theory. There is no logical link between the choice for this or that kind of theoretical option and the sustainability of a competitive market structure and a balanced provider/local authority relationship. However, it is possible to say something on the basis of the theory about the other two conditions. If there is a lot of collective innovation, and given that overall innovative capacity is limited, providers can be expected to deal with uncertainty more successfully. As for intervention, it was argued that the theory (if correct) questions the effectiveness of market incentives, because these work by increasing the level of uncertainty. However, the theory implies that the level of uncertainty does not in itself determine the choices providers make.
This last point would be more convincing if it could not only be proven indirectly (the theory correctly explains quasi-market behaviour), but also directly (the level of uncertainty does not explain quasi-market behaviour). Fortunately, the housing market offers the rare opportunity to do the latter with relatively few methodological problems. Due to the fragmented nature of the housing market, it is possible to study the effects of varying levels of uncertainty within the same regulatory framework. At the time when the quasi-market was introduced, there was still considerable variation between local markets. By implication, the market incentive central to the quasi-market operated differently. By studying providers in different local markets, it will be possible to see whether the choices they make vary in a manner that is consistent with the strength of the market incentive. Accordingly, cases will be selected on the basis of the level of uncertainty. If the theory works, this should not produce a systematic pattern that makes any sense. The case selection will be discussed in 4.6. The chapter will end with a short summary in 4.7.

5.2 Methods for interpreting the empirical data

5.2.1 Three methods for interpreting decisions

The theoretical model developed in the previous chapter visualises organisational decision-making as a layered process. It starts with the organisation judging whether it should innovate or not, and if so, whether to do it alone or in concert with others. Once it knows what to do, it takes action to secure the resources that it needs. The practical choices that organisations make are therefore composed of different steps, which must analytically be disentangled. Only when each step can be accounted for on its own can the final choice really be understood. The challenge is to find methods for measuring them separately.

Three such methods will be discussed in this chapter. The first focuses on the variation in decisions across groups of providers. This helps to find out whether choices have been made collectively or individually. The second method looks whether the decisions that providers have ultimately taken are in accordance with the strategy that they have previously defined. This shows how deep or superficial the collective nature of action really is. The third method looks whether verbal and written accounts by members of the organisations back up the interpretation suggested by the other methods. This will not only verify the other evidence, but also fill in its cracks and holes. Together, the three methods fit empirically observed actions within the framework of the theory.
5.2.2 The method of studying variation in decision-making

According to the theory, providers can make their choices either collectively or individually. Either they figure out what to do by themselves, or they do so together with others. It will be assumed that when choices are made collectively, they will be the same for different organisations. In other words, collective innovation will lead to homogeneity in patterns of decision-making among groups of organisations. This is one of the standard assumptions of institutional theory: in a process of this kind, “individual efforts to deal rationally with uncertainty and constraint often lead, in the aggregate, to homogeneity in structure, culture, and output” (DiMaggio and Powell, 1991b, p. 64). Variation is taken as an indicator of whether behaviour has been individually or collectively inspired. If everyone appears to have made the same decisions, then their shared preference is likely to have a common origin.

Of course, that approach only works when it is possible to define clear group boundaries. According to the theory, the relevant criterion should be whether a collection of actors shared institutional routines at the start of the research period. In Dutch social housing this is not a problem, for the organisations in the field can be easily identified. There may be two kinds of significant groups. First, there is the national community of providers: the social housing sector. Common origins and a century of shared history have created a class of organisations that can be identified, not only by a shared legal framework, but also by common practices. This traditional bond among the national population could encourage collective innovation. But ties at the local level could be equally or more important. Since the national housing market is divided into various local markets, most providers are not dependent upon one another in their daily activities. Each provider will face only a limited number of colleagues and competitors in its local market, even in the large towns. They will be more familiar with these than with most of the others, as they have worked in the same area for decades. Moreover, local colleagues can directly affect one another’s businesses and for this reason their actions are more likely to draw the attention of their neighbours. The ties among these few may be far more conducive to collective innovation than those among the hundreds of providers at the national level. Consequently, it is conceivable that collective innovation occurs at the local level, even if it does not at the national level.

An analysis of this quasi-market will thus need to measure homogeneity both at the national and the local level. When decisions of a certain type are generally the same across the country, or within a local market, then collective innovation would be a feasible explanation. For instance, when providers massively switch to a particular type of distribution system (as they have), then this could well by explained by copying, a reproductive process. It will take some more evidence to make the analysis conclusive, though, and this will be provided by the other two methods.
5.2.3  The method of fit

The variation method thus shows whether decisions have been made collectively or individually, and if collectively, at what level of analysis. But it does not reveal how deep collective innovation goes. Even if providers take similar decisions, the homogeneity may be very superficial. Suppose, for instance, that a group of local providers all decorate their offices with pink wallpaper. They may do this collectively because they appreciate presenting one (pink) face towards their customers. But perhaps some of them were planning to redecorate their walls anyway and merely chose this specific colour because large quantities of pink paint happened to be available at the time. Trivial as the example is, the implications of the two processes are quite different. When providers follow each other only because it is convenient at a particular moment, they may do something completely different when it is not. But if they take decisions collectively because they want to act collectively, the choice in question may become matter-of-fact and group boundaries may be re-affirmed.

This again brings me to the distinction between strategies and decisions (see 3.7). Strategies represent the organisation’s view on how to secure vital resources in a context of uncertainty. Decisions are the practical choices that actors make. While strategies can be expected to influence decisions, this is not a given. For instance, an actor can side-step his own principles as a concession to other actors. When this happens repeatedly and in many areas of decision-making, the organisation’s own strategy may fade away and be replaced by a shared, institutionalised vision. But for this to happen, collective innovation processes would have to penetrate an actor’s deepest beliefs. To find out how strong they are, one has to compare actual decisions with the decisions that providers would have taken, had they followed their own strategies. If they have taken a different decision from what was expected, then it is clear that their actions were prompted by something other than their strategy. When the actions are similar to those of other actors, then one can surmise that they were chosen only because they were similar to those of other actors. If that is the case, then one can conclude that collective innovation processes exerted a powerful influence and will be more likely to lead to institutionalisation of the innovation in question.

For instance, when I observe that a man has bought the same coat that everyone else is wearing, I could attribute his decision to a desire to be part of the group. But it is equally well possible that he needed a new coat anyway and that he simply went along with the popular choice for convenience. It saved him the trouble of going through all the shops and diminished the chance that he would end up with a bad bargain. If he did buy the coat out of the desire to be fashionable, then this tells me about the extent of his commitment to the group and, when I compare the shopping preferences of
several men who bought this same coat, about the reasons for the popularity of the garment. The man can be expected to keep buying fashionable garments. If it was the latter, his future shopping preferences are more difficult to predict. In that case, peer pressure may not have had as much influence on his decision as superficial observation of his behaviour would suggest. To find out which was the right interpretation, I would have to know how this man defines his clothing needs and then compare these with his decision to buy the coat.

This is a method that came out of the observation that organisational activities and structures are not necessarily coherent (March and Olsen, 1976). It was found that actual goals can deviate from formal goals and that goals may be contradictory. Likewise, the concrete decisions that organisations make may be inconsistent with their strategies. To measure whether this is the case, one has to be able to identify the strategies of organisations without looking at what they have done in practice. This is unusual, since people’s ulterior motives are usually either presupposed or inferred from the decisions they make. But it is feasible to apply this method here since the actors in question are organisations. Unlike most individuals, organisations develop visions for years ahead and, what is very important, document them in policy papers, mission statements and so on. Resource dependence theory would argue that this is a method for the leadership to justify itself, both towards parties inside and outside the organisation. By demonstrating how they will reduce uncertainty, managers can consolidate their position. A simpler interpretation is that organisations have an inherent tendency to produce paperwork. Be that as it may, the availability of such material makes it possible to distinguish a general strategy independent from practical decisions.

Such a strategy would define how the organisation intends to secure the resources that it needs. Resource dependence theory mentioned three types: finding other sources, finding alternative resources or controlling the actors who control the resources. Of course, these are only theoretical options, not the practical choices that actors make in a real-life context. The three abstract alternatives will therefore have to be translated into practical strategies for survival in Dutch social housing. Section 5.3.3 will apply the theoretical alternatives to this specific setting, yielding three potential strategies: a traditional strategy, a responsive strategy and a diversification strategy. This being done, it will be necessary to deduce what kinds of decisions follow from each of these strategies. This is a thought experiment that applies the logic of a strategy’s principles to a practical area of choice. Suppose, for instance, that one would like to know whether an organisation is likely to expand or not. If it has a diversification strategy, the belief that spreading risks is the best way of reducing uncertainty, so then the answer is yes. Section 5.3.4 will go through this process of logical extrapolation. It will do so for six types of decisions that are central to social housing provision. This will result in a number of expectations about organisational decisions. These can then be compared with actual decisions. If the actual decisions falls within the scope of expected decisions, then there is a “fit” between strategy and decision-
making. The two will be in harmony. If this is not the case, there is a “misfit”. For one reason or another, the provider will have chosen to deviate from his own principles.

5.2.4 Crossing variation and fit

When the methods of variation and fit are put together, they create four basic options, three of which are captured by the theory (see table 4.1). When decisions differ between providers, but are consistent with their chosen strategies, then they have apparently invented these decisions by themselves. This constitutes individual innovation. If decisions are generally alike, but they are consistent with individual strategies (assuming these are themselves diverse) then this is evidence of a rather shallow process of collective innovation. Organisations will have picked up bits and pieces from the knowledge scattered around their environment, but only insofar as they thought it useful. A third option is that they have gone so far as to bypass their own strategy. In that case, collective innovation processes will have penetrated deep into organisational decision-making. In both cases of collective innovation, one can make a further distinction on the basis of scale. The process may occur both at the national and at the local level.

There is a fourth and final possibility, which is that there is neither fit nor homogeneity among decisions. In that case, the theory cannot explain what has happened. This is because its whole logic is based on the assumption that organisational decisions are made with reference to the environment. When organisations follow their strategy, they are reacting to the distribution of resources among the actors around them. If they deviate from that strategy, they do so because they work with or follow other actors. The two component theories, resource dependence and institutional theory, each in their own way attempt to explain behaviour within a larger context. But if neither interpretation makes sense, the theory falters. The explanation must then be found elsewhere, not in the environment, but in features specific to particular organisations. This causes a methodological problem, because it is impossible to study explanatory variables systematically before they are known -yet they cannot be known until after organisations have been studied systematically.

Should this happen, two types of explanations seem most viable, given the nature of the field. First, there is the historical denomination of the organisations. The early history of organisations often influences their development in later years (Stinchcombe, 1965). In this case, the organisations were mostly founded at the time when Dutch pillarisation was strong. Therefore may be worth watching out for the influence of their historical denomination (socialist, catholic, protestant, municipal or otherwise). Another potential explanation is individual leadership. Resource dependence theory reacted strongly against “managerialist” explanations, but there is reason to believe that these may be useful in the social housing context. Given that social housing providers have traditionally been small and hierarchical, it is
conceivable that the idiosyncratic preferences of an individual have a decisive effect on organisational decision-making. These and other variables may offer an alternative explanation, but it must be stressed that the cases have not been selected on this basis –indeed, this would be almost impossible where leadership is concerned- and the evidence will be circumstantial rather than systematic.

Table 4.1: Crossing the methods of variation and fit: the four interpretations of (quasi-)market behaviour suggested by the theory

<table>
<thead>
<tr>
<th>Homogeneity in decision-making</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yes</strong></td>
<td><strong>No</strong></td>
</tr>
<tr>
<td><strong>Fit between strategy and decision</strong></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Collective innovation, consistent with organisational strategy</td>
</tr>
<tr>
<td>No</td>
<td>Collective innovation, not consistent with organisational strategy</td>
</tr>
</tbody>
</table>

The alternatives each have consequences for the organisational field. It all depends on what the majority of providers do. When there is extensive collective innovation at the national level, then new routines are most likely to become institutionalised. Shared knowledge may then reach a point where it overwhelms the original differences between the organisations. However, when such processes are not prevalent, diversity will grow as each organisation goes its own way. When the majority pick up on trends only because it is efficient or convenient, then the harmonious appearance of the field will only serve to hide a submerged variety of ideas.

5.2.5 The method of obtaining accounts

Although the methods of fit and variation make for a plausible reconstruction of events, they are not sufficient in themselves. To begin with, they leave out bits of information that are necessary to understand what exactly happened. Even though they recognise collective innovation, they do not reveal much about the exact nature of such processes. On the local level, they cannot determine with any certainty whether innovation processes have occurred.
through reciprocity or reproduction. Furthermore, they do not show who are the innovators and who are the followers. If one fails to identify where innovations come from, one more or less suggests that good ideas drop from the sky. There is a need for additional information to fill in these gaps.

A second weakness of the two methods is that the evidence they produce is only indirect. It is risky to base the interpretation only on such broad evidence. Early attempts to prove the claims of institutional theory have been hampered by the inability to ward off rival interpretations (cf. Donaldson, 1996). There is no doubt that the interpretation suggested by the analysis will be stronger in the face of rival explanations if the actors themselves confirm it. To begin with, they will verify whether the reconstruction of events that the theory proposes is the correct one. Furthermore, they will show whether the reasons actors provide for their actions are consistent with the motives that the theory ascribes to them. They should at least be consistent with the causality implicit in the interpretation. For instance, if I believe an actor has taken a decision because others have done so, his interpretation of events should confirm that he acted in response to the decisions of others, regardless of the specific reasons he affords for this action.

5.2.6 Conclusion: three little pigs

In this paragraph, I have proposed three methods for interpreting the empirical data. Studying the variation among decisions will reveal whether they have been individually or collectively inspired. Investigating whether these decisions are in harmony with organisational strategies shows how far collective innovation processes reach into organisational decision-making, whether similarities are superficial or more profound. Finally, the reconstruction of decision-making processes by members of the organisations themselves serves to solidify the conclusions and to add information that was previously lacking.
Table 4.2: the questions answered by the three methods

<table>
<thead>
<tr>
<th>Method</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measuring variation in patterns of decision-making</td>
<td>Are innovation processes collective or individual?</td>
</tr>
<tr>
<td>Determining the fit between strategies and decisions</td>
<td>Is collective innovation superficial or profound?</td>
</tr>
<tr>
<td>Reconstructing events on the basis of the</td>
<td>Do the accounts confirm the interpretation suggested by the other methods?</td>
</tr>
<tr>
<td>accounts of the actors themselves</td>
<td></td>
</tr>
</tbody>
</table>

To illustrate this, suppose that an acquaintance saw me sitting in the pub “The Pickled Herring” with five friends. His observation is an application of the method of variation: he establishes that the population of six have all taken the decision to go to that particular place. He could guess that we have gone there together, since we live in a large town and it is unlikely that all six of us would have met at this same place at the same time by accident. Supposing we have gone there together, why have I chosen this pub? Perhaps because I like it, but perhaps only because my friends wanted to go there. As it happens, my acquaintance knows that I abhor stuffy old bars, and “The Pickled Herring” is certainly not a place he’d expect to see me. That lends credibility to his guess that I came there solely because my friends wanted to. But why exactly did I agree to come? Perhaps my desire to go out was so strong that I would have agreed to almost anything. Alternatively, I conceded only because my friends had promised to go somewhere else later in the evening. The only way to find out is to ask me. That would also reveal other details of this night out, such as who’d taken the initiative to go in the first place and what we talked about. In this way, variation, fit and accounts would give a fairly reliable picture of what had happened that evening.

This triangle of methods will now be prepared for practical application. Paragraphs 4.3 and 4.4 will define the strategies for social housing provision and the decisions that logically follow from them. Paragraph 4.5 will discuss the implications of this approach for the methods of data collection.

5.3 Strategies in social housing

5.3.1 Putting abstract strategies in context

Resource dependence theory identified three types of strategies that organisations can pursue to enhance their prospects of survival: (1) finding alternative sources for the resource on which they depend; (2) finding alternative resources that fulfil the same need; and (3) controlling the actors who control resources. They can help organisations to cope with the uncertainty that comes with operating on a market. However, the three general strategies will have to be translated into more specific alternatives that social housing providers can choose from. To do this, it will again be
necessary to look both at the product characteristics and the rules and structures of the social housing sector. Chapter two showed that these two variables had shaped the past history of the field. They also shape present choices.

The main effect of the product characteristics of housing is to limit the flexibility of action (see 2.2). To recap, these characteristics are as follows: (1) the costs of the good are borne in advance and consumption will take place over a long period; (2) the costs are of such magnitude that they usually require either joint investment or loans; (3) stock changes slowly; (4) houses are stuck to the ground; and (5) they cannot be substituted for other types of goods. These features make investment in housing potentially very profitable, but also very risky. To begin with, the stakes are always high: there are always large sums of capital involved. Even minor changes in prices or interest rates can have major consequences. Moreover, a house combines long-term investment with short-term inflexibility. Whoever constructs a house should take into account not only the preferences of present consumers, but also those of customers in twenty, thirty, forty years time. If a house is no longer in accordance with the wishes of consumers, it will take considerable time, money and energy to adapt it. Some of the characteristics of housing, such as its size and location, can never or barely be changed at all. This leads to difficult dilemmas. For instance, supposing that future consumers will have more to spend, they may demand shelter of a more spacious kind, but present consumers may be unable to afford it. An additional problem is that individual owners cannot influence many of the conditions that determine the capital value and the quality of consumption. Variables such the development of neighbourhoods, state policy and regulation, economic conditions and demographics are all largely beyond control. In short, housing provision is a potentially risky business.

The specific features of the Dutch social housing sector both exacerbate and diminish these risks. In some respects, housing policy has deliberately aimed to minimise the danger associated with provision. The very fact that social housing is a form of collective ownership means that providers have a broader basis for managing risks than owner-occupiers do. After all, the larger the stock, the easier it is to redistribute losses and gains. Providers hold considerable funds, both in their financial reserves or the solidified capital enclosed in the housing itself. The protracted struggle to meet housing shortages, a failure in policy terms, has actually favoured the providers themselves (Helderman, forthcoming). Not only has it given them a larger share of stock than they would otherwise have had, it has also made their stock very diverse: it cuts across the many styles and subsidy systems of post-war construction. This makes providers less dependent on any single type of dwelling. Another positive feature of the sector is the existence of funds that support providers by guaranteeing their loans and bailing them out at times of crisis.

But there are also features of the system that fuel financial risks, especially in
the long term. Housing providers usually operate only on one local market. In their early years this was actively encouraged by national housing policy, because it allowed efficient and effective supervision (Van der Schaar, 1987b). At a time of shortages and limited mobility, it could allow the creation of monopolies and oligopolies in the lower segments of the market (Van den Brink, Brandsen and Putters, forthcoming). Yet when the market is slacker, as it is likely to become in the long term, it will leave providers more vulnerable, because they will depend on the developments of a single small market. In addition, legislation has tied them to the housing market, so they cannot sell their stock and move elsewhere. In other words, the strategy of finding other sources of capital is severely constrained. Within the housing market itself, regulation prevents providers from exploring some of the more profitable sources of income, such as the construction for sale of stock in the expensive segments of the market. All in all, the specific features of the sector strengthen short-term security, but limit flexibility even further.

5.3.2 Three strategies for social housing

So inflexibility is the main problem in managing the risks of social housing provision. Even when tenants decide they do not like what is on offer and use their exit option, or when there are simply not enough tenants in the local market, providers cannot easily change their supply in the short term. They are also barred from many other sources of capital. Consequently, they are left with a choice of two alternative strategies. The first is to prevent tenants from using the exit option in the first place. If the supply can be sufficiently adapted in time, tenants may decide to stay and the risk will be averted. The other is to spread the risks incurred by the threat of exit. If tenants do leave, the blow will be softened.

The longer tenants stay, the better. As shortages decline, they have more scope for moving about, which alters the relationship of dependence in their favour. One organisational strategy is to persuade them not to move by offering them a satisfactory product. Traditionally, the efforts of providers were mainly focused on the technical aspects of their product. Social housing providers were proud of the quality of their stock, and not without reason. When they carry this strategy into the new era, they are basically relying on an old routine to do the trick. It is based on the assumption that tenants (still) care most about the physical quality of their home. This entails high standards of maintenance and a quick and effective response to technical problems. An alternative strategy is to improve aspects of housing other than its physical quality. There can be more to a dwelling than bricks and mortar alone. It not only provides shelter, but also a space where people can fulfil other needs or adopt the lifestyle of their choice. Providers can take advantage of this by adding new characteristics to the traditional product, which will satisfy the needs and desires of their tenants. For instance, they can introduce shopping services for yuppies, home-based care for the elderly and discounts for home-related purchases. This will create a (new) package deal, targeted at a specific
A second option is not so much to prevent exit as to soften its impact. Risks can be spread through expansion and diversification, so that losses in one part of stock may be offset by gains in another. However, it is difficult to achieve this in short term by relying only on new construction or the adaptation of existing dwellings. This involves huge investment and only starts yielding results over extended periods. It is much swifter and less costly to co-operate with other providers and share the risks of existing stock. This can be achieved through all sorts of permanent or temporary alliances, involving either partial or comprehensive co-operation. If the partners are providers within the same local market, there is a smaller chance that tenants will move beyond the stock that is under joint control. This makes their exit from any one dwelling less harmful. Expansion into other geographical markets has the advantage of diminishing a provider’s dependence on market developments in any one area. Yet another option is to sell products on new markets; for instance, providers can use their technical expertise for offering maintenance services to businesses or other non-profit organisations. Theoretically, it is also possible that they will develop an entirely new product for a new market. When they invent a new service for their tenants, for instance, they can also offer it to homeowners. However, this may hit the legal bounds within which they are obliged to operate.

All in all, three potential strategies emerge:

1) **The traditional strategy**: the focus of the provider is the technical quality of the housing stock. This turns old routines into a survival strategy. In terms of resource dependence theory, it is a method for controlling the actors that control essential resources.

2) **The responsive strategy**: the provider seeks to prevent exit by responding swiftly and effectively to the wishes of its tenants. This is a stronger departure from established practices and yet another method for controlling the actors that control key resources.

3) **The diversification strategy**: the aim is to spread risks by offering a large and diverse supply of products. This is the most radical deviation from old routines. In terms of resource dependence theory, it is way of finding alternative sources for vital resources.

These three strategies are roughly similar to the three types of social housing providers identified in the *Woonverkenningen*, a policy paper exploring housing policy over the next thirty years (Ministry of Housing, 1997). The strategies are all idealtypical and unlikely to be pursued in their pure form. However, since a strategy implies some sort of focus, organisations will tend to lean one way or the other. The labels for the strategies are descriptive only and are not intended to suggest that one strategy is better than another.
5.3.3 Types of decisions to which strategies will be applied

Each strategy carries with it a predilection for certain types of decisions. There are obviously many matters on which providers will have to decide, but it is obviously impossible to discuss them all, nor are they all equally significant. The types of choices should therefore be limited to a small number that are relevant to the quasi-market analysis. To begin with, they should have some bearing on attempts to reduce uncertainty about survival prospects. This implies they ought to relate to actors who affect the distribution of key resources. Second, they must be activities that were within the providers’ discretion during the entire research period. For instance, rent setting has only been liberalised gradually and consequently rent differentiation by individual housing providers was still only in its infancy by the end of the period. There would consequently be little point in studying this type of decision. On the basis of these criteria, the following six areas of decision-making have been selected:

1. **Interventions in stock**: the housing stock that any provider has on offer can be altered through new construction, adaptation of existing stock, sale, demolition and acquisition. This has traditionally been the core task of social housing.

2. **Distribution**: providers use certain rules and procedures to distribute vacancies among customers. This analysis will focus on the distribution system, the general method through which demand gets in touch with supply. Waiting lists are an example of such a method: potential tenants register their preferences and the provider offers a suitable dwelling when applications come top of the list.

3. **Interorganisational co-operation**: providers may engage in collective action with other organisations in their environment, through mergers, alliances, or projects.

4. **Legal structure**: organisations have a formal structure that determines who ultimately controls it. For instance, an association is officially governed by the meeting of members.

5. **Tenant representation**: in addition to their “exit” option, tenants may have a “voice” option. This implies that their representatives negotiate directly with the management. Depending on their skill and formal rights, their participation may stretch from distant advice to close involvement.

6. **Organisational structure**: like other organisations, social housing providers have a formal method that identifies distinct activities and co-ordinates them in a consistent manner. A well-known example is the bureaucratic model that combines specialisation, standardisation and hierarchy.

These types of decisions were all within the providers’ discretionary freedom at the start of the research period, even if legislation limited the number of alternative choices they could make. Moreover, these six areas capture the relationships with most of the major actors in the local network. Relations
with tenants are captured in stock interventions and distribution (important for the exit mechanism) and in tenant representation and legal structure (significant for voice). The ties to other providers and to local authorities are described under stock intervention, distribution and interorganisational co-operation. Finally, internal relations are discussed with respect to legal and organisational structure. The overall picture should be a comprehensive representation of how social housing providers have reacted to the introduction of the quasi-market. Of course, that is not to say that these decisions are all equally important. Obviously interventions in stock and interorganisational co-operation can have a far greater effect on the market position of a provider than any of the other decisions. They influence relationships of dependence with other actors directly. Consequently, they are also most likely to affect the future sustainability of the system. However, for analytical purposes it is desirable to study a broad range of decisions.

5.4 Expected decisions, given a fit with strategy

This paragraph will predict what providers are expected to do, given that there is a fit between their decisions and their strategy. Of course, these expectations can only be defined broadly. The sector is in a state of flux and many of the conditions that influence the ultimate shape of decisions could not be known a priori. In any case, strategies usually determine the range of feasible options, but rarely the concrete choice that is finally decided upon. The expectations have been defined in relative terms or, when possible, in terms of discrete alternatives.

5.4.1 Interventions in stock

Providers can take various measures to change the physical aspects of their stock. These include additions (construction, acquisition), subtractions (demolition, sale) and changes to existing buildings. In the past, construction in particular was regarded as the prime task of social housing providers. Their post-war growth had been spectacular. By the early 1990s, their overall stock was ten times what it had been at the end of the 1940s (see table 2.1). However, with the housing shortages down considerably and the risks of interventions decentralised, one can expect decisions of this kind to be pegged to the strategy for survival. The regulation affecting construction and other activities was vast, but it largely affected the implementation of such decisions. For instance, social housing providers could not construct housing above a certain cost per dwelling (well below the market average). They were also forbidden from selling their stock at less than 90% of the current market price. However, the rules did not foreclose any of the options outright.

Providers with a diversification strategy intend to spread their risks. Accordingly, they will try to build up a stock composed of various types of
housing and spread across various markets. They try to control uncertainty by regulating the flow of capital across their stock, cross-subsidizing one part with the other. This means they will have no hesitation in “cleaning up” their assets to remove vulnerable parts. For instance, should a number of tenants wish to move to home ownership, they can choose to sell off part of their stock to satisfy that demand and use the revenues to invest elsewhere. The key to survival is handling the financial flows cleverly. More than the others, they will use all the options at their disposal and will not refrain from doing so on a large scale. Although they will be inclined to expand, that does not necessarily imply an emphasis on construction or acquisition. It is also possible that they will achieve expansion through co-operation with other providers, while simultaneously trimming down their own stock.

Providers with responsive or traditional strategies will be somewhat more reserved towards large-scale changes of their stock. For a start, they focus on local markets, which means that their scope for rolling around capital is far smaller. This tactic is therefore less effective. Moreover, their strategies rely on a different way of managing uncertainty. Providers with a traditional strategy focus on the technical quality of housing and believe that this will in the end ensure the loyalty of their customers. This means they will intervene in their stock in order to upgrade technical standards and to construct housing that is up to date with present-day requirements. They will try to control uncertainty through other instruments, such as maintenance and distribution, and will refrain from taking risks that they cannot contain. These providers will therefore not be inclined to sell. This would imply a loss of control over sources over income, when the risk involved in such a decision cannot be sufficiently compensated for by spreading risks. Interventions will be limited and will primarily consist of constructing new housing and repositioning existing stock.

Responsive providers focus their efforts on specific groups of customers and will provide whatever is necessary to please those groups. By implication, they will make targeted changes to their stock, specialising in certain segments and withdrawing from others. This means they will be more willing to intervene in the composition of their stock than traditional providers, but less so than those with a diversification strategy. On the one hand, the need to specialise will impel them to re-arrange the composition of their stock, so that it is most suitable for the customers they target. On the other hand, their focus on the local market gives them less scope for large-scale intervention than providers with diversification strategies, even if they have a larger toolkit (by virtue of their non-technical products) than their traditionally-minded colleagues. They will therefore be willing to intervene in all kinds of ways, but on a limited scale.

These predictions are simple, but the actual decision-making processes will be complicated. This is because they are contingent on many other variables. In the first place, decisions of this kind will very much depend on the composition of existing stock and the nature of the local market. Each
provider has entered the quasi-market with a different set of assets and a different set of problems. Some may have too many houses in a particular segment, others too few; some may have stock that is easily adaptable to changing needs, others may have housing that leaves limited scope for change. Actual interventions can therefore not be predicted except in very general terms. Furthermore, many interventions are carried out collectively, as part of major construction projects or the revitalisation of neighbourhoods, in which many other actors are involved. It will be interesting to see how individual strategies are expressed in these large-scale processes.

Table 4.3: the expected relationship between organisational strategy and interventions in stock

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Limited intervention; new construction and changes to existing stock; no sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>Medium intervention; small-scale use of all options</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Extensive intervention; large-scale use of all options</td>
</tr>
</tbody>
</table>

5.4.2 Distribution system

The distribution system is the formal administrative procedure that brings together supply and demand. It determines the general method by which tenants register their preferences and providers allocate their stock. The distribution of vacant units among individual tenants is handled through the criteria, categories and labels within the system. The system has three basic functions. Originally, it was an instrument of fairness. When there were great housing shortages, it was believed the meagre supply should be distributed in a standardised and transparent manner. Over time, the allocation of vacancies came to be handled through increasingly complex systems, with large numbers of categories (e.g. age, income, origin), criteria (e.g. registration period, special needs) and labels (what housing unit is suitable for which categories). These were designed to replace the price mechanism with standards of fairness. The local authorities traditionally had a large stake in the allocation process and often handled a major share of its administration. While regulation has been trimmed during 1980s and 90s, the influence of national and local authorities on distribution remains considerable. Indeed, it has been suggested that the relaxation of legal constraints has only broadened the discretionary freedom of local authorities (Rietman, 1993; Peeters, 1992).

But with liberalisation, the distribution system has increasingly become an instrument for marketing and sales. It is one of the principal methods for attracting new customers: the “shop window”. Since it is the means through which prospective tenants indicate their preference for particular types of housing, it is also a source of information for other decisions. A third and final
function of the distribution system is to determine who ultimately decides the allocation of specific dwellings. The formal criteria, categories and labels within the system determine the eligibility of individual tenants, regardless of the type of system. However, there is a difference in the opportunities systems allow for making exceptions. Tenants may have a right to the specific units for which they have applied, given that they are eligible. Alternatively, providers may be able to bar them from certain units, even if the rules oblige them to offer a substitute elsewhere. Only the latter two functions, marketing and control, are important to this analysis. After all, the theory assumes that actors care for self-preservation, not for justice.

There are two aspects of the distribution system on which providers have to decide. First, there is the choice of procedure. This determines the relative discretion of suppliers and customers over the allocation of specific units. While public regulation regarding distribution is extensive, it does not determine that aspect of the procedure. Second, there is the control over the administration of applications. The implementation of the procedure can be handled by single providers for their own stock, or collectively for all providers in a local or regional market. There is also the issue to what extent local authorities should be directly involved in the administrative process. The systems that developed in the post-war period were often partially and sometimes wholly implemented by public officials.

Broadly speaking, there are two types of procedures (cf. NCIV, 1993). One option is that the customer registers his preferences and receives an offer from the provider when he comes top of the waiting list. The alternative is a supermarket model, in which information about vacancies is made available to prospective tenants and they themselves pick out the house that best suits their wishes, given that they are eligible. The former type of system leaves the ultimate decision over allocation to the provider, the latter to the customer. Of course, there are various intermediary forms, depending on how exactly the process is organised. Before liberalisation, waiting lists had been a fact of life. It was only at the beginning of the 1990s that other types of systems came to be used on a large scale.

If it were only a question of marketing, one would expect a general shift from waiting lists to supermarket types of systems. These turn over some of the control over the process of allocation to prospective tenants. Whereas they used to be dependent on providers to receive an offer, they will now be able to pick out the vacancies of their choice. This will allow them to include far more variables in their decision than would be possible if they registered through a standardised procedure. In other words, the supermarket system allows providers to be more responsive to the preferences of customers. This is an advantage in a quasi-market setting, in which customers have become a more significant power to reckon with. But it gets more complicated when one considers the issue of control. Providers may want to retain some influence over who gets which house. They used to be notorious for their favouritism, even when the selection process became more standardised over
time. Virtually everyone knew a story of someone who knew someone who got this very good house, allegedly because he knew one of the board members. But there are other, more legitimate reasons for making exceptions. For instance, providers may want to spread or keep out known troublemakers. As one respondent said: “If there are two junkies in a street and I have the sneaking suspicion that this new applicant is going to be the third, what can I do? If I give him the right to live in that street, it creates a new problem.” (3) Providers can also try to create a mix of tenants in a particular block, even if this means allocating vacancies to people who officially should not be there. They may also want to reward loyal customers by giving them priority over new applicants. All of this is done more easily within the traditional system, since it hides the final part of the allocation process from outside view. The transparency of a supermarket model makes it more difficult to deviate from formal procedure.

In short, there is a dilemma. Distribution systems that leave the ultimate decision over allocation to tenants are more responsive, but they are also less flexible. By aiming to increase customer satisfaction indirectly, they limit ways to affect it directly. Organisational strategy will decide whether tenants lean one way or the other. Providers with a responsive strategy will favour a supermarket type of system, for they will appreciate its superior ability to meet the expectations of tenants. The latter will be less likely to be dissatisfied with their home, because they have themselves chosen it from the available supply. Those with a traditional strategy, by contrast, will favour waiting lists. Compared to the other strategies, their scope for adapting the product to the tenants is limited. Therefore they will be more inclined to adapt the tenants to the product, by carefully selecting who gets which unit. Providers with a diversification strategy, finally, should have a preference for the supermarket variety. Since they will be more likely to intervene by adapting stock, they have less need to intervene in the allocation process.

As for the administration of the allocation process, it is fairly evident that each provider would like to control this aspect of distribution itself. For none of the strategies there is much benefit in involving other parties in implementation. Control over allocation is greater when it is handled privately. Even those in favour of a supermarket type of system would prefer to keep matters in their own hands. It may be more convenient for customers to have all the available vacancies advertised and administered collectively and in that sense it may be more responsive; but even a responsive strategy is still a strategy for individual survival, not for the ultimate benefit of clients. After all, supermarkets do not advertise and sell their goods together either. Providers are therefore expected to acquire or retain control over the distribution of their own stock, with as little interference from other providers or local authorities as possible.
Table 4.4: the expected relationship between organisational strategy and the choice of distribution system

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Waiting lists; control over administrative process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>Supermarket model; control over administrative process</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Supermarket model; control over administrative process</td>
</tr>
</tbody>
</table>

5.4.3 Interorganisational co-operation

The discussion of interorganisational co-operation will be confined to relationships among the housing providers themselves. Co-operation with other significant actors—local authorities, tenant organisations, commercial businesses—will relate only to a limited number of activities and will be discussed when the need arises. Insofar as mergers are concerned, they must be limited to other providers require formal permission from the Ministry of Housing if it affects the legal structure of the organisations involved (see 4.4.4). Another and related legal requirement concerns the area in which providers are allowed to operate. They are still bound to legally circumscribed geographical areas (usually their local or regional housing markets) in which they are allowed to operate. It is a remnant of the old system, designed to create effective local authority supervision. To go beyond their traditional hunting-grounds, they will also need permission from the Ministry. So far, permission has usually been granted. Nowadays, it has become more common to operate on the regional market. Permission to operate nationally remains rare, though.

The merger is resource dependence theory’s classic example of how organisations can diminish uncertainty (Pfeffer and Salancik, 1978). Ironically, it also brings to light one of its fundamental weaknesses. On the one hand, inter-organisational co-operation diminishes autonomy, which would lead the theory to predict low levels of interorganisational co-operation. On the other hand, co-operation allows providers to exercise more control over their environment. From that angle, resource dependence theory would forecast extensive co-operation. The difficulty arises because it is unclear what should be the unit of analysis: the organisation before or after the merger? The ambiguity makes it difficult to define general expectations about what organisations will do.

However, it becomes easier when strategies are taken into account. Providers with a diversification strategy hope to spread risks. Given that the size of their organisation was small, as it nearly always was, it would be logical for them to expand their stock and move into other geographical markets or other market segments. Interventions in stock will not help to achieve this in the short term, since they are slow and very costly. This means that co-operation is the principal method of expansion and that it should be pursued fervently. Providers with other strategies will find this less important. After
all, their aim is to stop clients from using their exit option, a goal to which expansion would not directly contribute. Those with responsive strategies could expect some gains through increased possibilities for product development. Since they need to develop new services, they may benefit from sharing and developing knowledge with other organisations. However, the focal point of their operations will still be the local market. If they do engage in co-operation, one would expect it to consist only of exchange on a limited number of areas. Providers with traditional strategies rely on established routines and have little to gain from co-operation, either in terms of expansion or innovation.

Table 4.5: the expected relationship between organisational strategy and interorganisational co-operation

<table>
<thead>
<tr>
<th>Organisational Strategy</th>
<th>Level of Co-operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional strategy</td>
<td>Low level</td>
</tr>
<tr>
<td>Responsive strategy</td>
<td>Medium level</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>High level</td>
</tr>
</tbody>
</table>

5.4.4 Legal structure

The legal structure determines who has the ultimate hierarchical authority within the organisation. In Dutch social housing, the choice is legally limited to two types only: the association and the foundation. In associations, the meeting of members is the highest authority within the organisation. In most housing associations, tenants are capable of attaining membership. Sometimes, this also extends to prospective tenants and ex-tenants. Their power is based on the right to appoint and dismiss members of the association board, which in turn controls the managers. In foundations, the highest governing body in the organisation is an unelected board, which usually includes the management. Traditionally, most housing providers were associations. More often than not, the hard core of their membership was adamant that this was the most democratic decision-making structure of all. Providers with a foundation structure were often regarded with suspicion, as one manager indicated: “At one time there was a political climate in this town, in which it was simply ‘not done’ to be a foundation. Once we were even excluded from a neighbourhood project for exactly that reason.” (5)

Theoretically, an increase in market risk could lead to a dilemma. On the one hand, the foundation is a legal structure that gives the more leeway to the managers and therefore allows more flexibility for the organisation as a whole. This is certainly an advantage when uncertainty increases and the organisation’s activities have to be drastically reformed. On the other hand, one could apply the same logic used for distribution: the quasi-market will shift more control to tenants; an association grants greater power to its members, many of whom are tenants; therefore it is the more suitable structure. In other words, the association could be construed as a method for
controlling the environment. Organisational choices sanctioned by a representative body would be considered more legitimate and might encourage the commitment of customers. Again, there appears to be a dilemma between autonomy and control.

But this time the first argument is likely to outweigh the second, since the foundation structure does not exclude the involvement of tenants in itself. Internal association bodies can be replaced with formally sanctioned, external tenant representation. In this way the provider can keep having regular discussions with its tenants, albeit in a more horizontal relationship. The benefits of an association can thus be partially retained under a foundation structure. More so, some would argue, for associations can rarely avoid conflicts of interest. The members, who are expected to take account of the organisation’s interests, are often tenants who are personally affected by the organisation’s decisions (e.g. through rent rises). This double bind may harm the organisation as well as the tenants themselves. Oddly enough, the formal voting power they have as members may prevent them from pursuing their personal interests as much as they would wish. In this sense they may benefit from replacing internal democracy with external representation. All in all, the foundation structure is better capable of solving the control/autonomy dilemma than the alternative.

In a situation of greater uncertainty, providers can therefore be expected to choose the foundation structure, whatever their strategy. The need for such a structure will be greatest for providers with a strategy of diversification, since they are most likely to grow and operate in different areas. This makes an association structure even less suitable, as this work best for small-scale, locally concentrated organisations. However, all types of providers benefit from increased flexibility and the association structure has insufficient benefits to offset it.

Table 4.6: the expected relationship between organisational strategy and legal structure

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>Foundation</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Foundation</td>
</tr>
</tbody>
</table>

5.4.5 Tenant representation

Tenant representation is “voice”, the extent to which tenants can influence their provider’s actions other than through their exit option (cf. Hirschman, 1970). The legal requirements concerning tenant representation are slim. At the moment of liberalisation, the law dictated that “[the provider] will allow tenants the opportunity to voice their opinion on matters that could be of real consequence to them”, giving a list of various subjects (Ministry of Housing,
1993, article 18). This meant in practical terms that providers had to listen to their tenants, but were under no obligation to go further than listening (for example, responding). A few meetings with tenant representatives would in effect do. In 1999, a new law (also known as the “wet-Duijvestein”, after the MP who proposed it) set some further requirements. Housing providers are now obliged, amongst other things, to (1) give information on a number of subjects, (2) to respond within a set period with arguments and (3) give financial support to the tenant organisation. However, this still leaves considerable room for local variation, as this is still no more than a basic obligation to at least ignore the opinions of tenant representatives explicitly. Any attempts to impose more stringent requirements have been rejected by parliament.

The issue of tenant democracy is by no means a new one, although historically it used to be conceived of in terms of association membership, that is, in relation to the legal structure. Theoretically association membership and tenant representation are altogether different issues, in that members are expected to represent the interests of the organisation and not those of the tenants. However, in its historical evolution the issue of tenant democracy cannot be discussed without reference to legal structure. Present developments are often described as a move from “internal democracy” to “external democracy” (Van der Schaar, 1991). The analysis in the next chapter will indeed show a distinct empirical connection between the issues of legal structure, tenant representation and interorganisational co-operation.

Again, the same theoretical dilemma presents itself. Tenant participation in organisational decision-making potentially reduces the autonomy of the management and from that point of view one would expect it to be low. Yet tenant representation could also be beneficial to providers, in the sense that it gives them a direct link with clients other than through their role as customers. It may be a source of information that allows providers to adapt before tenants vote with their feet. In the area of legal structure, the potential loss of power by tenants through association membership can be offset by representation within a foundation structure, if this was what providers wish.

Knowledge of the providers’ strategies helps to predict what will happen. Providers with responsive strategies will have the strongest incentive to encourage tenant participation. Their approach hinges on the ability to pick up what tenants desire and act accordingly. Voice mechanisms will give them this information more effectively than the exit mechanism. They are therefore likely to go further than the others in making tenant representation part of their decision-making process. Representatives may be granted extensive rights and resources to fulfil their role as best they can. But if providers believe that the commitment of customers is tied to the technical quality of dwellings, they will be less interested in representation, since they require less information. While they may listen to their tenants, they will be less inclined to formalise the meetings. The same is true of providers with a diversification strategy. Plans for expansion require a high degree of flexibility. Moreover,
the small-scale nature of representation may be incompatible with an organisational decision-making process that increasingly transcends the local level.

**Table 4.7: the expected relationship between organisational strategy and tenant representation**

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Low participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>High participation</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Low participation</td>
</tr>
</tbody>
</table>

5.4.6 Organisational structure

The organisational structure is the formal way in which the activities of members of the organisation are distinguished and co-ordinated with an eye to achieving the organisational goals. Traditionally, housing providers used to have a bureaucratic structure consisting of three pillars: the technical, the administrative, and the service departments. This combination of centralised decision-making and functional differentiation was well suited to the role they served under the old system. As one of the respondents put it: “First there were the technicians, later came the administrators, who regarded the whole business of housing provision either from a technical or an administrative point of view. That there were tenants in our houses was actually rather annoying.” (23) With the introduction of the quasi-market, one would expect at least some of the providers to look for an alternative shape.

The choice of structure has been one of the most popular topics in organisational sociology. To define the alternatives that social housing providers can choose from, I will use Mintzberg’s well-known fivefold typology (Mintzberg, 1983). His model cleverly draws together material from other research on the subject, especially from the contingency studies of the 1960s and 1970s. He mentions three dimensions of the environment that influence the choice of strategy: complexity, stability and market diversity. Complexity refers to the organisation’s technology, the activities through which it transforms its “raw material” into products or services (Perrow, 1967; Woodward, 1965). When the technology is complex, the organisation will require a great deal of knowledge to carry out its activities, which means that it will have to decentralise some of the decision-making to lower-level staff. This is not necessary when the technology is simple. A typical example of a complex technology is surgery: the skills involved in this activity necessitate a large extent of discretionary freedom. When the tasks are simple, as in work on an assembly line, the management can take all decisions. Accordingly, organisations will be more decentralised as the technology grows more complex. Stability denotes the predictability of future conditions. The more predictable the environment is, the more the organisation can rely on standardised routines to do its job. But as the environment becomes more
dynamic, decision-makers have to gather a great deal of information and act upon it swiftly. By implication, standardised work processes and specialists must be replaced by flexible working methods and generalists. These two types of organisation are known as “mechanic” and “organic” (Burns and Stalker, 1961). Crossing complexity and stability, four types of structure emerge (see table 4.8).50

Table 4.8: The relationship between complexity, stability and the choice of organisational structure (based on Mintzberg, 1983, p. 144)

<table>
<thead>
<tr>
<th></th>
<th>Stable</th>
<th>Dynamic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex</td>
<td>Decentralised</td>
<td>Decentralised</td>
</tr>
<tr>
<td></td>
<td>Mechanic</td>
<td>Organic</td>
</tr>
<tr>
<td></td>
<td>Standardisation of skills</td>
<td>Mutual adjustment</td>
</tr>
<tr>
<td>Simple</td>
<td>Centralised</td>
<td>Centralised</td>
</tr>
<tr>
<td></td>
<td>Mechanic</td>
<td>Organic</td>
</tr>
<tr>
<td></td>
<td>Standardisation of work processes</td>
<td>Direct supervision</td>
</tr>
</tbody>
</table>

The third variable, market diversity, falls outside this neat little scheme. It refers to the number of markets in which an organisation operates. The more markets, the more likely an organisation is to create different units for different (sets of) markets. These divisions will be controlled through performance criteria (standardisation of outputs). The organisation then effectively becomes an interorganisational network (Lammers e.a., 1997, p. 498). Each division will have to choose a structure of its own, depending on the market it operates in.

The typology will here be used in a somewhat different way than Mintzberg did. His argument focuses on the relationship between organisational structure and conditions in the environment. However, it is important to keep in mind that such a decision is not based on the objective conditions in the environment, but on perceptions of these conditions. Organisations have different views on how they should deal with uncertainty. These views determine what they regard as their technology and what aspects of the environment they are interested in predicting. Suppose that a provider works in a market that is increasingly slack. If the provider believes that its main job is to provide high-quality technical maintenance, and that this is the key to preventing exit, it will have no need to loosen up decision-making, because the wishes of customers remain fairly predictable and there is no need or scope for change. On the other hand, if the provider believes that it can secure its position by offering new and more alluring products, then its prime task is the speedy acquisition of information about what customers want and the development of whatever products will keep them satisfied. In that case, it will have an incentive to shift the momentum of its activities to the lower levels of its organisation. The structure will therefore primarily reflect organisational strategy rather than objective conditions in the market. The typology is still useful, but with the qualification that it does not follow directly from conditions in the environment, but from interpretations of those

Providers with a traditional strategy focus only on the technical aspects of housing and will therefore need relatively little information. Their activities require only medium skills and can easily be standardised. They will have no incentive to change the centralised, mechanic structure that until recently characterised all social housing providers. By contrast, a responsive strategy requires a more decentralised and organic structure. Its technology is complex in that it needs a sustained flow of information about what customers want. This calls for a decentralised structure. Because this information will have to be translated into new products swiftly and flexibly, the structure will also have to be organic. Providers with a diversification strategy will probably try to expand into other markets, so they will split into various divisions. The divisions themselves again face the choice which type of structure to adopt. Since the philosophy of their parent provider is based on flexibility and a broad resource base, one would expect them to choose a structure that encourages the acquisition and exchange of information, as well as the ability to pursue new resource bases when the opportunity arises. In other words, the type of structure of the local divisions should be fundamentally similar to that of providers with a responsive strategy.

Table 4.9: the expected relationship between organisational strategy and structure

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Centralised, mechanic structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>Decentralised, organic structure</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Divisions; decentralised, organic structure</td>
</tr>
</tbody>
</table>

5.4.7 Conclusion

The previous sections have defined expectations about which decisions social housing providers are likely to take, given the strategies that they have chosen. Table 4.10 sums them up. Now the method of fit can be accurately applied. All that remains is to determine how the empirical evidence will be collected.

Table 4.10: the expected relationships between organisational strategies and decisions

<table>
<thead>
<tr>
<th>Interventions in stock</th>
<th>Traditional strategy</th>
<th>Responsive strategy</th>
<th>Diversification strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Limited intervention; new construction and changes to existing stock; no sale</td>
<td>Medium intervention; small-scale use of all options</td>
<td>Extensive intervention; large-scale use of all options</td>
</tr>
</tbody>
</table>
5.4.8

5.5 Measuring the conditions for innovation processes

The theory suggested the alternative options providers could choose and the conditions under which they were likely to choose them. This section will deal with the task of identifying the conditions under which providers have made decisions. The previous chapter mentioned three significant intermediary variables: (1) innovative capacity, (2) relations of dependence among providers, and (3) the social structure. Some of these can be assumed to be similar for all organisations in the field, given their uniform background. Others must be measured in each separate instance, using the evidence from the three methods discussed above.

Innovative capacity is the first and most troublesome of the three intermediary variables. It is very hard to see how it can be measured other than through studying the outcome, which is the extent to which providers innovate individually or collectively. What makes organisations creative, receptive to new notions, more inclined to pick up ideas from outside the community it belongs to? The literature on the subject does not provide a clear answer to this. There are many ways of encouraging innovation: organisations can invest in long-term research programmes, devise an organisational structure that encourages creative thinking, attract new people, work on building elaborate social networks and so forth. What will be most effective will depend on the kinds of organisations concerned, the types of innovations that are required and the resources the organisations command. It is difficult to say in advance which variables are decisive in the present social housing context. It is even difficult to predict whether capacity will vary greatly or not. Given that social housing providers share so many characteristics, one could hypothesise that their potential for creating knowledge is similar. Then again, these are small organisations, and individual talents may matter a great deal. Given these complications, I will use the extent of individual innovation as an operational definition of innovative capacity. The more providers innovate autonomously, the more innovative capacity I will assume them to have. This will also show who are the innovators and who are the followers in collective innovation processes.
Relationships of dependence determine in which areas of decision-making collective innovation is likely to occur. In all instances, it will be assumed that providers are only dependent on other actors within their local market. This premise also underlies the selection of cases. The extent of mutual dependence within markets hinges on the kind of activity concerned. The previous paragraph has identified six: interventions in stock, distribution, interorganisational co-operation, legal structure, tenant representation and organisational structure. The first three are types of decisions in which providers can directly affect each other’s position within the housing markets. Consequently, these are the areas in which mutual dependence is strongest. On the others, mutual dependence is lower, since they are largely internal matters. In short, the extent of mutual dependence will be deduced from the nature of the activity. The cases will be selected to prevent any great asymmetries among the providers in terms of the resources they command.

The social structure determines whether collective innovation is at all possible. For reciprocity, it is important that actors cannot easily use the exit option. This condition generally applies to social housing, where the supply is firmly rooted to the ground and where (at least initially) providers had all their supply concentrated in one local market. For reproduction, it was important that there should be elaborate communication channels. This, too, can be assumed to apply to social housing. Given their long involvement in local networks, their membership of the branch association and their long history in the social housing field, it can be assumed that all actors have access to local and national communication channels. Obviously, this should also be apparent from the extent of collective innovation and the accounts of respondents. However, it cannot be assumed that the local and networks are infused with trust. This too must be deduced from the accounts of respondents and from the extent to which they have actually co-operated or copied.

In conclusion, it can be posited that (1) mutual dependence within local markets is high for interventions in stock, distribution and co-operation, lower for the other activities, and (2) the social structure favours collective innovation, both through reciprocity and reproduction. However, innovative capacity and trust must be measured in each individual instance by looking at decisions and accounts.

5.6 Collecting empirical data

What this chapter set out to do was to process raw empirical observations into material that fits within the theory’s framework. Real, observable decisions by providers can now be classified in terms of the theoretical alternatives they can choose from. But the methods work only with certain types of information. The method of variation only requires simple aggregate data on whether patterns of decision-making in the national and local populations show homogeneity or variety. However, the methods of fit and reconstruction
need information of a more detailed nature. It is important to collect the empirical data in a way that satisfies the entire triangle. Consequently, the evidence will be gathered primarily through case study research, with some additional statistical data acquired from other sources.

The case studies will provide all of the material on the organisational and local levels of analysis. Case study research generally serves to uncover the logic of empirical phenomena, rather than the frequency of their occurrence. It implies the detailed study of a limited range of phenomena (for a more elaborate discussion of this methodological choice, see the appendix, A.4.1). These qualities make it the appropriate approach to this analysis. After all, this study aims to show what drives quasi-market behaviour. How exactly different types of behaviour are distributed across the population of social housing providers is in itself of less interest. The case studies will also provide the density of information that the analysis requires. Since it was necessary to gather evidence both at the local and the organisational level, local groups of providers have been chosen as the case units. Single providers will remain the unit of analysis, but evidence concerning their decisions will be collected on a group basis. This has various advantages. It allows a better understanding of collective innovation processes at the local level. Furthermore, it provides extra sources of evidence about the organisations within the cases, as providers will be able to give information about one another. Finally, studying local groups constitutes implicit minimisation of variance on the independent variable (see below). The cases will be confined to town borders, since it is here that ties are strongest. Accordingly, this is where traditional group boundaries should be located.

The cases will be selected by maximising variance on the key independent variable, which will be the level of uncertainty. The theory suggests that this variable does not determine the choices organisations make. These depend on other variables, such as relations with other organisations and innovative capacity. To prove this, cases will be varied along this variable. The great advantage of studying the housing market is that it is possible to vary the level of uncertainty within the same regulatory framework. This is because the distribution of resources differs significantly between local markets. Due to variations in subsidisation, local markets and past decisions, some providers are far worse off than others. In addition, the gap between supply and demand is diminishing faster in some local markets than in others. Combining the state of the market with the financial state of individual providers yields a reasonably accurate indicator of the level of uncertainty. The differences between the cases should then give a good indication of how the level of uncertainty affects quasi-market behaviour. If the case variation results in outcomes of a radically different nature, then the theory must obviously be mistaken. But if the theory is correct, then it does not spell well for the effectiveness of state intervention.

The variation among the cases should reflect homogeneity or diversity at the national level. After all, if the cases represent the population of providers
adequately, similarity in decision-making among the cases should reflect homogeneity among the overall population. The information required by the method of variation can thus be acquired by selecting a representative range of cases. However, any conclusions drawn from this type of evidence will be stronger when backed up by aggregate national data. These can be acquired from government statistics as well as from other studies on Dutch social housing. Since homogeneity is quite a simple indicator, broad aggregate data suffice. Varying uncertainty from high to low, four cases have been selected: Bear Pit, Tiger Town, Shark Pool and Elephant’s Corner. Bear Pit had a high level of uncertainty, Elephant’s Corner a low one, and the other two took up an intermediate position. Their general characteristics will be described in the next chapter. A detailed examination of the variables that led to their selection can be found in the appendix. The time frame within which they have been studied is the period 1994-2000, starting at the moment when financial risks were decentralised and ending when my funding ran out. All the cases were studied under the promise of anonymity, because some of the information was of a sensitive nature.

Although case studies do not necessarily involve qualitative methods, they were definitely the appropriate choice for this analysis. There was as yet little knowledge on the inner logic of this field and it would have been hard to define solid quantitative indicators. Moreover, some of the information concerned relationships between actors in permanent working relationships and was less likely to be revealed in a survey than in a personal interview. Qualitative methods were therefore more reliable in this context. Documentation analysis and semi-structured interviews were most important, although there was an occasional opportunity for observation. Documentation consisted of policy documents, mission statements, records of meetings, annual reports and so forth. There were over forty interviews, with managers and staff from social housing providers, local officials and politicians, tenants and outside experts. They are listed anonymously in table A.1 in the appendix. Quotes will be followed by numbers referring to one of the respondents in this table.

Where possible, I have verified the data by combining both different sources and different methods. The evidence from documents was compared with the interview transcripts. Moreover, the statements of respondents were always compared with those of others. This was possible because the cases were not single organisations, but communities of organisations, in which actors were usually well-acquainted with one another. Where the evidence was self-contradictory or supported by only one source, I will indicate so.

5.7 Conclusion

The main object of this book is to explain how the quasi-market works. My approach is to examine the behaviour of providers. To explain what they do, chapter three developed a theory based on the twin concepts of resource
dependence and cognition. The present chapter has attempted to bridge the gap between this theory and empirical reality. The theory recognises several alternatives providers can go for, but the actual behaviour that can be observed does not immediately present itself as this or that alternatives. The three methods developed in the previous paragraphs will help to interpret the raw empirical data in terms of the theoretical possibilities.

Measuring variation in patterns of decision-making will give an indication whether innovation processes are of a collective or an individual nature. Determining the fit between strategies and decisions will reveal the real extent of variation in the field. Comparing the results of these two methods with the accounts of the actors themselves will make the conclusions more solid and allow a more accurate description of how innovation has come about. To measure the fit between strategies and decisions, it was necessary to define which strategies social housing providers can pursue. There were three: the traditional strategy, the responsive strategy and the diversification strategy. The first two try to prevent exit, the first by focusing on the technical aspect of housing, the second by offering targeted packages. The third strategy aims to spread the risks of exit. Each of these implies a preference for particular types of decisions. I have described these for six areas of decision-making: interventions in stock, distribution, interorganisational co-operation, legal structure, tenant representation, and organisational structure. In this way, it can be determined whether actual decisions are in accordance with actual strategies.

These methods require specific ways of collecting data. I have conducted four intensive case studies, consisting of local groups of providers. Within the cases, evidence was mainly collected through interviews and analysis of documents. National statistics were added, when available elsewhere, to strengthen claims about patterns of national decision-making. The research focused on the period 1994-2000. The cases were selected on the basis of the level of uncertainty. Because the housing market is fragmented, uncertainty differs between local markets, and this is a characteristic of which I have tried to take advantage. It will (hopefully) help to solidify the theory’s claim that the level of uncertainty does not in itself determine the choices providers make. In addition, it will add fuel to my effort to demonstrate that the scope for state intervention is limited. If the level of uncertainty does not influence the kinds of choices providers make, then by implication market incentives are instruments of limited use.

Now the preparations for the empirical analysis are complete. Chapter five will finally get the job started.
6 The empirical analysis

6.1 Introduction

At last the gear has been packed and it is time to venture into the jungle. The aim of the analysis was to discover how social housing providers have reacted to the introduction of the quasi-market. The analysis will describe their reactions as attempts to reduce uncertainty. It recognises two kinds of uncertainty. The first is caused by the need to secure the resources vital to an organisation’s survival, in this case, capital. The second kind of uncertainty is of a cognitive nature: how will organisations know what to do and how to do it? Routines that worked under the old system may no longer be viable in the quasi-market. There are two ways in which the providers can find out how to behave under these new conditions. One is to innovate autonomously, the other is to develop new solutions together with others, either through direct exchange (reciprocity) or copying (reproduction). The stronger the collective nature of innovation, the more likely the sector is to retain a single, shared identity.

The empirical evidence to support this interpretation has been collected through intensive case studies and statistics from secondary sources. The data will be analysed with the help of three methods. The first measures whether there is overall homogeneity or diversity in patterns of decision-making. This will indicate whether innovation processes have been of a collective or an individual kind. The method of fit looks whether there is a logical connection between the strategy they have defined and the concrete decisions that they have taken. This will show whether collective innovation processes affect providers in a superficial or a more profound manner. Finally, the results of these methods will be compared with the accounts of the actors themselves concerning the developments that have occurred. This will both verify the interpretation suggested by the other methods and provide additional information about what has transpired.

This chapter will describe the empirical evidence. Paragraph 5.2 briefly describes the four case studies. Subsequent paragraphs 5.4 through 5.10 describe the strategies and decisions of social housing providers, as they emerged from the empirical investigation. They are discussed in the following order: strategies (5.3), interventions in stock (5.4), distribution (5.5), interorganisational co-operation (5.6), legal structure (5.7), tenant representation (5.8) and organisational structure (5.9). Paragraph 5.10 will sum up the results. Chapter six goes on to analyse the aggregate findings and to unearth the overall logic of the quasi-market.

6.2 The four cases
This paragraph introduces the four towns and the providers that operate there. The cases were selected and ranked on the basis of the level of uncertainty, because this will help to discover the effect of the financial incentive that is central to the quasi-market. Uncertainty was measured by considering both the relation between supply and demand in the local market and the financial state of the providers in that market. The appendix contains a more detailed description of these variables (see A.4.3).

6.2.1 Bear Pit: a sense of urgency

Bear Pit was a town of over 100,000 people in a distant corner of the country, far removed from the urbanised Western part. Its housing market grew increasingly slack and by the time of the research period had already reached quantitative equilibrium. Simultaneously, there was the threat of a qualitative mismatch. There was a growing demand for single-family units, especially for home ownership, which the central city could not provide. Its stock consisted mostly of multi-family housing and 70% of it was in the rented sector. This resulted in the migration of families to the surrounding countryside and the threat of vacancies in Bear Pit itself. It has been said that what was happening in this town was a foreboding of future developments in other parts of the country. There were four major providers, who together owned about half the housing stock. There was one large provider with 16,000 units, Polar Bear, which came into existence when two local competitors merged in 1999. The other three providers, Grizzly, Panda and Koala were of roughly equal size, around 8000 each. They were all burdened with a weak financial state and relatively poor technical quality, although Koala was doing noticeably better than the others. In short, both the state of the market and the assets of the social housing providers were a cause for concern. The level of uncertainty was high.

The local authorities and most of the providers regarded these developments as a major threat. The local authorities had a clear vision on how to react, with which the providers basically agreed. They all felt they had to act swiftly to prevent disaster. “Whatever scenario you believe in, whatever’s going to happen in the Netherlands and in Bear Pit, it will always lead to a reduction of rented housing. The only potential disagreement is how much of it will go.” (1) The consequence was that they agreed on major interventions in stock and in public spaces, which would result in a drastic change of the town’s post-war neighbourhoods (see 5.4). One provider, Koala, disagreed with the analysis of the housing market and withdrew from nearly all collective projects. “A consultancy firm wrote a report that sketched a declining demand for rented housing. But we did not recognise the figures they presented. We told them it didn’t add up. I took the annual reports of my colleagues and looked at the present situation and past developments. We told the local authorities who were showing off these statistics that they didn’t add up. We also looked at the vacancy rates of other types of housing providers and they didn’t appear to have problems either. The statistics
presented by the local authorities were so—unreliable is such an ugly word—so flawed, that the analysis just wasn’t correct. People have started this process on the basis of misinformation and now they’re beginning to say they’re not following demand, but simply putting neighbourhoods ‘back on the map’. There’s no obligation for everyone to agree with that.” (5)

But otherwise there was a remarkable sense of co-operation. It is significant, for instance, that the parties agreed on a single monitoring instrument to provide information about the local housing market. Although it was developed and applied by the local authorities, its output was regarded as reliable by the three providers who participated in the grand plans. This expresses the cohesion within the local housing network. It is a striking contrast to Tiger Town, where there were strong disagreements, fought out over statistics.

6.2.2 Tiger Town: adversaries in adversity

Tiger Town was an attractive, middle-sized town with over 100,000 inhabitants, the central city of a region wedged in between several populated urban areas. Potentially, the town faced the same kind of outward migration of middle-income families as Bear Pit, but its central location and good image sustained a far stronger demand. Moreover, a lack of new construction in the overall region limited available supply. This situation was not likely to last forever, though, with several large construction projects underway at some distance. The lack of building sites in and immediately around the town itself was therefore becoming a major problem. The local authorities of Tiger Town predictably turned their eyes to the surrounding suburban towns, which greeted these looks with great suspicion. Of the four major providers in this case study, all were in a poor financial state. Worst off was Siberian Tiger, the largest with a stock of 10,000, which combined a disastrous financial state with a poorly maintained stock. Of all the providers in this analysis, it was least likely to survive independently. Bengal and Paper Tiger, each with 3000 units and Sumatran, a provider specialised in students’ housing (5000 units, 15% of which had independent facilities) had overcome the worst by the end of the research period. The lack of construction and continued demand provided a breathing-space for them to clean up their act, but the growing threat of outward migration and especially the poor financial state of providers made the level of uncertainty higher than average.

A difference with Bear Pit was that relations between the providers and the local authorities were not very good. Tiger Town had long had a dominant local alderman, who was sceptical about the ability of social housing providers to stand on their own feet. “Oh, all those managers used to cry: ‘We want to be independent, we want to be free from the state!’ Well, now they are independent and now they say: ‘Oh please, tell us what to do! Gives us rules!’ They’re just like real people, you know. I always tell them: ‘You’re still in the adolescent phase. You say you are up to it and that you don’t need
daddy any more, but you’re not adults yet, because you can’t do your job well enough.’ They get really angry when I say that, but that’s also part of adolescence.” (17) In return, the providers described the alderman as “old-fashioned” and “patronising”. Whatever the truth, neither party undertook much initiative until the mid-1990s. The local authorities had no coherent housing policy and providers did little to fill the gap. When the parties finally agreed on a performance contract, it was of little substance. All that the local authorities had pushed for were limits on annual rent rises and reductions of core stock, the housing reserved for low-income households. A manager who had just come to work in Tiger Town remarked: “I scanned that contract once when I got here and thought: is that it? Then I put it aside. It is vague and shows a lack of ambition. [...] It only stops us from actively harassing one another.” (9) Negotiations on most subjects were characterised by mutual suspicion and took long to deliver tangible results.

The story of the discussion on core stock is quite interesting. Unlike Bear Pit, the parties had no common basis for their analysis of the housing market; in fact, they had very little basis. There was no local monitoring instrument, which meant (inevitably) that a lot of the information for specific projects was collected by external consultants. In the case of core stock, they agreed after a lot of discussion that it should be reduced by only 1% a year – without specifying its size! Each party had previously hired a consultant of its own to calculate the required size, and, no doubt by coincidence, the results provided by these external advisors supported the claims of the organisations by which they had been hired. Finally they agreed to hire a third consultancy firm to find a common definition. What this clearly shows is that the facts about the housing market do not present themselves naturally. In this case, as in the others, the parties first agreed that they should find a collective solution and then went on to define the shared problem more precisely.

6.2.3 Shark Pool: a sleepy suburb

Shark Pool was a medium-sized town of some 50,000 inhabitants on the edge of a major urban area. During the research period, its housing market became more integrated with the larger regional market, even though the area remained divided into several local authorities. The local housing market was tight and the providers were well off, if not wealthy. Originally a picturesque village, Shark Pool had become a highly popular location for businesses, because of its geographical position at the edge of a major city and at the crossroads of various important motorways. As one respondent put it, “if the local authorities wished to, they could put an office block on every corner of this town.” (36) Although the types of housing prevalent in Shark Pool were not particularly different from those of the larger nearby town, its stock was far more popular due to its favourable location and its better condition. The town therefore sat at the receiving end of the outward migration processes that threatened Bear Pit and Tiger Town. Predictably, the central city had been making take-over attempts, but these had met with stiff resistance. New
construction projects on the outskirts of the regional market were expected to
draw households away from some segments in Shark Pool, particularly the
more expensive rented housing. However, given the town’s popularity this
was unlikely to result in any vacancies. On the whole, the level of uncertainty
was quite low.

Shark Pool’s three providers, Great White, Hammerhead and Nurse, were of
roughly equal size, each with around 3000 dwellings. All had stock that was
well-maintained and of reasonably good quality. Their financial position was
solid, even though this was somewhat obscured by very cautious projections
of future revenues. Their relations with the local authorities had steadily
improved over the years. According to some respondents, this could be
attributed to personal changes, especially among the local aldermen.
However, more significant developments were occurring at the regional level.
During the mid-1990s, there was a brief spell when the various local
authorities in the region were actually willing to co-operate. This resulted in a
regional housing plan, signed by all local authorities and providers in the
region. It had far-reaching consequences for Shark Pool, especially in terms of
interventions in stock and distribution. Later, as the central city made
tests to incorporate parts of its neighbours, the drive for regionalisation
stopped dead in its tracks. However, by then the regional housing policy was
already in place and many of the internal barriers in the regional housing
market had been broken down.

6.2.4 Elephant’s Corner: a safe haven

Going from Shark Pool to Elephant’s Corner is moving from brick and
cement suburbs to the verdant green gardens of the Dutch countryside. The
level of uncertainty was lowest in this town, since its housing market was
stable and its one provider was among the wealthiest in the country. Lying in
a rural area far away from the densely urbanised West, Elephant’s Corner was
pleasant and peaceful, with just under 10,000 people. It had a small business
community that amounted to a subregional centre of economic activity.
Population growth in the region had slowed down over the past decade, due
to declining birth rates and a surplus of outward migration. However, what
with the growth of Elephant’s Corner’s business community and a decrease in
household size, there was some pressure on a few segments of the housing
market, particularly single-family dwellings and housing for the elderly. The
Elephant provider was a most interesting one. It came into being in 1996, after
the original provider in Elephant’s Corner merged with two colleagues in
other towns close by. Since then, it had become somewhat legendary in the
sector for its enormous wealth. Its reserves, relative to the size of its stock,
were over three times the national average. It was also known for
experimenting with innovations that had sometimes become popular
throughout the sector. Its well-maintained stock consisted of about 7000 units
overall, over a thousand of which stood in Elephant’s Corner itself. This
constituted about a third of the town’s stock and virtually its entire rented sector.

Relations with local authorities were friendly, but uneven. They had not always been good and on occasion even hostile, but since the creation of the new provider in 1996, which was accompanied by a change of management, they had improved considerably. In fact, the local alderman was wildly enthusiastic about the Elephant provider. “We have excellent relations with our provider. They’re better than anything we could have wished for. They themselves are also very happy about putting their headquarters here, rather than in one of the other two towns. [...] I told the manager: ‘You’re worth your weight in gold.’ The pleasant way we talk to one another, the marvellous understanding we have, the way we make deals and pass information to one another, it’s absolutely great. I didn’t even know these people until a few years back! Many towns envy us.” (40) Having listened to this cascade of praise, it was heart-breaking to hear the view of his counterpart. When the provider’s manager finally came round to discussing the local authorities in Elephant’s Corner (at my request, at the end of an hour of interviewing), he noted that “the local authorities are not very important to us. We’ve told the local authorities in the three towns exactly where we stand and where they stand. We co-operate well, but they have no influence on what we do. [...] They have a problem with our merger plans, you hear about it through the grapevine, but that’s where it ends. We are an independent business and we plot our own course. We’re perfectly willing to co-operate and sign local and regional covenants –they do not have much substance anyway- but we make our own policy.” (37)

Indeed, the covenants in question did not go very far. They focused on distribution and the size of core stock (the part of stock necessary to house low-income groups), but mostly stuck to statements of intent. It shows that the Elephant provider was unwilling to tie its hands and was easily capable of getting away with it. Its local monopoly, its assets in other towns and its financial power meant that it needed to take little heed of the local authorities. As in most small towns, there also appeared to be a knowledge gap between the housing professionals and local officials and politicians. In fact, the former supplied most of the information that the latter based their views on. All in all, the relationship seemed quite asymmetrical. It has been hinted that this was exactly why the provider chose to establish its headquarters in Elephant’s Corner and not in the other, larger towns where it was active.

Table 5.1: the four cases

<table>
<thead>
<tr>
<th>Case</th>
<th>Size of town</th>
<th>Providers</th>
<th>Uncertainty</th>
<th>Housing market</th>
<th>Financial state</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elephant’s Corner</td>
<td>10.000</td>
<td>Elephant</td>
<td>Low</td>
<td>Stable; tight in a few segments</td>
<td>Excellent</td>
</tr>
</tbody>
</table>
### Shark Pool

- **Species:** 50,000 Great White, Hammerhead, Nurse
- **Population:** Moderate to low
- **Conservation Status:** Tight; no serious threats
- **Rating:** Good

### Tiger Town

- **Species:** 100,000+ Siberian, Bengal, Paper, Sumatran
- **Population:** Moderate to high
- **Conservation Status:** Tight; distant threat of selective outward migration
- **Rating:** Poor

### Bear Pit

- **Species:** 100,000+ Polar, Grizzly, Panda, Koala
- **Population:** High
- **Conservation Status:** Slack; immediate threat of selective outward migration
- **Rating:** Poor

### 6.3 Strategies

#### 6.3.1 Classifying providers

Social housing providers can pursue one of three strategies: (1) the diversification strategy, (2) the responsive strategy, and (3) the traditional strategy. For the method of fit to work, it is necessary to classify the real strategies of providers in terms of these three types. This was done using verbal accounts as well as written reports, policy papers and so forth. What made the process of describing strategies considerably easier is that organisations have the tendency, more so than individuals, to define explicit philosophies and to commit their ideas to writing. In this transition phase, they were discussing their future direction even more consciously and extensively than they normally would. What is more, their public responsibilities forced them to keep on justifying their actions to official authorities, policymakers and the media. All this encouraged transparency and was of great help in pinning them down as having one strategy or another.

#### 6.3.2 The diversification strategy

The diversification strategy essentially aims to spread risks. This implies that it tries to deal with the consequences of exit rather than to prevent it. It encourages providers to strengthen the diversity of sources from which they can acquire resources. Accordingly, they will enter into a variety of geographical and product markets. These providers will have a formula that can be applied to any variety of circumstances (like supermarket chains). The strategy implies a flexible approach to capital. Because the immovable and unchangeable features of housing make it risky, providers should focus on those variables of housing that it can change with relative ease, such as ownership. They will therefore more readily acquire or abandon stock than the others. Nor will they afraid to follow even the most far-reaching desires of
their customers, even if that involves a radical change of activity. It is the organisation that matters, not the particular line of business it happens to be in. Three providers pursued this strategy: Polar Bear, Elephant and Siberian Tiger.

Polar Bear was the most typical of them all. Its ultimate aim was to create a network of organisations, anchored by a national real estate fund with stock in several markets. The manager told me of his dream: “Would it not be great if, in seven or eight years time, I’d be running this place from my little study in the attic? Of course, we’ll still have thousands of houses, but we will put them in a real estate fund. They could be the basis of a series of creative ventures by a network of small companies. Other providers can join in, if they wish.” (1) These smaller companies would use the skills they had learned in the course of transforming the organisation, such as selling real estate and providing maintenance to owner-occupiers. There would also be extensive connections with outside parties, such as real estate agents and financial institutions. When they were no longer needed, the manager argued, they would simply stop their activities in housing provision altogether. “But it will take us at least another ten years to get there”. This is the philosophy of diversification taken all the way.

The strategy of the Elephant provider could be described as the “Third Way” in housing. It placed a strong emphasis on individual responsibility and potential. “Our current policy is to allow people to improve themselves. But they must do it, not we. We create opportunities for people to strengthen their position on the housing market. We keep asking ourselves: are we making people dependent or are we setting them free?” (37) The provider applied this ethic to a whole variety of products, going well beyond the traditional boundaries of social housing provision. These products included job and training opportunities as well as the sale of housing on demand. This approach might be construed as a responsive strategy, yet it is fundamentally different because of the broad and universal application of the principles over a variety of markets. The Elephant provider did not focus on specific local groups, but developed a general and radical philosophy. This also meant that it was actively searching for markets elsewhere. “If it was our policy to sit in nice, safe markets, we would have stayed where we were. [...] The organisation we are building has three legs: one is the urbanised countryside, one is the city and one is home care, at the national level.”

Siberian Tiger sits somewhat uneasily in this category. It was a provider in a very sorry state, whose overriding priority was simply to secure its own survival. It is telling that its strategic plan was referred to as a rescue plan. It did not encompass a real philosophy as much as a list of measures to overcome a huge maintenance backlog and grave financial problems. My reason for classifying the organisation’s strategy as one of diversification is that the rescue attempt involved a strong focus on the acquisition of capital, either through the sale of a sizeable part of stock or a merger. It was unclear
whether a policy based on these measures would translate into a coherent set of decisions informed by a flexible capital approach.

6.3.3 The responsive strategy

The responsive strategy is based on the notion that providers should satisfy the desires of clients in whatever way possible to prevent them from using their exit option. Providers of this type will target specific groups of potential customers and develop a product that meets the needs of these customers, even if it means moving beyond the original product, the physical dwelling. The new product will usually be a package consisting of a house or office combined with services geared to the client’s needs (home care, insurance, fixed rent rise contracts, communication facilities etc). A somewhat suspect survey conducted by the branch association has indicated that a sizeable minority of tenants would decide not to move if they received such a package (Aedes, 1999). Since it is important to know what exactly clients want, social housing providers with this strategy will constantly need up-to-date and detailed information as well as sustained interaction their customers. They will therefore be more inclined to draw the latter into the decision-making process. This implies a focus on small, local working areas in which they are firmly entrenched. Four providers fell within this category: Bengal Tiger, Panda Bear, Paper Tiger and Sumatran Tiger. Within this group, there were differences of emphasis. The first two tended to stress the social ties necessary for responsiveness, the other two its targeting element.

Bengal Tiger and Panda Bear both emphasised the importance of their local social networks. Bengal aimed to provide “a broad living arrangement, geared to the needs of individual tenants.” There were three groups of clients for which it intended to work: people with special needs, low-income households and high-income families on the verge of moving to home ownership. Bengal specialised in maintaining extensive relations with its tenants, both by allowing participation in decision-making and by stressing the social (rather than only physical) aspects of housing. “Increasing specialisation and privatisation have removed social work from neighbourhoods and left a lot of loose ends, with little communication or co-ordination. Social housing providers, with their extensive networks, would be excellently suited for taking up a co-ordinating role.” It also intended to offer new products to its wealthier customers, such as shopping services. Panda’s strategy was much along the same lines, focusing on its role in neighbourhoods and the development of new package products, although it was less specific about which products exactly. It also stressed social ties as one of its prime assets. The manager noted: “We have made a number of strategic choices. For a start, we want to remain autonomous. Our assets will not leave this town. We are also investing in one of our strong points, which is the management of relations with our tenants, making sure that people want to stay longer, developing additional products if necessary, making sure that we fully utilise every moment that we’re in touch with our clients and use it.
to our advantage. [...] One should stick to where one’s roots have been for a hundred years, the place one understands. We have some stock in another town, but it’s just not the same.” (4) Sumatran and Paper Tiger focused on more specific groups of clients. Sumatran had always targeted its efforts on a specific group of clients, as it was specialised in student housing. Originally, it had concentrated solely on university students, but it now planned to attract more polytechnic students, foreign students and young people in employment. It also wished to introduce additional services for its customers, like negotiating access to private landlords and bringing its customers in touch with the job market. Paper Tiger was specialising in the elderly and adapting a major part of its stock specifically to serve that group. It was also developing shopping services and home care packages with the help of local care providers. It also targeted young double-income families, though not on the same scale.

6.3.4 The traditional strategy

Like the responsive strategy, the traditional strategy intends to prevent customers from using their exit option, but it defines the needs of customers more narrowly. The house itself is seen as the key product. All other products are ultimately irrelevant, for it is high technical standards and maintenance that customers are interested in. This approach is closest to the routines typical of social housing before the introduction of the quasi-market. The focus on the physical aspect of housing does not imply that providers with this strategy regard their customers with a cold technical eye. On the contrary, these providers often had excellent relations with their clients. The difference with the responsive strategy is in the warmth of ties, but in the type of relationship at their basis. Since providers with a traditional strategy have little scope for reducing uncertainty by expanding their product or market range, they will hold on to existing methods of control. They will serve their tenants, support them, cherish them, but they will never let them participate in organisational decision-making. There were five providers with a traditional strategy: Grizzly and Koala Bear, Hammerhead, Nurse and Great White Shark.

Koala was the most outspoken of the five. When asked whether privatisation had led to any major changes, the manager replied with an ironic smile: “Oh dear, no. All the liberalisation meant was that a whole lot of money came our way. We used it as we saw fit, and that was that. It was just a matter for the bookkeepers. [...] Other than that, nothing has changed for this organisation at all.” (5) It had made changes to improve its responsiveness, but most of these had occurred well before the introduction of the quasi-market and had mainly been confined to maintenance. There was no desire to specialise, to develop a range of new products or to expand. In its attitude, Koala was closer to the philanthropic housing associations of the past than any other provider in the case studies. “Our staff are regularly reminded that tenants are our customers, but not like in a supermarket, where you have to make money out
of them. They are people who simply want to live pleasantly and who should not be ashamed when they invite their family and friends because we haven’t done our work properly. [...] But we are not easy on our tenants. If someone does not have his front and back garden in a proper condition, we will seize him by the collar. Our colleagues keep asking whether we are justified in doing that. Yes, we are. One ought to maintain one’s house and garden like a good family man. End of debate.”

Whereas Koala might be described as an orthodox conservative, Grizzly was a progressive conservative. Its strategy contained elements of both the other types. For a start, it provided maintenance services outside the traditional segments, for homeless shelters, a psychiatric home and a supermarket. Furthermore, it had a fairly flexible attitude towards capital and was not reluctant to sell or cross-subsidise stock for purely financial purposes. “What really annoys me is all that whining about the deficits my colleagues say they run up during new construction. They get angry when I say that in public. [...] Say I have a deficit of 60,000 guilders. I calculate it, it goes into the books, but I also make other calculations. If I sell them in ten years’ time at the current market price plus half the revenue, then do you have a deficit? I don’t think so.” (3) What distinguishes these choices from those of other strategies is the way in which they were interpreted. The choice to provide maintenance to new sets of customers had a different rationale than the services that a responsive strategy would give rise to. A provider with a responsive strategy would seek out a segment of the market and then ally itself with providers of other services in order to deliver a better package. But Grizzly, a provider with a traditional strategy, simply delivered physical space and maintenance to a provider of other services. Its flexible approach to capital was confined only to the local market. “The local authorities are our natural partner. We should agree on how our private organisation can help to realise local housing policy. That means I’ve got to have control over the capital enclosed in the real estate. If I have to justify my actions at the local level, through negotiation and transparency, then by implication I should control the real estate at that same level.” This position makes Grizzly a progressive, but nevertheless traditional provider.

The three providers in Shark Pool were less outspoken about their commitment to a traditional strategy. Great White may in fact have been in a transition phase on its way to a responsive strategy. It argued that it aimed to “meet the needs of the individual consumer through product differentiation, product development and the offer of housing services in the broadest possible sense”. However, it was vague about the groups it targeted and the packages it intended to develop. The concrete changes it proposed, such as greater differentiation and choice in technical quality, were still fairly orthodox. Therefore I have classed Great White as traditional, with the qualification that its strategy may cross over to the responsive type in time. The other two providers, Hammerhead and Nurse, were more clearly traditional. They focused primarily on subjects like the level of technical quality and the significance on low rents, without any specific mention of
targeting particular groups or developing packages. It is telling that they defined products strictly in terms of physical buildings. Both stressed the importance of good contacts with clients, but in specifying this spoke mainly of support and communication during construction and renovation projects, not of participation in a more general sense.

Table 5.2 sums up how the twelve providers fit into the three categories. On the whole, it proved surprisingly easy to classify the organisations as one type or another, with only a few that raised some difficulty. The resulting picture is very diverse. Each of the strategies is well represented in the cases and none is dominant overall. Strategy is a level of behaviour that does not appear to have been affected by collective innovation processes. But then where do strategies come from?

Table 5.2: the strategies of providers in the four case studies

<table>
<thead>
<tr>
<th>Type of strategy</th>
<th>Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional strategy</td>
<td>Grizzly Bear, Koala Bear, Great White Shark, Hammerhead Shark, Nurse Shark</td>
</tr>
<tr>
<td>Responsive strategy</td>
<td>Panda Bear, Bengal Tiger, Paper Tiger, Sumatran Tiger</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Polar Bear, Elephant, Siberian Tiger</td>
</tr>
</tbody>
</table>

6.3.5 The significance of individual leadership

The problem with the theory used in this analysis is that it is ill-equipped to discover the origin of strategies. Decisions can be explained either on the basis of collective innovation processes or strategies, but where do the strategies themselves come from? There are two patterns of choice that could be explained, one relating to the theory and the other to the case selection. The first would be overall homogeneity, a pattern which would suggest that strategies were shaped through collective innovation processes and shared throughout the organisational field. However, that was evidently not the case in Dutch social housing. Rather, there was great diversity. Another recognisable pattern would be related to the case selection. The quasi-market creates uncertainty over resources, the level of which varies between the four cases. It ascends from Elephant’s Corner through Shark Pool and Tiger Town to Bear Pit. If there was a link between the level of uncertainty and the choice of strategy, then that should obviously translate into a distinctly identifiable pattern, even if it is not clear what kind of link that would be. Indeed, there does appear to be a pattern in that most Tiger Town providers are responsive and all in Shark Pool traditional. That could suggest that as the level of uncertainty rises there is a move away from the traditional strategy, because that is the least flexible and therefore the most risky. But this interpretation no longer makes sense when the other two cases are included. In Elephant’s
Corner, where the level of uncertainty was lowest, the provider had a diversification strategy. In Bear Pit, where uncertainty was highest, two of the providers were traditional. In fact, all three strategies could be found in Bear Pit. So while there may be some pattern in the choice of strategies, it is not immediately apparent by what logic it is informed. It has no obvious connection to efforts to diminish cognitive uncertainty, nor to the distribution of resources.

When all attempts to understand behaviour have failed so dismally, there is no other option but to look for the explanation in specific organisational characteristics. Although these have not been systematically examined, chapter four suggested two potential explanations that were worthwhile exploring (see 4.2.4). These were the housing providers’ historical denominations and the preferences of managers. The first can be ruled out, as there is little to suggest any link between the choice of strategy and religious or political origin. The providers in Shark Pool demonstrate this particularly well: they were originally social-democratic, protestant and catholic, but all pursued the same strategy. Many providers were in fact composites of providers with different backgrounds who had merged at one point. Examples are Siberian Tiger (protestant and municipal), Paper Tiger (socialist and catholic) and Polar Bear (socialist and municipal). The pillarisation is social housing, once quite strong, is now of little significance.

A second and more promising explanation is based on individual leadership. Although it is increasingly rare for individuals to determine an organisation’s course single-handedly, the influence of managers in social housing appeared to be considerable. At the time the quasi-market was introduced, most providers were small organisations, with only a handful of people involved in the decision-making process. Moreover, all were initially organised along traditional bureaucratic lines, with a hierarchy that offered considerable power to the person at the top. Finally, few employees were specialised and highly qualified, which meant they could claim little professional discretion. Individual managers were therefore in an uncommonly strong position to inspire and direct strategy. There are a number of indications that this has been a significant factor in the choice of strategy. There are a few cases where the provider’s policy took a new turn after the arrival of a new director (Siberian Tiger, Great White Shark, Elephant). The Elephant manager described his own role in the following terms: “Our provider became rich through luck, frugal policy and good policy. We’ve had luck in the past because the government often gave us good loans. Frugal policy, that’s what my predecessors of the 1950s and 1960s did. And we’ve had good policy since 1985 [the year he became director].” (37) It is also telling that many managers succeeded in reforming their organisations so drastically, including major reorganisations of the middle management. This is all just circumstantial evidence, of course. The importance of individual leadership is plausible, but not proven.
Of course, one could go on to ask where the preferences of managers came from. This was perhaps related to their professional background. For instance, Panda and Koala, providers with a traditional strategy, both had managers with a technical background, one having been head of the maintenance department. By contrast, the managers of Elephant and Panda used to be head of the departments for client contacts. However, the causal chain of events is not clear. Perhaps they became managers because their professional background was consistent with strategy. It is not yet possible to say how the recruitment of managers from outside the social housing sector will affect the choice of strategy. Nearly all managers encountered during the empirical research had either been promoted upward from within the organisation or recruited from other social housing providers. This “in-crowd” included very different minds. For instance, it included the managers of both Elephant and Koala.

If it is true that managers played a decisive role in setting out strategy, then this could be interpreted in light of the trend towards managerialism in public service organisations. “Managerialism” is a management style blown over from the Anglo-Saxon countries that was popular at the time. It was characterised by strong leadership and an emphasis on market values like efficiency, responsiveness and effectiveness (Hood, 1991). It believes itself applicable in any context, a modern version of Taylorism (Clarke and Newman, 1997; Pollitt, 1996). Although it is not necessarily accompanied by privatisation or the introduction of quasi-markets, it is usually associated with such reforms. But even though there are similarities, the relation between developments in social housing management and the managerialist trend should not be overstated. To begin with, the strength of housing managers must be attributed to the nature of their organisations rather than to a deliberate policy change in favour of managerialism. They have always been the central decision-makers in social housing, except that until the introduction of the quasi-market they had relatively little to decide about. Had these same people been hospital directors, with greater numbers of staff and a high proportion of specialised professionals within their organisation, their managerial discretion would probably have been more limited. In social housing, too, individual leadership is likely to become less significant over time. As they are turning into larger and more complex organisations, these little kingdoms will become more difficult to control. Furthermore, a stronger and more business-like role of management does not necessarily translate into a single-minded focus on market values. In European public management, there is generally a greater emphasis on traditional public values than in the Anglo-American variety (Kickert, 1997). It will not show in this analysis because of its focus on behaviour motivated by self-interest, but that is a theoretical device rather than an empirical finding.

6.3.6 Conclusion
Strategies have proved difficult to explain. The three possible types were all represented in the cases and none was dominant outright. The pattern in which they appeared could not be explained on the basis of their environments, so it was necessary to look whether the choice of strategy was related to specific organisational characteristics. The preferences of individual managers may be the crucial variable. This cannot be determined with certainty, but it is clear that managers were potentially very powerful within the small, bureaucratically organised social housing providers.

6.4 Interventions in stock

6.4.1 Variation and fit in the choice of interventions

Interventions in stock are changes in the physical aspects of the housing product and include construction, acquisition, sale, demolition and (extensive) restructuring. It was predicted that providers with a diversification strategy would make the most extensive interventions, using all the tools at their disposal. The responsive ones would intervene on a smaller scale, but would also use all the available options. Providers with a traditional strategy, finally, would mostly limit themselves to new construction and restructuring, and would have less of an incentive than the others to intervene at all (see table 5.3). There are two angles from which decisions of this kind can be studied: as the efforts of individual providers to secure survival and as elements of large-scale urban processes. While the first is the focus of this analysis, the decisions cannot be understood without reference to the processes occurring at the local level. The most far-reaching interventions were conducted as part of large projects.

Table 5.3: the expected relationship between organisational strategy and interventions in stock

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Limited intervention; new construction and changes to existing stock; no sale</th>
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<tbody>
<tr>
<td>Responsive strategy</td>
<td>Medium intervention; small-scale use of all options</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Extensive intervention; large-scale use of all options</td>
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The issue that dominated urban regeneration was the migration from the central towns to the suburbs and surrounding towns, a process occurring in towns throughout the country (AB-Onderzoek, 1997). Many believed it would have a deleterious effect on the social composition of these neighbourhoods, which was in turn expected to lead to a loss of economic potential and various social ills. The problems should not be overstated, as the Netherlands have never known the kinds of sharp divisions that characterise major cities in some other countries. However, for providers it implied the loss of the top
segments of their customers as well as potential vacancies and a drop in the market value of their assets. The national government took various initiatives to contain or stem the tide, which can be roughly divided into two kinds. First, there were a number of large-scale construction projects inside or closely around the edges of major towns, consisting mainly of owner-occupied units and up to 30% social housing (the so-called “Vinex” projects). Second, there were programmes targeted at the regeneration of post-war inner city neighbourhoods.

Nowhere were the efforts to revitalise inner city neighbourhoods more intense than in Bear Pit. The interventions in stock that took place during the research period were almost entirely integrated in the plans for restructuring the post-war neighbourhoods. These plans followed upon the interventions in the pre-war neighbourhoods that had mostly been carried out between the late 1970s and the mid-1980s. The discussion then moved on to the post-war neighbourhoods, with somewhat greater emphasis on quality over quantity (SEV, 1999). Although the process of revitalising neighbourhoods encompassed many policy areas, such as welfare services, housing, education, traffic control and so on, the initiative clearly came from the physical side. In that sense, housing was at the forefront. The proposed interventions were huge. They would involve no less than 80% of housing in these neighbourhoods and result in a 25% reduction of the social housing stock. During a twelve-year period, about 15% of post-war stock would be sold, 10% repositioned, 25% demolished and replaced, and 15% newly constructed. Nearly all the new houses would be owner-occupied. Any new social housing would have to be built on the outskirts of the town. Providers would have to invest heavily in their stock, the local authorities in public spaces and infrastructure. One provider chose to abstain, though. Koala co-operated with the others in one post-war neighbourhood project, but refused to go along with the grand plans of the late 1990s. It confined itself to smaller construction and renovation projects. Its approach is in line with its traditional strategy. However, all the others did go along, even when this entailed investment that went beyond their strategy’s requirements and, in some cases, beyond their means. The interventions were spread on the basis of market share, which may be fair, but only assuming that providers share the same approach. Had they followed their own strategies, Grizzly and Panda would have intervened on a smaller scale.

The interventions in the other towns were not quite as organised, nor did they go as far. In Tiger Town, the local authorities had singled out one neighbourhood for a pilot regeneration project, but by the end of the research period this had not yet led to concrete agreements about investment. The relative lack of activity had not resulted in any major problems, since demand remained high. As Bengal phrased it in one its annual reports, “we can still get rid of houses that the average applicant would spurn”. But parts of the local stock, particularly in the post-war neighbourhoods, would be vulnerable once supply in the surrounding region expanded. The bubble might burst at any moment, but this did not result in the drive that characterised Bear Pit.
Interventions were mostly undertaken by single organisations. Siberian had planned the sale of part of its stock, possibly as much as 10%, depending on its ability to attract outside financial support. The sale was necessary both to improve its poor financial position and to dispose of burdensome assets. Both sources of relief, sale and outside support, were long closed off because of internal political conflict (see 5.7). Bengal sold off fifty expensive rented dwellings and carried out a few small construction projects to acquire more single-family units and housing for the handicapped. Paper invested in constructing several dozen new units and refurbishing existing ones for its prime target group, the elderly. Sumatran made only minor changes to its student housing and focused on strengthening its position in the “regular” market through the construction of new rented units. All this is pretty much in line with what was expected: the provider with the diversification strategy proposing fairly drastic changes, the responsive providers making more targeted interventions. There were increasingly definite plans to develop a large construction project inside the town, in which the local social housing providers would participate. This would slightly relieve the pressing shortage of available sites. However, the plans had not yet been finalised by the end of the research period.

In Shark Pool, most of the early research period was characterised by new construction. All providers were involved in small projects and all but Great White were active in a large construction project on the outskirts of the town. Great White had withdrawn at an early stage, supposedly for financial reasons, but the new manager who came in midway during the research period indicated his scepticism. The alleged financial problems were caused by very cautious bookkeeping, when the actual financial prospects were fairly good. Later in the research period, all providers committed themselves to investment in existing stock as part of a neighbourhood regeneration programme. This involved four areas where they agreed to renovate, demolish and even sell parts of their stock, in addition to the construction of new single-family units and housing for the elderly. Although the plans did not go nearly as far as those of Bear Pit, they were more comprehensive than one would have expected, since demand was likely to remain high and since two of the providers were already involved in a large-scale building project.

Elephant’s Corner was an exception in that there was no collective project to revitalise neighbourhoods. The local provider constructed a few dozen dwellings a year and showed itself keen to reposition old buildings, such as a cloister and a cinema. These were all small, isolated projects, rather than elements of a grand local scheme. The most important of its interventions was sale. It had sold close to 2000 units in the 1990s and was planning to intensify that effort. It kept growing, though, by merging with other providers (see 5.6). Its interventions in stock are consistent with the diversification strategy, in the sense that they comprise a variety of instruments. The emphasis on sales in particular demonstrates a clear fit: no other strategy would have warranted flows of capital on such a large scale.
Overall, it appears that many of the interventions in stock were carried out as part of collective projects. Such projects seem to have been popular in all major towns. They caused a number of providers to intervene more strongly than their strategy would suggest. Where there were no large collective projects, interventions were clearly in line with strategies.

6.4.2 The benefits of neighbourhood regeneration programmes

An interesting phenomenon is that the regeneration of neighbourhoods, which included plans for physical interventions in the housing stock, to some extent evolved separately from the problems that it formally addressed. All plans purported to prevent the decline of neighbourhoods and the concomitant social problems, such as crime, vacancies, lack of economic investment and so forth. However, it is clear that the extent of the problems differed widely between the cases. Shark Pool did not really have any problems to speak of. This is a town where local councilmen once spent part of a meeting discussing a stone thrown through a window. Tiger Town’s problems, though more serious than Shark Pool’s, pale in comparison with the developments in Bear Pit even by low estimates. Yet all three towns made (or intended to make) extensive plans for the regeneration of “problem areas”, all based on similar notions, such as the need to mix income groups and to involve actors with many different professional backgrounds. In that sense, these processes appear to have a dynamic of their own. Of course, it is impossible to draw firm conclusions on the basis of housing alone, but it does appear that programmes proceeded regardless of the real extent of the problems.

The homogeneity can be partly explained with reference to government efforts to encourage such programmes. But there were other reasons why actors were all too willing to invest in them. One was that there was no basic conflict between the interests of private parties and local authorities (cf. Klijn, 1996). The revitalisation of neighbourhoods can be justified both as a commercial venture and as an instrument of social policy. For local authorities, it was a way of attracting and directing large-scale investment in neighbourhoods in order to prevent social problems. Social housing providers invested to retain customers and maintain the overall market value of their stock. Doing this as part of a collective project precluded a loss of competitive advantage and guaranteed that investments in private property would be accompanied by simultaneous investment in the public spaces surrounding that property. It is of little use renovating a house at great expense when the street is full of potholes and littered with garbage. In that sense, there was mutual dependence among providers and between providers and the local authorities. As one of the aldermen noted: “[The providers] see that their assets will lose value if they don’t make a deal with the local authorities in the foreseeable future. So they’re ready to make that deal. It’s a good combination of the organisational goals and the public responsibilities to which they are bound.” (34) Neighbourhood regeneration programmes were broadly
consistent with private interests. A cynic might say that they constituted a legitimate framework for social housing providers to strengthen their market position. Perhaps it made the gravity of the social problems somewhat less relevant.

A second part of the explanation derives from the networking benefits of these programmes. In housing, they have helped to bring parties in the local network closer together. As a consultant in Shark Pool put it: “When I was defending my company’s offer I said: ‘The best that could come out of all this is a network. That we do things together, that we fight and laugh and share. That’s more important than overhauling entire neighbourhoods’.” (36) In the broader urban networks, the programmes have also created and re-affirmed relationships between actors that were barely in touch before. One public official noted: “Sometimes we laugh about it. So much effort, and 95% of the investment comes out of our own pocket. [...] There is a lot involved, after all: reports, reviews, and all that for just a little bit of money. It all has a bureaucratic tinge about it. Our alderman once said: ‘Every self-respecting town has a problem with young Moroccans’. That’s just a thing he picks up from the newspapers. [...] But it helps to approach new partners and it forces you to think in the long term, with the explicit requirement to approach other parties.” (22) Within the municipal bureaucracies, the plans have served to break down internal barriers and justify organisational changes. One should therefore beware of judging the results of these programmes only in terms of their effects on neighbourhoods. In their initial stages at least, they may primarily have solved the problems of urban networks. This would partly explain the homogeneity that researchers have found among such programmes in nation-wide comparisons (Denters, Van Heffen and De Jong, 1999).

Elephant’s Corner was an exception, because it would simply have been impossible to justify large-scale intervention in this town, even for the most hardened of consultants. The market was stable, with the prospect of neither great shortages nor surpluses. The local alderman was on his guard, though: “You must take care that some kinds of people do not attract others, that you don’t get ghetto’s. [...] We do not have real problem areas, but we’re spoilt. I sometimes go to the big town and when I see the public spaces, I think: ‘Those people simply don’t care as much. People here are much less tolerant and are annoyed by the smallest things. Then again, garbage attracts garbage, and it’s the same in neighbourhoods. You attract the wrong people ... well, other kinds of people than you would like to see. They often don’t have jobs, have less to spend, don’t take care of public spaces, don’t tend their gardens. It’s sad to see that happening.” (40) Incidentally, this was the only time any respondent mentioned the word “ghetto” during the interviews.

6.4.3 The significance of local relationships
However, it is clear that there were also major differences in the speed and extent with which plans for collective interventions in stock proceeded. Bear Pit’s went faster and further than the others. In this case, the providers appear to have become involved in a process of collective innovation through reciprocity that caught them so strongly that some were willing to go further than they normally would have. The conditions for such a process were quite propitious. There was strong mutual dependence, as the parties needed one another to make their own investments more effective. There was a tightly-knit social structure, fostered by years of close proximity and co-operation in past projects. Finally, there was a sense of urgency: the feeling that something had to be done swiftly. In that sense, the level of uncertainty has proved significant, not so much determining the nature of interventions as their timing and intensity.

But Koala disagreed with the analysis of the housing market that was at the basis of these plans. “The plans are too ambitious. The means are simply not available either to the providers or the local authorities. Anyway, the vacancy rate is not high enough to justify intervention on this scale. The local authorities should be prepared to reduce their plans to reasonable proportions.” But although this dispute was cloaked in statistical terms, as disagreements often are, it also reflected a basic difference of opinion over strategy. “As for interventions in stock, we’ve always invested in it. We developed a maintenance policy to keep our technical assets up to standards years ago. It’s an ongoing process, not an incidental project. We also make sure to acquire stock that meets present demands, like housing for the elderly. Or we make some changes, like putting in elevators. All these small interventions have made our stock look decent. There is really no need to intervene on a large scale. The technical state of our stock is good, the tenants are happy, so why should we do what our colleagues want?” Koala’s approach fits its traditional strategy, but it is surprising that it isolated itself so deliberately. One explanation for this behaviour is that it was in better shape than any of the others, so it felt the urgency less keenly. Moreover, its strategy was orthodox even within the traditional group and was in stronger conflict with the plans for large-scale intervention than those of the others. Some of the traditional providers may have chosen their strategy only for lack of innovation (see 6.3), but Koala was firmly committed and implemented it flawlessly.

The other providers in Bear Pit were not amused. Some respondents suggested, more or less explicitly, that this was free-rider behaviour. As a public official put it: “What bugs the other providers is that they all make painful investments that Koala also profits from, even if it does not foot the bill. The local authorities are not too pleased about it either, because this operation is very hard to sell politically. You’re forcing poor people out of their homes -even if they do get ample compensation- to build new housing for the rich. In a town dominated by left-wing politics that is controversial. So when one of the social housing providers starts clamouring loudly that it’s all unnecessary, the alderman is not happy.” (8) The other providers shared this
view, though in more guarded terms. “There are considerable sums of money involved. When one party withdraws, it makes things more difficult. If you think about it, they too have housing in those neighbourhoods. Their products will become more valuable in economic terms because we have made sure there is the infrastructure, because we have lifted the overall quality. It’s difficult.” (4) However, there was little the others could do to force Koala into joining. The local authorities were trying to find a legal remedy, but since Koala’s performance regarding its own stock was more than adequate, this had little chance of succeeding.

In Tiger Town, it all went a lot slower and most providers had not yet made any serious financial commitments by the end of the research period. It is telling that the neighbourhood regeneration programme was initiated largely by the welfare rather than the housing and urban planning department. An outside official from the provincial authorities noted: “When I got involved with the programme in Tiger Town, everyone kept wishing me good luck. I was surprised to see what they were doing. Time seems to have stood still in that place. The local authorities haven’t yet made the transition. People still accept each other’s traditional roles.” (21) Some providers regarded the neighbourhood regeneration plan – a local authority initiative – with some suspicion. This, combined with the lack of a local housing policy, prevented the discussions on the neighbourhood programme from resulting in definite investments. As a local authority official put it, “They’re perfectly willing to discuss the future of neighbourhoods, but when it actually comes to money, some jump up and leave. They say they have enough problems of their own to deal with.” (19) Bengal was the only provider that took some initiative. It started a social project in a small area of the neighbourhood in question, comprising small renovations. As another official remarked, “[Bengal] works two ways. They take their experiences back to the other providers. They make a profit and they can prove it. By taking the initiative, they can acquire subsidies. They prove that poverty need not stand in the way of initiative. It’s better than doing nothing, in any case, because otherwise higher-income groups will leave the neighbourhood.” (20) But Bengal long remained an exception, although matters appeared to be improving a little by the end of the research period.

There appear to be two reasons why the physical interventions involved in neighbourhood regeneration took so long to materialise in Tiger Town. The first is a lack of (perceived) market pressure. Although a number of housing managers noted the need to prevent the deterioration of neighbourhoods, few seemed to consider it a short-term problem. In other words, there was no sense of urgency. The lack of market information probably contributed to this. There was no comprehensive, systematic monitoring system for the local housing market. What meagre information existed was often disputed. A second reason for the slow start of the programme was the adversarial nature of relationships with the local housing network. There was simply no trust between the actors.
The evidence from Shark Pool suggests that the second reason may be more important than the first. Although they started somewhat later and the actual problems were less pressing, co-operation went far more smoothly and ultimately led to concrete projects. In this case, the attention to “problem neighbourhoods” was most definitely encouraged by the regional housing plan. While the large city nearby certainly had areas with serious social problems, Shark Pool had nothing that remotely compared with them. The decision to have a neighbourhood regeneration programme was taken even though the evidence of social problems was mainly “statistical”, as one of the consultants involved put it, and there was no clear vision on how to proceed. As the same consultant put it, “they didn’t have ideas at all. Sure, within their own policy areas, but about neighbourhoods, no. They had an open mind and thought it was all great fun.” (36) It seems that the will to co-operate was in the end more productive than the need to co-operate.

6.4.4 Attitudes towards sale

The significance of collective processes should not obscure the fact that there was still variety caused by different strategies. These surfaced both in the interventions that were not part of collective projects and in the implementation of such projects. They were most visible in attitudes towards selling stock. Before the introduction of the quasi-market, sale was rare and even somewhat taboo. In the period 1977-89, social housing providers sold between 100 and 5000 units a year, on a stock of over two million (Ministry of Housing, 1991). By the mid-1990s sale had become more acceptable, though, encouraged by a relaxation of legal requirements. It was increasingly used as a source of revenue, a way of cleaning up the portfolio and an instrument for changing the composition of geographical areas. By the end of the research period, the number of sales had more than doubled (Ministry of Housing, Public Housing in Figures, 2000). A number of providers experimented with sale under certain restrictions, effectively creating intermediate forms of tenure. These usually consisted of provisions regarding the ownership of future capital gains and/or of service packages attached to the sales contract. However, there remained great differences between the attitudes of providers to this instrument, differences that mostly ran along the lines of strategy.

As expected, sale remained rare among providers with a traditional strategy. Only Grizzly, caught up in the whirl of Bear Pit’s great project, sold a sizeable part of its stock. This is less surprising considering its unusually flexible attitude to capital for a provider with a technical focus (see 5.3). Those with a responsive strategy were less averse to this type of intervention, as expected, and were the most eager to experiment with new forms of tenure. These allowed them to contain the risks involved in sale without precluding it altogether. Providers with a diversification strategy not only sold in greater numbers, but also refrained from any sort of restrictions on the transfer of tenure. This is logical, given their philosophy of revolving capital. The
Elephant provider’s policy was particularly interesting, because it constituted a radical break with past routines:

We say: every tenant should be allowed to buy his own home, unless it contradicts our goals. That completely reverses the policy we used to have. There are still many providers who say: ‘We will not sell’. We sell lots of housing. Because our customers want to. [...] There are many people who want to buy, but cannot, because they have no steady job. We say to them: “We are prepared to keep the price at the present market rate for the time being, and sell, but only if you find extra income”. With a number of them, you see something very special happening. The husband starts working again or the wife starts working too. It is a social process we had never anticipated. There were areas where women didn’t get a job because it would lose them their rent subsidies. Sell to them and their goals change. They start moving. [...] At present, a lot of providers sell only with a number of restrictions. I don’t get that. It’s criminal, that’s what it is. When someone like me, who earns a little more than those tenants –well, perhaps more than a little- buys a house, I do so because I like the house and because maybe at one point I can sell it at a profit. It’s as simple as that. But many providers say: “We’ve always patronised our customers, now let’s sell only with a compulsory maintenance service, because we just know they won’t maintain the house as well as we did”. Why not? Tenants are not stupid, they have education and a better pair of hands than I’ve got. And most of them have a brother-in-law who works in the construction business. So that’s not the problem. The second thing these providers say is: “When we sell our stock, we will claim part of the profits people make when it is sold again. [...] What they’re effectively saying is: ‘Wait a minute, you have a low income, so you should not profit from home ownership”. It’s nonsense. Those are exactly the kinds of people that should be allowed to earn a little more. We sell our houses at 100% of the market price, but because they’re rented, that’s still 20% below actual value. Everyone’s happy.” (37)

The notion that buying one’s home should be a right was typical of this provider’s activation ethic and perhaps feasible only because of its rock solid financial position. However, the aversion to restrictions on sale was universal among providers with a diversification strategy. One of the Polar Bear managers remarked: “I’m not all that enthusiastic about these intermediate forms. We’ve experimented a lot here in Bear Pit and most buyers are not keen on it. They have a strong feeling that once they buy the house is theirs. [...] There’s not really a market for insurance against income loss, market collapse and so forth, so you need other reasons to offer such packages, and I don’t know any good ones. The nice thing about home ownership is the ability to make a profit, isn’t it [...] The only thing we tell people is: ‘You buy this and if it goes all wrong, call us and we’ll see what we can do. In some cases, people got in trouble due to no fault of their own and we bought back those houses at the current market value. But I’m not going to put that in the sale contract, because that would distort the market.” (1)

6.4.5 Conclusion

Summing up, many of the interventions in stock have occurred as part of collective projects. These have resulted in processes of innovation through reproduction and reciprocity. The state played a crucial role in disseminating programmes targeted at “problem neighbourhoods”. In other words, this was reproduction strongly promoted by a dominant actor; in DiMaggio and
Powell’s terms, an instance of “coercive isomorphism”). In Shark Pool and Bear Pit the programmes sparked a process of reciprocity, which encouraged some providers to intervene more drastically than they would otherwise have. In these cases all the conditions were in place: mutual dependence (the need for combined public and private investment), an effective “no exit” situation (providers cannot pick up their houses and leave) as well as trust between the providers and local authorities. Where there was no trust, as in Tiger Town, the programmes had difficulty getting off the ground. Where there was no collective innovation, providers executed their own strategies. Strategies also shone through in the implementation of interventions, particularly sale.

6.5 Distribution

6.5.1 Variation and fit in the choice of distribution system

The distribution system is the general procedure through which potential customers indicate their interest in the housing supply. The introduction of the quasi-market has changed the relation between supply and demand, and can therefore be expected to affect the choice of system. Indeed, the patterns of decision-making show sweeping changes. Before 1990, all the providers in the four case studies distributed their stock through waiting lists. This is a system in which the provider takes the initiative in allocating specific units to specific households, based on its knowledge of the prospective tenant, the eligibility rules and the characteristics of vacant dwellings. The customer registers and waits until his name comes top of the list. But since privatisation, all but two providers have switched to a variety of the supermarket system. This advertises the supply of vacancies, from which applicants themselves can search out their preferred choice (provided they are eligible). When they have registered their interest in a particular unit, the one who is most eligible has the right to claim it. Provided that he has followed the proper procedure, the provider cannot refuse him.

Table 5.4: the expected relationship between organisational strategy and the choice of distribution system

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Waiting lists; control over administrative process</th>
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<tbody>
<tr>
<td>Responsive strategy</td>
<td>Supermarket model; control over administrative process</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Supermarket model; control over administrative process</td>
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</table>

Shark Pool’s providers all switched to an advertising system simultaneously with nearly all the other providers in their region in 1995. The Elephant provider introduced the new model in 1996, on its creation through a merger. Two of the three providers involved in the merger had previously switched to this system (one as early as 1991), but Elephant’s Corner’s original provider
had not. Given that Elephant was the only provider of social housing in Elephant’s Corner, its system was synonymous with the local distribution system for social housing. In 1998, it was extended to the regional level. Tiger Town introduced a local collective advertising model in 1993, which was extended to neighbouring municipalities in 1998. Sumatran refused to join the system in its early stages, but later agreed to incorporate part of its stock. However, it did not include student rooms with shared facilities, on the grounds that students switch rooms so quickly that it would overload the system within days. “My colleagues get terrified if they have a 5% turnover rate. Ours is about 60%.” (12) Bear Pit were the laggards, since they only adopted a collectively administered advertising system in 1998. One provider, Koala, refused to co-operate.
Table 5.5: Distribution systems at the start and end of the research period

<table>
<thead>
<tr>
<th></th>
<th>Start of research period</th>
<th>End of research period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers with waiting lists</td>
<td>All</td>
<td>2</td>
</tr>
<tr>
<td>Providers with advertising system</td>
<td>None</td>
<td>10</td>
</tr>
</tbody>
</table>

There was therefore a great deal of uniformity among the cases: (1) the same type of system was introduced in all four cases, (2) in every case it was introduced as a collective (local or regional) system rather than an organisational one (see table 5.5). The trend towards an advertising system is also apparent in national figures, although it is stronger in urban than in rural areas (Kullberg, 1996). The model was first introduced in 1990 in the town of Delft (it is also known as the “Delft model”). In the following years it spread rapidly. By 1995, it had been adopted in 144 of the 633 Dutch municipalities, in 1996 in 213. Given that these included most of the large towns, the segment of the overall population covered by the new model increased to well over half. No figures are available about developments since then, although the spread of the model is likely to have continued. As noted above, two of the cases adopted it after 1996.

The emerging dominance of a single type of system suggests a process of collective innovation through reciprocity. However, there is something strange about this. The theory predicted that providers with a diversification or responsive strategy would prefer a supermarket type of system that leaves the initiative to the prospective tenants themselves. Providers with a traditional strategy were expected to favour a system that ultimately left control in their own hands (see table 5.4). The prediction seems to have been right for most, but not for Grizzly and the Shark Pool providers. According to the theory, they should either have retained the old waiting lists or adopted some other type of distribution that left them at the helm. So most would have adopted this kind of system anyway, but for a minority it was something different from what they would have wanted. It is also remarkable that nearly all providers chose a system in which the advertisement and administration of vacancies were organised on a collective basis. In neighbourhood programmes, there were concrete benefits involved in working together; in distribution, however, one would have expected that more providers to have preferred their own “showrooms”, as opposed to a collective catalogue. Only one provider, Koala, refused to go along. As in many things, Koala shows that providers can plot their own course, if they really want to. Then why this widespread display of collective action? To explain these two developments, it is necessary to study the cases in more detail.
6.5.2 The power of the collective

Going over the accounts of respondents, it becomes clearer why providers banded together in this issue. In each town this has happened on somewhat different grounds. In Tiger Town, they joined together primarily to remove control over distribution from the local authorities. In Bear Pit, the close cooperation on neighbourhood regeneration spilled over into other decision-making processes, including the issue of distribution. Shark Pool’s providers and local authorities were swept along in a brief, but powerful spell of regionalism. In all these cases, the reproduction of the advertising system at the national level was spurred on by reciprocity at the local level. Relationships in the local housing networks have in this respect proven to be of key importance. The exception was the provider in Elephant’s Corner, who had no close colleagues in its area and pretty much operated independently.

During the bout of publicity surrounding the advertising model in the early 1990s, the providers of Tiger Town quickly decides that they should switch to this new model. It would allow them to gain more control over the distribution process, which had so far been largely in the hands of the local authorities. As the Bengal manager noted, “[The advertising model] allows you to get more grip on allocation. If you live in a small town, like some of our colleagues in this region, there used to be one public official in charge of distribution. If he got the flu, the providers got no candidates! It was a black box anyway, for all of us. You never knew how many people had applied for those vacancies. Now we do. [...] The position of providers will become different. Now we have our own distribution model with a face of its own, well designed and all. We will have advertisements with a clear identity. It gives providers a more visible presence.” (10) But distribution was a highly controversial subject. Relations between providers and the local authorities were generally strained, but the notion of providers themselves administering the allocation process was bound to arouse great suspicion. This may have been rooted in a scandalous past: “There used to be a time when housing providers administered their own distribution, and this was not entirely successful. Some really made a mess of it. Relatives of board members would end up in the most popular houses, things like that. The local authorities then took control and, in turn, overdid it.” (10) This is why the first negotiations were conducted with low-ranking civil servants, without the knowledge of their superiors. These first meetings took place in secret and outside town limits. Eventually a deal was struck and in 1993 the advertising system was introduced. The providers took over part of the administration, although some types of applications (e.g. urgent cases) were still handled by local authorities.

Some years later, though, the providers decided they wanted to run the entire show. They denounced the existing system as costly and slow – putting the blame on the local authorities- and argued they would be able to manage allocation more efficiently. The first discussions went quite well, as before, but
when the negotiations reached the management level they got hopelessly stuck. After this, providers temporarily abandoned their attempts to extend their control over the local system and instead focused on creating a regional system of distribution. There are different versions on why this happened. Housing managers say the transfer of the administration of distribution was obstructed because it would have damaged the political interests of the local alderman. Under the old system, the local authorities employed over a dozen people for its implementation. The housing providers were unwilling to guarantee that all these officials could stay on under the new administrative procedure. Though faced with the need for reorganisation and budget cuts, the alderman was initially reluctant to accept the consequences. The process was further delayed by the public officials in question, who finally resorted to stalling tactics (forgetting appointments, making last-minute changes etc.). After some time, the housing providers tried a different approach and approached colleagues in neighbouring towns to discuss the possibility of a regional rather than a local distribution system. Smuggling in the new distribution system as part of a regional effort was likely to increase its chances of success, since the smaller towns surrounding Tiger Town had long been suspicious of the central town’s colonial aspirations. The benefits of establishing regional co-operation even on such a relatively minor issue were likely to outweigh the political costs of transferring a few public officials. The alderman’s version of events is somewhat different. In his view, he had deliberately stalled the development of the new system so that he could force the providers in Tiger Town to seek co-operation with other housing providers in the region. Through this detour, it might prove possible for the local authorities in Tiger Town to reinvigorate their relations with other local authorities in the region. Both sides claim to have taken the initiative in this difficult process that took nearly three years. In any case, both plans succeeded as a regional system was set up in 1998.

The housing providers not only changed the system, but also took over its administration. This involved considerable financial risks. The costs of the system were high (for example, it required a new computer system) and the revenues uncertain. These came from registration fees, but the projected figures were, as one housing manager admitted, “based on nothing.” The local authorities used to pay for these activities, but were only willing to subsidise the new system for a maximum of four years, after which they effectively realised a substantial budget cut. The new system suited both sides. The providers gained more autonomy, while the local authorities shed a long-term financial burden. All in all, the introduction of the advertising system in Tiger Town had two faces. One shows providers choosing a new system more in line with their strategies, the other shows them wrestling control over distribution away from the local authorities. The advertising system came along at the right moment.

In Shark Pool, the situation was different. The three providers adopted the new system in 1996 as part of the drive for regionalisation in housing, at the same time that the regional housing plan was presented (see 5.4). Again, it
looks as if the nation-wide diffusion of the advertising model was amplified by the regional network of providers and local authorities. In this case, however, it was not consistent with the providers’ strategies. When asked why they adopted it, all respondents referred to the regionalisation process, often without even indicating the advantages of the system itself. Moreover, some respondents hinted that providers retook some control over the allocation process by careful labelling (markers of which units are available to which type of applicant), which may indicate partial decoupling. However, this could not be verified.

Like in Tiger Town, the new system allowed Shark Pool’s providers to gain more autonomy. The local authorities used to allocate 50% of all vacancies, but now they were forced to relinquish implementation entirely. Understandably, they were less than enthusiastic about the new system. They were also afraid (justifiably, as it turned out) that it would lead to a greater influx of tenants from the central city. However, their influence in the regional negotiations was limited. An employee of Great White pointed out that “the local authorities adopted a ‘conservative’ attitude. Actually, they were dead against it, but they could do nothing to stop it. [...] It still bothers them. They would like to put the people of Shark Pool first.” (24) But while it is easy to interpret the adoption of the advertising system as a drive for more autonomy, as in Tiger Town, the accounts of the respondents only partially support such an explanation. Although the providers welcomed more autonomy, they never strove for it as ardently as their colleagues in the other case. Relations between with Shark Pool’s local authorities had grown cordial over the years. Moreover, the providers did not take the initiative in the change of system. What the accounts of the respondents in this case suggest is rather that they were all carried along by the momentum of regionalisation (which later ground to an abrupt halt). With the force of dozens of colleagues and several local authorities behind it, it was not easy to defy. In addition, the advertising system came as part of a package containing several other measures and intentions. This made it even more difficult not to adopt the system. All in all, the evidence suggests that it was social pressure that made the organisations forgo their own strategies. Such a “logic of appropriateness” is not recognised by the theory used in this analysis, but there is no other way to account for the collective innovation process in this particular instance.

Something similar appears to have happened in Bear Pit. With the exception of Koala, providers collectively switched to the advertising system in 1998. Here an explanation based on the desire for autonomy is even less feasible. A number of years before, parts of the distribution process had already been delegated to a jointly controlled service centre. The introduction of the advertising system did not fundamentally affect this shared arrangement. Moreover, an attempt to wrestle control of the distribution process away from the local authorities would have come out of the blue. The local authorities and providers had just worked together closely on the regeneration of post-war neighbourhoods and launched a joint plan with far-reaching consequences for the inner city (see 5.4). The atmosphere was one of co-
operation rather than of contest. What rather appears to have happened is that the co-operation on neighbourhood revitalisation spilled over into other areas of decision-making, including distribution.

There was one provider, Grizzly, which had accepted the advertising system although it was not in line with its strategy. The manager clearly indicated that he had taken this decision only to preserve the spirit of co-operation. "[We joined this system] because our colleagues did. We were not too keen on it ourselves. [...] It is my belief that renting a house involves a contract between the tenant and the provider. Both parties should be convinced it is right to make that agreement. The advertising system denies the mutual nature of the contract, because the person who sends in his application and has waited longest can claim an automatic right to that house, regardless of what the other party thinks. I believe that is wrong in principle." (3) This was exactly the same kind of argument made by the manager of Koala, who had decided not to join the new local system. "When you have the advertising model, you are obliged to give the house to whoever has the longest waiting time. It’s not right.” (5) He also argued that the model was not fit for a market that was turning slack. Other providers were less openly critical, but hardly enthusiastic. On being asked why the system was introduced, one of Polar Bear’s managers shrugged his shoulders and replied: “I’ve been wondering about that myself. It took six years of discussion and still they went ahead with it. It’s a bit late now. [...] Supply outstrips demand. That undercuts the advertising system. It is useful for market segments that are really scarce, but the rest is just folly.” (2) Panda’s manager was least critical, which is not surprising since the model was most consistent with the strategy of his organisation. However, he too indicated that the advertising system was a compromise and not likely to last long.

It appears that the advertising system had been a matter of discussion for several years, with the local authorities as one of its most fervent supporters. It was eventually accepted, but only with some concessions. The compromise was that providers would accept the advertising system, but that up to 30% of vacant units could be kept out of the regular procedure and allocated directly. But several respondents (including some from the providers themselves) indicated that the real number of vacancies kept out of the system was at 50% and rising. This is a clear instance of decoupling, since the advertising system is expressly designed to give customers a transparent and comprehensive overview of available supply. When the majority of units are withheld and distributed directly, actual work processes operate outside of the formal system.

The lack of enthusiasm, the late time of adoption, and the partial decoupling of the formal system from actual activities: they all indicate that some of Bear Pit’s providers accepted the collective advertising system largely to preserve the spirit of co-operation that had grown in restructuring neighbourhoods. Polar Bear was unhappy about the collective nature of the system and Grizzly even disagreed with its basic design. The latter’s view of proper distribution
was the same as Koala’s, but the latter could afford to keep out of the distribution system because it had broken off co-operation anyway. “If you’re working closely with others extensively there may be things you’re willing to accept, and I think there was at least one colleague who did it only on those grounds. But our own bonds with our colleagues were broken anyway, so it was only a small step to take. Well, the alderman was pretty upset, but that’s his problem.” (5) Like in Shark Pool, the local network appears to have strengthened the diffusion of the innovation considerably.

Finally, Elephant’s Corner was one of the first to introduce the advertising system. One of the three organisations that together became the Elephant provider in 1996 introduced its own variety as early as 1991, only months after the Delft model had been launched. This version was even more radical, leaving few possibilities to control distribution directly. Much to its regret, it did not get nearly as much credit for the innovation as its Delft colleagues. In the early 1990s, it participated in pioneer projects designed to test the new system. After the merger in 1996, the new Elephant provider applied the same system to all its local branches - no doubt because its director was the same one who had originally introduced it. The local authorities in Elephant’s Corner played no part in the allocation process and the providers making up Elephant all had local monopolies, so the introduction of the new distribution system was largely an internal matter. This is a clear instance of individual innovation. As it helped to invent and spread the new system, Elephant can be justly regarded as one of the innovators in the collective innovation process that unfolded in the 1990s.

6.5.3 The advertising system: at the right place at the right time

There is perhaps no clearer instance of collective innovation through reproduction than this. The advertising system was invented in the town of Delft and then rapidly gained popularity throughout the country, especially in the urbanised regions. Most respondents were well aware of where the system came from and how it had spread. This is unusual, for knowledge by diffusion is often elusive and difficult to trace to any particular source. It is more common to find that “everyone was suddenly talking about it”, without anyone being able to tell where it came from. That the advertising system’s progress is so well known is a testament to its popularity, which can be attributed to the very favourable circumstances under which it was introduced.

To begin with, it received wide backing from sector institutes and opinion leaders. It first originated in Delft, where local providers and researchers introduced it. The pioneers made sure to surround their innovation with extensive publicity. A national foundation for the encouragement of innovations, the Stichting Experimenten in de Volkshuisvesting (SEV) organised a number of pilot projects. These monitored the introduction of varieties of the Delft model among a small number of providers spread over
the country. The results of these projects were published regularly and have since been followed by various discussions and freely available reports (Priemus and Smid, 1996; Kullberg, 1996; 1993; Adrianow, Elsing and Hoenderdos, 1991; Bosch and Hanemaayer, 1990). These evaluations were generally positive. Since then, the new system has taken the country by storm. Interestingly enough, the Delft model now appears to be spreading to other countries through international networks. For instance, by the end of the 1990s it was being tested in the UK (Oxley, 2000).

Not only did the advertising system receive strong backing, it also landed upon fertile ground. In three of the four cases, its diffusion was strongly spurred on by developments within the local networks. The issue of distribution seems to have been used to re-assert the nature of the relations between the actors, either as adversarial (Tiger Town) or co-operative (Shark Pool, Bear Pit). Reciprocity strengthened reproduction. In other words, the innovation happened to be introduced at the right time. While this encouraged its diffusion in the short term, it is not a process that is likely to lead to the institutionalisation of the system. Many providers chose it for convenience and some went along merely because the others did. But this was done quite deliberately and sometimes without great enthusiasm. A couple were already considering future alternatives. It is therefore unlikely that the advertising model will become taken-for-granted, the “natural” way to organise distribution in a quasi-market. Instead, the theory would predict provider to draw distribution increasingly closer into their organisational sphere of influence. In short, the collective innovation process has reached far, but with little depth. The spread of this innovation has not contributed to the re-institutionalisation of the organisational field.
6.5.4 Conclusion

Both kinds of collective innovation occurred in distribution. Where the advertising model was adopted, most of the conditions were in place: the sector’s social networks to carry the innovation across to local networks, mutual dependence over the collective system and mutual trust. However, some providers went along with a collective system when they could have stuck to their strategy by adopting a private one. In other words, they did have an exit option. It appears that co-operation on other decisions strengthened group bonds to the point where providers became too receptive to social pressure to use their “exit” opportunity. As a consequence, they were willing to accept an innovation that did not really fit in with their own plans. It is a phenomenon that was not anticipated by the theory.

6.6 Interorganisational co-operation

6.6.1 Variation and fit in interorganisational co-operation

As noted before, the analysis focuses only on interorganisational co-operation between the providers themselves. It can take various forms. Organisations can work together on a project basis, mutually adjusting their activities for a specific occasion only, such as the regeneration of a neighbourhood. Collective action of this type will be discussed in relation to the kinds of activities it relates to. This paragraph concentrates on lasting co-operation involving several or all of an organisation’s activities. Providers can undertake joint action on a permanent basis, but only in a limited number of decisions. For instance, they can continue to operate independently, but have their administration handled by a single agency. As a third option, organisations can merge their activities altogether.

The theory predicted that providers with a diversification strategy would take co-operation further than the others would (see table 5.6). By implication, there should have been more mergers among this group than among the rest. This expectation turns out to have been correct, yet it is striking to see how many of the others were also involved in mergers. Of the twelve providers left at the end of the research period, eleven had been involved in some form of co-operation with their fellow providers. Of these, eight involved mergers. Three more had shown themselves receptive to the notion of a merger, but had not (yet) decided to enter any definitive agreement. Only one provider rejected mergers outright. Permanent, but partial forms of co-operation such as alliances occurred less frequently and less consistently. These alternatives often collapsed or acted merely a prelude to a merger at some later date.
Table 5.6: the expected relationship between organisational strategy and interorganisational co-operation

<table>
<thead>
<tr>
<th>Organisational Strategy</th>
<th>Level of Co-operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional strategy</td>
<td>Low level</td>
</tr>
<tr>
<td>Responsive strategy</td>
<td>Medium level</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>High level</td>
</tr>
</tbody>
</table>

Mergers are by no means a new phenomenon in social housing, but they have occurred more frequently since the introduction of the quasi-market (see table 5.7). Since 1990, the total number of providers has decreased by about a quarter. Given that many municipal housing companies were converted to private non-profits during this period, the total number of providers affected by mergers is larger than the figures suggest. While the average size has risen to under 3000, the size of providers that have merged has increased to nearly 7000. The size difference is in itself only natural, since organisations that merge tend to become larger. However, it appears that the differences are likely to grow further (Van Veghel, 1999; Van der Zon, 1999). Many of those who have already merged plan to do so at least once more, while those that are still small wish to remain so. There are no systematic data on other types of extensive co-operation, partly because their nature is so diverse. Interestingly enough, their occurrence seems to have declined over time. The majority of providers in the case studies had entered into bilateral or multilateral alliances at one point, but by the end of the research period most had either withdrawn or converted the alliance into a merger. At the national level, some multilateral forms of co-operation such as the well-known Socrates alliance collapsed because some of their most prominent members withdrew. Mergers appeared to be the more popular alternative.

Table 5.7: The numbers of private non-profit providers and municipal housing companies in the period 1990-1999

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of private non-profits</th>
<th>Average size</th>
<th>Number of m.h.c.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>824</td>
<td>1854</td>
<td>213</td>
</tr>
<tr>
<td>1991</td>
<td>812</td>
<td>1909</td>
<td>204</td>
</tr>
<tr>
<td>1992</td>
<td>805</td>
<td>1950</td>
<td>188</td>
</tr>
<tr>
<td>1993</td>
<td>795</td>
<td>2046</td>
<td>168</td>
</tr>
<tr>
<td>1994</td>
<td>793</td>
<td>2167</td>
<td>125</td>
</tr>
<tr>
<td>1995</td>
<td>783</td>
<td>2257</td>
<td>90</td>
</tr>
<tr>
<td>1996</td>
<td>805</td>
<td>2333</td>
<td>59</td>
</tr>
<tr>
<td>1997</td>
<td>786</td>
<td>2348</td>
<td>44</td>
</tr>
<tr>
<td>1998</td>
<td>762</td>
<td>2353</td>
<td>30</td>
</tr>
<tr>
<td>1999</td>
<td>724</td>
<td>2351</td>
<td>24</td>
</tr>
</tbody>
</table>

(Source: Ministry of Housing, Public Housing in Figures)

These figures raise two issues. To begin with, it is surprising that so many providers engaged in costly efforts at co-operation when it was not a natural consequence of their strategy. Furthermore, one has to wonder why co-
operation so often took the shape of mergers. There are other ways of pooling organisational resources that do not require the effort of full integration.

6.6.2 Innovators and followers

Underneath the similarities between the providers, there were two distinct groups that could be described as innovators and followers, respectively. These differed clearly in terms of the reasons they provided for their actions. The first consisted of those organisations for which the merger was an essential part of their strategy. For these, mergers were conducted with a clear image of their future organisation in mind. This group consisted of those organisations with a diversification strategy and appears to have set the standards for interorganisational co-operation in the field. The other group justified the mergers with reference to the actions of other providers in their local market.

The first group was composed of Elephant, Polar Bear and Siberian Tiger. For the first two especially, the merger was an essential part of their strategy, a crucial instrument for creating an organisation with a specific identity. For Elephant, expansion into other markets created an opportunity to develop its activation ethic and its approach to sale and investment. Its possibilities for innovation were naturally limited in its traditional geographical home. Its mergers came early and easily. This is not surprising, as it was very, very rich. It was itself the product of a merger between three small providers in 1996, each from a small town in the area. Since then it has been very active in creating bonds with other organisations. It was one of the founding members of a national alliance of housing providers, designed to share expertise and redistribute funds. However, it quit its membership at the beginning of 2000, as did some other members. A second experiment was an interest-free loan to an organisation in another part of the country, which was later transformed into a (well-publicised) gift. This established Elephant as a symbol of the wealthy providers in rural parts of the country. However, both the national network and the gift were later denounced as failed experiments, which would be discontinued. The real transfer of the provider’s wealth was to take the form of mergers, one with a poor provider in a nearby region, another with a small, nationally operating organisation specialised in housing for the elderly. Given the unequal distribution of resources between the partners, these mergers were take-overs in all but name.

Polar Bear, though far less secure in financial terms, showed a fairly similar development. It, too, was itself the product of a merger between two local organisations in 1998, which had followed a period of close co-operation. It joined the same national association of which Elephant was a member and left it at the same time. But it had plans for future co-operation that made those of Elephant look traditional by comparison. The vision of its managers was not merely to join forces with a few colleagues, but to have a colossal national organisation, in effect an entirely different type of social housing provider
than had previously existed in the Netherlands. What this would involve was that all stock from the organisations involved would be pooled in a national real estate fund, headed by an independent board of managers. The locally based organisations would continue to exist, but in effect only as divisions of the national provider. They would have a large share of autonomy in maintaining and marketing local stock; however, should they wish to make significant changes to it (construction, sale, demolition), they would have to submit proposals to the central real estate fund. The advantage of such a model is the ability to transfer funds on a national scale while retaining outlets with strong local roots. Another strength is the relative ease with which an organisation can join in: it will simply come under the umbrella of the real estate fund, without any need to integrate all its organisational processes or even to change its company name. It was a model explicitly designed to allow growth. From 1999 onwards, Polar had been co-operating closely with a provider in another part of the country – involving, amongst other things, a shared directorate – as an intermediate step to the division model. By this time other providers from around the country had expressed their interest in joining.

Siberian Tiger was an exception in that its decision to merge was motivated not by a long-term vision, but by the desire to get out of the deep abyss in which it had fallen. It could either sell off over 10% of its stock or acquire money from elsewhere. The merger was preferable to the management, as this would also provide opportunities to solve other problems, particularly the dominant position of association members. All future plans were stalled in the face of this immediate concern. It finally agreed to merge with a colleague halfway across the country, after bitter internal struggle (see 5.7.2). It would have done so earlier, had it not been without management for over a year and had other parties been more willing to get close. However, it was still the first in Tiger Town to go ahead with a merger. Given that it was by far the weakest link in the new organisation, the merger had some of the hallmarks of a takeover (e.g. the choice of name). In many respects, it became the Tiger Town branch of its new partner.

For the second group of providers, mergers did not follow naturally from strategy. Instead, they often reacted directly to mergers in their immediate surroundings. All the providers in Shark Pool started merger talks in reaction to the increasing concentration of other providers close by. The increasing concentration of providers in the regional market impelled Nurse to intensify existing co-operation with some of its colleagues. It was a member of a group of regional providers that exchanged expertise in various aspects such as treasury, construction projects and human resource management. In 1999, this alliance fell apart as some of its members wished to take the co-operation one step further and merge, whereas others thought the present arrangement was quite far enough. Nurse Shark joined the former group and thus became part of a larger, regional housing provider with branch offices in several towns. In response, the remaining two providers in Shark Pool, Great White and Hammerhead, immediately started merger talks of their own and
announced their intentions some time after. As an employee from Great White phrased it, with a wide grin: “When Nurse merged with outsiders, we were not amused. It was like they were sleeping with the neighbours.” (24) The same story in Bear Pit: Panda and Koala started negotiations when the large Polar was created out of two smaller providers. When asked why he had initiated a merger, Grizzly’s manager replied: “The main reason was that our colleagues began snuggling up to each other. We felt we had to do the same.” (3) The merger was eventually postponed, because the organisational cultures of the two organisations seemed incompatible at the time – not surprising, given their markedly different strategies. Co-operation was confined to areas such as project development and urban renewal. It included the sale of a group of dwellings set to be demolished from Panda to Grizzly, effectively a subsidy. This limited form of co-operation may yet lead to a merger, but there were no definite plans yet.

This means that in the three towns that have just been discussed, seven out of eight providers have during the research period been involved in mergers or at least in serious negotiations. In Tiger Town, moves towards co-operation were least advanced in whatever form. As noted, Siberian Tiger merged in 2000. Siberian and Paper Tiger shared a small agency for financial and administrative services, which was disbanded at the end of the research period. Bengal had had talks with several potential partners, but these had not resulted in a merger. Instead, it started a network with a number of providers elsewhere in the region for joint projects and the exchange of expertise. Finally, Sumatran, a provider traditionally focused on students’ housing, was set to join with a similarly specialised colleague in another town, but the deal fell through at the last moment. Co-operation with its prospective partner is still intense, but the organisations will as yet remain separate.

Out of the four case studies, only two organisations remain that appear not to have engaged in serious plans for co-operation of this kind. Koala denounced mergers in principle, as it had rejected the urban renewal plans and the advertising system of distribution. Paper Tiger was more receptive to the notion, but its manager denied having definite plans. One should be careful not to take such a claim at face value. A couple of managers denied having definite plans for a merger during the interview sessions, only to publicly announce one shortly thereafter. In the case of Paper Tiger, other sources confirm there has been no opportunity for this provider to pop the question.

It was expected that interorganisational co-operation would be most intense when organisations pursued a strategy of spreading risks. It is true that there was a strong fit between the activities of diversification-driven providers and their strategy. They could be expected to co-operate extensively. But other providers have also engaged in co-operation on a wide scale, even those for whom expansion is not a natural consequence of their strategy. In fact, the number of mergers might have been greater, had some negotiations not failed at the final hurdle. Apparently, there had been a process of collective
innovation, in which the actions of one group were reproduced by the others. Members of the first group started the process. The mergers of Polar, Elephant and Siberian did not come early in the research period, but what is important is that they encouraged other mergers in their immediate surroundings. Again, the local network appears to strengthen mimetic processes that occur on the national scale.

This is reflected in the timing of the mergers. In all the cases where there was more than one provider, each was of roughly equal size at the start of the research period. This was the result of past mergers that had resulted in an overall balance. Providers with a diversification strategy were the first to abandon the status quo and start another merger wave. At the start of the research period, Bear Pit’s five major providers each had between 7000 and 9000 units. When two merged into Polar in 1996, together they had 16000, twice as many as each of the others. The merger attempt by Grizzly and Panda followed soon after. Similarly, the mergers of the Shark Pool providers followed the creation of a massive provider of tens of thousands of dwellings in the central city some time before (putting the size difference at a ratio of 10:1). In Tiger Town, Siberian was the first to merge and would have done so earlier, had this not been prevented by a prolonged internal struggle. It had been the largest provider since its creation in the 1980s and was now set to widen the gap. In the Elephant’s Corner area, there were no major size differences before 1996, when the three small providers came together.

6.6.3 Why mergers?

The interpretation of the merger trend as reproduction explains why co-operation predominantly took the form of mergers. Even if growth was considered necessary, there is no natural reason why the merger should have been the preferred choice. There were various alternatives in the shape of networks that involved working together on a limited number of activities and/or the limited exchange of funds and knowledge. Moreover, there is no evidence to show that mergers are superior types of co-operation. In fact, they are known to fail quite often. Recently a study by KPMG suggested that 70% of all mergers fail – mostly because companies do not take the effort to examine thoroughly whether the organisations involved fit together (KPMG, 2000). So why have mergers been so popular in social housing?

Given that providers so clearly reacted to one another, it is only logical to interpret the popularity of this type of co-operation as yet another instance of mimicry. But then why did the innovators prefer it? They gave the reason themselves: to ensure that their partners would share the same vision, they needed a type of co-operation that guaranteed control. The Elephant manager insisted that its treasures should only go to the worthy. “We noticed that weak providers are all too ready to hold up their hand without having a critical look at their own management.” (37) He was certainly willing to share his wealth with others, but only on his own terms. Likewise, the Polar
manager argued that the transfer of capital must be accompanied by the transfer of power. “Whatever way you look at it, if you are matching funds and you don’t just want to give away money, then you want to retain control over the stock. [...] Whatever model you’re going to choose, it has to include shared control.” (1) Initially, they both participated in alliances of various kinds, but by the end of the research period they had both abandoned them. As the Elephant manager put it: “In the past we’ve been too nice. We trusted too much in good faith. [...] This is not charity. It’s about management.” (37) The rise in the occurrence of mergers can therefore be interpreted as a mimetic process with clearly identifiable innovators and followers. But the homogeneity in terms of co-operation is quite superficial. One would expect the organisations in the field to have drawn closer together, but the differences between providers actually became more pronounced. This is because the mergers were implemented in different ways.

This shows in the choice of partners. For those with a strategy of expansion, it was imperative that prospective partners shared the same outlook. They wished to create an organisation with a new and distinct identity and therefore demanded that partners accept their formula. The Elephant provider was particularly picky, as it could well afford to be. It rejected two prospective partners, even though it had already given one a major interest-free loan. It also withdrew from a national alliance, because some of the other members were unwilling to take the alliance beyond the exchange of capital and expertise (particularly capital). The manager stressed that he would only consider a merger with providers who make “good policy”. “We’re not just giving money away, because then it’s beg and go. [...] If a provider is not willing, then it doesn’t fit into our culture and the deal is off.” (37) Although Polar’s aims were different, its attitude was much the same. It no longer wished to co-operate with those who were not ready to commit themselves to its strategy. “Whatever model you choose, there’s got to be joint control. But that means local providers should be willing to let others have a say in their affairs. Not many are.” (1)

Others chose their partners locally and therefore had a more restricted choice. On Polar’s creation, Grizzly and Panda were virtually driven into each other’s arms, as they were the only providers left in the town left who were at all interested in co-operation. The providers of Shark Pool were part of a larger market, though, and potentially had greater choice. Nurse’s merger grew out of an alliance with a number of christian colleagues, who were in the manager’s own words chosen on the basis of their “identity”. Yet when asked, the manager was regrettable unable to define the distinctive nature of protestant housing provision. Of course, it is also possible that it was largely a question of familiarity and a common background. The meetings organised by the protestant branch association NCIV had brought these organisations in touch. Great White and Hammerhead merged because they were the only two remaining providers in town, even though the regional housing market afforded far greater choice. Familiarity again played a part. Sumatran’s was an exception in that its (failed) merger attempt focused on an organisation
that was also specialised in students’ housing. Most of the organisations in the
second group selected their partners locally, which is in accordance with their
strategic choice to stay local. This may explain why some of these mergers
failed or took long to materialise: partners were not chosen on the basis of
compatibility, but availability.

The result is that mergers, instead of establishing new shared routines,
created growing divisions in the organisational field. Some providers
expanded on a national scale, whereas others grew only locally. The size
differences will probably grow, since providers with diversification strategies
can be expected to continue expansion, albeit at a varying pace. The others
have essentially remained true to their strategy, in that they have not
abandoned their local basis. In that sense, they have reaffirmed rather than
relinquished their guiding principles. If they continue to do this, they will be
increasingly dwarfed by large, nationally operating colleagues. This has
profound consequences for the coherence of the social housing sector, as I will
discuss in chapter six.

That leaves the question why the followers felt compelled to deviate from
their strategies in the first place. Their strategies implied a focus on the local
market and the manner in which they implemented their merger indicates
that they were not ready to abandon that focus. Then why merge at all? To
understand this, it is useful to examine the one organisation that defied the
trend. Koala kept resisting the social pressure and stayed true to its own
strategy. Its manager dismissed all newfangled notions with an ironic smile:
“[A merger] would lead us nowhere. For a start, it won’t earn you any money,
and it will also put you at a greater distance from your tenants. What is the
ideal size for a housing provider? I don’t know. I have a second job as the
manager of an organisation with a stock of only 1500. Believe me, despite its
size, it is wonderfully efficient.” (5) This was the same provider who had
refused to co-operate with its colleagues on neighbourhood regeneration and
on distribution. Indeed, it was somewhat reminiscent of the village of Asterix.

The evidence from Bear Pit and Shark Pool suggests that agreement (or lack
of it) on one decision may spill over into others –even when there is no
reciprocity involved in the decision itself. One could argue that because
collective innovation strengthens group bonds, it makes organisations more
likely to follow one another in other respects. In Tiger Town, where
interorganisational co-operation was less advanced than anywhere else, there
had also been little agreement on other matters. Where co-operation was
stronger, the merger trend was stronger. This interpretation is confirmed by
the timing of events: the mergers followed upon joint decisions in other areas.
Again, the local network appears to mediate and strengthen national trends.

6.6.4 Conclusion
All in all, interorganisational co-operation followed a most interesting pattern. On the one hand, there was a clear merger trend, strengthened by local relations. Of course, reciprocity did not and could not occur in this area of decision-making, even though fortuitous conditions were in place. However, the process of reproduction was encouraged by group bonds. In this sense, what happened here was similar to developments in distribution. An innovation that spread throughout the sector was strengthened at the local level, because after previous collective efforts actors were more likely to take account of each other. Reciprocity on previous decisions apparently encouraged reproduction. On the other hand, the mergers were mostly implemented in accordance with strategies, which meant the differences between locally and nationally oriented providers would probably grow.

6.7 Legal structure

6.7.1 Variation and fit in the choice of legal structure

The legal structure determines the ultimate hierarchical authority within the organisation. The law allowed only two alternatives, either an association or a foundation. The former puts members (in practice, mostly tenants) at the top of the hierarchy, whereas the latter is commanded by an unelected board, usually including the management. Traditionally, most social housing providers had started out as associations, in keeping with their philanthropic roots. When national housing policy had overtaken most of their vital functions, these old structures had been frozen in place. In the meantime, the organisations had grown far beyond their original size and become increasingly bureaucratic. There was an inherent tension between this professionalisation process and the voluntaristic decision-making typical of associations. However, since most of the organisations’ activities were strongly regulated and shielded from the risks of the housing market, this tension did not fully materialise until the liberalisation of the 1990s. The theory predicted that, whatever their strategy, providers would be inclined to switch to a decision-making structure that centralised formal power in the management. Consequently, all providers were expected to switch to a foundation structure, regardless of their strategy (see table 5.8).

Table 5.8: the expected relationship between organisational strategy and legal structure

<table>
<thead>
<tr>
<th>Traditional strategy</th>
<th>Foundation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsive strategy</td>
<td>Foundation</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Foundation</td>
</tr>
</tbody>
</table>

The evidence from the case studies appears to confirm this. Of all providers, no less than eight were a foundation by the end of the research period and
three more were in the process of becoming one. The Elephant provider became a foundation on its creation in 1996, although one of its constituent organisations was originally an association. In Bear Pit, all providers were foundations by the end of the research period. Grizzly and Panda had become foundations shortly before privatisation, in the latter case as part of a merger. Polar, a foundation, came into existence with the merger of an association and a foundation. Koala had been a foundation since its creation in the early 20th century. In Shark Pool, Great White changed to this structure during the research period and the other two had plans to do so in the course of a merger. Of the four in Tiger Town, only Sumatran was a foundation at the start of the research period. Bengal switched in 1998. Siberian had definite plans to switch in the course of a merger. Paper was the only one to remain an association without definite plans for a transition.

All in all, there is a clear tendency towards the foundation structure (see table 5.9). Five providers were foundations from the outset; others became so in the course of recent years. Three are still formally associations, but have definite plans to switch over. The conclusion must be that the theoretical prediction about legal structure was correct.

### Table 5.9: The numbers of associations and foundations in the case studies

<table>
<thead>
<tr>
<th></th>
<th>Start of research period</th>
<th>End of research period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Associations</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Foundations</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total number of providers</strong></td>
<td><strong>16</strong></td>
<td><strong>12</strong></td>
</tr>
</tbody>
</table>

1 Including organisations who had definitely decided to make the transition at a future date.

#### 6.7.2 Stronger management

The fit and variation patterns suggest a process of collective innovation, but in fact the homogeneity was only caused by legal restrictions. In this case, the collective nature of decision-making was very slim indeed. It was merely individual innovation coupled with coercive isomorphism, a radical limit on choice imposed by the state. This interpretation is supported by the accounts of respondents. They show that, as expected, the managers themselves initiated these transitions that would strengthen their position. They generally gave two reasons for their decision. The first was that it would lead to an increase in flexibility and autonomy, which was necessary to respond to the introduction of the quasi-market. As the Bengal manager put it: “An association is no longer adequate in this day and age. For a start, you’re absolutely inflexible. We had skinned the procedures to the point that it was rarely necessary to consult our members and still a small group managed to
veto our budget for an entirely unrelated reason, simply because they wanted something we were not prepared to give. There was nothing we could do to stop them.” (10) Another manager phrased it thus: “I built that club from scratch [...] but at one point I was forced to bury my baby. It was a system from the late ‘70s, early ‘80s, and it simply wasn’t fit for a more business-like approach. Not that it bothered me, because my board and my members supported me throughout. I wouldn’t have been able to carry out all my crazy plans in the early ‘90s if they hadn’t. But the point is: it was never formalised. They could have told me to stop at any time. Crash, boom, finished.” (37) The second reason was the association meetings were no longer functioning adequately. Membership rates and attendance at meetings had been dropping off gradually over the years. “At the basis you could see interest fading. This made it easier for troublemakers to get in and this began to affect the quality of our meetings. There were fewer and fewer candidates.” (37) Or, put more strongly: “This entire democracy thing is bullshit. It’s a 0,0% turnout, even lower than the local elections.” (17) Others stressed the fundamental tension in the association structure. “You’re asking consumers to set their own rents!” (9) Notwithstanding some variation in emphasis, there was almost unanimous agreement on the need for a transition.

Insofar as there were any differences between providers, it was in the difficulty with which the transition took place. For most providers, it was plain sailing. They switched quickly and without great difficulties. This is more remarkable than it sounds. The analysis has so far assumed a managerial perspective, in that it defines expectations in terms of what “the provider” will do. But on this issue, the decision requires the formal consent of another actor. The change from an association to a foundation implies that members vote themselves out of power. In many cases, this decision needed a majority of 90% (these structures were designed for eternity). With attendance at meetings down to an all-time low, it took only small minority of hard-line conservatives to veto the transition.

This is exactly what happened at Siberian Tiger. It was in a pitiful state indeed. Standards of maintenance had fallen to an alarming low, the financial status was disconcerting and the organisation was in complete deadlock. However, the management and the leading association members disagreed on what action should be taken. The new director argued in favour of a merger with a rich colleague, that would allow a major transfer of funds. This would entail the change to a foundation structure. But some of the leading board members regarded this as no less than the demise of democracy and vehemently opposed it. The only alternative was the sale of several hundred dwellings, an option that no-one was really happy with. The conflict became increasingly bitter over time. On one side stood an alliance between the management, the staff and a group of association members involved with the external tenant organisation. Eventually, even the trade unions and the Housing Inspection supported their cause. On the other side stood a small group of members determined to block the merger at all cost. Relations between the two groups were not too good. One tenant representative
frequently referred to leading association members as “warmed-up corpses” (with the express request to quote him on that). In turn, the latter referred to their opponents as “puppets manipulated by the management”. It was only after several years and an intensive campaign on both sides that the battle came to a head. By this time, the staff had threatened to go on strike if the changes were not approved. In a dramatic meeting, which even made the national newspapers, three leading members were finally voted out of office. This cleared the way for the merger, the change of legal structure and the financial rescue operation.

Violent as this struggle was, it is remarkable that it did not occur more frequently. Siberian’s internal democracy was formally stronger than average, but not exceptional. Many housing associations appear to have had a hardcore of fanatical members. Respondents from other providers also described their members with terms such as “ideologically committed”, “emotionally involved” or other carefully worded euphemisms. With low attendance rates and very strict voting procedures, it was possible for groups of less than ten members to block major changes. Then how is it possible that association structures, so well protected and timeworn, could be dismantled on such a large scale within less than a decade?

6.7.3 The conditions for an easy transition

The evidence suggests that the ease of the transition depended on a combination of three conditions. The most important was that the association’s internal democracy could be exchanged for external democracy by establishing an independent tenant organisation. The members of these organisations were generally also members of the association, which meant that they could often sway a considerable part of the vote. By promising to grant tenant organisations a bill of formal rights, managers could enlist their help in winning a majority for the change of legal structure. As one tenant described it: “Our condition was that when the association became a foundation, there would be an independent tenant association and a signed contract. The contracts were signed simultaneously at the solicitor’s.” Although it is uncertain whether this deal was always played out overtly, tenant organisations did support the transition to a foundation because it would make them more powerful. It was a vital opportunity for them to establish themselves (see 5.8). The promise of greater voice was not enough for everyone, though. Veto opportunities have occasionally been exploited for more mundane purposes. In Bengal, a tiny group of members threatened to block the process unless they were allowed to buy their own home at a lower percentage of market value. This was an effective use of institutional opportunities, otherwise known as blackmail. The threat was averted, but it shows the vulnerability of a process that is so tightly constrained.

A second condition for an easy transition was the existence of trust between the management and the association members. The effectiveness of the deal
described above rested largely on the belief that democracy would improve. At the time, the effectiveness of external democracy was untested and open to dispute. No matter how sound the arguments in favour of the new structure may have been, they were unlikely to be convincing when the intentions of its proponents were mistrusted. This problem lay at the heart of Siberian’s troubles. Indeed, the accounts of respondents have consistently indicated the significance of good relationships in bringing about a smooth transition. In the case of Elephant, for instance, it was exactly because of the manager’s previous commitment to the association and his good relations with members that he could propose a change of legal structure without raising suspicion. The change of structure often became feasible only after certain association or staff members left the organisation. This was encouraged by the turnover in staff (see 5.9), and, in the case of the ageing association members, by the natural cycle of life. Great White’s transition was eased by changes in the association board. One of Hammerhead’s tenants mentioned that “Great White used to be like us, but they have had a rejuvenation of the board and now there’s a new spirit. Here we still have some of those old socialists, who haven’t yet realised Colijn is dead.” (30) One of the socialists in question assured me that “a foundation is the most undemocratic structure there is.” (31) The prospects for an easy transition improved when he left the organisation.

Finally, opposition was often muted because the decision to change the legal structure was wrapped up with other choices. Five providers that changed their structure tacked it onto a merger. This presented members with a package deal that was difficult to reject: a veto on the foundation would imply a veto on the merger. Some of the managers even presented the change of legal structure as the inevitable consequence of the decision to merge. For instance, one manager literally said in a meeting with tenants that “now that we are merging, we have no choice but to become a foundation.” In the conflict over Siberian Tiger’s future, the most powerful argument against retaining the association structure was that it would block the merger and ultimately financial rescue. Yet there were other options. All that is legally required is that providers which merge must have the same legal structure. When two associations decide to merge, there is no reason why they could not retain the association structure. Indeed, mergers of this type have occurred in the past. It is also possible (albeit unlikely) that a foundation and an association blend into one large association. Transitions to another legal structure must therefore be treated as decisions in their own right. To present them as inseparable is a political trick.

Paper Tiger presents a difficulty. It is not clear why this organisation remained an association. The director argued that “if you have an association where there is trust between the board and the members, and communication is good, then there is no reason to switch to a foundation. We have to justify our course to our stakeholders. Whether these are members or just tenants does not matter very much, unless there’s a bad atmosphere. [...] The only advantage of a foundation is that you don’t have to organise an association
meeting two or three times a year.” (11) Yet all the other associations where internal relations were good switched to a foundation anyway. According to tenant representatives, the management did wish to switch to a foundation, but could not yet convince association members to agree to such a transition. But if this was true, why was the management not more supportive of external tenant representation (see 5.8)? The evidence is not conclusive.

6.7.4 Conclusion

Overall, there appears to have been a calculated move to centralise control in the hands of the managers. Social housing providers appear to have shed one of the last remaining legacies of their voluntaristic origin. Yet despite the almost unanimous choice to go to a foundation, there was no evidence either of copying or of co-operation. Insofar as the process was collective, it was only as a kind of “coercive isomorphism”, to use DiMaggio and Powell’s term. When managers decided to adopt a legal structure in which they had a stronger position—a decision in line with any strategy—the state effectively limited their choice to the foundation structure. Had this regulation not been in place, then it is possible (and indeed probable) that the field would have erupted into a wide variety of legal structures.

6.8 Tenant representation

Tenant representation is an expression of “voice”, the mechanism through which customers influence the decisions of suppliers directly rather than through their power to spend. The theory predicted that tenant representation would be strong when providers had a responsive strategy, weak when they had either a traditional strategy or a strategy of diversification. This issue will require a somewhat lengthy discussion, since there are serious problems with its demarcation and measurement. It is an issue of power and therefore a methodological minefield.

6.8.1 Measuring representation

The analysis of tenant representation will focus only on tenant organisations. This is a simplification, for the leadership of those organisations may not be in touch with the wishes and moods of tenants. There have been some well-publicised incidents (among them one in Bear Pit) in which a housing provider extensively discussed its plans with formal tenant representatives, only to find during the implementation phase that most of the other tenants were unaware of the discussions or the agreements that had been reached. The scope of the analysis will be further limited by including only those organisations that represent all the tenants of a provider’s stock, not just those of a specific estate or neighbourhood. This excludes the numerous tenant
committees that operate on a smaller scale. Finally, I will discuss only organisations that (intend to) function as permanent representative bodies. This excludes committees that emerge during large renovation projects or at times of crisis. It will be assumed that these interest groups are adequately represented by the overarching tenant organisation.

My reasons for choosing such a narrow definition are of a twofold nature. To begin with, the empirical research has been restricted to practices that already existed before the introduction of the quasi-market. Likewise, tenant representation will be studied as the continuation of organisational democracy as it existed prior to this moment. It is clear that street committees and the like are not on the same par as association meetings. Only formal representative bodies at the organisational level can be regarded as substitutes for the association meetings that have by now been largely abolished (see 5.7). Another reason is that a systematic comparison of tenant representation would be far more difficult if it would include all the groups and committees that have sprung up over the past years. A restrictive definition will keep the results transparent.

The question how to measure the actual influence of tenant organisations is even more complicated. Influence can be defined in terms of resources, but since representation is removed from the market context, the relevant resources will be different. One could spend a lifetime discussing the resources that determine influence, but I intend to settle the issue in this paragraph. I have confined myself to the two types of resources that were mentioned most frequently in the case studies, either as facilitating or obstructing tenant involvement: formal rights and the skills of representatives. This is the logical choice to make, since influence is ultimately a matter of perception. If providers wish to encourage (or discourage) tenant voice, their efforts will focus on the resources they consider crucial.

The resources most commonly mentioned were formal rights. These can be classified along two dimensions. The first is the extent to which they involve tenant organisations in decision-making. There are three types: the right to be informed, the right to advise and the right to give binding consent. The right to advise can be divided into several varieties, depending on who takes the initiative and how the parties are expected to respond. Best-known is the right to give qualified advice, which means that tenants must be asked to give their opinion on a subject and that, unless the management respond to this advice in accordance with the formal procedure (usually in the form of a written reply, containing relevant argumentation, sent within a precisely defined period), they are obliged to act upon it. A second classification of rights concerns their scope. They pertain to different areas of decision-making: the procedures for participation themselves, interventions in stock, rent levels, rent differentiation, tenant-provider contracts, technical maintenance, social maintenance (e.g. social caretakers), distribution and so on.
6.8.2 Variation in tenant representation

Table 5.10 sums up the formal rights acquired by tenants at the end of the research period. Tenant organisations are divided into three groups, based on the extent and the scope of their formal rights. Those with a “poor” status had few or no rights at all. The status of “moderate” was conferred to those who had acquired rights to give qualified advice and/or consent, but with a scope limited to matters that directly affect tenants. These include rent increases, technical maintenance and the details of interventions in existing stock. The “high” status was awarded to tenants who had acquired the formal rights to give qualified advice or consent in areas of organisational decision-making that surpass the immediate concerns of tenants. These include the organisational strategy, interorganisational co-operation, overall rent policy and the choice of where to intervene in existing stock. The table shows clearly that formal rights are unevenly distributed. Six tenant organisations are poor, four moderate and only two high.

Table 5.10: The formal rights acquired by tenant organisations at the end of the research period

<table>
<thead>
<tr>
<th>The scope and reach of formal rights</th>
<th>poor</th>
<th>moderate</th>
<th>high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hammerhead Shark, Nurse Shark, Paper Tiger, Sumatran Tiger, Grizzly Bear, Koala Bear</td>
<td></td>
<td>Polar Bear, Panda Bear, Great White Shark, Elephant</td>
<td>Siberian Tiger, Bengal Tiger</td>
</tr>
</tbody>
</table>

This is not to imply a simple notion of “the more rights, the better”. Tenants may have real influence despite having few formal rights. This can happen when tenant representatives have informal ties with management, staff members or significant others. The opposite is also a real possibility. Formal rights are meaningless unless people have the ability to use them. The evidence suggests that tenant representatives also need certain personal skills to use their formal powers well. For a start, they need to be well-informed. Social housing abounds with regulations and technicalities, making it a complicated subject. Faced with professionals who have devoted their lives to the subject, tenants need to acquire knowledge to avoid being overwhelmed. Moreover, they have to be able to stand their ground at the negotiating table. The kind of research required to assess the skills of tenant representatives accurately was beyond my means, but it would have been a mistake to do this in any case. After all, it matters not so much whether individuals tenants have the requisite skills, but whether the tenant organisation has the means for absorbing and transmitting those skills over time. The evidence suggests there are two ways in which it can do this. One is to furnish representatives with training facilities; another is to delegate some of the work to professional aides, who will bring in skills of their own and keep the organisation running.
as volunteers come and go. Several respondents emphasised the key role of their aides. One tenant of Bengal Tiger noted: “[Our aide] has the gift of making us think what he thinks. He points out the essence of a matter and prevents us from losing focus.” (14) When asked whether he received external support, a tenant from Siberian replied: “Thank God, yes. We wouldn’t have been able to cope otherwise. Especially not at the beginning. What would I know about rent differentiation? [...] After all, you’re working with well-meaning volunteers who don’t know a thing. There just had to be support. You have to learn the ropes, know the proper channels, know who’s who. [Our aide] grew with us.” (13) A Great White tenant emphasised the importance of professionals to the continuity of the tenant organisation. “You’re enthusiastic, of course, but at one point your term ends and there may be a vacuum. With an aide you can jump the gap and carry on. It’s a basis from which to start.” (29) But training and professional support require significant and sustained funding. Therefore I have examined the available budget as well as the use of training facilities and professional aides. When skills are included in the analysis, the ranking order changes only slightly (see table 5.11). The “poor” were tenant organisations with either no rights or insufficient skills. Those of the “moderate” type had “moderate” rights and the skills to use them. The “high” organisations had “high” rights as well as the skills to use them. The tenant organisation of Polar has taken a step back. It had moderate formal powers, but appeared to be incapable of using these effectively. The overall picture is much the same.

Table 5.11: The strength of tenant representation, as measured at the end of the research period

<table>
<thead>
<tr>
<th>Providers</th>
<th>Strength of tenant representation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>poor</td>
</tr>
<tr>
<td>Hammerhead Shark, Nurse Shark, Paper Tiger, Sumatran Tiger, Polar Bear, Grizzly Bear, Koala Bear</td>
<td>Panda Bear, Great White Shark, Elephant</td>
</tr>
</tbody>
</table>

The diversity is confirmed by national figures. A survey conducted in 1999 indicated that, whereas over 90% of providers claimed to have encouraged tenant representation, 40% felt that this had had no result whatsoever (Companen, 1999). A more detailed survey conducted by the national tenants’ association in the same year showed that only a quarter of providers had a representative body at the organisational level (Woonbond, 1999). Of all tenant representatives, two thirds had no professional support whatsoever. Financial support from providers ranged from one guilder per member to twenty. About a third of tenant organisations had access to copying facilities.
and offices. Although both surveys are methodologically suspect, they reflect the inequality found in the cases.

Table 5.12: the expected relationship between organisational strategy and tenant representation

<table>
<thead>
<tr>
<th>Organisational Strategy</th>
<th>Tenant Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional strategy</td>
<td>Low participation</td>
</tr>
<tr>
<td>Responsive strategy</td>
<td>High participation</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Low participation</td>
</tr>
</tbody>
</table>

6.8.3 The fit between strategy and tenant representation

The provider in Elephant’s Corner had a tenant organisation from 1995 onwards, since just before its merger. This was no coincidence, since tenants mobilised in response to the approaching merger. Given the town’s small size, it never had the kind of tenant committees one would find in large urban estates. Instead, there were six neighbourhood commissions, which were tied to the tenant organisation through personal networks and overlap. The provider and the tenants signed an agreement in 1995, giving the latter the right of consent on a number of issues: participation procedures, the procedure for daily maintenance, service packages and projects involving the demolition and replacement of stock (though only on the decision to go ahead with the project and not on its specific form). Qualified advice could be given on various other matters, such as mergers, maintenance policy, and improvement of dwellings, rents and distribution. Tenant representatives were also allowed to appoint two members of the internal supervisory body. These rights go far, yet without affecting the discretionary freedom of the provider in a critical way. For example, decisions where and how to invest were open only to advice (at a time when tenants were wary about the housing manager’s ambitious plans, which took some of “their” money elsewhere). The tenant organisation’s two sources of income were contributions (one guilder a month per member) and subsidies from the provider. As one might expect from a rich provider, the facilities afforded tenants were excellent: contributions were doubled, with each neighbourhood commission getting an extra thousand guilders. This small budget could be used to make small improvements of their own choice. In one case, a group of tenants decided to erect a statue for the adornment of a new park. The tenant organisation was allowed the use of a small office, set up in a vacant house. By their own admission, the tenant representatives had reached the limits of their ambitions, save for further growth of membership (already at an impressive 55%). So they were well established, far better than the theory predicted.

Tiger Town’s tenant representation was of a diverse nature. At one end stood the strong tenant organisations of Bengal and Siberian, at the other the weaklings of Paper and Sumatran. Bengal’s tenant organisation was the first
to blossom. It was set up in 1995 on the initiative of the provider itself. An agreement signed in 1998 granted the right of consent on procedures for participation, service packages and changes in rent contracts; the right to give qualified advice on all matters of investment, distribution and organisational change. This bill of rights was extensive, but not exceptional. The real eye-catcher was a bilateral contract between the tenant organisation and the provider that restricted the latter’s discretionary freedom on a number of issues. These included rent increases, the use of money generated from sales, as well as the size of the provider’s core stock. For instance, the overall rent rise was set at an annual maximum for the duration of the five-year contract. The line of reasoning behind this arrangement was that it was more efficient to agree on a basic framework for decision-making for several years, rather than go through the same lengthy discussions again every time. As one would guess, the relations between the two parties were close. The chairman of the tenant organisation asserted: “We refuse to become like one of those trade unions. We are here to represent the interests of tenants, but not at the expense of the provider. I’m not going to yell at anyone either. [...] Sure, our interests sometimes clash, but we have the same attitude.” (14) The budget of this independent association was even larger than that of its counterpart in Elephant’s Corner. The local authorities doubled contributions of twelve guilders a year per member, with an additional sum from the provider for each member, with the membership rate at about a third of all tenants. With this it could afford part-time professional support from the local welfare organisation as well as an office of its own. These conditions were among the best in the country and well in accordance with the provider’s responsive strategy.

Siberian’s tenant organisation eventually reached a comfortable settlement with its provider, but in the first years of its existence it had a very hard time. Its development was severely hampered by disinterest among its own members and hostility among the hard core of association members. When Siberian changed its legal structure at the end of the research period, the tenant organisation acquired a bill of rights almost as far-reaching as that of Bengal. It included the right of consent on long-term maintenance, sales and rent policy as well as participation procedures; qualified advice on maintenance plans, rent increases, new construction, interorganisational cooperation and organisational strategy. Like its colleague at Bengal, it was planning to formalise short-term agreements through an additional contract. Its budget was up to eighteen guilders per dwelling. On top of this, it had its own office and permanent professional support. All this went further than the theory had predicted, given Siberian’s diversification strategy.

Oddly enough, even though the other two tenant organisations in Tiger Town had access to many of the facilities their colleagues of Siberian and Bengal had, and their providers had responsive strategies, they did far worse. They received subsidies from the local authorities and could hire professional support from the local welfare organisation at a price significantly below that of the Woonbond (the national union of tenants). However, neither
organisation could use these facilities effectively. The tenants of Paper Tiger mobilised in 1996, but their board fell apart due to lack of enthusiasm and consensus. Shortly thereafter, the treasurer used the organisation’s budget to buy a new freezer, a computer and other necessities for his own use. The police were called in and the budget was eventually restored, but it was a major setback for the fledgling organisation. Its budget consisted of the usual contribution fee of a guilder a month plus local authority subsidies, as well as an annual subsidy from the provider of 30,000 guilders. This amounted to considerably less than local colleagues received, because the membership rate never got above 10%. Moreover, the provider had earmarked over a third of its subsidy for the tenant committees, which meant that in practice the tenant organisation got considerably less than one would think at first sight. Their rights did not extend beyond qualified advice on basic matters such as rent increases and maintenance. On the whole, the tenant representatives were pessimistic. One complained: “Sometimes I think, Jesus, why am I doing this?” (15) They even claimed some of their mail had been suppressed. Sumatran, the fourth provider in Tiger Town, had great difficulty in getting its tenants to organise. This was not surprising, given that its tenants were mostly students. As a result, tenant representation never got beyond the stage of an internal commission.

But all things considered, representation in Tiger Town was on a distinctly higher level than that of Shark Pool. Hammerhead and Nurse did have tenant commissions, but attempts to set up tenant organisations met with a stiff lack of enthusiasm. One manager explained it like this: “People are simply too content around here.” (28) Whether or not that is the reason, tenant representation had little weight. Tenants had the right of consent only on basic matters such as the procedures for participation and service costs, qualified advice regarding construction projects, renovation and maintenance. In both cases there were only internal tenant boards, without membership, external support or funding. This is what was expected, since the providers pursued traditional strategies. Oddly enough, the third tenant organisation in Shark Pool did quite well. Tenants mobilised during a minor scandal that drove the former director into retirement and caused quite a stir in the otherwise sedate town. After some initial difficulties, an independent association came into existence, which grew to a membership rate of over a third (which was exceptionally high by Shark Pool standards). When the housing provider changed to a foundation structure in 1995, it gained the right of consent not only on participation procedures, but also on matters of maintenance, construction projects and renovation. It could give qualified advice on various other issues, including distribution, rent levels and sale. It was supported by a professional from the welfare organisation in a neighbouring town, paid for by contributions (fifteen guilders a year) plus subsidies from the provider (usually around 10,000 guilders). The difference with the tenant representation elsewhere in Shark Pool was remarkable.

The Bear Pit tenant organisations, like their colleagues in Tiger Town, could benefit from local professional support. The effects on the strength of tenant
organisations seemed limited, though. On the face of it, Polar’s tenants had secured a handsome agreement: the right of consent on maintenance and renovation procedures, the right to give qualified advice on long-term maintenance and renovation plans, construction, interorganisational cooperation and long-term strategy. Its budget was ten guilders per housing unit, which was a lot given Polar’s size. But the contract was only temporary and set to expire by the end of the research period. Moreover, relations with the management were strained. On a number of occasions the tenant organisation had simply been ignored. One of Polar’s managers said, with a laugh: “Well, they have these rights of consent and advice, but we forget half the time. [...] Like when we entered this national alliance: we completely forgot to consult them! We rectified it afterwards, but it hasn’t improved our mutual relations. I’ve often told them, as bluntly as I tell you now: ‘Of course I will submit this decision to you, but whatever you think of it, I’m going to do it anyway.’ They can continue to play this game if they want, but it is only a game.” (2) He did not hide the fact that he would curtail the formal rights of the representatives when the contract expired, regardless of whether they liked it or not.

The situation was hardly better in Grizzly, where tenants barely got a foothold and had only qualified advice on maintenance, renovation and rents. The management was generally regarded as indifferent to tenant representation. No information was available on the tenant organisation’s budget. Panda, by contrast, had a very elaborate system of representation. The rights and budget were comparable to those of Polar, but relations with staff were quite tight. In keeping with the provider’s decentralised approach, there were also a large number of neighbourhood and estate commissions with rights of their own. Koala sat somewhere in between. Tenants had no rights of consent and no budget, but the tenants were well organised and relations with the provider were good. Money to cover expenses was almost invariably provided on request. Moreover, the management was responsive to tenants’ wishes, although it refused to grant the tenant organisation more extensive rights, as a matter of principle. All in all, the evidence from Bear Pit is in line with the theory’s predictions. Panda was the only provider with an incentive to encourage voice and the only one to do so.

The overall results show that tenant representation in social housing was a muddle. There was great variety in the strength of tenant organisations, both within and between towns. Some were barely conscious, informal gatherings of a highly amateuristic nature. In social housing, it is often said that tenants discuss “tap washers” (“kraanleertjes”), trivial technical complaints, as opposed to matters of policy. When I once attended a meeting of tenant representatives in Shark Pool, I was shocked to find that they actually did discuss such details –the remark that “the grates of our houses are not mouseproof” particularly stuck in my mind. But other tenant organisations were established and respected partners, with adequate rights and facilities. The tenant organisations of Tiger Town even set up a local federation, which
published discussion papers and took part in tripartite negotiations with local authorities and providers.

Five of the twelve providers did not have the kind of representation that the theory predicted (see table 5.12). Broadly speaking, the fit for providers with traditional and responsive strategies was stronger than for those with a diversification strategy. This raises the question why there should be a fit for some providers and not for others.

6.8.4 Conditions that favour strong tenant representation

A closer examination of the differences between the tenant organisations reveals the conditions that determine their strength. By far the most important was the occurrence of key moments in which housing managers needed their support. Each strong tenant organisation had had an opportunity to establish itself, usually during a change of legal structure and/or a merger. The large majority of votes needed for the transition (see 5.7) and the opposition of hard-line association members made tenant organisations a valuable ally. They could mobilise support among their own members and also pose as a respectable alternative to the internal democracy of the association meetings. In return, managers could reward this support by granting the tenant organisation extensive formal rights and facilities. In short, the management’s desire to change the legal structure and the institutionalised veto power of association members put tenant organisations in a position to make demands. This explains why certain providers had strong tenant organisations, even when it was not consistent with their strategies.

The tenant organisation of Siberian played a vital role in enabling a merger and a change of legal structure that saved the provider from bankruptcy or a major sell-out. Its explicit support and consistent lobbying among tenants were essential in winning the vote. The provider in Elephant’s Corner had been trying to set up a tenant organisation for years, always meeting with consistent apathy. It was only in 1995, with the merger in sight, that it could finally mobilise its tenants, taking advantage of the fear that its considerable financial reserves might leak away to other towns. Great White Shark faced a tenant riot during a major renovation project. This conflict was so vehement that it deeply affected the provider’s manager, who retired soon after. It was on the momentum of this upheaval that interest in tenant representation could be sustained. The contract between the tenant organisation and the provider was signed on the very day that the latter became a foundation. The same logic applied to providers for which strong representation was a matter of course. Bengal’s tenant organisation acquired its rights when their provider switched to a foundation structure. Panda also set up a new system of tenant representation after it had been created through a merger. Conversely, providers with low tenant participation either had not (yet) made the
transition to a foundation (Paper, Hammerhead, Nurse) or had made it before the research period (Grizzly, Koala, Sumatran).

But according to the theory providers with a responsive strategy would have supported strong tenant voice anyway. They were expected to do so even if there was no opportunity for tenants to force their hand. Yet this does not appear to have happened everywhere. The two responsive providers who did not go through a change of legal structure or a merger during the research period both had weak tenant organisations. This could provide grounds for the claim that strategy is not important at all and that providers will only support strong tenant representation when it serves a more important goal, such as a change of legal structure. By implication, the rights of tenant representatives would be curtailed at the first opportunity. This is what appeared to happen at Polar Bear. The rights of tenants were fairly extensive, but they were not heeded and were expected to be cut down soon.

However, such a conclusion is altogether too cynical and too simple. Most of the traditionally minded providers had excellent relationships with their tenants, but simply had different views on how to organise it. Koala’s manager visited all monthly tenant meetings and was praised as a good listener. Hammerhead invested great effort in the social aspects of renovation and maintenance plans, even though tenant representation at the organisational level was trivial. They appeared to listen carefully to their tenants, but were unwilling to involve them directly in decision-making. As for the responsive providers who did have strong representation, they both invested heavily in their tenant organisations and found inventive new ways to organise representation. Bengal drew up a five-year performance contract with its tenants and Panda developed a new and highly decentralised structure. These are indications that strategies do translate into a preference for external representation of a particular kind. All in all, the evidence is somewhat contradictory.

The most plausible explanation for this ambiguity is that strategies do matter, but that they are overruled under specific conditions. In three of the five instances (Great White, Elephant, Siberian) where this occurred, the strength of voice can be attributed to coalition-building at key junctures in the organisation’s history. The two others had more specific reasons for deviating from their strategy. In Sumatran’s case, this may be related to the nature of the tenants. Most of these were students, whose workloads had grown considerably due to cuts in state grants. As was noted by a professional tenant aide: “Their tenant board is unstable, and that is only logical: students don’t stay very long and there is little chance of continuity. They have no time to invest in such matters.” (16) Sumatran had been trying to get a tenant board off the ground for some time, but had consistently failed. By the end of the research period, the signs seemed more favourable, though. In short, the composition of the tenant population may explain why representation never became stronger. But Paper Tiger’s refusal to encourage voice remains difficult to explain. Its tenant organisation did not receive the enthusiastic
backing of the management, even though it clearly pursued a strategy of responsiveness. One explanation that makes sense is that the provider intended to target the elderly with home care packages. Representation may not be the best way to reach out to this particular group of customers. Another explanation, suggested by an outsider, is that the Paper tenant representatives lacked the mental baggage and the guts to stake their claim effectively. But neither interpretation has sufficient evidence to back it up.

6.8.5 Conclusion

Summing up, the nature of tenant representation has proven very diverse. There has been no collective innovation of any kind. It is not surprising that there was no reciprocity on this issue, as it is one in which providers are not directly dependent on one another. However, there is no reason why reproduction could not have occurred, when it did in so many other areas and when all the necessary conditions were in place. It would have been easy to spread a standard bill of rights throughout the sector, but providers have tended to follow their strategies, except where they were forced to ally themselves with tenant organisations or where tenants were unusually difficult to mobilise. Apparently, they were selective in what they copied.

6.9 Organisational structure

6.9.1 Variation and fit in the choice of organisational structure

Organisational structure was defined as the formal means by which the different tasks within the organisation are co-ordinated. It was predicted that providers with a traditional strategy would retain a mechanic, centralised structure, whereas those with responsive or diversification strategies would adopt one that was organic and decentralised. Providers with diversification strategies were expected to split into market-based divisions (see table 5.13).

Table 5.13: the expected relationship between organisational strategy and structure

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional strategy</td>
<td>Centralised, mechanic structure</td>
</tr>
<tr>
<td>Responsive strategy</td>
<td>Decentralised, organic structure</td>
</tr>
<tr>
<td>Diversification strategy</td>
<td>Divisions; decentralised, organic structure</td>
</tr>
</tbody>
</table>

There was a remarkable homogeneity among the providers. At the end of the research period, ten of the twelve organisations had adopted a so-called front/back office structure (see table 5.14). As the name suggests, this consists of two parts, the front office and the back office. The former is responsible for all direct contacts with clients, the latter for all other tasks. Originally, this
type of structure was developed by commercial businesses to save costs by spreading different functions geographically (Meester, 1993, p. 11). The particular variety popular in social housing had two distinctive characteristics. The first was that many providers used it as a means of changing their relations with clients, rather than (only) as a cost-saving device. Secondly, the structure usually involved the division of the front office into several smaller departments focused on geographical areas within the local market.

It was adopted by all providers with either a diversification or a responsive strategy. Since the front/back office structure can be characterised as decentralised and organic, this is in line with expectations. In addition, all three providers with a diversification strategy had created structures consisting of local divisions, each active in one geographical area. For all these providers, the fit was perfect. But the evidence from organisations with a traditional strategy was mixed. Koala retained its bureaucratic structure. Grizzly was planning to adopt an altogether different model, one which deliberately gave greater prominence to the technical maintenance department than the popular front/back office model did. All this still fits expectations. However, the providers in Shark Pool switched to the front/back office model without exception, which is not consistent with their strategy.

### Table 5.14: Organisational structures at the end of the research period:

<table>
<thead>
<tr>
<th></th>
<th>Start of research period</th>
<th>End of research period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureaucratic structure</td>
<td>All</td>
<td>1</td>
</tr>
<tr>
<td>Front/back office structure</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>1</td>
</tr>
</tbody>
</table>

The analysis should accordingly wrestle with two issues. First, there is the popularity of this one structure. Second, there is the question why three providers adopted it in violation of their strategy.

#### 6.9.2 The grounds for choosing the structure

The fact that such a specific model was so widely adopted indicates a collective innovation process. Indeed, several respondents remarked that it was “trendy” and that “everyone was doing it”. The exact process of diffusion has been hard to trace, though. It did not benefit from extensive press coverage or pilot projects like many other popular innovations did. More than others, this innovation must have spread by word-of-mouth, through network meetings and advisors. One respondent described the process as such: “I remember when this term had not yet been invented, in the late 1980s. One of my department heads left and I said: ‘Guys, this is an opportunity to rethink our organisation. I’ll go spend three days in the
countryside and think.’ You used to have those concern-type structures in commercial businesses, you know, independent units. They inspired me and then I invented this new structure. Of course it looks different now, but quite similar too! [...] At the same time, there must have been other idiots like me who were thinking about this.” (23) Perhaps the innovation was also inspired by the “single service desk” concept that was popular in the public sector at that time.

What must have favoured the diffusion of this structure was its ability to kill two birds with one stone. It is an instance of what I have called “fusing”: the process in which one activity or structure is adopted on different grounds. This is possible because an organisational structure is a package deal. This particular one combined both cost-saving opportunities and a service orientation. It allowed providers who had begun to operate in different geographical areas to reap benefits of scale. For providers with a responsive strategy, the most significant aspect of the structure was that it allowed them to improve contacts with customers. Some stressed its organic quality. “It requires interdisciplinary co-operation between administrators and technicians, which will make the organisation more accessible. The new model forces that process.” (9) Others argued that it would help develop a service ethic. “It is all about the customer now. Other functions only have a supporting role. But say that and all the established positions in the organisation are in jeopardy. Consider this: many providers used to have three company cars, one for the head of maintenance, one for the director and one for the administrator. Why did the administrator need a company car? To visit the bank three times a week? It was a matter of power, of status. Change all that and things become different.” (37) It is a little surprising that the front/back office structure was used especially for this purpose, even though it was originally a cost-saving device.

That leaves the question why the three providers in Shark Pool adopted it too. This is especially surprising as the two traditional providers, Grizzly and Koala, reacted exactly as the theory had predicted. Koala basically retained the classic bureaucratic model, although it made changes to improve the responsiveness of the technical maintenance department. The manager left no doubt why: “This front/back office model, it is complete folly. What are the problems tenants have? They’re technical problems, which should be solved as quickly as possible. The worst thing you can do is to let others decide how the technicians should do their job.” (5) Grizzly’s reason for refusing to go along with the trend was exactly the same. “In all those structures that were adopted, there was no longer a direct line between the manager and the technical maintenance department. The head of the front office came in between, as well as area manager. [...] In this, my colleagues underestimate the value of technical expertise.” (3) It devised a new structure of its own, which retained the autonomy of the specialisms, including technical maintenance.
The three providers in Shark Pool each call for a different explanation of the misfit between structure and strategy. Nurse had been preparing for a merger with providers in other towns and its decision to adopt the new structure can be explained in that light. The merger itself may have been unexpected, but it does explain the choice of the front/back office model. What is more difficult to explain is that Great White adopted the new structure early and enthusiastically. It even went further in decentralising decision-making than most other providers, with largely autonomous teams of professionals. The only viable explanation is that it was leaning towards a strategy other than the traditional one. It was noted before that its strategy verged on a responsive one, although it had expressed this only in the broadest possible sense (see 5.3.4). This provider may have developed the structure associated with a responsive strategy before it developed the products typical of that approach. But that is speculation, which could only be resolved by examining this organisation at a future date. Hammerhead, finally, seems to have adopted the structure only because of the approaching merger. The manager in charge of the service desk uttered his scepticism: “Sometimes I feel we’re just following the herd. The market does require certain changes [...] but there is no need for this forced front office/back office thing. We could just concentrate our activities partially [...] I did agree that we should adopt this model; if I had not, I would have damaged my personal interests. However, we should beware of consequences that we cannot foresee.” (26) According to an internal inquiry, the organisation had been running smoothly and the transition was therefore hard to justify to the staff. Respondents expressed a certain reluctance to the change, which was also visible in the way it was implemented. While its colleague Great White developed a particularly organic front office, Hammerhead retained many traits of the old bureaucratic model. The former regarded this disparity as a potential problem, since the two organisations were set to merge. “A merger does not help in developing the organisation. In fact, it can be very damaging in some respects. [Hammerhead] still has the three traditional bureaucratic pillars and it is unclear which of the two structures will be dominant.” (24)

There may have been another issue running through the change of organisational structure. It may have been used to force changes in the composition of the staff, particularly among the middle range of the organisational hierarchy. Sometimes the entire layer was removed. When I asked the manager of Siberian Tiger whether I could interview one of his department heads, he replied: “They’re all gone. Well, there’s one left, but you’d better not talk to him. His view of events may be a little distorted.” (9) It was impossible to study this in sufficient detail, since many providers were (understandably) reluctant to release information about personal changes. Those who did talk frankly (usually lowering their voice in the process) indicated that a number of staff members had been unable or unwilling to adapt to the new frame of mind that was required of them. Most had left voluntarily, some had been given a gentle nudge and some had been removed forcibly, depending on the culture of the organisation in question. There are indications that at least some of the managers used the change of
structure to “clean up” their staff. If this is true, it is an illustration of resource
dependence theory’s claim that the choice of organisational structure is at
least as much a reflection of internal power struggles as a response to
environmental conditions.

6.9.3 Conclusion

Summing up, the choice of organisational structure appears to have been the
result of combined collective and individual innovation. It is not an area in
which collective innovation through reciprocity was likely to occur, since
there was no direct mutual dependence on this issue. However, there was
reproduction in that the front/back office model spread throughout the social
housing sector by the same process that encouraged the diffusion of other
innovations. Most providers would have adopted an organic, decentralised
structure of this kind anyway. A couple of providers with traditional
strategies stuck to their principles and created varieties of a mechanic
structure that protected the autonomy of the technical maintenance
department. Others went along with the trend, two because of imminent
mergers, one (perhaps) because it was evolving towards a responsive
strategy.

6.10 Conclusion

Chapter five has described how social housing providers have reacted to the
introduction of the quasi-market for each separate decision. The findings are
summed up in table 5.15 (variation), 5.16 (fit) and 5.17 (aggregate results).
Chapter six will analyse the overall evidence. After that, it will be possible to
answer the research questions!

Table 5.15: The aggregate results concerning variation

<p>| BP | Very strong collective intervention in neighbourhoods | Adoption of advertising system by all but Koala | All engaged in mergers except Koala | All foundations | Medium for Panda, low for the others | Front/back office for Panda and Polar; other structure for Grizzly and Koala |
| TT | Little intervention; as yet no collective investment in neighbourhoods | Adoption of advertising system by all | Limited cooperation; only Siberian merged | All foundations, except Paper Tiger | High for Siberian and Bengali, low for Paper and Sumatran | Front/back office structure popular overall |</p>
<table>
<thead>
<tr>
<th></th>
<th>Interventions in stock</th>
<th>Distribution</th>
<th>Co-operation</th>
<th>Legal structure</th>
<th>Tenant representation</th>
<th>Organisational structure</th>
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<tbody>
<tr>
<td><strong>BP</strong></td>
<td>Fit for Polar and Koala, others misfit</td>
<td>Fit for all except Grizzly</td>
<td>Fit for Polar and Koala, others misfit</td>
<td>Fit for all</td>
<td>Fit for all</td>
<td>Fit for all</td>
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<tr>
<td><strong>TT</strong></td>
<td>Fit for all</td>
<td>Fit for all</td>
<td>Fit for all except Paper</td>
<td>Fit for all</td>
<td>Fit for Bengal, misfit for others</td>
<td>Fit for all</td>
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<tr>
<td><strong>SP</strong></td>
<td>Misfit for all</td>
<td>Misfit for all</td>
<td>Misfit for all</td>
<td>Fit for all</td>
<td>Fit for all except Great White</td>
<td>Misfit for all</td>
</tr>
<tr>
<td><strong>EC</strong></td>
<td>Fit</td>
<td>Fit</td>
<td>Fit</td>
<td>Fit</td>
<td>Misfit</td>
<td>Fit</td>
</tr>
<tr>
<td><strong>All</strong></td>
<td>Fit for all except most traditional providers and Panda</td>
<td>Fit for all except most traditional providers</td>
<td>Fit for all except most traditional providers and Panda</td>
<td>Usually fit</td>
<td>Diverse picture of fit and misfit</td>
<td>Usually fit, except for some traditional providers</td>
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</tbody>
</table>

Table 5.17: the overall results

<table>
<thead>
<tr>
<th></th>
<th>Interventions in stock</th>
<th>Distribution</th>
<th>Co-operation</th>
<th>Legal structure</th>
<th>Tenant representation</th>
<th>Organisational structure</th>
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</thead>
<tbody>
<tr>
<td><strong>BP</strong></td>
<td>Diffusion of neighbourhood programme; interventions</td>
<td>Diffusion of advertising system</td>
<td>Diffusion of merger strengthened by social</td>
<td>Choice restricted by law; foundation</td>
<td>Determined by strategy only</td>
<td>Structures consistent with strategy; different</td>
</tr>
<tr>
<td></td>
<td>strengthened by</td>
<td>d by social</td>
<td>pressure</td>
<td>consistent</td>
<td>varieties</td>
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<tr>
<td></td>
<td>strong co-operation</td>
<td>pressure</td>
<td>with strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TT</td>
<td>As yet no investment in neighbourhood programme; interventions determined by strategy only</td>
<td>Diffusion of advertising system strengthened by local conflict</td>
<td>Determined by strategy only</td>
<td>Choice restricted by law; foundation consistent with strategy</td>
<td>Determined by strategy, but stronger after change of legal structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Diffusion of advertising system strengthened by social pressure</td>
<td>Diffusion of merger strengthened by social pressure</td>
<td>Choice restricted by law; foundation consistent with strategy</td>
<td>Determined by strategy, but stronger after change of legal structure</td>
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<td></td>
<td>Choice restricted by law; foundation consistent with strategy</td>
<td>Determined by strategy, but stronger after change of legal structure</td>
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<tr>
<td>SP</td>
<td>Diffusion of neighbourhood programme; interventions strengthened by co-operation</td>
<td>Individual innovation</td>
<td>Invented variety of advertising system</td>
<td>Choice restricted by law; foundation consistent with strategy</td>
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<td>Diffusion of advertising system strengthened by social pressure</td>
<td>Individual innovation</td>
<td>Consistent with strategy; f/b office reproduced for convenience</td>
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<td>Choice restricted by law; foundation consistent with strategy</td>
<td>Consistent with strategy; f/b office reproduced for convenience</td>
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<td>EC</td>
<td>Individual innovation</td>
<td>Invented variety of advertising system</td>
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<tr>
<td>All</td>
<td>Interventions become stronger when undertaken as part of collective projects; neighbourhood focus encouraged by state</td>
<td>Diffusion of advertising system made stronger by relations in local network</td>
<td>More mergers after previous co-operation; merger most popular</td>
<td>Choice restricted by law; foundation consistent with strategy</td>
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<td>Diffusion of advertising system made stronger by relations in local network</td>
<td>More mergers after previous co-operation; merger most popular</td>
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<td>Decision determined by strategy, except in instances with potential conflict</td>
<td>National diffusion of f/b; adopted for convenience or as necessary accompaniment to merger</td>
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7 Conclusion: the logic of the quasi-market

7.1 Introduction

Quasi-markets are daring new constructs, designed to establish control over welfare state providers on a new footing while safeguarding social policy goals. To make them work it is vital to understand the logic that informs the behaviour of the providers. This book has tried to bring it to the surface, focusing on Dutch housing. In the postwar period, social housing became the prime vehicle for quenching the great housing shortages of the post-war period. These had been largely solved by the 1980s, but the downside was that the system of housing provision had become very complex and difficult to control. This led to a number of reforms in the 1990s, one of which was the introduction of a quasi-market, a new method of co-ordinating the activities of the private non-profit providers. It involved two steps: the decentralisation of financial risks and the imposition of a new system of regulations. Providers were less restricted by regulation, but in return they took over the financial risks involved in their activities. This book has examined how they dealt with this new system. Three questions have guided the research: (1) how they have reacted, (2) how this can be explained, and (3) how their behaviour affects the conditions that make the quasi-market effective.

To answer these questions, chapter three developed a theory that approached (quasi-)market behaviour along two dimensions. First, how do providers ensure their financial well-being within the quasi-market? The decentralisation of risks has impelled providers to define strategies on how to guarantee the flow of resources they need. The second dimension of behaviour was cognitive: do providers know what they should do, and if not, how do they acquire that knowledge? The new system made the old routines for social housing provision less viable, which prompted a search for new ways of coping with uncertainty. Providers could invent them by themselves, but they could also find them collectively, either creating the required knowledge in direct co-operation with others (reciprocity) or by copying innovations from others (reproduction). All in all, they had to deal with two kinds of uncertainty: whether they could get the resources (the capital) they needed and what was the best way for them to achieve that.

Chapter five described how the Dutch social housing providers have managed. Paragraph 6.2 attempts to explain the odd picture that emerged from this. On the one hand, there was a large extent of homogeneity in decision-making. On the other hand, there was great variety in the strategies underneath the decisions. What appears to have happened is that providers have innovated collectively so that they could change more swiftly than they would have been able to autonomously. However, they have done so on the basis of and in a manner consistent with their own principles. Therefore collective innovation has not brought them closer together. Rather, the old
social networks have begun to fall apart.

Paragraph 6.3 focuses on the conditions that are expected to make the quasi-market successful. There were four: (1) the market structure should be competitive, (2) providers should find ways to deal with uncertainty, (3) the relationship between local authorities and providers should be balanced, and (4) the state must have effective instruments for correcting undesirable behaviour. Although the second condition is amply satisfied, the other three may come under threat in the long term. This calls into question whether this system of provision can be sustained in the long term, although it is as yet too early to say anything with certainty.

Paragraph 6.4 briefly sums up the conclusions of this part of the analysis. Paragraph 6.5 is a brief epilogue, which will discuss the future of the Dutch social housing sector. The sector is at present still very different from its counterparts in many other countries, because it is not targeted only at the poorest segments of society. However, there are developments that could reverse its fortunes. I will describe three developments that could lead to its marginalisation: the continued growth of home ownership, the use of social housing capital by the state to solve external problems, and plans by organisations in the sector to abandon their social housing status. Paragraph 6.6 ends the book.

7.2 Collective adaptation and fragmentation

7.2.1 Widespread mimicry

Something remarkable has happened. When the quasi-market was introduced in Dutch social housing, most organisations were small and groomed in an administrative tradition. One would have expected them to adapt slowly, but instead most have managed a major overhaul. They have changed their distribution system, organisational structure, legal structure and many have engaged in major construction or regeneration projects. How did they do it, when most had so little capacity? The answer, as the previous chapter showed, is that the organisations copied ideas from others on a wide scale and adapted them to their own purpose. What they might not have achieved autonomously, they managed to do collectively.

Copying was especially widespread: in five of the six types of decisions that were studied, a majority of providers adopted approaches or structures that were popular throughout the sector. In DiMaggio and Powell’s terms, there was a great extent of mimetic isomorphism (DiMaggio and Powell, 1991b). In urban areas, interventions in stock were subsumed within programmes that focused on geographical areas and strongly encouraged mixing, both within the neighbourhoods themselves as well as in the network of actors.
implementing the programmes. Distribution saw the rise of the advertising system, also known as the “Delft model”. Interorganisational co-operation was characterised by the popularity of mergers. The overwhelming majority of providers chose the foundation as their legal structure, while the formerly dominant association structure was widely abandoned. Finally, many chose the front-office/ back-office model as their organisational structure to replace the traditional bureaucratic structure. The ubiquity of copying is not surprising, considering that the conditions for this kind of process were ideal: providers had the need as well as the means.

To begin with, there was a great need for copying. With the introduction of the quasi-market, providers were faced with the unfortunate situation of having to make great and swift changes with only a limited capacity for doing so. Their staff usually numbered only a few dozen, in the smallest organisations no more than twenty to thirty. Most of the staff were low- or medium-skilled technicians and administrators. Therefore only a handful of people could be involved in thinking through the changes, landing the burden of innovations on the shoulders of a few individuals. Even the manager of Elephant, one of the most innovative providers, expressed his concern about this: “To be honest, we have an internal organisation that still hinges on one or two people. That’s scary. When one of those has a stomach ache or a fight with his wife, there’s little to ensure the continuity of the organisation.” (37) The same conditions that strengthened managerial discretion made the process of innovation more fragile (see 5.3.5). It was only logical that, with such little capacity to generate knowledge of their own, providers would be more inclined to attract it from the outside.

The diffusion of knowledge was facilitated by the existence of suitable communication channels. The elaborate social infrastructure that had developed in social housing prior to the introduction of the quasi-market, on the local as well as the national level. This included personal networks as well as the meetings and media supported by the branch associations, the Ministry of Housing, research groups and other organisations. The branch associations (merged into one in 1999) have traditionally had an important role in guiding and training housing managers (for an overview of their past activities, see Gerrichhauzen, 1990). Their activities included the organisation of conferences and network meetings, as well as the publication of specialist journals and papers. Another important organisation was the Stuurgroep Experimenten in de Volkshuisvesting (SEV), an independent foundation that funds and publicises experiments with new products. For instance, the SEV played a prominent role in the dissemination of the advertising system of distribution, setting up pioneer projects and providing consistent publicity for the results. The director of the SEV once said: “On the one hand, you see providers who are really at the forefront in terms of research and development. They are fully aware of their new tasks, their position and the particular product they have to offer. But there are some, to put it bluntly, which do nothing at all about research and development. What worries me is that they use the SEV as an excuse not to develop their own products and
organisations. They say: ‘we don’t have to do that. That’s what the SEV is for, isn’t it?’ It’s not that we don’t enjoy hearing that, but it’s not good for the sector.” Finally, there were a few specialised university departments and research institutes who worked closely with housing providers on research and development.

Knowledge also spread through professional consultants, although it is not clear exactly how important they were. Several of the organisations in the case studies had hired a consultancy firm at one time or another. The manager of Paper Tiger pointed out that “[the consultancy agencies] put a lot of effort into their contacts. We are potential customers. They often approach us. […] Social housing providers have money and, besides, there is a lot going on in this sector, which makes us feel insecure. We no longer depend on subsidies and have to plot our own course, which brings with it a measure of uncertainty, which we think we can overcome by buying research. Common sense ought to prevail in the end, but sometimes we allow others to think for us -at least, we think they do.” Consultancy agencies specialised in housing could be seen rotating around the sector more or less permanently (the second revolving fund?). It is difficult to assess how significant consultants were in spreading knowledge, since their reports were often (if only officially) unavailable to me and the actual relationship between consultants and their employers was usually shrouded in mystery.

Essential to the diffusion of knowledge is that channels of communication are infused with a measure of trust. If they are not considered reliable, they cannot be expected to serve as carriers of information. Zucker mentioned three types of trust: (1) personal trust, (2) trust based on shared characteristics and (3) institutional trust (Zucker, 1986). Innovations in the Dutch social housing sector were often backed up by two or three of these varieties. To begin with, there were many long-established personal networks between people who had worked in the sector for decades. As will be discussed further below, collective innovation was strongest within local networks. Furthermore, most of the housing providers shared a common historic background. Many had been founded in the same period, had gone through the same legal and social changes, and had faced similar problems for nearly a century. Finally, actors like the branch association, the SEV and research institutes could back up innovations with institutional trust.

These conditions all encouraged the development, exchange and diffusion of new ideas. Because the conditions for the diffusion of knowledge were so fortuitous, the limited capacity for individual innovation could be compensated for by a great potential for collective innovation. The tightly-knit structure of the social housing sector proved crucial in helping these small and often ill-equipped organisations to adjust. In most cases, popular innovations appear to have been adaptations of concepts popular among commercial businesses. The advertising system of distribution was similar to the marketing devices used by estate agents. The front-/back-office organisational structure derived from information-based industries (Meester
Mergers were generally popular among commercial businesses at the end of the 20th century. However, providers generally did not copy these innovations directly from commercial sectors. When asked where their ideas came from, most of them referred to parties within social housing itself. Other innovations were suggested by the state. The focus on neighbourhood projects was part of national policy, encouraged with instruments such as subsidies and contracts between the state and local authorities. The foundation structure, to which most providers switched, was one of only two legal structures permitted by the law.

Innovators usually picked up ideas from other kinds of networks and adapted them for social housing provision. The Elephant manager, a well-known innovator, observed: “I get my inspiration from many different corners. I never confine myself to housing alone. I’m also very interested in what happens in retailing, in information technology. Some of it is most interesting and easily applicable to social housing.” (37) Apart from commercial businesses, respondents also referred to universities and providers from other European countries as sources of knowledge. Innovative capacity therefore seems to have been a combination of network and organisational characteristics. On the one hand, innovators simply allowed knowledge to flow from one network to the other. As Granovetter has noted in the context of the labour market, “weak ties”, connections between actors who are part of different networks of strong social ties, are a major source of new knowledge. “Individuals with few weak ties will be deprived of information from distant parts of the social system, and will be confined to the provincial news and views of their close friends.” (Granovetter, 1981, p. 2). In that sense, innovations are not so much the creations of brilliant minds as commodities passed on by well-placed brokers. On the other hand, the innovators did apparently have a sense for where the action was. It was generally the same small group of organisations that came up with new ideas, which indicates that their success in picking up these ideas was not just a matter of chance. This was evident not only from the innovations they had pioneered, but also from the frequency with which they were mentioned in publications and by other respondents.

There was not enough evidence to determine exactly why some organisations were innovative and some not. Those that were shared certain traits. To begin with, they were usually flat and organically organised. As the manager of Bengal noted, “we have a few people here who love to invent new concepts and who are tireless in implementing them. We can trust each other blindly. Sometimes I go to town hall and someone tells me what a great thing it is that one of my staff members is doing. Often I don’t know the first thing about it, but I don’t care, because I know I can trust all of them.” (10) In addition, innovative organisations all had managers and staff who were actively engaged in professional networks and made many public appearances. However, it is difficult to say what causes what. Creative individuals may construct organisations with a penchant for innovation, but it is also possible that innovative organisations attract creative people and encourage
innovative behaviour. In practice, it is likely to be a combination of the two.

7.2.2 Co-operation at the local level: an extra push

In addition to copying, the social housing providers also innovated by working together. This did not occur on the same scale, but where it did, its effects were more profound. In the projects for revitalising postwar neighbourhoods in Bear Pit and Shark Pool, social housing providers co-ordinated their investments with each other and with the local authorities. This served all parties, because there was no fundamental clash between their interests. Neighbourhood programmes helped the local authorities to mobilise private investment and to influence it more strongly than they normally could have. Providers could invest strongly in the knowledge that all their competitors did the same—in other words, that there would be no free-riding behaviour—and that the interventions in the housing stock would be accompanied by simultaneous investment in public spaces and infrastructure. It appears that in such processes providers seemed to be willing to go one step further than they would separately. A number of them invested on a larger scale than their organisational strategies encouraged them to. For instance, the total investment target in Bear Pit was distributed among providers on the basis of their relative market share. That criterion for dividing the burden implies a shared view on how much should be invested in stock. However, the strategies of the organisations differed and would probably have resulted in different levels of investment, had each made its decisions separately. Collective investment was higher than the sum of organisational investments would have been. In the Tiger Town case, where providers and local authorities did not co-ordinate their investments, overall investment was far lower.

Interestingly enough, co-operation in one area of decision-making appears to have spilled over into other areas. Some of the providers in Bear Pit switched to a collective advertising system even though they were not very eager, but they did so mainly to preserve the spirit of co-operation that had arisen during negotiations on neighbourhood revitalisation. Likewise, the providers in Shark Pool adopted the advertising system as part of a regional housing package, which made it difficult for them to resist one of the measures when they had already accepted the others. Developments in interorganisational co-operation were even more remarkable. There were never direct negotiations about mergers between all the providers in a local market—that would have been illegal—but they did take account of one another: when one or two of them merged, the others soon started mergers of their own. This happened only where providers had previously co-operated on other matters. Some of them merged even though their organisational strategy did not call for such a move.

What appears to have happened is that co-operation on one decision strengthened group bonds, making it more likely that the organisations
involved would use each other as a point of reference. This interpretation, suggested by the patterns of decision-making, is supported both by deviant cases and by the accounts of the actors themselves. In Bear Pit, providers who went along with the advertising system and the mergers explicitly referred to one another to justify their decisions. Koala, which had withdrawn from the neighbourhood revitalisation plans, also refused to accept the advertising model and did not have plans to merge with anyone. The manager explicitly pointed out that the decisions were connected: “If you’re working closely with others extensively, then there may be things you’re willing to accept, and I think there was at least one colleague who did it only on those grounds. But our own bonds with our colleagues were broken anyway, so it was only a small step to take.” (5) In Tiger Town, relations were adversarial rather than co-operative. In the only instance where they did co-operate, on distribution, it was only to present a united front against the local authorities. As one might expect, it did not spill over into other areas like neighbourhood regeneration.

What this means is that some decisions appear to have been inspired by a “logic of appropriateness” (March and Olsen, 1984). Explanations of behaviour based on norms and social pressure were deliberately not included in the theory (see 3.3.2), but in some instances there seems to be no way of getting around them. It is a side-effect of overcoming cognitive limits collectively: when actors create and adopt new knowledge together, they create a shared characteristic and become more like a group. They will then be more likely to use each other as a point of reference for other decisions. This sets other mechanisms into motion, such as social pressure. So was it wrong to exclude normatively inspired processes from the interpretation of quasi-market behaviour? As I see it, the answer would be both yes and no. On the one hand, the theory has obviously taken too narrow a view of organisational behaviour. It is not all instrumental. On the other hand, the limited focus has helped to distinguish different kinds of processes more precisely and in doing so has made them come out stronger. Past organisational studies have proven vulnerable because they were unable to separate the different influences on organisations. For instance, in many studies on isomorphism, it is not clear to what extent homogeneity among organisations is caused by coercion, social pressure and/or the need for knowledge. The theory used in this analysis failed in that it overlooked an important aspect of human behaviour. The empirical analysis shows that it cannot be ignored.

But why did this urge to look to one another extend only to distribution and mergers, but not to other decisions such as organisational structure? It so happens that these were the decisions in which mutual dependence was greatest. Providers are directly linked through the local housing stock, in which they each have their own share. Interventions and distribution affect their market position in relation to one another, mergers their relative market share. Given that during the research period providers all still depended primarily on their traditional local market, they were locked in a “no exit” situation in which they were effectively dependent on other providers and on
local authorities. Mutual dependence was less on matters such as organisational structure and tenant representation, in which the decisions of one organisation had a less immediate effect on the other. Accordingly, the urge to act collectively was weaker in those areas.

Another way in which co-operation in one area affected others was that national trends spread faster because local groups of providers adopted innovations collectively. In other words, reciprocity strengthened reproduction. The popularity of the advertising system of distribution and of mergers were national trends, as the statistics show. But they were adopted most widely in those towns where the ties within local networks were strongest. Some of the providers in Shark Pool and Bear Pit might never have merged or accepted the advertising model, were it not that co-operation within the local networks was at a high. By contrast, the providers who had not been working closely together were less affected by these trends. This is because when a couple of the organisations pick up on some innovation, the others will be more inclined to follow when the group bonds are stronger. All in all, processes of collective innovation piled on top of one another.

### 7.2.3 Similarity and diversity combined

There is a paradox here. On the one hand, there is great homogeneity in decision-making. On the other hand, there was great variety in the strategies that organisations pursued. Chapter three mentioned four alternative categories of behaviour, which were succinctly summed up in chapter four (repeated here in table 6.1). The first was one in which decisions were consistent with organisational strategy, but chosen as part of a process of collective innovation. The second category consists of decisions chosen as part of a collective process and not in line with strategy. The third includes those decisions invented by the organisation itself in line with its strategy. Finally, there was a category that could be explained neither by strategy nor by collective processes. In this last instance, the theory can offer no explanation.

Looking back at the evidence, it appears that the overwhelming majority of decisions fell within the left-hand side of the table. In about a third of these instances, decisions were not in line with strategy. Accordingly, these fall within the bottom left category. This phenomenon could largely be explained on the basis of social pressure: organisations were willing to forgo their own strategies in a process of collective action. But most decisions fall within the top left category. It means that providers mostly picked and used innovations in accordance with their own views. These views, as noted before, differed widely. This is where the method of fit pays off: it shows the variety underneath the outward similarity.

#### Table 6.1: Four alternative kinds of behaviour
### Homogeneity in decisions

<table>
<thead>
<tr>
<th>Fit between strategy and decision</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td><strong>Collective innovation, consistent with organisational strategy</strong></td>
<td><strong>Individual Innovation</strong></td>
</tr>
<tr>
<td>No</td>
<td><strong>Collective innovation, not consistent with organisational strategy</strong></td>
<td><strong>Decisions determined by organisational characteristics</strong></td>
</tr>
</tbody>
</table>

Some innovations appealed to organisations with different views. For instance, the choice to switch to a foundation structure expressed a common desire to increase the autonomy of the management. However, it was one of only two options allowed by law. Had there been more alternatives, one might have expected that more considerations would have come into play. Some of the providers with a diversification strategy might have changed into a limited liability company to attract more capital. But for the moment the foundation was the only viable option. Even more interesting was the popular choice of organisational structure, the front/back office model. Its organic quality was of most importance to providers with a responsive strategy, while its decentralised nature was essential to those with a diversification strategy. No doubt this quality to “fuse” different interests added to its popularity.

#### 7.2.4 The significance of strategy

But interesting as this is, it does beg the question whether strategy matters at all. There are basically two ways of answering this: either strategy does not matter or it matters in a way that is not immediately apparent. To start with the first, one could argue that since decisions turn out very similar, the strategies that organisations pursue do not make much difference. This would make the notion of "fit" and the complicated methodological procedure that accompanies it seem rather pointless. However, I would argue in favour of the second interpretation, which is that strategies do shine through, but that it takes close examination to show that. They were reflected both in the way that decisions were implemented and in the choice of innovations.
First, strategies revealed themselves in the way that decisions were implemented. Even where formal decisions were similar, they were often in a manner that was consistent with strategy and therefore quite varied. This was a phenomenon not anticipated in the theoretical design, but it revealed itself quite clearly in the empirical evidence described in the previous chapter. In distribution, providers who had been reluctant to adopt the collective advertising system often handled part of their distribution process outside of the formal system (see 5.5). Some of the Bear Pit providers even openly admitted that they allocated over 50% of their vacancies directly! In this way, they seemed to go along with the other while in practice they were doing something quite different. Mergers were also implemented quite differently (see 5.6). Those who had diversification strategies generally chose their prospective partners outside their traditional local area, while those with locally focused strategies merged with partners inside their local market. Most providers adopted a front/back-office structure, but filled in this structure quite differently (see 5.9). Providers with traditional strategies retained bureaucratic traits, while those with other strategies chose to develop them in a more organic manner. Since this aspect of quasi-market behaviour was not included in the theory, I cannot claim to have studied it as systematically as I have strategies and decisions. Moreover, some of the details of implementations (like taking vacancies out of the formal distribution system) were largely hidden and difficult to measure. However, the accounts of respondents have suggested very emphatically that the variety between providers was considerably greater than the formal decisions in themselves would suggest.

What this shows is that it is not sufficient to look merely at formal decisions, but that it is also important to examine how these are translated into actual practices. This is in fact the message implicit in Meyer and Rowan’s identification of “decoupling”. In some cases, actual practices may be partly or entirely separate from formal structures. In the schools which they studied, Meyer and Rowan found that actual teaching methods differed strongly, even though curricula and organisational structures were all similar (Meyer and Rowan, 1992). By looking only at the formal requirements, one might wrongly have concluded that schools were doing pretty much the same overall. Yet this message has been little heeded by many subsequent institutional studies which have focused exclusively on formal decisions. For example, in their well-known study of city reforms, Tolbert and Zucker looked only at major formal changes, not at the way these were enacted (Tolbert and Zucker, 1983). This is a theoretical flaw that the present analysis shares: only strategies and decisions were included in the theory, without attention to the implementation phase of organisational decision-making. The difference is that intensive research has at least allowed me to detect this mistake along the way. It was the respondents themselves who alerted me to the significance of implementation. It allowed me to pay more attention to this aspect of quasi-market behaviour during the remainder of the project, even though it was difficult at that stage to include it systematically. By contrast, many previous institutional studies have relied solely on statistical methods and have
therefore excluded a major opportunity for learning "on the road". The lesson that has been learnt is of a twofold nature. To begin with, organisational research should make more use of intensive methods, which allow greater scope for trial-and-error. Mistakes may be excusable, but research should be designed in such a way that they are not unduly repeated. Furthermore, the implementation of organisational decisions should feature more strongly in the institutional theory of organisations. In the present analysis, this phase of decision-making turned out to be crucially important for showing that strategies not only represent variety on paper. They express themselves in a diversity of practices.

Another marker of the significance of strategy was that tenant representation was the one area of decision-making that was not subject to trends. It easily could have been: there were model contracts between providers and tenant representatives, developed by the national tenant association and others. Providers could easily have adopted them for their own tenants. So why didn’t they? The most plausible explanation flows straight from resource dependence theory: the only thing that distinguishes tenant representation from the other decisions is that it diminishes rather than enhances the autonomy of the management. Theoretically, the legal requirements could have served as a model for tenant representation, but they set only minimum standards. They were therefore unacceptable for those providers who either favoured strong representation and for those who allowed it as part of a trade-off (see 5.8.4). By contrast, they were quite fine for those who did not wish to give tenants any direct influence on decision-making. All the model agreements went further than these providers would have wished. Providers thus appear to have been somewhat selective in the knowledge they adopted. Previous studies have concluded that many organisational decisions can be understood as reflections of internal power struggles. The exclusion of tenant representation from processes of mimicry seems to confirm this.

So strategy does appear to matter after all. Then why was so much of the innovation process conducted collectively? The most plausible answer is that this helped them to go through great changes quickly. Innovation is a process that demands a great deal of effort. When there is a perceived need to change extensively and quickly, and organisations have only limited capacity, as was the case, then they will look for ways to handle the process of change more efficiently. Many collective choices therefore seem to have been made for convenience: the organisations were looking for innovations of a particular type and found useful pieces of knowledge floating around in their environment. These were types of innovations that they would have chosen anyway, even if there had been no opportunity for doing it collectively. In practice, there was no contradiction between pursuing idiosyncratic views and "following the leader".

That raises the intriguing question whether this knowledge will take hold and develop into routines shared throughout the field. That would mean, for instance, that providers would come to adopt advertising models of
distribution and front/back office structures unquestioningly. If this is to happen, then knowledge must be widely shared and continually reproduced. Only when routines are confirmed again and again will they be internalised. This means that if both strategies and decisions emanate from collective innovation processes, there is a relatively high chance that innovations will become institutionalised, for they will be systematically and coherently re-affirmed. By contrast, if all organisations innovate individually, then knowledge has no shared basis and is unlikely to become taken-for-granted. But what happens when most decisions are made collectively, yet on the basis of different organisational strategies? Again, one could reason two ways. One could argue that since the innovations are usually in line with strategy, they are more acceptable and therefore more likely to take hold. But one could also reason that these innovations have been picked up strategically because they were suitable at the time, but that they will probably be dumped as soon as something better comes along. The literature affords little help on this issue, since the distinction between strategies and decisions has rarely been looked at in this manner. Perhaps the only effective way out of this dilemma is to look whether there is a basis for reproducing these pieces of knowledge in the coming period. As it turns out, this is highly questionable.

7.2.5 Fragmentation

The fact that strategies do matter means that, in spite of the homogeneity in decision-making, organisations are becoming more different. Differences in the implementation of decisions can be quite dramatic. Arguably the most striking effect of these differences is variation in size. Some organisations have expanded only within their local markets, while others have diversified at the national level. It means that size differences are only likely to grow, since the former will ultimately remain confined to the limits of their home ground, whereas the latter have a wider variety of partners to choose from. The latter may become large national real estate funds with local branches, while the former remain small local service providers. They will compare like supermarket chains to local shops. But even within these categories there is a great deal of variety. Among the locally oriented providers, there are differences between organisations with traditional and responsive strategies. Even among providers with similar strategies there are marked differences in emphasis. Some traditional providers focus solely on their traditional task, while others use their technical expertise for commercial ventures. Some responsive providers target their efforts very specifically on particular types of clients (e.g. the elderly) while others try to establish a broad, pivotal position within a small local community. Likewise, providers focused on diversification have different views on where expansion leads. Some aim for a national real estate fund, which can keep growing perpetually, while others have the more modest ambition of creating a sufficiently diverse portfolio. There are also major differences in the way that the relation between the national organisation and the local branches is shaped. All these differences in aim and emphasis have major consequences in practice. In short, the
introduction of the quasi-market has resulted in increasing diversity.

Of course, greater diversity was only to be expected and even desired. But if the trend continues, it will have far-reaching consequences for the sector’s social structure. The social housing providers of the past were united by shared characteristics. Not only did they share a common historical and legal background, but they were also similar in terms of size, structure and practices. But these similarities were disappearing fast. The questions and answers that matter to one organisation may become increasingly less relevant to another. As a consequence, they will increasingly interact only with those who are in a similar position. The old social networks will start falling apart. This process already appears to be taking place. For example, some of the more innovative providers have expressed increasing dissatisfaction with the formal meetings of the branch organisations, which they regarded as the territory of reactionaries. When asked whether the branch association was important to his organisation’s own innovations, the Elephant manager replied: “Nóóó. Well, sometimes they do pass through the branch association, but I’m tempted to say that’s a guarantee for failure. That’s not a very nice thing to say, I know. But look, there’s a network of housing managers in this country who know one another well and who meet in the course of innovative projects. [...] When I meet people like [a fellow manager] on different occasions, I know I can trust this guy.” (37) One of the Polar Bear managers remarked, in relation to the branch network meetings, that “we feel we don’t really belong there. They think the steps we are taking are threatening. [...] We’re stigmatised: ‘Oh, it’s those guys again.’ In any case, all those meetings where colleagues chat about one subject for an evening, I don’t care much for those anymore. They make little progress.” (1)

If the old social networks are indeed falling apart, then it is very unlikely that present innovations will be institutionalised. There will be no stable social structure to support such a process. As a matter of fact, it is unlikely that the great surge of collective innovation that characterised the period immediately after the introduction of the quasi-market could ever occur again. Information about innovations will increasingly pass through informal channels of like-minded individuals rather than through public fora where these innovations may encounter resistance or apathy. In other words, the social capital that made large-scale collective innovation possible after the introduction of the quasi-market is diminishing. The population from which relevant innovations can be drawn will be smaller. Besides, it is doubtful whether the social networks that are now emerging have equal innovative capacity. Although this cannot be backed up with hard evidence, there are indications to suggest that innovators preferably associate with other innovators. This is only logical, since those are the contacts that will be most rewarding. It means that their ideas will no longer spread as easily as they did before. Moreover, the innovations they develop may become less relevant to many of their colleagues, as they are based on a different philosophy and designed for a different type of organisation.
The growing diversity also has repercussions for policymakers, who need to devise a regulatory framework that covers all types of organisations. This is less of a problem in regular markets, where the legal requirements are relatively basic. In quasi-markets, though, the regulation is dense and prescribes the do’s and don’ts fairly strictly. This becomes more difficult as the organisations it governs have widely different views on what is permissible. What is acceptable for one type of organisation may not be so for others. For instance, what may be a risky venture for a small local organisation may be manageable for a large, national one. Uniform supervision may become more complicated, as it will have to assess the legitimacy of different practices based on different philosophies.

The increasing variation will affect the branch association, too. It was important in spreading innovations, but the fragmentation of social networks will erode that function. The diversity will also complicate its representative role. It is expected to be the spokesman for all providers at the national level, but it is facing increasingly different constituencies. Size differences have become particularly problematic. As a manager from Polar Bear phrased it: “What is going to be a problem is that the branch organisation has a number of large members and a whole lot of little ones. The latter are unlikely to change soon, but still they will exert great influence through the association bodies. [...] In two, three years it will all be different. Once we have our organisations in order, we’ll demand special status. We’re probably going to block a lot of policies they’re making at present. Their tasks will be confined to training facilities for small providers, who don’t have the expertise themselves. That’s fine by me. They should also act as employers’ organisation, lobbying in parliament. But then they would be protecting our interests, rather than being involved in joint policy-making as they appear to be at present. The branch association is regarded as too close to the Ministry and not as a real interest group. That’s a critical issue.” (1) These difficulties are to some extent typical of any representative body and may be overcome, but the branch representatives will have to walk on a tightrope.

These findings differ markedly from many other organisational studies, which showed how great external shocks were followed by the gradual stabilisation of the organisational fields and the re-affirmation of social capital. For example, Fligstein’s study of American businesses showed how legal changes disrupted old routines and how new shared strategies arose in response. Although the organisational field was disrupted and changed in composition, it kept reforming (Fligstein, 1990). What makes social housing different is the nature of the housing market. In markets where suppliers are dipping into the same pool, they are dependent on one another and benefit from shared rules of the game. Uncertainty is greatly reduced when other organisations act in a predictable and similar manner. This encourages institutionalisation. In addition, when there is also great asymmetry between companies, due to size differences and/or vertical relationships, large organisations can use their market power to impose innovations on others, effectively forcing institutionalisation. Neither was the case in social housing.
Local markets were relatively isolated due to the limited mobility of supply and demand. Moreover, there were (as yet) no great asymmetries between the different providers. The greatest extent of collectively inspired action was in those areas where mutual dependence was greatest, but only within local markets and not on the national scale. Even within local markets, it occurred only in a limited number of areas. In other words, the nature of the relationships of dependence appears to have a major influence upon the coherence of an organisational field.

7.2.6 Conclusion

On the whole, the theory has proven an adequate tool for interpreting quasi-market behaviour. Behaviour is shaped by the subtle interaction of various social ties between providers: the mutual craving for the same resources, the historical bonds in local communities and the broad national networks in which they are embedded. There were some phenomena the theory failed to explain or did not take into account: the origin of organisational strategies, the implementation phase, normative bonding within local groups of providers. But all the same it managed to afford a consistent interpretation for the bulk of the empirical evidence. This testifies to the great explanatory potential of its components, resource dependence theory and the institutional theory of organisations.

The implications are interesting. What emerges from this is that the claim that market incentives in themselves lead to better provision must be treated as a fairytale. It is more complex than that. Market incentives only create uncertainty, and uncertainty in itself does not give any direction to behaviour, good or bad. Proof of this is not only that the theory’s alternative interpretation works; due to the fragmented nature of the housing market, it was actually possible to measure the effects of variation in the level of uncertainty. This did not produce any recognisable regularities, neither for strategies nor decisions. While there was variation between strategies, it did not appear to be clearly related to the variation on the independent variable (see 5.3). The choice of strategy may have been related to organisational characteristics, but not to the level of uncertainty. As for decisions, they showed homogeneity that cut right across the cases (see 5.10). So uncertainty itself does not ultimately determine choice. By implication, if one sees a provider making a bad choice, it is no use trying to increase uncertainty (e.g. by intensifying competition). It will ultimately not determine the nature of his choice.

But it is true that the level of uncertainty does appear to have made a difference in terms of intensity. The providers in Bear Pit had more precisely defined strategies than their colleagues in Tiger Town and Shark Pool, where the markets were tighter. In addition, the decisions the former made were more radical, especially in those areas essential to survival (interventions in stock and interorganisational co-operation). Incentives appear to push
providers into action, yet without determining the direction in which they are headed. This is good news in that it has forced providers to “come of age”. It has caused organisations to re-invent themselves, to develop new activities and to engage in large-scale investment. In this sense, a market incentive can be compared to a car engine: it can be turned on or off, made to go slower or faster, but it does not determine where the car is headed.

Theoretically, this is significant because it validates one of the assumptions of the theory used in this analysis. Empirically, it may have implications for state attempts to intervene in the quasi-market (see 6.3.5).

7.3 The effects of behaviour on the conditions for an effective quasi-market

7.3.1 Introduction

Chapter two identified four conditions that should be met, if the quasi-market in social housing is to be effective:

- Market structure: the market structure within local markets must be competitive.
- Information: providers must find a way of dealing with the uncertainty inherent in a market-based system.
- Intervention: the state must have effective instruments for correcting undesirable behaviour.
- Local specification of targets: the relationship between local authorities and social housing providers must be balanced.

I will now consider how the behaviour of providers affects these conditions, in light of the empirical evidence from the previous chapter.

7.3.2 Market structure

Competition is one of the defining elements of any quasi-market. Customers should have the possibility of exit by switching to another provider. This creates uncertainty, which is expected to encourage providers to improve their behaviour. The empirical evidence showed that uncertainty in itself does not determine choice, so in that sense one should not expect miracles from a competitive environment. However, it does apparently give providers an incentive to innovate more quickly and to invest more heavily. These may be regarded as worthwhile goals in themselves. However, the merger trend may be diminishing competition by reducing the numbers of providers within local markets.
It could be argued that the market structure was not wholly conducive to competition in the first place (Van den Brink, Brandsen and Putters, forthcoming). There are still many local markets with shortages, but these could disappear over time. More serious are the impediments to competition enclosed in the structure of the sector itself. This is due to both product characteristics and the legacy of past policy. Housing is an indispensable good, as few people would choose to be homeless, whatever the costs. Not only do most people need a home, they will not easily change it. Moving requires a great investment of time, money and emotion. Moreover, people are tied to particular areas through their social networks and jobs. The effect of all this is that demand is relatively immobile, even though the recent relaxation of regulation has eased it up somewhat. Since supply is even less mobile, competition will be largely confined to local markets. The problem is that each market has only one or a few providers. This used to be encouraged, because it allowed more effective local authority supervision. In the new quasi-market system, however, this has in some instances resulted in monopolies and oligopolies. Mergers are concentrating market power further.

The decentralisation of financial risks has increased the level of uncertainty, but the concentration of providers may roll it back again. This would be a pity, since increasing competition might have spread the benefits of this mechanism to a broader group of customers. During the research period the strongest competition came from home ownership, which has grown spectacularly in recent years. This can be expected to favour tenants in the upper ranges of social rented housing, who have the option of buying a home. However, the problem of diminishing competition should not be overstated. The regionalisation of housing markets is broadening the playing field, especially in urban areas. Moreover, concentration has not progressed nearly as far as in some other markets, like Dutch social security. However, the problem will grow more serious in the long term if the merger trend continues at its present rate. Whether this will happen is uncertain, although many providers that have merged in the past have indicated they plan to do so again (see 5.6). In that respect it is worrying that policy documents have systematically failed to address the issue of market structure. Surprisingly enough, this is not uncommon in quasi-markets (cf. Bartlett, Roberts and Le Grand, 1998).

7.3.3 Information

In their analysis of quasi-markets, Bartlett and Le Grand argued that this type of system can only work when providers have adequate access to information and face limited uncertainty. However, it is unlikely that all necessary information can be acquired –if it is at all clear what is needed- and providers therefore need to find an effective manner of curbing their information requirements. One such way is to adopt a strategy believed to secure the organisation’s prospects. In other words, the question is not whether the level of uncertainty providers face is too high, but whether they can deal with it. If
they cannot cope with the many contingencies of the market, then their adaptation will at best be slow. This aspect of behaviour was one of the basic elements of the theory.

It is evident that social housing providers coped with uncertainty far more effectively than one would have expected. The reasons for this interesting phenomenon have been discussed in the previous paragraph. Most of the providers in the case studies had found a clear direction in which to go. Processes of collective innovation helped to translate these broad views into practical action. This is not to say that these choices in dealing with uncertainty will always be successful. That will only become apparent in the long term. What matters here is that they have made clear choices. This has helped them to re-invent themselves relatively quickly. If the changes they have made prove to be beneficial for tenants, then the introduction of the quasi-market will have started to pay off after only a short period.

7.3.4 Local specification of targets

When the quasi-market was introduced, the state showed a distinct preference for decentralised decision-making. Rather than specifying detailed targets for all social housing providers, it only bound them to vague performance criteria. They were issues rather than practical goals. The real targets were meant to be negotiated between local authorities and providers at the local level. This, as was argued in chapter two, requires a balance between the two parties. If the local authorities dominate the interaction, then the autonomy of providers will in practice be a fiction. The former will effectively be able to exploit the housing capital at will. However, if the latter dominate, there is no guarantee that they will act in accordance with the collective interest. What really binds the two together is not their abstract roles as representatives of public or private interest, but the mutual dependence that exists in practice. The local authorities control public facilities and spaces, while the providers own a considerable share of the housing stock. Neither can achieve their goals without the support of the other. The neighbourhood regeneration programmes in the Bear Pit and Shark Pool cases bear witness to the benefits that such a relationship can produce. Unfortunately, there is a danger that the balance will tilt towards the providers.

The change of system required a major transition for all parties concerned. Each had to get used to its new role. It was regularly noted in the cases by respondents from both types of organisation that the private providers adapted more quickly than the local authorities. Whatever the reason, the necessary changes in formal structure and attitude took longer to materialise. “What you see is that providers have made that transition, forcibly or not, and that we are running behind, that there is a gap. They want to move ahead and we struggle to follow them.” (19) Obviously, this gave providers an edge over their local counterparts. However, that might be dismissed as a
temporary phenomenon. More significant is that some providers now operate in several local markets, which fundamentally affects their relationships with local authorities. As shown before, collective decision-making is most effective in situations where actors are mutually dependent and when there are no exit options. As social housing providers become less dependent on any local market, they can shift at least some of their resources from one to the other, which makes their relationship towards local authorities less symmetrical. Of course, they will still need public investment to maintain the value of their stock, but their negotiating position will much improve when they can argue that their investment is also needed elsewhere. This could seriously weaken local authorities, since these have no tools to force the private investment they feel is required. Again, as with market structure, the problem should not yet be overstated. Most providers still operate only in their traditional area. However, those that diversify into other geographical markets undermine the practice of decentralised policymaking.

7.3.5 Intervention

Chapter three argued that, if the theory used in this analysis was correct, it would call into question whether the state can intervene effectively in the quasi-market. It turns out that the theory has been adequate in explaining quasi-market, which greatly pleases me. However, it is a somewhat less fortunate conclusion from a policy perspective. The state has two main instruments for correcting undesirable behaviour: regulation and incentives. It is possible to correct undesirable behaviour with additional regulation, but when this is done too often, the process of policy accumulation that characterised housing before the introduction of the quasi-market will simply start over again. Regulating behaviour too strictly may stifle not only the dangers, but also the opportunities of a market-type system. One of the points of establishing a (quasi-)market is that autonomy will encourage actors to be diverse and innovative in performing particular tasks. Beyond a certain point, constraints could well smother the drive that the system was supposed to encourage. Incentives are not effective either, because they only affect the level of uncertainty, which does not determine the nature of behaviour in itself. Providers can respond to increased incentives for better or for worse. This is even more of a problem in social housing than in other quasi-markets, because all subsidies have been given in advance. This precludes the use of “smart incentives”, because it means the state can only affect uncertainty indirectly. All in all, the prospects for effective intervention are not good.

The only way out of this would be, not to add regulation, but to change the present system of rules quite rigorously. Yet this would imply a marked deviation from the style of intervention it has so far adopted. Since the introduction of the quasi-market, the Ministry of Housing has relied on incremental policymaking, making small changes step by step (Lindblom, 1959). The logic behind this approach is that small interventions require less information and that the information that is gathered in the course of the
process will be more up-to-date. Furthermore, little changes cause less conflict than drastic ones, which means that the legitimacy of policy will be greater. In a recent evaluation, this method of policymaking was again endorsed (Ministry of Housing, 2000). But in the present context, this line of reasoning may backfire (quite apart from the fact that small changes will probably not suffice). Incrementalism in (quasi-)markets raises a serious dilemma, especially in the early stages (cf. Bergsma and Van den Brink, forthcoming). Interventions becomes potentially more effective over time, as more information about market behaviour is becoming available. Yet, as time progresses, the legitimacy of interventions steadily diminishes.

The phenomenon that actors adjust to policy is in itself not confined to a (quasi-)market. The difference with the situation before the introduction of this system is that actors have a larger share of autonomy, which means they can react to a new regulatory framework far more quickly, often even before it has come in force. By the time the state has gathered sufficient information to intervene in what it perceives as undesirable practices, these practices will already be in full swing. The gap between policy and its object will have become great enough to make the supposedly small steps rather drastic. To give a recent example, a number of providers had set up in-house estate agents of their own, arguing that they needed the services of estate agents so often they might as well do it themselves. At the end of the research period, the Ministry banned this activity on the grounds that it was not a proper part of social housing provision. Of course, the providers involved could well argue that it was a bit late to ban these practices, when they had been prepared and sometimes even running for some time. In this case incrementalist policymaking has the paradoxical effect, not of enhancing the legitimacy of policy changes, but of detracting from it.\[1\]

Another difference with public sector provision is that developments may be more difficult to reverse. For example, the emergence of large, nationally operating providers has by now become difficult to stop, even if it does erode the basis of local policymaking. There is little that can be done to counter this development, short from breaking up these private organisations or intervening quite strongly in their internal decision-making. These would be radical changes contradicting both to the logic of incrementalism and the principle of autonomy central to this system of provision. The period just before or after the introduction of a (quasi-)market is the stage at which providers arm themselves against the effects of the market (Groenewegen, 1992). It is a brief lull from which they can take full advantage. By the time the new system comes into force or policymakers are ready to adjust it, providers may be well entrenched.

7.3.6 Conclusion

The evidence shows that most of the conditions necessary to make the quasi-market successful are under threat. The good news is that providers have
managed to deal with their new position far more successfully than one would have expected. However, competition is diminishing, the balance between social housing providers and local authorities is tilting dangerously towards the former and the instruments for intervention may be ineffective in the long term. Does this mean that the quasi-market is doomed to fail? The experiences in other quasi-markets have so far not been encouraging. In the UK, where the introduction of quasi-markets came earlier than in the Netherlands, these systems of provision have rarely worked as intended (Bartlett, Roberts and Le Grand, 1998; Bartlett and Le Grand, 1993). It has proven especially difficult to sustain managed competition in the long term. At the very least, it shows that it is not easy to make a quasi-market work. Should we do as Rabbi Löw ultimately did with his golem, and let it return to clay?

Perhaps that is not necessary just yet. To begin with, the negative consequences of the developments I have observed have not yet fully materialised. Insofar as any reliable evidence is available, it does not indicate that the quality of social housing provision has declined. My personal impression is that it has improved considerably. Moreover, ethical considerations have not been included in the analysis, and they may make all the difference. Most importantly, it may still be possible to intervene at this point in time. The problem with intervention may be endemic to quasi-markets, but the other difficulties are mainly caused by the merger trend. It will be difficult to reverse the effects of past mergers, but if future mergers are blocked or more strongly regulated now, the damage may be contained. At present, the number of providers working at the national level is still relatively small and there is still enough scope for competition within regional markets. However, it would take radical steps to stop the rot, and policymakers presently appear committed to the illusionary safety of incrementalism. I am not optimistic.

7.4 The conclusions

7.4.1 The logic of quasi-market behaviour

The introduction of the quasi-markets was one of the most significant elements of recent welfare state reform. This book has constructed a theory that aims to explain how these systems of provision work. For the quasi-market in Dutch social housing, it has proven an adequate interpretation. Although it has disregarded some aspects of behaviour that proved empirically significant, it has generally managed to explain why providers acted as they did.

The creation of the quasi-market made providers more dependent on the market, which made their situation more uncertain. However, what it also did
was to spark a search for new knowledge. Under the former system, providers had developed routines, established methods for handling what little uncertainty they faced. Given the tight and uniform legal framework from which they emerged, these routines were similar throughout the organisational field. These no longer applied in the quasi-market and therefore they had to develop new ones. In other words, decisions by organisations in a (quasi-)market should not only be interpreted as efforts to secure income, but also as efforts to find effective ways of securing income.

The empirical analysis showed that this latter aspect of behaviour was extremely important for understanding what happened after the transition. Copying innovations was one of the chief methods by which providers adapted to the new system. This shows that collective innovation through reproduction (what DiMaggio and Powell have called “mimetic isomorphism”) is more than an oddity: it is an essential mechanism through which organisations adapt to changed circumstances. The elaborate social infrastructure at the national level was very suitable for spreading knowledge quickly and reliably. Likewise, collective innovation through reproduction (also known as “learning” in policy literature) was a crucial process in local networks. At the local level, the relations of mutual dependence and the difficulty in exiting from this dependence created a kind of “micro-corporatist” arrangement that encouraged co-operation.

The widespread occurrence of collective innovation created homogeneity within the sector, at least on the face of it. But looking more closely, one could see that there was also great variety. Although they adopted similar innovations, organisations often differed wildly in their views on social housing provision. This behaviour can be explained as an effort to save energy at a time when old energy-saving routines must be discarded. Collective innovation simply requires less effort than individual innovation. Providers could go through great changes, despite their limited capacity to innovate autonomously. The innovations that became popular had the benefit of corresponding to different strategies. Moreover, strategies could be enacted by implementing innovations in a particular way.

7.4.2 The fragmentation of social capital

The result was a strange mixture of similarity and diversity. The organisations mirrored one another, but the reflections did not create a series of perfect reproductions, but a multitude of twisted images. It was a wilderness of mirrors, where variety was multiplied rather than smoothed down. The effect was organisations became more diverse and, as a consequence, that the sector became steadily less coherent. While in some cases group boundaries were (re-)established at the local level, the overall picture shows that the old social networks are falling apart into several smaller networks, organised along different lines. As organisations are becoming more different, they seek out organisations with similar views and
characteristics. Social capital helped the budding market to grow, but was partly consumed in the process.

This presents a marked contrast with previous studies, which showed that collective innovation processes strengthened group bonds and created new shared routines. The reason for the difference is that, compared to most other markets, the housing market is very fragmented. Most providers are not dependent on one another, nor are there any dominant players within the field who can impose their views on the others. This is a crucial difference between the housing market and many other markets. All this underscores the starting premise, which was that each (quasi-)market has a distinct character and that it is very difficult to define a general logic of market behaviour. A market analysis must take account of context-specific elements such as product characteristics, the legal framework, the social ties among suppliers and the distribution of resources.

7.4.3 The conditions for a successful quasi-market

Four conditions were identified as essential for the success of the quasi-market: (1) the market structure should be competitive, (2) providers should find ways to deal with uncertainty, (3) the relationship between local authorities and providers should be balanced, and (4) the state must have effective instruments for correcting undesirable behaviour. The good news is that providers have dealt with their new situation far more effectively than one would have guessed. This was largely due to the extensive collective innovation processes. Unfortunately, collective innovation has also encouraged mergers that threaten competition within local markets. Moreover, the fact that some providers now work on the national scale means that their negotiating position in relation to local authorities has considerably improved. This may become a problem when the local performance targets have to be specified. Finally, the main instruments for intervention, incentives and rules, can be effective only up to a point. Market incentives only push providers into action, but cannot determine where they go. They set the pace, but not the motion. Of course, it may be worthwhile to spur on providers in itself, but it will not help to encourage desirable behaviour or curb unacceptable behaviour. Regulation is more effective, but when it is used too often it strangles the autonomy of providers and along with it most of the benefits of a market-based system.

On the bright side, these threats have not yet materialised and may yet be averted. However, it will require drastic steps at a time when policymakers have expressed their faith in an incremental approach. This approach is in itself likely to arouse controversy, because it does not work in a market-based system where developments are quick and often difficult to reverse. In any case, it will probably prove inadequate to solve the problems that threaten the quasi-market in the long run.
7.5 Epilogue: the future of Dutch social housing

7.5.1 Introduction

The research questions have been answered and the analysis is at an end. But before the book is closed, I will permit myself a few moments of reasoned speculation. What will the future of Dutch social housing look like? This depends not only on the effectiveness of the quasi-market, but also on other elements of state policy, such as the fiscal treatment of different types of tenure. This paragraph will discuss directions in which the social housing sector could be heading. None of the thoughts that follow can be backed up with hard evidence. They are reflections at the end of a long and weary journey.

7.5.2 Convergence and divergence in European social housing provision

In the second chapter, it was argued that there are basically two types of housing provision: mass and residual (see 2.6). These are crude categories, but they suffice for the present argument. In the mass type, social housing comprises a large section of the overall housing stock and covers various segments of the population, including a large share of the middle classes. In a residual model, social housing is a welfare state facility targeted at the poorest, who cannot procure a dwelling of adequate standards on the regular housing market. Most of the population will prefer home ownership. The social housing sector can be said to decline when it moves from the mass to residual type, for it will cease to be a full member of the housing market. At present, Dutch social housing is still in the mass category, beyond any doubt. The providers control over a third of the total stock and social housing therefore serves a major share of the population. But will it last? Opinions differ widely on this. Like the general welfare state debate, housing research has both convergence and divergence advocates. The former basically argue that all national systems of provision will evolve towards a residual type, while the latter maintain that the differences between mass and residual systems will persist.

Torgerson once described housing as the “wobbly pillar” of the welfare state (Torgerson, 1987). This phrase has come to represent the notion that social housing provision is bound to become marginal in the long term, barring unusual circumstances. For instance, Harloe argues that housing provision in Western Europe has generally been converging towards the residual type. “[...] the residual form of provision has been incorporated within welfare capitalist regimes on a more or less permanent basis. In other words, this is the normal form of social rented housing provision in ‘normal’ times” (p. 7). In his view, the mass provision of the late 20th century must be regarded as a
temporary phenomenon that was never likely to last. “The mass model, which cuts across private market provision more significantly than the residual form, gains major significance and state support only in ‘abnormal’ times, that is, when varying combinations of social, economic and political circumstances limit the scope for private provision and when this limitation is of strategic significance for certain aspects of the maintenance and development of the capitalist social and economic system” (p.7). This is because “housing is property and in capitalist societies the defence of all forms of private property rights is deeply entrenched” (p. 536). In other words, the inherent properties of housing make it unlikely that social housing will persist as a broad welfare state arrangement. This would mean, by implication, that in the long term the Dutch social housing sector could not survive in its present form.

Others argue that, while there may be some measure of convergence, the present differences between systems of housing provision will fundamentally persist. They place less emphasis on the intrinsic properties of housing than on the characteristics of national systems of provision. For instance, Kemeny has accorded great significance to variations in the method of rent calculation (Kemeny, 1995). The price of social housing is based on cost, whereas the price of owner-occupied and private rental housing is based on current market value. In some countries, this is the ground for regarding the participation of non-profit providers in the regular housing market as unfair competition. Accordingly, the state will impose restrictions to confine social housing to a small segment of the population. In other countries, non-profit and for-profit providers are allowed to compete in a single, integrated market. This will force for-profit providers to bring their prices down to a level closer to cost. Kemeny argues that current changes in the latter type of system are merely cycles in the interplay of the two market segments, not a trend towards residualisation. The implication of arguments like his is that the Dutch system of housing provision could retain its present character.

The empirical evidence from international comparative studies does not clearly point one way or the other (Doling, 1999; Boelhouwer and Van der Heijden, 1992). Be that as it may, Dutch social housing is at present still far removed from marginalisation. In the years following the introduction of the quasi-market, their market share has remained stable. However, there is still the possibility that the sector could residualise in the long term. As noted in chapter two, this would involve (1) a significant drop in the share of social housing in the overall stock, combined with a rise in home ownership rates, and (2) a shift within social housing from a diverse, high-quality to a low-quality, targeted stock. Obviously, I cannot say whether this will happen, but what I can do is show how it would happen. The long-term sustainability of the present system of provision depends on the decisions of the three major parties involved: the tenants, the state and the providers. Some of these could at one point “exit” from the system (Helderman and Brandsen, 2000). What this entails will be described in the following sections. Should these events occur, they would bring residualisation considerably closer. One of them
relates directly to the introduction of the quasi-market, the other two to housing policy at large. Of course, they are just possibilities that may never materialise. But they are not unrealistic.

7.5.3 The continued growth of home ownership: the exit of tenants

Home ownership and social rented housing are different types of “tenure”, the legal basis for occupying a dwelling. One of the essential differences between the two is in their effect on the distribution of capital. The money invested in home ownership is controlled individually and returns are not necessarily re-invested in the housing stock. By contrast, the returns of social housing are redistributed across the tenant population and across generations of tenants. This means that, contrary to popular perception, rents do not simply “disappear”. In that sense, social renting is the counterpart of redistributive arrangements in areas like social security and health. The rent rises of the 1980s and 90s had adverse effects on the tenant population of that time, but to some extent they compensated for the low rents that past generations of tenants had enjoyed. Because of its product characteristics, housing affords many opportunities for this kind of temporal redistribution (see 2.2).

The debate about tenure focuses not only (or even primarily) on how different types affect the distribution of capital, but also on how they affect individual well-being. Discussion on this theme tends to be drenched in ideology and many assumptions go untested. For instance, it has been argued that home ownership provides a heightened sense of “ontological security”, in that it carves out a niche for people to shield themselves from forces beyond their control (Saunders, 1986). The supporters of home ownership have been particularly eloquent in their praise. Commonly mentioned advantages of owner-occupancy are greater commitment to the house and the neighbourhood (leading to better maintenance, vigilance, stability etc.) and opportunities for individual capital accumulation. But the alleged superiority of home ownership is not undisputed. Kemeny in particular has launched scathing criticism at what he calls “the myth of home ownership” (Kemeny, 1981). He has mentioned various disadvantages of home ownership, such as its role in strengthening job market inequalities, the limits it sets on job mobility and the frequent failure of owner-occupiers to secure long-term maintenance and re-investment.

It is not my intention to take position in the tenure debate, which is often rather crude. What matters here is that social housing has been steadily losing ground to home ownership. Rates of home ownership have been rising from the 1960s onwards and particularly swiftly in the 1990s. In 1999, home ownership eclipsed renting as the dominant form of tenure (see table 2.4). The proportion of owner-occupiers is still fairly low by international standards, but it continues to rise. There are various developments that account for the
rapid shift in tenure (SCP, 1998). Access to home ownership has become considerably easier. The Netherlands can boast not only of the largest social housing sector in Western Europe, but also of the most luxurious tax benefits for home ownership. Until as late as the end of the 1990s rents on mortgages were fully tax-deductible; since then deductions have been restricted to the first home and housing-related expenses only. Interest rates have also been fairly low in the 1990s, partly due to fiscal policy. While home ownership has thus become more attractive, social rented housing has become considerably more expensive. Cuts in subsidies have raised rents by over a quarter since the early 1980s (see table 2.3). This was necessary to reduce state expenditure and to make the social housing providers financially independent. With that in mind, it has been argued that “the shifts in preference towards owning over renting in the Netherlands are entirely due to government policy” (Dieleman, 1998, p. 6). But it should be added that banks have become more lenient in granting mortgages, demanding a considerably lower mortgage-income ratio. In addition, the economic prospects have been unusually favourable from the mid-1990s onwards (the fruits of the “Dutch Miracle”), which has made more people confident enough to buy.

While social housing still commands a considerable share of the housing stock, it can only continue to pose a real alternative to home ownership when it commands a broad and solid financial base. This, in turn, depends on a large, well-maintained, diverse stock and sufficient reserves. This, in turn, implies that it has to appeal to broad sections of the population (cf. Harloe, 1995). As the socio-economic middle classes leave for owner-occupied housing, the long-term basis of social housing will steadily erode. There is also the issue of social status. In the Anglo-Saxon countries, social housing tends to have a poor reputation. In the Netherlands, there used to be no such stigma, but there are indications that this situation is changing. Recent surveys show an outright majority preferring individual ownership to renting. It is a trend that should cause concern among housing managers. Moreover, there has been a change in the composition of tenants. Over past decades, the decline of private renting and the growth of home ownership have resulted in an influx of tenants at the lower end and an outward migration of tenants at the top end of the income scale. The legitimacy of renting could decline rapidly. While the proportion of social housing in overall stock has only dropped marginally so far, the long-term effects of the growth of home ownership could deal a decisive blow to the prospects of a mass social housing sector. In that sense, Dutch housing policy is remarkably schizophrenic.

7.5.4 Dipping into the pot of gold: the exit of the state

Housing requires a large investment prior to the use of the object. This means that the housing stock constitutes a huge amount of capital enclosed in bricks and mortar. It affords great opportunities for shifting benefits and costs over time. In addition, housing provision has many external effects. There is
always the possibility that housing policy is made with an eye to those effects rather than to housing concerns. In the past, it has frequently been used to solve the problems in other policy areas. For instance, in the postwar reconstruction period it was used to boost employment or, conversely, to dampen economic growth. This has led Helderman to describe Dutch housing policy as an “emergency exit” (Helderman, forthcoming). It is conceivable that the same will happen again, even now that the quasi-market has been introduced. The social housing stock is in effect a large pot of gold at arm’s length. By its nature, the ownership of this wealth is disputed. It derives both from state subsidies and from the contributions of tenants. In addition, it is managed by organisations with a private status. All parties can morally claim a part of the capital. This ambiguity is partly responsible for the spectacular growth of the private non-profits in the postwar period (see chapter two). At present, though, it could allow the state to dip into the pot of gold to solve its present problems.

At the start of the millennium, the Secretary for Housing threatened to force the sale of half a million social housing dwellings to alleviate pressure on the market for home ownership—which, as noted before, was largely caused by state policy. The state was to indicate which types of dwellings ought to be sold. The plans have been stalled and it is unclear if and how they will be implemented, but it hardly needs saying that the sale of such a large part of stock could have adverse consequences for the future of social housing. A strong social housing sector depends on ownership of a large, varied slice of the housing stock as well as the allegiance of broad sections of the middle class. A forced sale would endanger both. Since it would be mostly the top segments of the stock that would be sold, the remaining stock would be targeted more strongly on the poor sections of society. The sale would also undermine the premises upon which the quasi-market is based, because markets of any kind are based on the principle of autonomy. What does autonomy amount to if an external party can force organisations to sell off part of their assets?

7.5.5 Opting out: the exit of providers

In 1988, the German government decided to abolish the tax-privileged status of non-profit housing providers. As Harloe describes it, “there was little opposition to the virtual abolition of the sector. And the non-profits were divided: many welcomed the changes because they were no longer tied to the ‘socially binding’ non-profit rules. They were now free, as private sector organisations, to compete with the private market for the more solvent demand.” (Harloe, 1995, p. 466). The German non-profits were in many ways different from the present Dutch social housing providers. However, it is conceivable that at least some of the latter would welcome the opportunity to opt out of the regulatory framework. It was noted earlier that a number of providers are straying quite far from their traditional ways. These are especially the larger providers, who have begun to operate in various
geographical markets and who have developed a number of new, commercial activities. Now that they are emerging from the early stage of the quasi-market, they have in some instances found that their future progress is blocked by quasi-market regulation. For example, the state has curtailed commercial activities such as broking or the acquisition of certain types of land and real estate. The more these providers unfold their wings, the more likely they are to hit the boundaries of the legal framework within which they are encaged. At the same time, the benefits of the social housing status are decreasing. A few of the tax privileges will be abolished, since they are thought to create unfair competition (MDW-Werkgroep Woningcorporaties, 1999). Some social housing providers may come to feel that the benefits of their status no longer outweigh the costs. The threats by the Secretary of State to force the sale of stock will have brought this moment somewhat closer.

It speaks for itself that they could only leave the system if they were formally allowed to do so. The present regulatory framework does not allow this, but a government paper issued at the start of the new century tentatively raised the possibility of an opting-out clause (Ministry of Housing, 2000). Providers would no longer enjoy the benefits of the social housing status, but they would be liberated from its constraints. Freedom would almost certainly have to be bought at a price: the state would demand the return of at least some of the capital that was accumulated through past subsidies. Yet this hardly seems an insurmountable obstacle to organisations with such vast resources at their disposal. They would in any case retain less tangible assets that are vital to their success: innovative capacity and social capital at the local level. What with their capital assets, expertise and contacts, it is unlikely they would be short of support from other commercial businesses. Alliances with commercial housing providers and financial institutions or even entry on the stock exchange could easily compensate for the financial losses incurred by opting out.

Of course, when providers leave the social housing sector their stock does not evaporate into thin air. Nor is it likely that they will abandon traditional market segment in which they have a strong and comfortable position. However, the state will have lost its most important source of control, as well as any guarantee that the capital these providers own is used where it is most needed. In the German case, the government eventually found itself forced to introduce new subsidies to solve emerging problems. Moreover, opting out would mean that some of the most innovative and ambitious providers would be lost to the organisational field. It would leave a smaller and more traditional social housing sector, one that would more easily succumb to a residual role.

7.6 The end

If the state manages to master the difficulties inherent in the quasi-market, then it will have gained a powerful new instrument. However, the difficulty
in sustaining the conditions for its effectiveness may hamper its long-term success. Furthermore, the social housing sector could suffer from housing policy’s ambiguity and schizophrenia. So far, the potential problems described in this chapter have not come to the surface. However, housing can be a time-bomb. It takes a long period to find out what the effects of policy will actually be. The stakes are very high. The choices of the past few years may in time prove highly significant. In terms of size and strength, the Dutch social housing sector is among the top. In terms of commitment to housing, the Dutch welfare state needs no alibi. The strength of the sector does not make it invulnerable, though. The exit of a number of providers or the forced sale of stock would imply a considerable loss. Allowing large segments of the middle classes to leave the social housing sector could in the long term prove a fatal error. However, at this point it is not yet possible to say what Dutch social housing is coming to. It will be some time before we know.
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10 Appendix

11

11.1 A.1 Introduction

The appendix has two purposes. First, it elaborates on the theoretical position of the analysis within the social scientific debate. In addition, it contains a more thorough justification of the methodological choices made in chapter four. Related sections in the main body of text are usually summaries of or excerpts from the more elaborate discussions found here. I have chosen to set these discussions apart to improve the readability of the book, since they will be of interest only to a dedicated few. As a result, this appendix is a bit of a hodgepodge and designed for occasional consultation rather than front-to-back reading.

Paragraph A.2 will describe the background of the theory. It discusses the fundamental premises of the analysis (A.2.1) as well as the historical background of the two component theories, resource dependence theory (A.2.2) and institutional theory (A.2.3). The remaining two paragraphs will focus on methodological issues. The three methods used for fitting the raw empirical observations into the theoretical scheme will be dealt with in A3: the method of variation (A.3.1), the method of fit (A.3.2) and the method of obtaining accounts (A.3.3). The collection of data will be examined in A4: the approach to the object (A.4.1), the criteria for case selection (A.4.2), the variance between the four selected cases in terms of uncertainty (A.4.4) and the methods of data collection used in the fieldwork (A.4.4).

11.2 A.2 The background of the theory

11.2.1 A.2.1 Reality as a social construction

The analysis has focused on social reality, that is, the reality created by social action. In Weber’s terms, social action is action that is invested with meaning and that takes account of the actions of others (Weber, 1968, p. 4). In that sense, all social action is interaction, because it is always taken with reference to other actions, even when these are just imaginary. The creation of social reality through interaction is necessary because human beings have no biological mechanism that naturally selects and organises the relevant, “meaningful” aspects of the world. Since the actions that men undertake serve as a reference point for the actions of others, they effectively construct social reality together (Berger and Luckmann, 1967, pp. 68-69). It can only exist as long as there is a degree of order. Order consists of predictable regularities in the behaviour of actors at the level of the collective. Individual social actions can reinforce or violate these collective regularities.
Theories of the social construction of reality differ in their conceptualisation of the interaction between individual action and the collective order. Actors can reproduce or deviate from the collective order consciously and deliberately. Alternatively, they can reproduce regularities passively, either because they are powerless to change them or because they are unaware that they exist. This happens when collective regularities in behaviour are experienced “as existing over and beyond the individuals who happen to embody them at the moment” and “as possessing a reality of their own, a reality that confronts the individual as an external and coercive fact” (Berger and Luckmann, 1967, p. 76). This analysis starts from the position that actors rationally choose whether they wish to conform to routines or not, but recognises that these may become internalised to the point that they are reproduced unknowingly. However, this does not imply that collective patterns of behaviour are simply the aggregate of individual actions. The theory recognises that these actions are in turn shaped by the collective routines that they contribute to, but emphasises that an explanation of such routines must have a theoretically integrated micro-foundation.

Another difference between the various theories of social construction lies in the aspects of reality on which they focus. In his discussion of institutionalism, Scott has made a useful (if not watertight) distinction between the regulative, normative and cognitive orders (Scott, 1995). The regulative aspect of order consists of rules that constrain and enable behaviour by force or incentives. The normative aspect of order indicates what is “appropriate” and consists of norms and values. Finally, the cognitive aspect of order consists of what is known and operates through meaningful knowledge. The analysis in this book emphasises the cognitive aspect of social order, although the other aspects have been incorporated where necessary.

The theory for the analysis of the quasi-market in Dutch social housing was constructed on the basis of two other types of theories, resource dependence and institutional organisational theory. Each has its own version of what constitutes social reality and how it is constructed. The substance and application of the two theories have been discussed in chapter three. I will here give a brief description of their historical background, so that the analysis can be placed in context. The description focuses on the way in which the theories are continuations of or reactions against earlier traditions in organisational theory.85

11.2.2 Resource dependence theory

Resource dependence theory is a variety of the political economy perspective. This perspective focuses on the relationship between the polity and the economy, that is, between the realms of power and exchange (Zald, 1970). At the national level, it discusses the relationship between the state and the economy. Resource dependence theory applies it to the study of organisations. Its focus is on the interaction between organisations and their
environment derives from the contingency studies of the 1960s and 1970s. However, its emphasis on conflict and politics was inspired by the work of the Carnegie School.

The theory’s claim that organisations should be analysed in relation to their environments is accompanied by an explicit rejection of the focus on internal processes that characterised the organisational research of the previous decades. Early studies in organisational sociology had focused on single organisations in order to test the empirical value of Weber’s description of bureaucracy (e.g. Blau, 1955, Gouldner, 1954). Resource dependence theory argues that it is wrong to examine the organisation’s internal processes in isolation, as these are closely connected to its exchanges with other organisations. This is because the acquisition of resources (and hence the organisation’s survival) are determined by those exchanges.

The notion that action is shaped by dependence on the environment was not invented by resource dependence theory. Earlier interorganisational studies of the 1960s and 1970s had already focused attention on the exchange of resources that takes place between an organisation and other organisations in its direct environment (Levine and White, 1961). In studies from the same period, advocates of the structural contingency perspective had examined the fit between organisational structure and its economic and technological environment (Lawrence and Lorsch, 1967; Woodward, 1965). What the resource dependence theory inherited from these earlier studies was not only its focus on the interaction between organisations and their environments, but also an appreciation of the diverse nature of environments. It upholds the basic assumption that there is no universal environment and, by implication, that there is no one best way for an organisation to deal with this environment (as early organisational theorists such as members of the Taylorist school had suggested).

There are two ways in which resource dependence theory adds a new twist to the contingency perspective. First of all, it allows organisations an active role in relation to their environments and rejects the notion that organisational decisions are determined by those environments. Proponents of the contingency perspective had suggested that the organisation has no choice but to adapt and that those who do not will not perform well. By contrast, the resource dependence theory emphasises that organisations are capable of influencing their environment. The relationship is not one-sided: while an organisation’s actions are partially determined by relationships of dependence, it can employ a number of strategies to limit this dependence. Earlier studies had revealed instances of such behaviour, but never give them the prominence that resource dependence theory has. A famous example is Selznick’s description of how the Tennessee Valley Authority co-opted local interests in order to stabilise its position in a hostile environment (Selznick, 1949).

A second feature that sets the theory apart from earlier organisational studies
is its emphasis on the political nature of organisational action. Its advocates have been very critical of the so-called “managerial perspective”: the assumption that organisations are rational instruments designed to attain a set of given goals. Resource dependence theorists would rather ask whose goals are being attained (cf. Zald, 1970). They regard the organisation as an arena that harbours several actors, each with its own set of private goals. The actor who appears to be most capable of securing the organisation’s survival wins the top position and manages to make the organisation’s goals his own (Perrow, 1967). Whether the dominant party can ensure survival is a different matter altogether. The theory makes no claims about the ultimate result of organisational action. It may be optimal or not, if different parties can at all agree on what the optimal outcome should be.

This concept of the organisation as a political arena was first explicitly touched upon in Cyert and March’s A Behavioural Theory of the Firm (Cyert and March, 1963). However, it was implicit in many prior studies, including many of those criticised as having a managerial perspective. One of the characteristics of the bureaucratic model that Weber described was that it “segregates official activity from the sphere of private life” (Weber, 1968, p. 957). Its system of rules and incentives was designed to prevent the misuse of public resources for private interests. The post-war studies of bureaucracy by Merton, Blau, Gouldner and others have discussed intra-organisational conflicts of interest between employers and employees (Merton, 1964; Blau, 1955; Gouldner, 1954). Blau and Scott identified four different parties within the organisation and explicitly asked the question which of these benefited most from particular organisational arrangements (Blau and Scott, 1962). It is true, though, that these conflicts were generally discussed in relation to the attainment rather than the formation of organisational goals. In resource dependence theory, conflict is a central rather than a frictional process. Donaldson suggests this focus was inspired by the political New Left (Donaldson, 1995).

11.2.3 A.2.3 The institutional theory of organisations

Institutionalist organisational theory is older and goes back as far as the founding days of sociology, even though organisational theory only became an established scientific discipline in the second half of the 20th century. At the basis of this tradition stands Max Weber’s description of the bureaucratic idealtype and his analysis of how it took on its historically and geographically specific shape (Weber, 1968). Subsequent research criticised and expanded this work, taking empirical studies of actual organisations rather than general theory as their starting-point. Blau and Merton especially have made famous critiques of the bureaucratic model, each noting that formal bureaucratic structures can spark informal norms and practices that subvert official goals (Blau, 1955; Merton, 1949). Selznick’s analysis of the TVA, mentioned earlier, is another well-known study of informal practice that runs counter to formal intentions (Selznick, 1949). The work of these researchers was crucial in
establishing organisational sociology as a distinct academic discipline.

What distinguishes present institutional theory from these and other studies from the 1950s and 1960s is its emphasis on the cognitive rather than normative aspects of institutions; in other words, it does not stress consciously enacted norms as much as views, methods of sense-making, which in some cases can acquire a taken-for-granted character. In this, it has drawn inspiration from the work of Herbert Simon and his followers. It also tends to emphasise fragmentation and disconnectedness over order. Finally, it shows an increasing concern with the power of actors to shape their own environment. However, as Selznick himself has argued, the difference between the “old” and the “new” institutionalism should not be overstated (Selznick, 1996). There have been shifts of focus and emphasis in this theoretical tradition, but no fundamental breaks.

But current institutionalist theory does represent a break with the economic approach that had become very influential in organisational analysis, as elsewhere. The latter entailed a focus on instrumentally rational, non-embedded actors who operate with great foresight (in economic terms, with complete information). It understands collective processes as the mere aggregate of individual choices. From the 1960s onwards, economists have increasingly applied this analytical framework to subjects that were traditionally the hunting-grounds of other academic disciplines. To name a few examples, Gary Becker analysed what were regarded as “sociological subjects”, such as discrimination and family issues, in terms of instrumental rationality (Becker, 1976). Mancur Olson used an approach borrowed from economic theory to analyse collective behaviour (Olson, 1965). Niskanen analysed government offices as the arenas for budget-maximising bureaucrats (Niskanen, 1971).

In this respect, neo-institutionalist literature in organisational theory is part of a broader movement that also has branches in economics and political science. The neo-institutionalist tradition is so diverse that it is difficult to capture except in the simplest of terms. What unites all the streams is the claim that institutions matter, but this is not to say much, since the definitions and assumptions used by the various “institutionalisms” and the way that they break with previous work in these disciplines differ strongly. For instance, the purely instrumental definition of institutions in neo-institutional economics is incompatible with the cognitive focus of many sociological studies. There have been various attempts to describe neo-institutionalism, both on the basis of disciplines and of theoretical characteristics. Scott has ordered the diverse studies by focusing on the extent to which they are internalised. On this basis he distinguishes the three dimensions or “pillars” mentioned before (see A.2.1): regulative, normative and cognitive (Scott, 1995). Hall and Taylor use a different type of classification, which is based on two main variables: (1) how the interaction between behaviour and institutions is conceptualised, and (2) how institutions originate and change (Hall and Taylor, 1996). These overviews show the difficulty in bringing all institutional theory within one
framework. The analysis in this book is based solely on the variety that has recently emerged in organisational sociology.

11.3 A.3 Three methods for interpreting the empirical data

Chapter four described three methods for fitting empirical observations into the theoretical model constructed in chapter three. This paragraph discusses the reasoning behind this choice of tools somewhat more elaborately. The methods of variation and fit were inspired by previous studies in institutional organisational sociology. The method of obtaining accounts was added to avoid the kinds of challenges that these studies have (justly) faced.

11.3.1 A.3.1 The method of studying variation in decision-making

Studying the variation in patterns of decision-making has been one of the principal methods of institutional theory for detecting processes of collective innovation. The assumption underpinning this method is that such processes will encourage homogeneity, and that a lack of diversity can therefore be used as an indicator of their occurrence. What it proves is that organisations have for some reason become more similar over time. However, the problem with the method is that it is in itself insufficient to draw any firm conclusions about the mechanism behind the homogeneity. By implication, it also has difficulty in discounting other interpretations. The original discussions of isomorphic processes drew a line between competitive and institutional isomorphism (DiMaggio and Powell, 1991b). The former would apply especially when there was open competition, the latter when there was not. However, this is a vulnerable position. To begin with, it downplays the extent to which institutional processes occur in competitive environments, if the two can be distinguished at all. Furthermore, it leaves open the question what exactly causes homogeneity.

To start with the first point, there has been plenty of evidence to show that institutional isomorphism (in Powell and DiMaggio’s sense) occurs in competitive environments. Well-known examples are Orrù, Biggart and Hamilton’s analysis of Oriental businesses and Fligstein’s research on large American companies (Orrù, Biggart and Hamilton, 1991; Fligstein, 1990). On the basis of data about Japanese, South Korean and Taiwanese companies, Orrù, Biggart and Hamilton argue that the distinct characteristics of business relationships in these countries are not only the result of technical requirements, but also of institutional and normative factors. Fligstein’s analysis shows how organisational strategies spread through the business community through a combination of coercion and mimicry. Such evidence even calls into question what is the exact difference between the two types of isomorphism and whether it is at all useful to distinguish between them.
More important, though, is that the method of variation has no way of discounting rival interpretations. Imitation, the action that drives collective innovation through reproduction, does not in itself suggest the motive behind the organisation’s choice. When their competitors merge and control a larger share of the market, organisations may merge in response in order to control an equal market share. Alternatively, they can merge because they feel it is appropriate. Yet another option is that they do not know well what to do and therefore follow their peers until they have acquired enough information to pursue their own course. These are resource dependence, normative and cognitive interpretations respectively. The variation in the patterns of decision-making offers no clue which of these is the correct interpretation. Conclusions drawn from patterns of decision-making alone cannot even stand up against functionalist interpretations, which attribute similarity to “market forces” – theoretically weak though such explanations may be.

11.3.2 A.3.2 The method of fit

The method of fit grew out of attempts to overcome this weakness. It was inspired by observations that organisational activities were not as coherent as had often been supposed. Different aspects of organisations were found to be “loosely coupled”, organised along different principles. For instance, Meyer and Rowan found that American schools conformed to general structural features such as curricula, exams and certain administrative procedures; within the classroom, however, there were major differences that were largely invisible from the outside (Meyer and Rowan, 1992). In this way the schools could secure their state funding and simultaneously adapt to whatever was required in their local community. Likewise, organisations often do not do what they claim to be doing or what they feel they ought to do. Selznick’s study of the Tennessee Valley Authority showed how the organisation started out with the intention of developing poor regions in the southern US, but eventually ended up consolidating the status quo (Selznick, 1949). Paradoxically, it needed to co-operate with established local interests to achieve the reforms that would help underrepresented groups like small farmers. In this case, the deviation from strategy became permanent, as cooperation with the rural establishment became too close. The TVA found itself defending their interests instead.

The method of fit focuses on cases like this, in which an organisation makes a decision that is not in accordance with its own strategy. What the method proves is (1) the real extent of variation in the field, and (2) the differences between actors. By dissecting actions into various layers, it discerns diversity that may not be visible on the surface. This, in turn, shows the true nature of relations within the field. When organisations only conform to trends on the surface, like American schools, but continue to follow their own course, then the collectively adopted innovation may be abandoned when it is no longer useful. However, if they consistently flout their own principles, as the TVA did, then the innovation may have a more lasting effect.
Since the method can be applied to units of analysis below the level of the organisational field, it can also be used to detect differences between subgroups or single organisations. It is for this purpose especially that it has been applied. Studies using this method have mainly attempted to prove a difference between innovators and followers in terms of fit or misfit. For instance, in Rumelt’s study of the relation between division structures and diversification strategies, he confirmed Chandler’s maxim that structure follows strategy (Rumelt, 1974; Chandler, 1962). However, he also found that as time progressed the fit began to weaken. From this he concluded that late adoption was based on mimicry. Tolbert and Zucker demonstrated that civil service reforms made early in their research period were related to city characteristics, whereas later reforms were inspired by definitions of what was legitimate (Tolbert and Zucker, 1983). The authors then went on to suggest that city characteristics were related to effectiveness and that late reforms must therefore have been less effective. But, as Donaldson argues, this merely shows that decisions were related to different variables, not that they are less effective (Donaldson, 1995, p. 89-90). The weakness of Tolbert and Zucker’s claim follows from the regrettable assumption that misfits must necessarily lead to ineffectiveness. This, in turn, follows from the assumption that collective innovation is an “irrational” phenomenon.

But there are also rational ways to account for a misfit. When an organisation does not have the capacity to innovate in the way that it would like, it may be temporarily more rational to follow than to innovate. For instance, a new company may believe that it can effectively and cheaply market its products by establishing close relations with its clients through specialised local branches, rather than by advertising in the mass media. However, as long it has not acquired the specialist knowledge and created the networks that its strategy requires, it may choose to engage in costly advertising battles with its competitors. This is more secure in the short term, even if it does produce a misfit, because the company cannot rely on a strategy that it cannot yet implement. Moreover, many misfits can only be understood by relating them to other decisions. To return to Meyer and Rowan’s research on schools, they might have concluded that the formal curricula and structures did not fit well with the internal requirements for effectiveness and were therefore irrational. That would have been a misinterpretation, since the formal requirements to which the schools conformed helped secure their state funding. What was a misfit with respect to one goal was a fit in relation to another.

These are explanations that cannot be proven without examining a number of related decisions closely. What has hampered the empirical validation of institutional theory is the dominance of field-level analysis and the related use of statistical methods. Its weakness has been less the accuracy of field-level indicators than the exclusive reliance on such indicators. While variation and fit may be useful in detecting collective innovation processes, the exact nature of those processes will elude researchers unless they gather more detailed knowledge of a broader variety of decisions. Misfits may well be irrational,
but that can only be proven when rational choices that also involve a misfit have been discounted. It is for this purpose that I have studied several related aspects of social housing provision and that I have added a third method.

11.3.3 The method of obtaining accounts

The third method consists of obtaining the accounts of the same respondents that were described with the help of the other methods. This has two advantages. For a start, it provides pieces of information that fit and variation have left out. In addition, it verifies the interpretation suggested by the other methods.

The evidence afforded by the other methods does not show the exact nature of innovation processes. It may not be clear whether these processes are caused by reciprocity or reproduction, nor which organisations are the innovators and which the followers. The innovator/follower problem could in theory be overcome by looking at the timing of events. In a collective process, innovators will obviously adopt new knowledge sooner than the followers. One can therefore suppose that the timing of decisions will reflect the nature of the process. But this may be treacherous, since it may simply be a matter of relative attention. Organisations usually have a limited capacity and may be unable to implement all the innovations they desire simultaneously. The fact that some adopt particular innovations later than others may simply reflect different priorities. A far sounder method is to ask members of the organisation why and how they came up with this innovation. Their accounts will fill up the gaps in the evidence and allow a more detailed description of what happened.

Furthermore, the accounts will verify the interpretation suggested by the other methods. Without such confirmation, it can be easily challenged by rival explanations. It is possible, for instance, that what appears to be collective innovation is simply the sum of several individual innovations. Although this is unlikely, the methods of fit and variation are incapable of rejecting such an alternative explanation decisively. It is also important that the reasons respondents give for their actions are consistent with the motives that the theory expects them to have. After all, action is not mechanistic, but informed with social meaning. If the explanation of decisions is totally at variance with the accounts given by the actors themselves, then there is a high probability that the analysis is simply imposing its own version of reality on the object rather than helping to understand the reality as actors perceive it. It would not be consistent with its own social constructivist basis.

It is not necessary for respondents to agree with the theoretical interpretation completely, as long as they support its basic scheme of causality. For instance, suppose that the other methods suggest that one actor has adopted a certain innovation because his neighbours have done so before. His account should at least indicate that the decision was taken with reference to the
decisions of others, whatever specific reason he provides for following them. If the accounts of respondents flatly contradict the interpretation suggested by the other methods, there is a problem. To return to the example: if the actors denies outright that his decision had anything to do with its adoption by others, then the evidence is contradictory and it will be difficult to draw any firm conclusions. In that case, the analysis ought to try and explain the discord.

11.4 A.4 Collecting data

11.4.1 A.4.1 The approach to the object

The methods for interpreting the empirical data have implications for what these data should be like and how they need to be collected. The method of variation requires simple statistical information on whether patterns of decision-making in the national and local populations show homogeneity or diversity. The other two methods, by contrast, ask for fairly detailed information. This means that the research design should accommodate two different approaches: one extensive, the other intensive. The intensive/extensive distinction was introduced to bypass the qualitative/quantitative duality (Harré and Secord, 1972). Intensive research consists of the examination of a large number of related variables in a small number of cases (Harré and De Waele, 1976). By contrast, extensive research comprises less comprehensive inquiries into a large number of cases.

Detailed information on the organisational level can best be acquired through intensive case studies. There is some confusion over what case study research is exactly, but I interpret it as an approach to the research object that combines the following features:

- It studies phenomena in their real-life context, rather than under controlled conditions (as in an experiment).
- It studies a selective number of elements from the overall population intensively. This can be done both with quantitative and qualitative methods of data collection, although the latter is more usual.
- The aim is not to make statements about the frequency with which empirical phenomena occur, but about the logic through which they occur. Yin has called this “analytical generalisation” (Yin, 1989). Of course, even the results of such a generalisation can only be valid within the specific population in question (Swanborn, 1995). Only similar studies in other populations can prove the validity of the conclusions in another context.

The case study approach is very suitable for the present analysis. Since the population is large (over 600 organisations) and the information that has to be collected is of a detailed kind, it is impossible to study the population as a
whole. This forces a selection of representative elements of the population. Since the aim of the inquiry is to discover the logic of the quasi-market, it is sensible to select case studies rather than a statistical sample. Furthermore, the cases provide the density of information that a proper use of the theory proscribes. It is perhaps true that the case study approach has become too dominant in Dutch public policy and administration research (De Vries, 2000). However, in this instance it is clearly the best approach.

Since it is necessary to collect information about single organisations as well as local communities, it is most prudent to select cases consisting of local communities of providers (although single providers will remain the unit of analysis). This allows me both to study single organisations as well as processes at the local level. The cases are restricted to towns, since it is here that ties are strongest and collective innovation is most likely to occur. In the future, regionalisation may broaden local communities, but as yet it would be premature to look beyond the traditional municipal boundaries.

As for information about national patterns of decision-making, it can be acquired in two ways. The variation in the case selection (see below) should reflect homogeneity or diversity at the national level. After all, if the cases represent the population of providers adequately, similarity in decision-making among the cases should reflect homogeneity among the overall population. However, this inference will be stronger if it is backed up by national statistical data. These can be acquired from government sources as well as from other studies on Dutch social housing. Since homogeneity is a simple indicator, broad aggregate data will suffice. These kinds of statistics have been available for most areas of decision-making.

11.4.2 A.4.2 Case selection

There are two choices in the process of selecting cases (Swanborn, 1994). The first is between maximisation and minimisation of the variance between variables (Glaser and Strauss, 1967). Minimisation helps to solidify a theoretical interpretation, but only under very specific conditions. Maximisation of variance tests how far its explanatory power will stretch. The second choice in case selection is whether to vary on dependent or independent variables. Varying on the dependent variable will show under what conditions certain outcomes can be expected, but it is considered a methodological fallacy. Minimisation of variance on independent variables turns a comparative case study into the replication of one type of case, which is useful when the state of knowledge about a particular phenomenon is low. Maximisation of variance on independent variables helps to reveal the sensitivity of the dependent variables to shifts in the parameters of the cases.

While little is yet known on the dynamics of social housing, there is an increasing body of empirically grounded material on markets and quasi-markets in other fields. It is on that basis that it has proven possible to
construct such an elaborate theory. That is why it is feasible to move on to maximisation of variance on a key independent variable. This variable is the level of uncertainty. One of the questions central to this analysis is the effect of the financial incentive inherent to the quasi-market. The effect of this financial incentive is to increase the level of uncertainty. The great advantage of studying social housing is that it is possible to vary the strength of uncertainty (and by implication, of the financial incentive) within the same regulatory framework. This is because the distribution of resources differs significantly between local markets. Due to variations in subsidisation, local markets and past decisions, some providers are far worse off than others. In addition, the gap between supply and demand is diminishing faster in some local markets than in others. The differences between the cases should then give a good indication of how the financial incentive affects quasi-market behaviour. Implicit in the theory is the assumption that this variable will not affect the direction of decision-making. Increased uncertainty may kickstart a process of change, but the kinds of choices organisations make are expected to be influenced by other variables, such as their innovative capacity and social relations. Should uncertainty prove decisive in determining the direction of change, then there will be a serious theoretical problem.

Uncertainty should be highest where markets are slack, that is, where there is a surplus in supply. Where markets are tight, uncertainty should be lowest. A second variable that influences uncertainty is the financial position of individual providers. It includes not only regular cash flows and accounts, but also the "solid capital" enclosed in bricks and mortar. While this is an organisational rather than a local variable, it can be established that variation on this variable was clearly smaller within than between towns (though not within sections of regional markets). Combining these two variables, it is possible to select cases on a descending level of uncertainty.

These criteria have led to the choice of four cases. The case with the highest level of uncertainty is Bear Pit, where the market is slack and providers are financially weak. One step below comes Tiger Town, where the market is tight, but providers are poor. Next is Shark Pool, where the market is tight and providers financially comfortable. Last comes Elephant’s Corner, whose wealthy provider operates in a stable market. Unfortunately, it was not possible to do more than four. The intensity of the research and the need for sufficient variation were conflicting requirements, given the limited means at my disposal. Obviously the analysis would have been stronger if the number of case studies had been larger, but the variation is still sufficient to provide firm conclusions. It was of course essential that the cases should not affect one another, as that would have contaminated the results (cf. Rosenthal and ’t Hart, 1994). Fortunately, that is highly improbable, given the fragmented nature of the housing market and the geographical distance between the cases.

The time frame within which the cases have been studied is the period 1994-2000. This covers the years between the decentralisation of financial risks and
the date until which the deadline of the empirical research phase could be successfully postponed. This period is not long enough to allow strong relative changes of the level of uncertainty between the cases.

11.4.3 A.4.3 The four cases

The cases have each been described in chapter five. This section will elaborate on the variables by which they have been selected. For each case, I will start by charting the nature of the regional housing market. This will include the relation of supply to demand and movements within key segments of the market. Then I will go on to assess the financial state of the social housing providers in those markets, measured in terms of their solvability, their net assets per housing unit and the quality of their housing stock (the “solid” capital). The data were taken from various reports published by the providers themselves and by local authorities. The figures are only meant to give an indication of the level of uncertainty and will be stylised, both for the sake of transparency and of anonymity. The one snag is that data are only as strong as the beliefs they are based on. What matters is not whether statistics on local housing markets are accurate by an external standard, but whether the actors involved believe them to be true. Therefore I will only use market data which are known and supported by the social housing providers in the cases. If there is any disagreement, this will be mentioned and incorporated into the analysis. There will be no such problem with estimates of the providers’ financial state, since these were drawn from reports by the providers themselves.

Bear Pit had four major providers, which together owned about half the housing stock. Provider Polar Bear with its 16,000 units came into existence when two local competitors merged in 1999. Though its stock was not in the best of shape, its solvability and net assets per housing unit had reached 9% and 5000 respectively. Grizzly was a composite of two organisations, one a traditional provider and another a provider of students’ housing. The separation was temporarily maintained because of the marked difference between the two organisation’s bankbooks. The former, with just under 9000 units in good shape, had a solvability of about 3% and a net assets per housing unit of well over 2000, whereas the latter had to cope with –5% and - 3000 respectively, as well as ill-maintained stock. However, the long-term prospects of the weaker part were improving and a merger of the two organisations was now being considered. Panda with over 8000 dwellings was among the poorest of the Bear Pit clan, with solvability at –5% and only expected to reach 0% in several years time. Its net assets per housing unit stood in the red by over a thousand. Koala, finally, was best off, its solvability at 7% and net assets per housing unit at just over 3500. These were set to fall in the near future, though. By everyone’s admission, Koala’s stock of over 7000 was the best in town.

The relatively poor financial state of Bear Pit providers added to growing
fears over an increasingly slack market. During the research period the local housing market reached quantitative equilibrium, but at the same time it faced a growing qualitative shortage of single-family units and owner-occupied homes. The city itself could not match this demand, as a major share of its stock consisted of rented multi-family units. By contrast, nearby towns and villages had built to cater for this type of demand, beyond their own needs. The predictable consequence was that many households left the central city to settle in the surrounding countryside. Simultaneously, the number of young entrants on the market was dropping steadily. This put pressure on the stock in Bear Pit, especially on expensive and multi-storey rented housing. It has been said that what happened in this town was a foreboding of future developments in other parts of the country. However, in the 1990s there were still few housing markets as slack as this. The local authorities and most of the providers regarded these developments as a major threat. Already there were rising vacancies and faster rates of mutation. If the trend continued, their stock would be hard hit, since less than a quarter of their stock consisted of units that were in high demand. It would also cause a greater social divide between the countryside and a central city that was not without problems to begin with. The incentive to act was therefore quite strong. It should be noted, though, that one of the providers, Koala, disagreed with the dominant analysis of the housing market. It estimated that current figures were interpreted incorrectly and that shifts in demand would not be as problematic as had been predicted. However, the other providers and the local authorities based their plans on the gloomy scenario.

Tiger Town potentially faced the same kinds of movements as Bear Pit, but its central location and its good image were likely to sustain a far stronger demand. Moreover, a lack of new construction in the region delayed the migration outwards. This situation was unlikely to last forever, though, with several large projects underway at some distance. The lack of construction sites in the town itself was becoming a major problem. The local authorities of Tiger Town had predictably turned their eyes to the surrounding suburban towns, where they met with great suspicion. None of the four providers in this case was particularly wealthy, but Siberian was in a worse shape than any of the others. It was the largest of the four providers in Tiger Town, with a stock of about 10,000. Its net assets per housing unit were at -2500 and solvability was down to -4%. The real problem, however, was the technical state of its stock, as all but the most urgent maintenance had been postponed for several years. In short, its situation was disastrous. The others were stronger, both in terms of financial assets and technical quality, though none more than moderate. Bengal had seen its solvability and net assets per dwelling (on a total of about 2500) rise to 16% and over 10,000, even though these were both at zero at the start of the research period. This was largely due to the sale of assets. Paper Tiger had a solvability of almost 7% and net assets per housing unit of just under 8000, on a total of 3000. Both were expected to rise in the coming years. Sumatran specialised in students’ housing and consequently over 80% of its stock consisted of units with shared facilities. With a solvability of 8% and rising, it was among the more
comfortable in the town. Yet the drop in students’ numbers was expected to affect its future prospects significantly.

Although the providers of Tiger Town entered the quasi-market in a poor state, developments in the housing market were still in their favour. Continued demand and the lack of new construction afforded some breathing space. Expensive rented dwellings were becoming more difficult to let, but other types of rented housing were not yet in the danger zone. Meagre assets and a lack of construction sites did limit their options, but there was no immediate threat. Siberian was an exception in that it faced grave short-term problems due to a huge maintenance backlog. The level of uncertainty for this provider could be described as strong, whereas it was moderate for the others.

In Shark Pool, the level of uncertainty was relatively low. Since most of the town had been built in the early post-war period and new construction was sparse in the early 1990s, the elderly made up an uncommonly large proportion of the population (nearly a quarter, almost 10% over the national average). While the composition of Shark Pool’s stock in terms of housing types was not radically different from that of the large city nearby, it was a far more popular destination. This was probably due to the relative absence of social problems, as well as the affordability and healthy state of its stock. The regional housing market was still tight, but this was likely to change over the coming years, since there were a number of large construction projects in the region. These additions to the housing stock (mostly owner-occupied single-family units) were expected to turn the overall shortage into a surplus. Under such conditions, expensive and moderately expensive rented dwellings were likely to be vulnerable assets. However, the stock in Shark Pool was unlikely to be hit hard in the short term because of its favourable location. It sat at the other end of the migrations that threatened towns like Bear Pit and Tiger Town. The major problem, according to the local authorities’ housing plan, was the lack of (adequate) housing for the elderly. Some of the respondents in the case have suggested that even that problem was overstated.

The three providers all had stock that was well-maintained and of reasonably good quality. Financially, Great White seemed to be in poor shape, with a solvability of –5% and negative net assets per housing unit of about 3000. However, these figures were quite deceptive. A number of years before the management (since retired) had decided to deduct all investments in existing stock from its balance immediately, rather than to apply the more usual method of spreading costs over time. As a result, the net assets per housing unit and solvability were set to rise rapidly in the near future. Hammerhead had net assets per housing unit of just over 3000 and a solvability of about 6%. These rather poor figures were caused by recent large-scale investment in a building project. Again, they must be eyed with caution. The prognosis of revenues from newly constructed dwellings was uncertain and deliberately conservative. Actual revenues were expected to be much higher. Nurse Shark was very similar. Its solvability had slumped to 6%, also due to recent large-
scale investment that had dampened its immediate financial prospects. However, when it merged with two other providers at the start of 2000, its solvability jumped to nearly 10% and net assets per housing unit to over 7000. All in all, the providers in Shark Pool were fairly comfortable. The only cloud in the sky was the nature of their stock, which consisted mainly of multi-family dwellings and units in multi-story buildings. These types of housing were generally becoming less popular. Only some of these units could be converted into housing for the elderly, since many lacked basic facilities such as elevators. However, short-term problems were unlikely because of Shark Pool’s favourable location and image.

The local Elephant’s Corner market knew neither large surpluses nor large shortages. Population growth in the region had slowed down over the past decade, due to falling birth rates and a surplus of outward migration. However, what with the growth of Elephant’s Corner’s business community and a decrease in household size, there had been increasing pressure on a few segments of the housing market. Single-family units and housing for the elderly were particularly in demand. Most of the existing stock consisted of owner-occupied single-family units, with social rented housing comprising less than a third. There was only one housing provider, but this was a most interesting one. It came into being in 1996, after the original Elephant provider merged with two regional competitors. Since then, it had gained quite a reputation in the social housing sector; partly because it was innovative, headed by one of the best-known entrepreneurs in the field; but no less because of its enormous wealth. Its solvability was close to 30% in 1999 and expected to reach 60% in ten years’ time. Its net assets per housing unit amounted to well over 25,000 guilders. For social housing providers, this was the stuff that dreams were made of. The Elephant provider’s stock of a little under 7000 dwellings was technically some of the best in rented housing in the region, most of it in excellent condition. Over 80% consisted of single-family units and housing for the elderly, whereas unpopular housing types made up only a small fraction. In short, the position of the Elephant provider was rock-solid.

11.4.4 Methods for collecting data

Case study research is often associated with qualitative methods, but strictly speaking that is not the only option. It is very well possible to conduct quantitative case studies, for example, by quantifying the results of standardised observation. However, that is unrealistic for the current analysis. Too little is yet known about developments in the social housing field to define accurate quantitative indicators, at least if one is willing to dive below the surface. This difficulty is aggravated by the state of flux that the providers are going through. Furthermore, some of the data were of a sensitive nature and less likely to be revealed in a survey than in a personal interview. Qualitative methods are therefore more reliable in this context.
While there is no fundamental reason to use multiple methods, as Yin suggests, triangulation does strengthen the validity of the evidence (cf. Yin, 1989). In this case, it was possible to acquire data both through documentation analysis and semi-structured interviews. Documentation consisted of policy documents, mission statements, records of meetings, annual reports and so forth. There were over forty interviews, with managers and staff from social housing providers, local officials and politicians, tenants and professional advisors (see table A.1). There was the occasional opportunity for observation. Where possible, I have verified the data by combining both different sources and different methods. The evidence from documents was compared with that from interview transcripts. Moreover, the statements of one respondent were compared with those of another. This is the advantage of choosing cases at the local level: people were quite familiar with other actors and able to provide additional information. This would not have been possible if only the (small) organisations themselves had been studied. Where evidence was self-contradictory or supported by only one source, I will indicate so.

The Shark Pool and Tiger Town cases were the first to be studied, which is why they were examined in more detail than the other two. It turned out that some of the interviews were largely superfluous. To be specific, it usually proved sufficient to interview only the top people of social housing providers. In organisations of a different type (e.g. hospitals) this approach would have been unacceptable. However, in these small, hierarchical organisations, where staff had relatively little professional discretion, it yielded an adequate picture of decision-making. This was especially so since the statements of respondents could be checked with the findings from documentation analysis as well as with the statements of respondents from other organisations. Likewise, it soon became clear that tenant representation could be assessed by relying on the accounts of a few well-informed representatives and by checking these against the results of documentation analysis and accounts by other types of respondents. This allowed the Bear Pit and Elephant’s Corner cases to be examined more efficiently.

All the cases were studied under the promise of anonymity. Some of the information concerns relationships between people or organisations that are in a permanent working relationship. When they are highly critical of one another, they are unlikely to say so in public. To loosen their tongues I have thought it necessary to hide the names of people, organisations and places. This is regrettable, but it brings to light pieces of information that would otherwise have been unobtainable. When so little is yet known of the dynamics of the field, every scrap of evidence is useful.
Table A.1: the respondents interviewed during the empirical research, listed by reference number, case, organisation and function.

<table>
<thead>
<tr>
<th>Number</th>
<th>Case</th>
<th>Organisation</th>
<th>Function during research period</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bear Pit</td>
<td>Polar</td>
<td>Manager, holding company</td>
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<tr>
<td>2</td>
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<td>Polar</td>
<td>Manager of local provider</td>
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<td>Grizzly</td>
<td>Manager</td>
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<td>Panda</td>
<td>Manager</td>
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<td>Koala</td>
<td>Manager</td>
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<tr>
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<td>Tenant support organisation</td>
<td>Co-ordinator</td>
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<td>Local authorities</td>
<td>Staff member of housing department</td>
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<tr>
<td>9</td>
<td>Tiger Town</td>
<td>Siberian</td>
<td>Manager</td>
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<td>Bengal</td>
<td>Manager</td>
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<td>Sumatran</td>
<td>Manager</td>
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<td>Professional specialised in tenant support</td>
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</tr>
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13 Summary

The introduction of quasi-markets

One of the most important elements of welfare state change during the 1980s and 1990s was the introduction of quasi-markets in the implementation of social policy. Quasi-markets are markets in which supply and demand are more tightly bound to rules than regular markets. In such a system, suppliers (the providers of welfare state goods and services) have more autonomy than they would if their relationship to the state was strictly hierarchical, but they are forced to remain within certain limits. For instance, suppliers in a regular market may focus exclusively on the most profitable clients, while suppliers in a quasi-market are usually specifically forbidden from doing so.

The question central to this book is how the quasi-market experiment has worked out. It is typical of market-based systems that they are based on incentives and, by implication, on assumptions about how the actors will react to these incentives. The success of quasi-markets therefore hinges on an understanding of the logic behind the behaviour of these actors. This book has tried to add to the knowledge of the phenomenon by dissecting the quasi-market in Dutch social housing. The analysis draws on theoretical insights from organisational sociology, combining a political economy approach to organisations with the cognitive focus of recent institutional theory. Evidence was gathered primarily through four intensive case studies using qualitative methods.

Social housing in the Netherlands

The social housing sector in the Netherlands was a suitable empirical object because it was introduced relatively early and because its basic framework has not been changed significantly since (which is uncommon). The protagonists, the Dutch social housing providers, originally arose as small semi-philanthropic institutions, founded by gentry and businessmen in the late 19th century. After the Second World War, they became part of the government’s drive to eliminate the immense housing shortages. This meant that all of a sudden these small organisations run by amateur boards were eligible for vast subsidies. The flip side of the coin was that regulation concerning social housing became very dense, up to the point that the housing providers effectively became extensions of national housing policy. All major decisions regarding construction, sale, prices (rents), distribution and even organisational structure were heavily regulated and/or controlled directly by local and national authorities. Their rents were well below market levels due to the systematic infusion of state funds. Under this strict regime, the providers kept growing. By the 1980s they controlled about 40% of the total housing stock, oddly high by international standards.
But during that decade housing policy started a period of radical reform. A parliamentary enquiry had painfully exposed the intransparency of the system of housing subsidies. Furthermore, the housing shortages had all but disappeared, which meant that housing policy plummeted down the list of political priorities. In the end it resulted in a major shake-up, including the liberalisation of the social housing regime. By the mid-1990s, subsidies had been abolished and the social housing providers had been given financial responsibility for their own actions, in exchange for a relaxation of behavioural controls. This was effectively the introduction of a quasi-market. Their goals were only defined broadly at the national level. These would be specified in negotiations at the local level between providers and local authorities. In other words, they gained more freedom, but less security. Their sound financial position and the backing of two sector funds took the edge off this insecurity, but the policy change still left them in a position of greatly increased uncertainty. How did they cope?

Coping with uncertainty

With the advent of the quasi-market, social housing providers faced two different kinds of uncertainty. To begin with, they no longer had the guarantee that they would receive the money they need to ensure their financial continuity. The risk they faced was that tenants would leave them and opt for another provider or for home ownership. This forced providers (quite intentionally) to develop strategies to attract and retain tenants. Simultaneously, they were confronted with a second kind of uncertainty: what to do? The kind of behaviour that had worked when they were in effect administrative agencies was inappropriate in the new setting, where they were forced to think in a more business-like manner. They had to discard old habits and develop a new approach to their task, one more suitable to the quasi-market. In other words, they had to deal with a problem of knowledge.

On the face of it, the organisations seemed ill-equipped to cope with this cognitive challenge. Developing new knowledge is a costly and time-consuming enterprise, since it is by definition not a routine activity. Yet most social housing providers consisted only of a few dozen people, most of them technicians and administrators. In each organisation there were in practice only a handful of people in a position to create new policy. Moreover, most of the staff dated from the period before the introduction of the quasi-market, a time when their role was an entirely different one. With such little capacity for innovation, one would expect that changes would have occurred only slowly and with difficulty.

Collective innovation

In fact, they appear to have adjusted fairly quickly. Within the span of short number of years, a great number of social housing providers have completely re-invented themselves. Many have switched to new organisational structures (from a traditional bureaucracy to a front/back-office structure), a new
distribution system (from waiting lists to advertising) and a new legal status (from associations to foundations). Many have developed new products (services, new types of rental contracts, hybrid forms of tenure) and engaged in elaborate and innovative plans for regenerating inner city neighbourhoods. Moreover, there has been a great extent of interorganisational co-operation, particularly through mergers. This is a remarkable paradox: the organisations have little capacity to innovate and yet they innovate tremendously. How can this be explained?

The answer is fairly simple: the providers have joined their efforts and innovated together. There are two ways in which they have done this. The first is through direct negotiation. Policy scientists have noted that in a process of repeated exchange, actors may reach joint decisions that are innovative in nature (a process also referred to as “learning”). This is not simply a matter of reaching a collective decision, but also of creating a decision that did not belong to the old repertoire. A second way of innovating together is by copying (borrowing, stealing, what one will) from one another (what DiMaggio and Powell have called “mimetic isomorphism”). In each group of organisations there are a few innovators who have the capacity to improve their performance by coming up with innovations. Other organisations then copy the ideas of these innovators, rather than innovate themselves. Particular innovations will thus gradually spread throughout the group. This is a way of pooling the capacities of the various members of the group, which is why I refer to it as “collective innovation”.

Providers thus adjusted by exploiting the considerable innovative potential of the social housing sector as a whole. This is not surprising, given that there was a number of conditions very favourable to processes of collective innovation. Co-operation at the local level was encouraged by the mutual dependence in which providers and local authorities were caught. Investment in stock is far more effective and less risky when other providers do the same and when the local authorities upgrade public spaces. There is much to gain from co-operating. Moreover, these were actors that had usually operated in the same area for decades and were therefore thoroughly familiar with one another. Copying was made easier by the extensive social networks that had developed under the old regime. There were many long-established personal networks between people who had worked in the sector for decades. Furthermore, the branch associations (merged into one in 1999) have traditionally had an important role in guiding and training housing managers. Their activities include the organisation of conferences and network meetings, as well as the publication of specialist journals and papers. Other organisations, such the Stuurgroep Experimenten in de Volkshuisvesting (SEV) and specialised university departments and research institutes actively encouraged the development, exchange and diffusion of new ideas.

**Diversity and similarity combined**
One could say that the social capital built up in past years helped the social housing providers to adjust to the quasi-market with relative ease. Past studies have noted that such processes tend to add interest to this social capital. When organisations look to each other for guidance and put faith in similar ideas, they are increasingly likely to become a clear and identifiable group. The common identity built up over decades of shared history would be replaced by a new common identity.

But surprisingly, that does not appear to have been the case. Under the surface there were in fact growing differences among the organisations. Even though they picked up on the same kinds of innovations, they often had very different notions of how to operate in a market. There were roughly three types of market strategy. The first is a fairly traditional one that assumes tenants only want a house that is in technically good condition, and no fuss. Others felt that more was needed to keep their customers satisfied. They expanded their original product with services, new types of contract and so forth. Home care packages are the result of such an approach. Finally, there were providers who focused on diversifying their portfolio. The line of reasoning behind this strategy is that risks can be better handled when they are spread over various groups of customers and local markets. If there is a setback in one segment, the organisation can rely on others to compensate for the losses. When applied, these three idealtypical strategies ultimately result in markedly different types of organisations. Neither of the types appears to be dominant in the social housing sector or likely to become so.

This diversity of strategies appears to be at odds with the previous observation that housing providers all adopt the same kinds of innovation. However, this is only an apparent contradiction. Many of the innovations that became popular over the past years were compatible with different strategies, which may partly explain why they became popular in the first place. For instance, the front/back-office organisational structure is as suitable for providers who wish to diversify and expand as for those who wish to put more emphasis on their service departments. Moreover, there are various ways in which similar decisions can be implemented. For example, while there was a merger trend among providers of different types, they executed this drastic move along very different lines. Providers with a diversification strategy would merge with colleagues in other local markets, in order to create a mixed portfolio. By contrast, those with other strategies would merge within their traditional local areas. In that sense similarity and diversity are not mutually exclusive. Organisations save energy by going along with popular trends, but retain their specific identity by implementing ideas in a manner consistent with their own strategies.

Splitting the sector

The developments in the social housing field have resulted in organisations that are increasingly disparate in terms of size, shape and ambition. This, in turn, has begun to break up the social networks so useful for spreading
knowledge. As organisations come to have increasingly different goals and ambitions, they are less likely to regard one another as “significant others”. They are more likely to establish and maintain contacts with colleagues with similar views and similar characteristics. This is a process that is slowly unfolding, but already quite visible. It has resulted in the demise of interorganisational alliances and is even causing tension within the branch organisation. Some providers feel that their views are no longer adequately represented. In other words, social capital is shrinking rather than growing.

Why is social housing different from other markets, where processes of collective innovation have brought organisations closer together? In the literature on the subject, the main explanations why organisations in a market come to share common views are either that it increases predictability and therefore reduces uncertainty, or that large organisations impose their ways on smaller ones. The crucial difference then appears to lie in the nature of the housing market, because neither of these explanations appears to apply. Because in the housing market supply has a fixed location and demand tends to move only within limits, there tend to be numerous local housing markets that are to some extent detached from one another. What happens in one market will have relatively little effect on developments in another market. This implies that while providers may be socially connected to a large community of organisations, they are generally dependent only on the small number of colleagues in their local market, because only these can affect their market share significantly. When they are not dependent on others, the predictability of their market behaviour becomes less relevant. Moreover, there are no organisations powerful enough to impose their views on others, except in isolated instances.

**Eroding the basis of the quasi-market**

The analysis in this book has described how social housing providers have reacted to the introduction of the quasi-market. Understanding the logic of their behaviour is essential for making the experiment a success. Of course, that begs the question whether the quasi-market in Dutch social housing has indeed been successful. It is early to answer this question with any finality. To attribute the current housing situation to the policy change is as yet premature, because its full effects will only become known over a longer period. However, what is possible is to determine whether the conditions for a successful quasi-market have been met.

On the basis of literature on the subject, I identified four such conditions: (1) the market structure should be competitive, (2) providers should find ways to deal with uncertainty, (3) the relationship between local authorities and providers should be balanced, and (4) the state must have effective instruments for correcting undesirable behaviour. The good news is that providers have dealt with their new situation far more effectively than one would have guessed, due to extensive collective innovation processes. Unfortunately, collective innovation also encouraged mergers that threaten
competition within local markets. Moreover, some providers have become so large that their position in relation to local authorities has grown unbalanced. This may become a problem when the parties have to negotiate over local performance targets. Finally, the main instruments for intervention in the quasi-market, incentives and rules, are effective only up to a point. Market incentives spur providers into action, yet without setting the direction for such action. They set the pace, but not the motion. They do not in themselves encourage desirable behaviour or curb unacceptable behaviour. Regulation is more effective in that respect, but when it is used too often it strangles the autonomy of providers - and along with it the chief benefits of a market-based system.

All in all, the quasi-market appears to have been successful in the short term, but the conditions that make it successful may be under threat in the long term.

**Structure of the book**

Chapter one starts with a description of recent welfare state changes, one of which was the introduction of quasi-markets. This raises a number of questions: how have welfare state providers reacted to the new quasi-markets, how can their behaviour be explained and how does it affect the conditions under which a quasi-market can be effective? The chapter discusses the choice of research questions, empirical object and theoretical approach.

Chapter two describes the empirical object, the Dutch social housing sector. First comes a description of the principal characteristics of housing, the product around which the quasi-market revolves. Next is an overview of the history of Dutch housing policy from the late 19th century to the present, culminating in the recent policy reforms. The chapter ends with a short discussion of the role of housing in the general welfare state debate.

Chapter three constructs a theoretical framework for the analysis. It starts with a description and assessment of the two component theories, resource dependence theory and the institutional theory of organisations, and ends by forging them into a single tool. This helps to identify the choices that social housing providers can potentially make and to predict under what circumstances they will make which specific choices.

Chapter four serves to clarify the methodological aspects of the research. The empirical evidence will be analysed with the aid of three methods: an analysis of the variation between organisational decisions, an analysis of the consistency of decisions, and a comparison of the findings of the previous two methods with the accounts of respondents. The next part of the chapter focuses on the methods by which the empirical data have been collected: intensive case studies, handled mainly with qualitative research methods.
Chapter five describes the empirical data. First there is a brief introduction to the four case studies: Bear Pit, Tiger Town, Shark Pool and Elephant’s Corner. After that there is an elaborate discussion of the data, grouped by six themes central to social housing: physical interventions in stock, distribution, interorganisational co-operation, legal structure, tenant representation and organisational structure. The data are analysed using the three methods presented in chapter four.

Chapter six uses the findings from the previous chapter to draw general conclusions about the behaviour of providers in this particular quasi-market. The chapter also indicates how this behaviour affects the conditions vital for the quasi-market to be successful. A short epilogue describes three developments that could undermine the Dutch social housing sector in the long run.

The appendix comprises a more elaborate treatment of certain aspects of the analysis previously discussed in the main body of text. These are, respectively, the background of the theoretical framework, the methods used for interpreting the empirical data, and the methods for collecting these data. At the end there is a list of (anonymous) respondents.
14 Samenvatting

Quasi-markten: een experiment

Eén van de belangrijkste onderdelen van recente veranderingen in de verzorgingsstaat was de introductie van quasi-markten in de uitvoering van sociaal beleid. Quasi-markten zijn markten, waarin vraag en aanbod sterker dan in “gewone” markten aan regelgeving zijn gebonden. In deze constructies zou, althans dat was de verwachting, de doelmatigheid en effectiviteit van de markt kunnen worden ingezet om publieke goederen en diensten te leveren. Aanbieders in dergelijke markten hebben meer vrijheid dan in een hiërarchische relatie met de overheid, maar worden gedwongen binnen bepaalde grenzen te blijven. Zo geldt voor de volkshuisvesting, centraal in deze studie, dat sociale verhuurders zich niet uitsluitend op dure woningen voor de meest lucratieve doelgroepen kunnen richten, maar verplicht zijn ook sociaal-economische zwakke groepen te blijven bedienen. Ook krijgen ze slechts beperkte ruimte om koopwoningen te bouwen, zelfs al zou dat commercieel gezien zeer winstgevend zijn.

Typerend voor marktsystemen is dat ze werken op basis van prikkels en daarmee op basis van (veelal impliciete) veronderstellingen over hoe aanbieders op die prikkels reageren. Het succes van quasi-markten berust dan ook op een juiste inschatting van de logica achter het gedrag van de aanbieders. Deze studie poogt daaraan bij te dragen en stelt het gedrag van de aanbieders centraal, in dit geval het gedrag van de woningcorporaties. Daarbij gaat het niet om de uiteindelijke effecten van de stelselwijziging voor huurders, maar om de manier waarop aanbieders zich aan de stelselwijziging aanpassen.

De Nederlandse woningcorporaties bezitten op dit moment ruim een derde van de nationale woningvoorraad. Van oorsprong waren deze organisaties privaat en formeel zijn ze dat ook altijd gebleven, maar na de Tweede Wereldoorlog raakten ze in de praktijk sterk verstrengeld met het nationale volkshuishuivingsbeleid. Het gevolg was dat ze hun autonomie in feite grotendeels verloren. In de jaren negentig werden ze echter financieel verzelfstandigd. Hun activiteiten werden minder strikt omschreven dan voorheen. In plaats daarvan moesten ze aan een aantal ruim geformuleerde wettelijke taakstellingen voldoen, die in overleg met de gemeenten in hun werkgebied nader zouden worden gespecificeerd. Door deze beleidsverandering kregen de corporaties meer vrijheid, maar liepen ze ook grotere risico’s. Hun veelal goede financiële positie en de achtervang van sectorfondsen haalden daar weliswaar de scherpe kantjes van af, maar niettemin was hun positie veel onzekerder dan voorheen. Hoe gingen ze daar mee om?

Weinig capaciteit en toch veel verandering
De corporaties stonden voor een forse klus, want ze kregen te maken met niet één, maar twee soorten onzekerheid. In de eerste plaats moesten ze op de woningmarkt inkomsten verdienen, waarmee ze hun voortbestaan konden verzekeren. Een belangrijk risico daarbij is uiteraard dat huurders kiezen voor een andere corporatie of een koopwoning. De corporaties werden gedwongen een strategie te ontwikkelen, om hun huurders binnenshuis te houden. Tegelijkertijd werden ze geconfronteerd met een tweede soort onzekerheid, namelijk: wat voor strategie moet dat dan zijn? Het stond niet vast dat gedrag dat succesvol was binnen het oude systeem, toen ze meer administratieve kantoren dan ondernemingen waren, ook in de quasi-markt succesvol zou zijn. Het was niet alleen onzeker of de benodigde middelen zouden blijven komen: het was ook onduidelijk wat de beste manier was om hier aan te komen. Met andere woorden, de aanpassing aan de quasi-markt vergde ook nieuwe kennis.

Ze waren echter slechts beperkt toegerust om deze grote opgave te lijf te gaan. De ontwikkeling van nieuwe ideeën is geen routinematige activiteit en vereist dan ook relatief veel energie en tijd. De meeste corporaties bestonden echter slechts uit enkele tientallen mensen, waarvan het merendeel technici en administratieve krachten. In de praktijk was veelal enkel een handjevol mensen in staat om over nieuw beleid na te denken. Bovendien stamde een groot deel van het corporatiepersoneel uit de periode vóór de quasi-markt, waarin de organisatie een ander soort rol vervulde. Je zou dus verwachten dat de veranderingen langzaam verliepen.

Deze verwachting slaat de plank echter geheel mis. De corporaties blijken zichzelf in vrij korte tijd opnieuw te hebben uitgevonden. Binnen enkele jaren is een groot aantal overgestapt naar een nieuwe organisatiestructuur (van een klassieke bureaucratie naar een één-loketmodel), een nieuw woningtoewijzingssysteem (van wachtlijsten naar woningkranten) en een nieuwe juridische structuur (van woningbouwverenigingen naar woningstichtingen). Verder hebben veel corporaties nieuwe producten ontwikkeld (allerhande diensten, nieuwe typen huurcontracten, woonzorgcombinaties, huur/koop-constrcuties etc.) en meegewerkt aan verstrekkelijke en vernieuwende wijkontwikkelingsplannen. Tenslotte heeft een groot aantal corporaties deelgenomen aan samenwerkingsverbanden of fusies. Dat is een opmerkelijke paradox: organisaties met een beperkte capaciteit voor vernieuwing blijken zich heel snel aan de markt te kunnen aanpassen. Hoe kan dat?

Collectieve innovatie

Het antwoord is vrij simpel: corporaties hebben het niet alleen, maar samen gedaan. Er zijn twee manieren waarop dit kan plaatsvinden. De eerste is door direct met elkaar samen te werken en uit de confrontatie met elkaars belangen nieuwe ideeën te ontwikkelen (in de beleidswetenschap ook wel “leren” genoemd). Dit kwam met name voor bij de wijkontwikkeling, waarbij
corporaties die samenwerkten veel radicalere stappen namen dan corporaties die niet samenwerkten. Een tweede vorm van gezamenlijke vernieuwing is dat organisaties ideeën van elkaar kopiëren (wat DiMaggio en Powell als “mimetische isomorfie” hebben aangeduid). Een mooi voorbeeld daarvan is het systeem van woningkranten, dat begin jaren negentig in één plaats is geïntroduceerd en zich sindsdien door het gehele land heeft gespreid. Hierdoor kon de vindingrijkheid van enkele organisaties worden benut door organisaties in het gehele veld, door het collectief. Om die reden verwijs ik er naar als vormen van “collectieve innovatie”.

Wat dit verschijnsel mogelijk heeft gemaakt is de hechte sociale structuur van de corporatiesector, zoals die zich in de loop der tijd heeft ontwikkeld. Er bestaan vele kanalen waardoor kennis zich kon verspreiden: de bijeenkomsten van de koepelorganisatie, gespecialiseerde media en sociale netwerken. Door de jarenlange contacten en de gedeelde uitgangssituatie konden nieuwe ideeën sneller als relevant en betrouwbaar worden beoordeeld. Op deze manier kon kennis relatief snel worden verspreid. Samenwerking werd gestimuleerd door de lokale situatie, waarin corporaties en gemeenten veelal indirect van afhankelijk zijn van elkaars investeringen.

**Soortgelijk gedrag en toch groeiende diversiteit**

Corporaties groeiden dus in hun rol door samen te werken en door ideeën van elkaar over te nemen. In eerder onderzoek naar dit verschijnsel geobserveerd dat het de sociale banden tussen organisaties versterkt. Dat lijkt ook heel logisch: actoren die sterk op elkaar letten en soortgelijke ideeën oppikken worden steeds meer een herkenbare groep. In het geval van de sociale huursector zou dat betekenen dat de identiteit die corporaties in het verleden deelden zou worden vervangen door een nieuwe gezamenlijk identiteit. Het sociale kapitaal dat vernieuwing mogelijk maakte zou zichzelf hebben bestendigd.

Maar verrassend genoeg is dat niet gebeurd. Wie onder de oppervlakte kijkt ziet juist groeiende verschillen. Hoewel corporaties soortgelijke innovaties oppikken hebben zij vaak heel verschillende ideeën over hoe organisaties in een markt moeten opereren. Grofweg zijn er drie typen marktstrategieën te onderscheiden. De eerste is een traditionele, die er van uit gaat dat huurders een technisch goede woning willen en verder geen fratsen. Andere corporaties breiden hun product steeds verder uit. In combinatie met de woning bieden ze steeds meer diensten aan, zoals het populaire woonzorgpakket. Weer andere corporaties zoeken hun heil in diversificatie. Dit houdt in dat ze hun risico’s spreiden over verschillende typen huurders en lokale markten, zodat ze niet te zeer worden getroffen door tegenslag in één type marktsegment. Vanuit deze verschillende strategieën ontwikkelen corporaties zich naar heel verschillende typen organisaties. Er is niet één type strategie dat dominant is of lijkt te gaan worden.

Deze diversiteit in strategieën lijkt op gespannen voet te staan met de
observatie dat corporaties allemaal dezelfde innovaties oppakken, maar dat is slechts een schijn tegenstelling. Veel ideeën die de afgelopen jaren populair zijn geworden zijn te verenigen met verschillende marktstrategieën, wat een verklaring zou kunnen zijn voor hun populariteit. Zo is een één-loketmodel handig voor organisaties die de dienstverlening voorop willen zetten, maar ook voor organisaties die willen groeien. Verder blijkt dat corporaties dezelfde ideeën heel verschillend kunnen uitwerken. Zo wordt er veel gefuseerd, maar corporaties die graag kleinschalig werken gaan samen met lokale partners, terwijl corporaties die willen diversificeren juist in het bootje springen met collega’s aan de andere kant van het land. In dat opzicht sluiten diversiteit en homogeniteit elkaar niet uit. Organisaties kunnen met populaire ideeën meegaan en daarmee veel energie te besparen, en tegelijkertijd een eigen koers te volgen. Zo beschouwd moet de beslissing om een trend te volgen niet noodzakelijk als “irrationeel” worden beschouwd, zoals veelal gebeurt (ook in de wetenschappelijke literatuur over dit verschijnsel). Trends bieden de mogelijkheid om met beperkte middelen ver te komen, zonder noodzakelijkerwijs de eigen voorkeuren tekort te doen.

De groeiende variatie leidt er toe dat de organisaties qua grootte, vorm en activiteiten steeds verder gaan verschillen. Dit leidt er vervolgens weer toe dat de eerder genoemde sociale netwerken in stukken beginnen te breken. Als organisaties niet dezelfde doelen nastreven en zich niet in elkaar herkennen hebben ze ook weinig met elkaar te bespreken. Corporaties zullen wat dat betreft eerder geneigd zijn contact te zoeken met organisaties met een soortgelijke strategie. Enkele samenwerkingsverbanden zijn uiteen gevallen en ook binnen de koepelorganisatie bestaan spanningen. Het sociaal kapitaal neemt dus af.

Waarom vallen de traditionele banden in de sociale huursector uiteen, terwijl uit andere onderzoeken blijkt dat collectieve innovatieprocessen de banden tussen organisaties juist versterken? Het verschil zit in het karakter van de woningmarkt. Vraag en aanbod in deze markt zijn niet of beperkt mobiel zijn, omdat huizen nu eenmaal vast op de grond staan en bewoners veelal slechts binnen een beperkt gebied verhuizen. Daardoor is er in feite een grote verzameling lokale markten. Wat in de ene markt gebeurt heeft betrekkelijk weinig effect op andere markten. Dat betekent dat corporaties weliswaar sociaal verbonden zijn met een groot aantal andere organisaties, maar voor hun marktpositie slechts direct afhankelijk zijn van een beperkt aantal lokale collega’s. Wanneer ze niet van elkaar afhankelijk zijn, hoeven ze minder rekening met elkaar te houden en zich minder naar elkaar te richten.

Knagen aan het fundament van de quasi-markt

Bovenstaande analyse geeft een beeld van hoe organisaties die belast zijn met de uitvoering van sociaal beleid hebben gereageerd op de introductie van een quasi-markt. Begrip van dat gedrag is essentieel om het experiment tot een succes te maken. Vervolgens kun je de vraag stellen wat de bevindingen betekenen voor de beoordeling van de quasi-markt. Het is mooi dat we meer
weten over quasi-markt gedrag, maar heeft het nu gewerkt?

Het is nog te vroeg om een definitief oordeel uit te spreken over de quasi-markt, maar zoals het er nu naar uitziet moeten de conclusies gemengd zijn. Enerzijds is het natuurlijk gunstig dat corporaties hun gedrag zo snel hebben kunnen aanpassen aan de nieuwe omstandigheden. Anderzijds kunnen sommige elementen van dat gedrag de quasi-markt op de lange termijn ondermijnen. De fusietrend is niet bevorderlijk voor de concurrentie, die een essentieel element van marktwerving is. Met name in de grote steden neemt het aantal corporaties snel af. Even zorgelijk is dat een aantal corporaties boven zijn traditionele plaatselijke werkgebied uitgroeit, waardoor hun positie tegenover de lokale overheid verschuift. Dat maakt het moeilijker lokaal op gelijkwaardige voet afspraken te maken over hoe de betrokken partijen hun sociale taak gaan vormgeven. Al met al lijkt de quasi-markt op de korte termijn succesvol, maar er zijn ontwikkelingen die op de lange termijn haar succes kunnen ondermijnen.

Opbouw van het boek

Bovenstaande analyse is in het boek iets uitgebreider uitgewerkt. Het eerste hoofdstuk begint met een korte beschrijving van de veranderingen in de hedendaagse verzorgingsstaat en de opkomst van quasi-markten, die daar deel van uitmaakt. Hieruit vloeien enkele vragen voort: hoe hebben de aanbieders binnen de verzorgingstaat op de komst van quasi-markten gereageerd, hoe kan hun gedrag worden verklaard, en wat voor gevolgen heeft dat gedrag voor de effectiviteit van quasi-markten? Vervolgens verdedig ik mijn keuze om deze vragen vanuit een sociologische benadering en met de huisvesting als onderzoeksobject te beantwoorden.

Hoofdstuk twee beschrijft het empirische object, de Nederlandse sociale huursector. Eerst beschrijf ik de kenmerken van het product, de woning. Daarna loop ik met grote stappen door de geschiedenis van de Nederlandse volkshuisvesting, met als hoogtepunt de recente stelselwijziging. Het hoofdstuk eindigt met een korte verhandeling over de plaats van de volkshuisvesting in de verzorgingsstaatliteratuur.

Hoofdstuk drie bouwt een theoretische benadering voor het onderzoek. De twee componenten van deze benadering, resource dependence theory en de institutionele theorie van organisaties, worden afzonderlijk uiteengezet en vervolgens aan elkaar verbonden. Op basis van de theorie wordt onderscheiden welke keuzes organisaties in een (quasi-)markt kunnen maken, en welke keuzes onder welke omstandigheden kunnen worden verwacht.

Hoofdstuk vier gaat in op de methodologische kant van het onderzoek. Er zijn drie methoden, waarmee het empirisch materiaal zal worden geïnterpreteerd: een analyse van de variatie tussen beslissingen, een analyse van de consistentie van beslissingen, en een vergelijking van de bevindingen van de twee voorgaande methoden met de verhalen van respondenten.
Vervolgens geef ik aan hoe het empirische materiaal zal worden verzameld: via intensieve case studies, met behulp van voornamelijk kwalitatieve onderzoeksmethoden.

Hoofdstuk vijf doet verslag van de empirische bevindingen. Na een korte kennismaking met de vier cases (Bear Pit, Tiger Town, Shark Pool en Elephant’s Corner) wordt het gedrag van woningcorporaties ten aanzien van zes verschillende thema’s beschreven. De bevindingen worden vervolgens voor elk van de thema’s geanalyseerd met behulp van de in hoofdstuk vier beschreven methoden.

Hoofdstuk zes trekt de bevindingen over de afzonderlijke thema’s bij elkaar en komt tot algemene conclusies over het gedrag van de corporaties in de quasi-markt. Daarnaast geef ik aan in hoeverre de quasi-markt vanuit haar eigen logica succesvol kan worden genoemd. Het hoofdstuk eindigt met een epiloog. Deze beschrijft drie ontwikkelingen, die het voortbestaan van de sociale huursector in haar huidige vorm kunnen bedreigen.

De appendix gaat dieper in op enkele aspecten van het onderzoek, die eerder in het boek aan bod zijn gekomen. Dit zijn de achtergrond van de gebruikte theorieën, de methoden om het empirisch materiaal te interpreteren en de methoden om dit materiaal te verzamelen.
Atkinson has noted that the evidence regarding the link between welfare state size and economic performance is inconclusive (Atkinson, 1999). Others have questioned the simplicity of the globalisation thesis (Rhodes, 1996).

Mayntz has argued that “what is involved here may be more than a difference of perspectives; the structure of the economy may in fact have become increasingly network-like” (Mayntz, 1993, p. 4). There are indeed indications that globalisation and information technology have encouraged the emergence of new economic structures (Lane, 1998; Castells, 1996a).

Peeters argues that deregulation in housing has tended to invite more regulation. This is because of (1) a decentralised, layered type of implementation, which leaves margins for interpretation and invites regulatory responses; (2) the use of undefined terms in statutes, which need new legislation to be specified; and (3) the proliferation of policy goals, which require co-ordination. Whether or not regulation actually does increase is up to the central and local authorities. This means that, ultimately, deregulation has extended their discretionary powers.

The reason why Le Grand and Bartlett describe welfare state provision as universal is probably that most of the early quasi-market research was conducted in the UK and especially in health care.

Since housing is by most people’s standards a necessary good, withdrawing from the housing market altogether is not an option.

The standard defence against many attacks on the unrealistic nature of neo-classical economic theory is that it studies aggregate and not individual behaviour. “Economists are not congenitally stupid. They realize that human actions may be motivated by altruism, desire for power or prestige, the urgings of the subconscious, and many other things. It is obvious also that people don’t always know what they are doing. [...] But to develop economic hypotheses one need not suppose that people are perfectly informed and rational, or that they respond only to material advantage. We need suppose only that material advantage is an important motive, which operates along with others to shape personal behavior; and that there is some rationality and consistency in people’s behavior patterns. If this is true, we can predict that most people will respond in a certain direction to certain stimuli.” (Reynolds, 1966, p. 11). This, in turn, is possible because societies have a basic order. “It is possible to generalize about human behaviour because when human beings live together in organized society they behave most of the time in orderly –and predictable- ways. If they did not, chaos would result and civilized living as we know it would be impossible” (Peterson, 1967, p. 11).

But there is increasing evidence to suggest that even aggregate behaviour cannot be satisfactorily explained with such a lean theory. The failure to understand economies other than those of the Anglo-Saxon type has been startling. Moreover, the line between methodological and empirical assumptions is in practice often a thin one.

Even though this type of work originated with European thinkers such as Weber, Polyan and Pareto, the “new” economic sociology was first institutionalised in the US during the 1990s. Convert and Heilbron distinguish three strands within the American branch approach, those originating in network theory, cultural-historical studies and organisational sociology (Convert and Heilbron, 1999). The first focuses on the importance of social networks in economic processes, both at the macro- and the micro-level. A nice example is Granovetter’s study of how people find jobs through their personal social contexts (Granovetter, 1981). Adherents of the cultural variety have done ethnographic research into economic exchange, examples of which are Zelizer’s study of the meaning of money in different contexts and Abolafia’s ethnographic research on the Wall Street bond and stock markets (Zelizer, 1994; Abolafia, 1984). The strand in organisational sociology, finally, encompasses authors such as Powell, Scott, Meyer, DiMaggio and Fligstein, whose work will be discussed extensively in the course of this book.
The label “actor-centred” is often associated with the individualist, game-theoretical work of Fritz Scharpf (Scharpf, 1997). Scharpf’s work is of major significance, but not all studies with an actor-centred perspective must necessarily develop along his game-theoretical lines. The point of using the term “actor-centred” is primarily to distinguish the type of institutionalist perspective of this study from the structuralist varieties of the past.

For overviews of Dutch housing policy in English, see Lundqvist 1992; Harloe, 1995.

Parts of this chapter are a translation of my contribution to De Herverdeelde Samenleving (Brandsen, 1999). This, in turn, owes a great deal to the small number of historical studies about Dutch housing policy that have appeared over the last few decades (Helderman, 2001; Faber, 1997; Van der Schaar, 1996; 1987a; 1987b).

Helderman uses the term “logic of provision” to denote the effects of product characteristics (Helderman, 2001). While the term has its merits, innocent researchers run the risk of being bogged down in endless discussions about the meaning of “logic”. I will therefore stick to “product characteristics”, as I have elsewhere (Van den Brink, Brandsen and Putters, forthcoming).

None of these characteristics are absolute, of course. If we were nomads living in tents, housing would be cheap and mobile. In the future, homes may all come on wheels or wings. It is only in the present Western capitalist society that product characteristics may be regarded as fixed.

This is disputed, though. The effects of homogeneous neighbourhoods on lifestyle and status are far from clear-cut and the empirical evidence is contradictory. There are also grave doubts about efforts to combat social problems through housing. For instance, plans to improve neighbourhoods by mixing housing types have been criticised on the grounds that mixing homes does not necessarily mix people, that many people spend the bulk of their time and money elsewhere, and that it is a way of spreading rather than solving problems (Duijvendak and De Rijk, 1998; Blokland-Potters, 1998). Blokland-Potters has argued that neighbourhoods are bureaucratic constructions to which policymakers attribute problems and solutions, because programmes targeted at problem groups rather than places are more difficult and controversial.

In Dutch these are called “corporaties”, but the English term “corporations” has connotations that are not appropriate in this context. This is why I have used the term “provider”.

Since Klijn does not mention it, let me note that the term “silent revolution” originally comes from Inglehart (Inglehart, 1977).

This is a reconstruction rather than a strictly historical account, since the actual process of policy change was muddled and gradual. For instance, the decentralisation of financial risks to the non-profits was proposed a few years after the initial liberalisation plans.

Of course, it is not “the organisation” that takes decisions, but its management. The managers have a strong incentive to prevent financial disaster, because if the Ministry steps in, they will probably be the first to go. This once happened to a provider in Limburg, the WBL, which was in deep financial trouble. It should also be noted that providers are formally required to remain financially healthy – it is one of the performance criteria – and that their financial state is monitored continuously.

An idealtype is an abstraction of the aspects of a phenomenon considered essential, which can then be used to help describe actual phenomena by means of comparison and contrast. In Weber’s own words, it is formed by “the one-sided accentuation of one or more points of view and by the synthesis of a great many diffuse, discrete, more or less present and occasionally absent concrete individual phenomena, which are arranged according to those one-sidedly emphasized viewpoints into a unified analytical construct. In its conceptual purity, this mental construct cannot be found empirically anywhere in reality” (Weber, 1949, p. 90). The most famous example is Weber’s idealtype of bureaucracy (Weber, 1968, pp. 956-58).

Annniassen has argued that Esping-Andersen overstates the differences at the expense of historical similarities (Annaniassen, 2001).

This is clearly related to his idea that housing, due to its product characteristics and its place in the capitalist system, follows a markedly different trajectory from other policy areas. From
that perspective, an overall classification of welfare states would include areas that operate according to different logics and would therefore make little sense.

21 Harloe actually distinguishes three types of housing provision: mass, residual and co-operative. Co-operative housing is a type of tenure that falls midway between individual and collective ownership. It allows individuals to buy or sell a share in a (small) collective housing stock. In this way, some of the benefits of the two types of tenure can be combined. My reason for not including it is that it is of very little significance in the Dutch context.

22 Kemeny explains this on the basis of differences in the meaning of “corporatism” (Kemeny, 1995). In the labour movement approach followed by Esping-Andersen, corporatism is analysed in terms of political power. “Esping-Andersen’s view of corporatism as the product of class compromise contrasts with the working-class ascendency in social democratic societies” (pp. 64-65). This is different from the conventional view of corporatism, which regards it as an instrument for political consensus-building. A country like Sweden would be corporatist in the latter sense, yet Esping-Andersen places it in the social-democratic cluster. When countries are classed as corporatist in the traditional sense, it turns out that they tend to have a unitary market, whereas liberal welfare states have a dualist system.

23 Interestingly enough, the “managerial” perspective that resource dependence advocates argued against has come into vogue once more. Recent studies have again focused on issues such as management methods and individual leadership (Brandsen, 1998; Clarke and Newman, 1997; Pollitt, 1996).

24 Of course, uncertainty is a lasting condition for those without the power of divination. What matters is the level of uncertainty that is considered acceptable, which in turn depends on perceptions of which resources crucial to its survival and of the ease with which they can be acquired. The term “risk” has been used to denote the social acceptance of uncertainty, as opposed to uncertainty in an objective sense. Beck defines them as “a systematic way of dealing with hazards and insecurities induced and introduced by modernization itself” (Beck, 1992, p. 21). The economist Frank Knight was the first to make the distinction between risk and uncertainty (Knight, 1921).

25 I deliberately use the term “influence” rather than “power”, for the latter is associated with an elaborate and complicated discussion. As a definition of power, asymmetric resource dependence is too simple. Power does not necessarily involve conflict and may be exercised in more subtle ways than through control over resources (Lukes, 1974). The analysis in this book is not intended to address such grand concepts and therefore the less heavily burdened term “influence” will do just fine.

26 It has been suggested that resource dependence theory is associated with the New Left, which would explain its emphasis on resistance and conflict (Donaldson, 1995).

27 It is not my intention to argue that this is necessarily a bad thing. “Soft contracting” may in fact be a better guarantee for quality than a forced show of competition. However, the exit option is central to the quasi-market concept and in that sense long-term relationships between providers and clients will undercut its principles.

28 Pfeffer and Salancik have gone as far as to describe organisations themselves as “quasi-markets for influence and control” (p. 37).

29 The metaphor is taken from a presentation by David Stark at the conference “Economic Sociology at the Edge of the 3rd Millennium” held in Moscow on January 14-15, 2000.

30 Behaviour inspired by norms can also serve self-interest, but not the kind of self-interest referred to here. If people feel good about themselves because they have done “the right thing”, their actions might be construed as serving self-interest (although that is rather stretching the concept). Even if this is true, it is not self-interest in the sense of market survival, as it is defined in this analysis. It is also possible that conformity to norms has benefits that do serve market survival. For example, such behaviour may allow an organisation to receive subsidies. However, if it conforms with an eye to those benefits, its behaviour is not normatively inspired. A true believer complies with rules even if they do not serve survival.

31 I use the term “innovation” to emphasise that switching routines is not a mechanical process, but a costly and uncertain quest for new knowledge. The term is used in a relative sense (cf. Leene, 1997). An innovation does not need to be new in an absolute sense, but only
in relation to former routines. It will be considered new when it is perceived as such by the actor concerned.

32 By “autonomously”, I mean independently from other organisations in the same field.

33 Solutions arrived at in this way are not necessarily the best. For instance, Janis has described how a team of decision-makers in the US government developed a collective frame of mind regarding the Bay of Pigs invasion, that filtered out all signals that the invasion was likely to fail (Janis, 1982). Institutions do not necessarily have good effects, even if they present a triumph of co-operation.

34 One could argue that imitation lends legitimacy to the organisation that originally spread an innovation. However, in most cases this is unlikely to be a direct exchange, since the innovating organisation may not even be aware that its innovations are being diffused. Moreover, if it is to be conceptualised as an exchange at all, it is not one that creates the kind of dependence that the resource dependence perspective is concerned with.

35 This shows there is no basic incompatibility between rational choice and institutional theory (Dowding, 1994). There is no need, as suggested by March, to separate processes of innovation and institutionalisation from theories that emphasize calculation (March, 1999). Incorporating elements of rational choice into institutional theory will only strengthen the latter by helping to explain how institutions originate and change.

36 One cannot suppose that collective innovation will occur because that would be best for the actors concerned. The decision to participate in such a process cannot be justified (only) with reference to the objective superiority of the innovation or its benefits for the overall population. This would be to suppose, by implication, that the prisoner’s dilemma automatically resolves itself in the best possible manner. If actors do not receive individual benefits from innovation, or have insufficient guarantees that potential benefits will materialise, it is difficult to see why they should bother. Even if the process does occur, one should still be able to explain why it happened, and why not sooner or later.

37 This is usually spoken of as “pressure”, but the need to innovate is double-edged. Actors do not only cave in to pressure to innovate: they may want to innovate to solve certain problems. The notion of environmental pressure must be conceived of somewhat more broadly than as a one-way street. My limited knowledge of physics tells me that pressure can also arise when there is a vacuum at one end. In such a case, it is not a matter of the environment imposing its weight, but rather of the organisation pulling in the environment.

38 The popularity of the concept can be partly attributed to the theoretical developments sketched before, but also to recent developments in business. Enterprises working on a global scale increasingly take the form of shifting networks between organisations and between organisational units (Castells, 1996; Piore and Sabel, 1984). The increasing number and speed of transactions and the need for swift market conquests do not allow for ex ante co-ordination. Inside businesses, elements of the production process must be organised simultaneously rather than sequentially; between businesses, networks must be able to coalesce and dissolve smoothly. This means that on both levels there must be some form of interpersonal or interorganisational trust to make interaction possible (Lane, 1998). Another source of uncertainty is not so much associated with the scale and volatility of networks as with the characteristics of products. In many public service markets, for instance, the quality of products such as health is very difficult to measure, so much so that it is impossible or at least expensive to monitor contracts effectively. In practice, this encourages stable interorganisational contacts regulated by trust rather than shifting encounters governed by competition (Bartlett, Roberts and LeGrand, 1998).

39 This is similar to the claim of organisational ecologists that organisations will use their own population as a reference point, even if populations are not very clearly defined (Hannan and Freeman, 1989). Haveman combines the two approaches (Haveman, 1997).

40 The question is not whether such test cases ultimately prove anything about the “objective” quality of proposed innovations. In Dutch social housing, the evidence provided by pilot studies is often of a very preliminary nature. However, what is most important is that it is perceived as providing proof for the quality of an innovation.
The stories of the golem are set in the Old Jewish Town of Prague and tell of the rumoured exploits of a rabbi who lived in the late 16th century. They have probably inspired Mary Shelley’s *Frankenstein*. The quotes are from the version by Petiska, 1991, pp. 78-80.

It is theoretically also possible that collective choices lead to more variety. For instance, the decision to decentralise decisions to the local level may result in greater diversity rather than homogeneity. However, this is unlikely to happen in cognitive innovation processes, since the point of collective innovation is that it saves effort in reducing uncertainty. The collective choice to be diverse only creates new uncertainty.

The *Woonverkenningen* identify three types: the administrative organisation, the real estate company and the service provider. These correspond to providers with traditional, diversification and responsive strategies respectively. However, the construction of the three types is not explained and their description is a little suggestive. The three strategies described in this chapter are not meant to carry normative connotations.

This analysis focuses only on those interventions in stock that significantly affect the market position of that stock. To include minor alterations would be a practical impossibility.

If providers do this systematically, it obviously amounts to a rule rather than an exception. The point is, though, that they can do this at will.

With liberalisation, the Ministry was more willing to grant providers permission to work on a regional rather than a local scale. However, it was not an automatic right. Providers still needed to request permission themselves. Permission to work on the national scale was given more rarely and under strict conditions regarding the financial health of the provider.

For practical purposes, this analysis makes no distinction between the management and the foundation board. This is to assume either that the two are one and the same or that the board had delegated a major share of decision-making to the management. The results of a survey conducted in 1995 suggested that this was empirically justifiable (Godfroij and De Jager, 1997). The evidence from the case studies later confirmed this.

The focus on the formal system is not meant to suggest that it is more important than the informal structure. What matters here is the choice rather than the effect of structure.

Mintzberg mentions a fourth dimension, hostility, which will not be discussed here because it is not a vital part of the model and empirically irrelevant in this analysis.

I have retained Burns and Stalker’s original label “mechanic” because this is more consistent and less confusing than Mintzberg’s term “bureaucratic”.

Note that I deliberately used the label “more”, because it is not likely that Dutch social housing providers will ever be like Mintzberg’s adhocracies. Stability may be relatively high or low within social housing, but compared to commercial business it will generally be high.

There is some difficulty in discussing a provider that has come into existence during the research period, when the two (or more) of the providers that made up its component parts were also part of the case study. I have chosen to present them as they were at the end of the research period because that will make things considerably easier.

There were actually five major providers, but one of these refused to participate and will therefore be ignored from this point onward. Fortunately, it did not play a crucial role in any of the decisions made by the others.

The reasons why Siberian was so much worse off than the others are quite interesting. It was created in the 1980s through the merger of three smaller providers, one of which was the municipal housing company. The latter owned some very undesirable, ill-maintained stock, which the local authorities passed on to Siberian. What made things worse was that at one point the association meeting decided to shut down all but the most pressing maintenance, in order to save money for “doing nice things” (like low rent rises). The local authorities, when still in a supervisory role, might and perhaps should have intervened at one point, but they did not. It was hinted by some respondents that this was because the alderman used to head the association board of Siberian back in the 1980s and was not eager to draw attention to the provider’s past mismanagement. That was only a rumour, of course.

It speaks for itself that none of the providers fit their category perfectly. Actual strategies will mostly contain elements of at least two of the types. Furthermore, it is possible that strategies shift over time. For instance, providers may move away from their traditional
strategy as time progresses. The question is which strategy has dominated during the research period.

56 I cannot mention the precise percentage because the survey report does not give one. Tenants who decided (in theory) not to move after all were divided into those whose alternative was home ownership (18% changed their minds), those who would move to other rented housing (30%) and those who were not sure where they would go (40%). There is no aggregate percentage, nor an indication of the size of the population and the exact sampling criteria. In short, the evidence from this survey must be treated with caution.

57 Bengal Tiger, annual report 1998.

58 Koala did provide home care packages in a section of its stock, but made it clear this activity had grown historically through past involvement with other protestant organisations, rather than as a part of its present strategy.

59 Great White, discussion paper on future strategy.

60 In that case, one type of strategy has become institutionalised. It has become what Fligstein calls a “conception of control”, a view on how to deal with uncertainty that dominates and shapes an entire organisational field (Fligstein, 1990).

61 It has been questioned whether the drive towards managerialism has been as strong as some commentators suggest. A survey conducted in the early 1990s found that the evidence for such a trend was actually rather slim (Carrol and Garkut, 1996).

62 It should also be emphasised that the central position of management has not been the theoretical starting-point of the analysis, as it is in many studies inspired by the managerialist approach. Although the analysis uses the organisation’s management as the methodological anchoring point from which to develop hypotheses, this does not imply that managers ultimately take the decisions. I could just as well have found that the organisations were in practice externally controlled.

63 In some other countries, the large-scale flight of middle- and high-income groups from the cities has led to sharp geographical divisions between “good” and “bad” areas. Castells has in this respect spoken of the “adolescent attitude” towards cities, especially in the US: you have a problem and you run away. “We come here to escape the problems in Europe and then here we go the cities. There are problems in the cities, we escape to the suburbs. There are problems in the suburbs and we escape to the exurbs. Soon we’ll colonize the moon” (Castells, 1996b). In the Netherlands, these processes are not likely to occur on the same scale. To begin with, socio-economic differences are generally smaller, in part due to more elaborate welfare state arrangements. Moreover, it is simply not possible to run too far in the Netherlands: you end up in the sea or in Germany. Finally, the Netherlands have long had a policy of active intervention in urban stock, which means there are no large-scale dilapidated residential areas (Teule, 1999).

64 These processes are much more complex than they are described here. To begin with, they involve more than investment in the housing stock, although the physical aspect has tended to dominate. Moreover, there are many other actors involved, even in the housing pillar of urban revitalisation. These include commercial housing providers, individual landlords, neighbourhood committees, commercial businesses and various local authority departments. I have kept these aspects of the processes out of the analysis, though, as they do not appear to be necessary to explain why social housing providers made particular interventions. They might make for more interesting reading, but in the end their inclusion is not essential.

65 Bengal Tiger, annual report 1997.

66 Koala Bear, annual report 1999.

67 Service packages were effectively forced upon buyers by selling only a minority of units within a single apartment complex and retaining the majority as rented units. Providers could then take majority decisions in the association of owners, the decisions of which are legally mandatory for all members. They could then decide to adopt a collective maintenance service and contract it out to themselves.

68 The alderman did not mention his staff in explaining his decisions on distribution.

69 I have also counted inclusion in holding companies as mergers. Even if this keeps organisations financially separate, it does mean they delegate decision-making power to a single body.
The term is from a pamphlet drawn up by the group of association members that opposed the merger and the change of legal structure.

Colijn (1869-1944) was the Dutch prime minister at the time of the Great Depression and one of the social-democrats’ most hated opponents.

The respondent who made this comment passed away during the research period and here I would like to express my thanks for his co-operation.

The study by Companen was conducted among providers, the survey of the Woonbond (the national tenants’ association) among tenant organisations. Both studies are therefore one-sided. In addition, there were major potential biases in the samples that were accounted for in neither study. Given these shortcomings, the studies can at best be regarded as exploratory excursions, not as accurate measurements of representation.

This comment was made at a meeting between Hammerhead staff and tenant representatives in 1997.

Although not a crucial point, it is worth noting that the strongest tenant organisations usually received backing not only from their providers, but also from local authorities. This came in the form of direct financial support, but also through the supply of relatively cheap professional aides. These came predominantly from local non-profit organisations, not from the national tenants association (Woonbond) or from commercial agencies. In Tiger Town, support was provided by the municipal welfare organisation. The local authorities of Shark Pool had never even considered giving support to tenant democracy – when asked, the notion seemed somewhat alien to them – but the tenants of Great White were fortunate enough to be able to hire support from the welfare organisation of a neighbouring town. In Bear Pit, support came from an independent organisation set up especially for that purpose and financed jointly by the local authorities and local providers. Since these sources of professional help were all subsidised, they could work at rates well below those of the Woonbond. They could also provide more specialised local expertise. When teams of local professionals supported several tenant groups within an area, they tended to act as the spider in the web, exchanging information, co-ordinating various efforts and in doing so elevating the level of representation on the local scale.

This outsider was one of the tenants from Siberian Tiger.

Great White’s manager was one of the pioneers of the model in a previous job, but the reorganisation in Great White had already started by the time he arrived.

Many of these activities were separated from the new branch organisation and privatised in 1999.


Let me make two more notes on this subject. Both are based on my personal impressions rather than hard evidence. First, there seem to be strong links between professionals in consultancy, government and science in this field. There is a great potential for conflicts of interest. Second, the nature of the consultants hired by parties in social housing may change over time. Specialised agencies were very significant during the research period, but larger and broader have increasingly set their sights of the sector. They may take over some of the market in due course. However, since I have myself been employed by one of these companies, my view may be biased. It may take participatory observation to find out more about the role of professional advisors in this field.

This is a moral argument. By granting more autonomy to a set of organisations, the state has rearranged its relationship with those actors. This could be interpreted, not merely as an instrument of policy, but also as a moral commitment to a new set of mutual rights and obligations. To tamper with the contract unilaterally is, to put it very simply, to break a promise. It may be justified when the bounds of proper market behaviour have been transgressed, but often – and social housing is no exception – the criteria have been defined broadly and are only specified (if at all) at some later date. It could lay policymakers open to the charge that they are filling in the small print as they go along.

The term “wilderness of mirrors” is from T.S. Eliot’s “Gerontion”.

The debate about which type of tenure is preferable has been criticised on various grounds. To begin with, the meaning of tenure is culturally and nationally specific (Kemeny, 1995;
Several of the poor countries in Africa and Asia have high rates of home ownership, but that hardly puts their system of housing provision in the same category as those of the UK or New Zealand. There is also major variation in how housing provision ties in with other welfare state arrangements and, more generally, with the organisation of the life cycle. This obviously affects the value of each type. For instance, Castles and Ferrara have observed how home ownership interacts with Southern European pension systems (Castles and Ferrara, 1998). It is amazing that the enormous and varying impact of tenure patterns on the lifecycle and on other welfare state arrangements such as health and social security have not been studied more widely. In any case, the effect of tenure will depend strongly on the system in which it is embedded. Another objection is that tenure is a continuum rather than a duality. There are various intermediate forms, such as co-operative renting/ownership (which for historical reasons have never been significant in the Dutch context).

Interestingly enough, the economic recovery was greatly encouraged by a rise in domestic spending, a major share of which was financed on the basis of the surplus value of owner-occupied housing.

This paragraph is particularly indebted to the overviews of organisational theory by Lammers e.a. (Lammers, Mijs and Van Noort, 1997) and Morgan (Morgan, 1986), as well as the introduction to the neo-institutional bible by DiMaggio and Powell (DiMaggio and Powell, 1991a).

In terms of the first variable, Hall and Taylor distinguish between a calculus approach and a cultural approach. The calculus approach assumes instrumental, utility-maximising actors who goals have been exogenously given. Institutions provide actors with degrees of certainty about the behaviour of other actors through information and enforcement mechanisms, which affect the calculation individual actors make. Institutions are continuous because they embody a Nash equilibrium (that is, each individual is worse off when change occurs). By contrast, proponents of the cultural approach assume that actor behaviour, even if it is rational, is bounded by cognitive and moral templates for action, filters for interpretation. Preferences are therefore not exogenous, but provided by institutions. These institutions are continuous because they are taken for granted and shape the choices for potential reform.

This is because the notion of imitation only defines action with reference to other actions, without reference to the nature of the action itself.

This is essentially an extension of the method of variation.

It is in fact very unlikely that the real reasons respondents provide will agree with the theoretical interpretation, since the latter is based only on the pursuit of self-interest.

Research that encompasses the entire population is excluded from this definition. If case studies had no ambition to generalise, cases could not be distinguished from populations, except on trivial grounds (such as the size of the research object).

Swanborn argues that this is generally inadvisable, since it will be impossible to separate the influence of various independent variables and since the value of the dependent variables (and consequently assessments of the variance between them) may shift over time (Swanborn, 1994).

There is the question of how to present a provider that has come into existence during the research period, when the two (or more) of the providers that make up its component parts were also part of the case study. To avoid unnecessary confusion I have chosen to present them as they were at the end of the research period.

Given that most of its units were students' rooms, giving the figures for net assets per unit would in this instance be misleading.

In social science "triangulation" (a term from land planning) does not necessarily refer to the use of three methods, but only to the application of two or more independent methods of data collection (Denzin, 1978).