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The dynamics of accounting, control and trust—shaping the governance of an outsourcing relationship

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Abstract

Through a field study of a long-term interfirm relationship between a managing agent and an outsourcer of facilities management services, an interactive relationship between accounting, control and trust is expressed. It is demonstrated how control produces trust, how trust produces implicit control and influences formal control, and how accounting comes to be a safeguarding as well as a trust building device. Moreover, the study shows how contextual factors, particularly the institutional environment and boundary spanners, may influence the interaction between trust and control and, therefore, the development of the governance of the interfirm relationship. Hence, theoretical implications on the accounting-control-trust nexus are enlightened.

Key words: Control; trust; implicit control; institutional environment; boundary spanners

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Introduction

There has been a proliferation of accounting studies dealing with interfirm transactional relationships during the last decade or so. One of the major drivers is the call from eminent scholars in the field that the scope of management control no longer confines within the legal boundaries of firms (Otley, 1994) and that there should be a more thorough examination of the accounting and informational consequences of more explicit concerns with the management of supply chains (Hopwood, 1996). These calls were in response to changing organizational realities, characterized by different forms of interfirm relationships such as joint ventures, franchises, joint research and development, long term supply relationships and outsourcing relationships.

This paper aims to contribute to the knowledge production on management control in interfirm relationships. It particularly focuses on the relationship between control and trust. To a large extent, prior studies in this area took a rationalists approach (*inter alia* a transaction cost economics approach) and aimed at discovering mechanisms, archetypes or patterns of control (e.g; Dekker, 2004; Emsley & Kidon, 2007; Langfield-Smith & Smith, 2003; Tomkins, 2001; Van der Meer-Kooistra & Vosselman, 2000). However, there have also been performative studies that discussed and investigated control and trust 'in the making' by drawing upon actor network theory (e.g; Mouritsen and Thrane, 2006; Chua and Mahama, 2007).

Both control and trust have been seen as instrumental in absorbing uncertainty and behavioral risks. The predominant view is that these instruments are either substitutive or complementary to each other (Dekker, 2004). The substitution perspective shows an inverse relationship between control and trust, which implies that less control leads to more trust and vice versa. For example, trust may be a substitute to control in relationships where transactions are highly complex and the environment is highly uncertain (Van der Meer-Kooistra & Vosselman, 2000). The complementary perspective reveals control and trust as being mutually reinforcing. The exchange of control related accounting information may, at an early stage of the interfirm relationship, generate positive expectations (Tomkins, 2001; Emsley & Kidon, 2007) about the future. In an interactive perspective, the focus is on how (mis)trust produces control and how control produces (mis)trust. Such an interactive perspective focuses on process. It shifts the focus from rather simple 'and/or' or 'and/and/ questions towards questions concerning the *dynamics* of the relationship between control and trust. These questions include the question as to how accounting is implicated in these dynamics, i.e. how accounting is implicated in the (re)shaping and use of formal controls and in the building (or destroying) of trust. Although it is tempting to connect contractually agreed upon accounting information with contract-based formal controls, while connecting accounting information that is voluntarily exchanged to trust building (Vosselman and Van der Meer-Kooistra, 2009), this paper demonstrates a more complex relationship. Particularly, it is demonstrated that the (changes in) formal accounting and control system may also help producing cooperation and trust. In doing so, not only the monitoring, supervising and rewarding aspects of control are revealed, but also its more salient aspects of coordination (Vélez et. al , 2008) and the (related) aspects of relational signaling that could help in building trust (Vosselman and Van der Meer-Kooistra, 2009). As for the monitoring, supervising and rewarding aspects of control we suggest that they have the propensity to mitigate relational risk (Seal, Cullen, Dunlop, Berry & Ahmed, 1999) by compensating for legitimate mistrust and by producing thin trust (Vosselman and Van der Meer-Kooistra, 2009). As for the coordination and relational signaling aspects of formally agreed upon accounting controls, the analyses and interpretations particularly suggest both formal and informal accounting to be important for the building and maintenance of trust in the relationship.

The interaction between control and trust and the implication of accounting in that interaction do not take place in a vacuum. There are contextual factors and external institutions influencing this interaction. Therefore, this study aims to contribute by demonstrating the interaction between control and trust in a specific context and over a specific period of time. It emphasizes both processes and the context in which processes unfold. By doing so we respond to the latest calls in the management accounting community to put more emphasis on the processes and dynamics of interfirm relationships (Caglio & Ditillo, 2008) and the influence of external institutions on the design of hybrid control structures (Berry et.al, 2009).

The field study concerns the long-term outsourcing of the management of facilities services by a big semiconductor company. Semi-structured interviews were conducted in order to understand and analyze the development of the relationship as well as the interaction between control and trust and the way accounting is implicated in that interaction. The computer program ATLAS.ti was used for the coding, management and analysis of the data.

This paper makes four contributions to the extant literature on the 'accounting-control-trust'- nexus in interfirm relationships. First, it adds to many prior studies that highlight the need for trust in situations where the interfirm relationship involves considerable complexity, uncertainty and continuous change (Van der Meer-Kooistra & Vosselman, 2000; Van der Meer-Kooistra & Scapens, 2008) by demonstrating that trust may also be functionally present in relationships with low or moderate levels of uncertainty and complexity. Second, it is observed and demonstrated that control produces trust through its coordinating aspect (Véléz et al., 2008), thus supporting a conclusion by Coletti et al. (2005) on *intra*firm collaborative in the area of *inter*firm relationships. Particularly, it is expressed how the negotiation and the use of formal controls may exceed safeguarding behavior (and, thus, the compensation of appropriation concerns through an alignment of interests) by revealing cooperative behavior and by giving relational signals. Third, the field study shows how the relationship between control and trust becomes dynamic and interactive. It demonstrates how accounting information in any form (formal or informal) affects the level of trust and how trust may create a powerful ***implicit*** control structure. Fourth, it is demonstrated that an effective interaction between control and trust requires a certain context. Boundary spanners and the institutional environment prove to be of great importance for a successful development of the outsourcing relationship.

The remainder of the paper is organized as follows. The next section discusses the theoretical background of the paper and its theoretical ambitions. Section 3 describes the research methodology. Section 4 gives a description of the field study and the shaping of the governance. Section 5 contains the theoretical implications of the field study and in the final section conclusions are drawn.

Control and trust in interfirm relationships: theoretical basis and theoretical ambitions

Organizational control has been defined as the processes by which organizations govern their activities so that they continue to achieve the objectives they set for themselves (Emmanuel et al. 1990). It is a process of regulation and monitoring for the achievement of organizational goals (Das & Teng, 2001, pp.258). Management control is about strategic issues (the general stance of the organization towards its environment) as well as operational issues (the effective implementation of plans designed to achieve overall goals (Emmanuel et al. 1990). There are two major types of control: external measure-based control and internal value-based control (Eisenhardt, 1985). We label the external measure based control as formal control and the internal value based control as social control. The use of formal controls is based on the idea that something which is measured is either output of employees (output control) or aspects of their behaviors (behavioral control) (Thompson, 1967; Ouchi, 1979). Formal controls relate to the establishment and utilization of formal rules, procedures and policies to monitor and reward desirable performance. These formal rules, procedures and policies may take the form of performance management systems, written down in a contract or in service level agreements. Social control pertains to the establishment of organizational norms, values, culture and internalization of goals to encourage desirable performance and behavior (Das & Teng, 2001). Involvement in the decision making process, rituals, ceremonies, orientation programs and networking within and between organizations are examples of social controls.

Prior research has shown that in addition to the formal control mechanisms, trust may act as a social control mechanism in interfirm relationships (e.g; Sako, 1992; Zaheer & Venkatraman, 1995; Nooteboom, 1996, 2000; Nooteboom, Berger & Noorderhaven, 1997; Das & Teng, 1998, 2001; Bachmann, 2001; Poppo & Zenger, 2002; Inkpen & Currall, 2004; Bijlsma-Frankema & Costa, 2005). Trust is "a type of expectation that alleviates the fear that one's exchange partner will act opportunistically" (Bradach & Eccles, 1989, pp. 104). "Trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations or behavior of another (Rousseau *et. al*

1998, pp.395)". As per Tomkins (2001), trust is the adoption of a belief by one party in a relationship that the other party will not act against his or her interests, where this belief is held without undue doubt or suspicion and in the absence of detailed information about the actions of that other party (pp. 165). And "interorganizational trust represents an organization's expectations that another firm will not act opportunistically when dealing with that organization" (Gulati & Sytch, 2008, pp.165).

Partner's confidence (trust) in each other maintains stable interfirm relationships or prevents their failures (Das & Teng, 1998). Trust also encourages partners to accept bigger risks and enlarge the scope of the interfirm relationship (Inkpen & Currall, 2004). Furthermore, trust can reduce costs of coordination and monitoring, enhance the performance of partners, or result in an increase in investments in the relationships (e;g; Van der Meer-Kooistra & Vosselman, 2000; Dekker, 2004; Langfield-Smith & Smith, 2003). In other words, trust can provide benefits similar to formal control such as reducing risks of opportunism and facilitating adaptation (e.g; Bradach & Eccles, 1989; Granovetter; 1985; Macaulay; 1963; Macneil, 1978; Uzzy, 1997) and it could thus be an efficient governance mechanism in interfirm relationships (Dyer, 1997). But trust cannot be instituted instantaneously as it is developed over time (Nooteboom et al., 1997).

Both (formal) control and trust may be placed under an umbrella of *governance*[1]. As Nooteboom states, the notion of governance includes the notion of control but it is a wider concept (Nooteboom, 1999). Nooteboom (2002) extends the concept of governance quite considerably to include issues of trust along with relational risks and transactions costs (Van der Meer-Kooistra & Scapens, 2008). Governance therefore is a broad concept that incorporates both control and trust. It safeguards against the opportunistic behavior of the parties (e.g; Van der Meer-Kooistra & Vosselman, 2000; Dekker, 2004), it facilitates coordination (e.g; Kumar and Seth 1998; Dekker, 2004); helps in learning

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[1] The concept of 'governance' is more broad that the concept of a 'governance structure'. A governance structure is the "institutional matrix within which transactions are negotiated and executed" (Williamson, 1979, pp.239). Transaction cost economics distinguishes three so-called generic governance structures: a market, a hierarchy and a hybrid (such as a strategic alliance or a longstanding outsourcing relationship). As a number of studies have demonstrated (e.g; Speklé, 2001; Van der Meer-Kooistra & Vosselman, 2000, 2006; Vosselman 2002; Vosselman & Van der Meer-Kooistra, 2009), the theory also has the potential to explain (management) control structures that are at a less generic level, there being elements *within* the meta-institution of a market, a hierarchy or a hybrid.

(Makhija & Ganesh, 1997); and it provides stability, predictability and adaptation mechanisms to an interfirm relationship (Gulati et. al, 2005; Williamson, 1991).

To a large extent, extant literature on management control of interfirm relationships (see recent reviews; Berry, et. al., 2009; Caglio & Ditillo, 2008; Van der Meer-Kooistra & Vosselman, 2006) discusses the relationship between control and trust as either substitutes or complements. Both control and trust have been suggested to be instrumental in absorbing uncertainty and behavioral risks (e.g; Dekker, 2004; Emsley & Kidon, 2007; Langfield-Smith & Smith, 2003; Tomkins, 2001). As substitutes, control and trust are inversely related. Transactions characterized by high complexity and high uncertainty may necessitate partners to draw more heavily upon trust instead of formal control (Van der Meer-Kooistra & Vosselman, 2000). As complements, trust and control may be mutually reinforcing. For instance, at early stages of interfirm relationship the formal exchange of accounting information (control) may produce positive expectations about future behavior and, hence, control could add to trust (Tomkins, 2001; Emsley & Kidon, 2007). Control may also show a complex and changing relationship with trust over time (Tomkins, 2001). Therefore, the simple complements-substitutes dichotomy should be further analyzed (Puranam & Vanneste, 2009). Trust and control may be conceptualized as a trust/control duality which implies that trust and control assume existence of each other, refer to each other and create each other, yet remain irreducible to each other (Möllering, 2005). This duality perspective is similar to the interaction perspective on control and trust (Vosselman & Van der Meer-Kooistra, 2009). According to them (ibid) the interaction of control and trust is an ongoing dynamic process, and accounting can be related to both control and trust building. Accounting for control is theorized as a formal safeguarding and icentivizing device and accounting for trust is theorized as an informal information sharing device. So, it is suggested that formal accounting is related to control whereas informal accounting is related to trust building. However, we demonstrate and theorize that a formal accounting system may serve not only as a safeguarding device but also as a trust building device. Moreover we theorize that although trust building starts from voluntary local positions (and, thus, is a reflection of 'agency' in the sense of institutional theory), the resulting trust produces a powerful structure that imposes constraints on the parties involved (and, thus, is a form of structure in the sense of institutional theory). In other words: trust is theorized to be a form of implicit control.

Finally, acknowledging that the interaction between control and trust is located in space and time, this study theorizes on contextual factors that help shaping the interaction.

Research Methodology

This study seeks to further build on theory on the dynamics of control and trust in interfirm relationships. It responds to calls for more in depth process studies on the relationship between control and trust (e.g; Caglio & Ditillo, 2008). Particularly, it seeks to build further theory on the interaction between accounting, control and trust (building). The aim is to show the theoretical significance of the interrelated processual implications of accounting, control and trust as they are present in the field. We do not aim to test extant theory. The nature of our research ambition (theory development) and the dynamics that are involved in the research project call for a field study (Yin, 2003, Silverman, 2005). The approach to the research is therefore qualitative, we aim to position data in order to contribute to theory by an ongoing reflection on data (Ahrens and Chapman, 2006). We start from the position that 'social reality is emergent, subjectively created and objectified through human interaction' (Chua, 1986) as opposed to the existence of an objective reality 'out there'. In order to contribute to theory, we aim to retain the context specific information (authenticity) and draw plausible conclusions (Lukka & Modell, 2010).

As researchers we try to live the world of the field (Hastrup, 1997; Ahrens and Chapman, 2006), but with important theoretical notions (see former section) in our minds. It is not the intention to just describe or clarify what is happening in the field, but to infer theoretical implications on the accounting-control-trust nexus from a specific time-space configuration.

An interfirm relationship between two companies is explored. We study processual implications of the management control system, trust and accounting information. In addition, we focus on the context within which the interfirm relationship is developing. A major source of the data is the semi-structured interviews with questions based on extant theory. But, sometimes, new questions (relevant to the broad research questions and topic) emerge during the interviews and such discussions and interactions prove to be very insightful. Other sources of information include annual reports for 2006, 2007 & 2008, Service Level Agreements (SLAs), Quarterly Reports, Roadmap documents (monthly meetings) and an industry magazine. The documents and interview transcripts are used to enhance the reliability of the research. Different sources of evidence are analyzed to generate a reliable theoretical interpretation of the case.

The field study started in December 2008 and the majority of the data was collected in the period from December 2008 until September 2009. The data was collected by a group of three researchers. In total 13 semi-structured interviews were conducted and transcribed including one kick off meeting (interview).

The relationship under study was a long-term outsourcing relationship. As our focus was on the outsourcer, most of the interviewees were managers of the outsourcing company, from different functional areas like facilities management (office-related as well as industrial), purchasing and accounting & finance. One interview was with the country manager of the outsourcing company. A manager of the managing company (supplier) who was directly dealing with the outsourcer was also interviewed. Appendix 1 contains more detailed information on the interviewees.

Each interview lasted between 1 and 1 ½ hours. In addition, interim presentations and discussion of results were organized at the case company. The discussions during these meetings also provided insights about the issues under study and were transcribed and used for data analysis. The data is analyzed by using qualitative data analysis software ATLAS.ti 6. The list of codes used in the data analysis is presented in appendix 2. This software was very helpful in coding, data management and analysis. In field research the data collection is a part of data analysis. Therefore, data analysis was a continuous process.

In order to maintain confidentiality pseudonyms have been used for the companies.

Field study: on the governance of facilities services

The parties

This field study is about an interfirm relationship between a Client Firm (CF) and a Management Firm (MF). The relationship regards the outsourcing of facilities management in the Netherlands.

CF is a leading semiconductor company founded by the Parent Firm (PF) more than 50 years ago. Headquartered in Europe, the company has about 29,000 employees working in more than 30 countries and posted sales of USD 5.4 billion (including the Mobile & Personal business) in 2008. CF creates semiconductors, system solutions and software that deliver better sensory experiences in TVs, set-top boxes, identification applications, mobile phones, cars and a wide range of other electronic devices. CF is a multinational company having its operations and customers in different countries in Europe, Asia and North America. In the Netherlands, the company is located at two sites, i.e. Nijmegen and Eindhoven.

MF is an Anglo-Dutch organization, located in the Netherlands. The organization possesses specialist knowledge of and has experience in the provision of management solutions for facilities services, appropriate for both public and private sector clients. The company strives to become the market leader in the European Total Facilities Management (TFM) market. MF is a joint venture between a UK-based company and a Netherlands-based company. It was founded in 2002 and currently it has various ongoing multi-million Euro contracts with international companies located in the Netherlands. Their first substantial contract was with the PF.

The nature of the relationship

MF has a managing agent contract with CF. It does not provide facilities services itself. There are various suppliers that provide facilities services, and the contracts for facilities services are concluded directly between CF and different suppliers. MF only supervises and manages the contracting and delivery of facilities services. Hence, MF manages the relationships between CF and various suppliers of CF. A manager of CF depicted this relationship in a triangle as shown in figure 1.

Figure 1. The relationship triangle

As figure 1 shows, there is a contract between MF and CF for the *management* of the contracts between CF and suppliers. There is no direct contract between MF and the suppliers, but MF has a relationship with the suppliers to manage on behalf of the CF. A pictorial explanation of the relationship is given in figure 2 below:

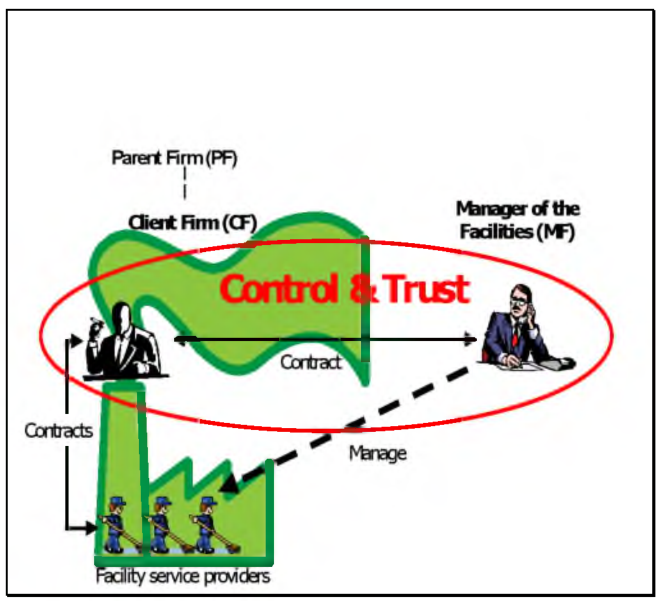

Figure 2. The Interfirm Relationship and focus of the research

Figure 2 shows that CF and MF entered into a relationship where MF manages various suppliers who have contracts with CF. The diagram also shows the focus of research on control and trust between CF and MF.

The contract between CF and MF is about the management of facilities services in the Netherlands for two sites, one in Nijmegen and the other at High Tech Campus Eindhoven (HTCE). The services are summarized in table 1:

Major type of Service	**Description**
Building and Environment	Fire prevention system, heating ventilation and air-conditioning (HVAC), environment and safety, technical maintenance, water management, energy and utilities management
Office Services	Cleaning, reprographics, cleaning rooms cleaning, reception, parking, planting, data management and office supplies
Projects	Capital works, space management, relocations and change management
Communications	Multi client service desk, mail, telecom, courriers and signage
Hospitality	Catering, conference, audiovisual services, flowers and event management

Table 1: The contracted services

The outsourcing contract included the transfer of five employees from CF to MF.

Table 1 reveals that the services are rather simple of nature. They can be programmed easily. Most of the services (cleaning, heating, ventilation and air-conditioning, energy and utilities, catering, conference management, and event management) are characterized by relatively high task programmability. The output of the services can be measured to some extent, although accurate measurability is difficult. There is relatively low asset specificity, because no investment had to be made for this relationship. Some services are highly repetitive (e.g; building and environment and office services) and some are less repetitive (e.g; hospitality). So, there is a mix of service transactions and there is high frequency.

A service provider is called an integrated service provider (Ventovuori, 2007) if it provides a package of different facilities services. But in this case MF is an integrated service *manager* and not an integrated *provider* because MF is only managing the contracts of various suppliers (with CF) of facilities services. The management of facilities services is rather difficult to measure and it has a relatively low programmability. However, there is relatively low asset specificity as there are no explicit investments required in the relationship, so there are switching possibilities for CF. Yet, it is relevant to note that it is difficult to benchmark MF since it provides management of various facilities services (a package of management).

Facilities services in CF fall apart into two types of services. These are the facilities services of offices and buildings at the one hand, and facilities services of wafer production and fabrication units (FABs) at the other hand. The contract between CF and MF only regards the management of facilities services for the offices and buildings (so-called soft services). The department within CF responsible for the soft services is Real Estate and Facilities Management (RE&FM) Netherlands and the department responsible for hard services to FABs is called Industrial Center Nijmegen (ICN). The management of hard services requires technological knowledge and is critical to the manufacturing processes. Hence, such management has not yet been outsourced to MF. Facilities services of FABs are managed in-house. As far as there are contractors involved, they are supervised and managed by the CF's own engineers and staff and not by MF. The services handled by the ICN include piping, chemical supplies, gases, maintenance of cleaning room, and green filling drums.

Both the critical nature of the ICN facilities services and the doubt regarding the governance of these services is expressed by the managing director, as follows:

"Facilities management in the factory is crucial. If FABs close down for an hour the losses are huge. It takes us three days to run FABs again so FABs can't be stopped. It means you need facilities management that has such a high quality that you know that FAB will never stop."

But, at the other hand, he thinks that even ICN facilities services are not core operations:

"On the other hand, I still think that other companies might do it better than we do it. Because it is not our core competence, so we are not spending sufficient management time to these kinds of services."

The choice to outsource soft services but not to outsource hard services is consistent with transaction cost economics (Williamson, 1979; 1991). In the latter case, asset specificity, particularly business process specificity, is high. However, the doubt expressed by the manager opens up future possibilities for outsourcing. As will be demonstrated later on, the building of trust in the relationship with the external manager of the outsourced soft services enhances that possibility.

The terms of the relationship between CF and MF are laid down in a contract and in service level agreements (SLAs). The department at CF responsible for the relationship with MF and for developing SLAs, is the Real Estate and Facilities Management (RE&FM). Hence, for this research project, the inter-firm relationship between RE&FM CF and MF is relevant. The partial organization chart of CF showing RE&FM Netherlands and its relationship with MF is depicted in figure 3.

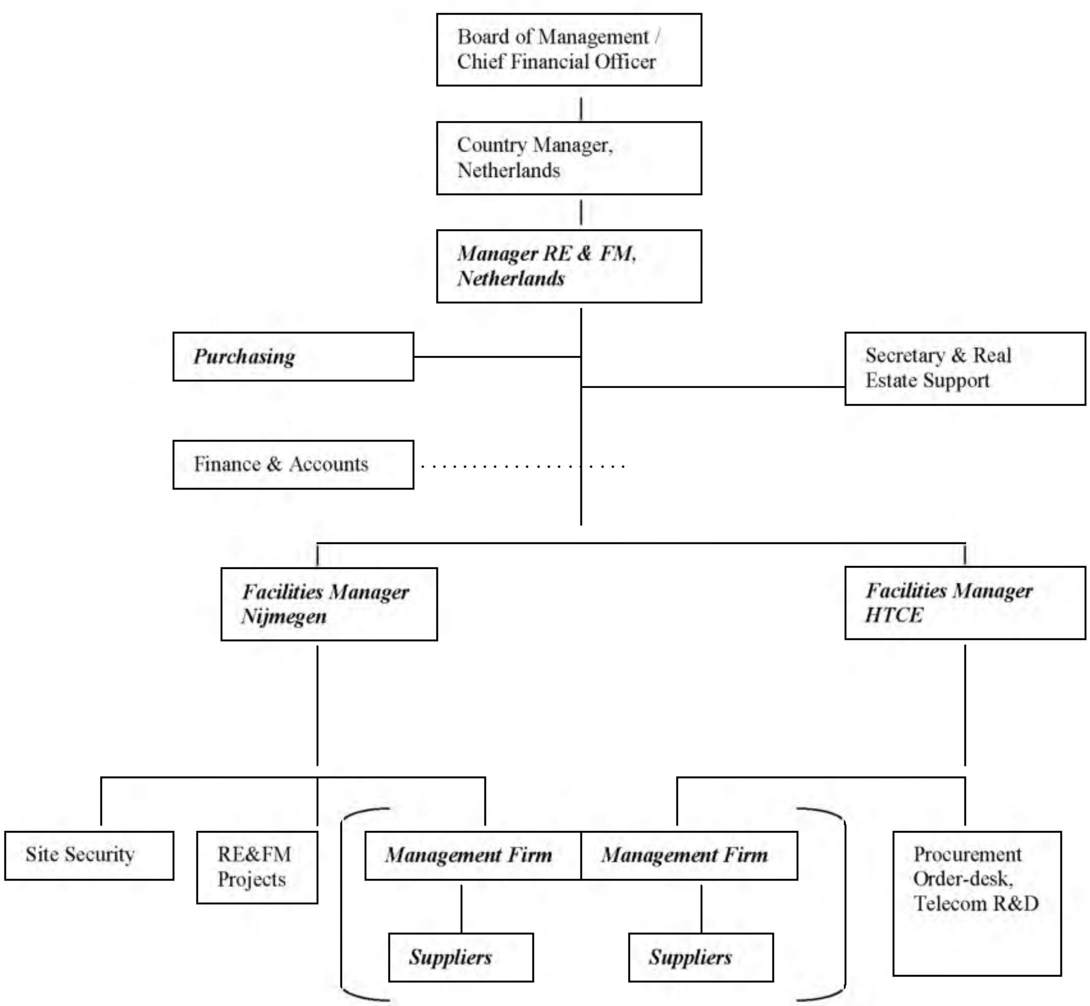

Figure 3. Partial organization chart

The actors (managers of departments and outside organizations) directly involved in the interfirm relationship are shown in italics and bold in figure 3. In CF, there is a Board of Management and a Chief Financial Officer (CFO) at the top and the Country Manager Netherlands is reporting to this Board. The Country Manager (managing director) is responsible for all the operations in CF within the Netherlands. The head of the RE&FM NL department is reporting to the country manager. Furthermore, there are two facilities managers for both sites, i.e. Nijmegen and High Tech Campus Eindhoven (HTCE), who are reporting to the manager RE&FM NL and are also dealing with MF on an operational level. Further, at the bottom MF is managing the contracts concluded between CF and Suppliers. MF is responsible for the management of facilities services at both of the sites, Nijmegen and HTCE. Nijmegen has semi-conductor fabrication units (FABs), and the buildings are owned by CF here. HTCE houses CF's headquarters but this building is not owned by CF but rented.

The development of the relationship

Pre CF period (PF Semiconductors):

The relationship between CF and MF started in May 2006. At that time CF is part of the Parent Firm (PF), that included the business unit PF Semiconductors. So, the original decision to enter into the relationship is not made by an autonomous CF but by PF, particularly PF Real Estate Management and Services. The contract between that organization and MF is concluded in 2006 and spans a four years period. It expires in 2010.

The decision by PF Semiconductors to outsource the management of facilities services to MF is closely related to prior experiences of other parts of PF with MF. A prior contract was signed between PF and MF in July 2003, which included the provision of facilities management services for 650,000 square meters of building space as well as the management of different types of services such as technical maintenance, security and

catering. Approximately 60 employees of PF's facilities management operations were transferred to MF .
Based on the prior relationship PF Real Estate Management and Services decides to outsource the management of facilities services of PF Semi-conductors (now CF) in May 2006. This decision is mainly driven by top management's strategic consideration that the focus should be on core operations and that non-core operations should be outsourced. PF Semi-conductors (now CF) is not part of the decision; the contract is just handed over to PF Semiconductors' management. A CF-manager expresses the process in this decision:

"We started out as part of the PF organization and the decision to go to MF was a decision on a higher level, within PF. Focusing on core activities, that was the main focus and main reason to outsource at that time. The business case was not the reason to do the outsourcing to MF".

In September 2006, PF Semi-conductors is sold to a group of private equity investors and CF comes into existence. In it's early stage the relationship between CF and MF does not work properly because most of the managers in CF do not approve with the earlier decision to outsource the management to MF. Even the managing director is resistant.
The manager from MF also recalls that MF experienced problems in the relationship. Apparently, in his view CF's management did not feel ownership of the outsourcing relationship.

CF and MF

At the start, the relationship between CF and MF is not working well. The manager of ICN speaks of a drama:

"*And in the beginning it was a drama, the first years of this outsourcing project was a drama for both parties because we didn't know how to manage an outsourced activity and MF was also looking for let's say the ways how to do this and to deal with this environment."*

The MF account manager expressed a similar problem,

"The first half year was a struggle because we didn't get any support from the Facilities Manager."

There were different reasons why the relationship was not working. First, the initial contract was not made between CF and MF but between PF Real Estate & Services and MF; it was just handed over to CF (PF Semi-conductors at that time). A manager at CF expressed it as follows:

"Yeah. Our management made some decisions and said this is the way to go. But this example was one step beyond that. Even the contract was presented as take it or leave it. It's perfectly okay if management says this is the way to go because that's the input you expect from management. If management goes one step beyond that and says that okay that's the direction we go and that's how we are going to do I, then indeed people feel bad. Feel that they don't have influence actually on how to go and how to proceed in the direction. The decisions were taken two levels higher in the hierarchy. It's not just me who thinks like that. I think I am representing a lot of people here. They (local management) said ok I have learned to be what I am. I am paid to add value to this company and our management makes a decision. That's perfectly okay but management also fills in that decision. So step back and say okay. Since I can't influence things I am stepping out of the process and let them bounce against the stone wall and they will see what happens then. In fact that was how it worked, which perhaps is not good but it's perfectly human."

Second, facilities managers were expecting MF to do all the work itself. There was a lack of cooperation and coordination on the part of CF facilities manager. Thirdly, managers in CF thought that the old contract was not right and they also thought that some conditions in the contract were not appropriate for a good relationship and a good execution of the work. An example, why the initial contract was not encouraging, is pointed out by the purchase manager when he tells us that the incentive for the contractor apparently was too weak:

"*[if] savings are 100% then we could, according to an incentive in the contract, write down that 80% of those savings are for us and 20% for them. That's how the old contract was written. It didn't work…. It didn't. They had to get more"*

A facilities manager also sees a lack of detail, clarity and comprehensiveness in the original contract. He suggests that a good formal control system can help in better coordinating the interfirm relationship:

"*It was not clear for everybody what should be reached, who should do it, [who] is responsible for which actions. And if you look at savings, savings is always a nice issue, uh who initiated it? Who is responsible for the results? Who gets paid for it? And if you do not make that very clear you will always have discussions and it makes it very difficult to work together. So that was one big problem at the previous contract."*

Apparently, interests were not properly aligned in the contract.

Then in the beginning of 2007 a new managing director as well as a new facilities manager enter CF. They revise the contract. Since then the relationship has been developing quite well. A manager of CF expresses it as follows:

"Then he [new Facilities Manager] came, a different person lets say and he was lets say more of a team player. Also he's better than his predecessor and that helped a lot, because then he started investing into the community first here to understand ok how are things looked at and are there sensitivities and are there people not happy, that kind of things. He invested in the community you could say. In the meantime we also had another lets say brand manager [Managing Director] who was also more of a practical side, pretty hands-on as a manager and lets say and the Purchasing Manager, you can say, is also quite a practical guy, lets say logged in to that as well and they started in principal

restoring the relationship with MF, but at the same time also bringing the ambition level of MF down."

CF concludes a new contract with MF. Given the developing institutional context, it does not really consider switching to another company. There are five aspects in the institutional context that need to be addressed. Firstly, the present contract with MF was still valid (until 2010). Secondly, some employees had already been transferred from CF to MF as per previous contract. Therefore, there would be legal and procedural implications in case of breach of the contract with MF. Thirdly, MF had competence reputation in the market and had big customers including PF. In fact, according to FM Market Report 2008 published by the Facilities Management Netherlands (a professional association in the field of facilities management which professionalizes facilities management in the Netherlands), it was number one in the top three integrated facility management (IFM) providers in the Netherlands. Therefore, it was legitimate to have a new contract with MF. Fourthly, the intra-organizational context had also changed because of the replacement of the facilities manager and the managing director. These new executives thought that CF itself was partly responsible for not properly managing the 'demand management'- function. Fifthly, an important reason for remaining with the same MF is that CF was suffering from decline in sales and profits, and it wanted to become and stay flexible by reducing fixed cost and saving on non-core operations. It also wanted to economize on transaction costs. MF firm was one of the few companies which could manage the integral mix of facilities services. A switch towards another supplier would have entailed much effort to invest in the new relationship, thus implying transaction costs.

The new contract is concluded between CF and MF and the manager RE&FM. The head of FM CF group now labels the relationship as a 'partnership based on mutual respect and trust'. Three important aspects of the relationship are 'operational excellence', 'added value' and 'clear and open agreement'.

Since the revision of the contract in the beginning of 2007 there has been frequent cooperation, coordination, communication and information sharing between CF and MF at different management levels. Table 2 gives an overview:

	Meetings	**Frequency**	**Description**
–	Strategic	Yearly	xx
–	Tactical	Quarterly	Overall contract review
–	Operational	Monthly	CF Netherlands
–	Savings	Fortnightly	CF Netherlands
–	Regular	Weekly	Per Site
–	Quarterly Review	Quarterly	Evaluation Report (PMS-KPIs for savings & cost control, operations, customer satisfaction & finance)
–	Finance	Quarterly Yearly	Budget Tracker (open book) Budget
–	Purchasing	Monthly	Suppliers / Contracts

Table-2 Consultation and Communication between CF and MF in 2007

Table 2 shows much communication between CF and MF where the frequency of interaction ranged from a weekly to a yearly basis. This frequent interaction has made the relationship more effective and durable. MF also has a help desk at both sites.

Since the beginning of 2008, the format of meetings has been changed. Now there are fewer meetings. There is a monthly review meeting that is called a 'road map discussion' and a quarterly review. The manager RE&FM describes the monthly review (Roadmap):

"Road map I mean what's development, where we want to develop too. [Strategy], operations, savings and finance. These four items. And that's me with the demand managers, the account manager from MF and the operation manager from MF. So with 5 we are sitting and sharing things we are feeling. If I have got the feeling that their organization is too poor [meaning doing poor], we discuss it. And I ask them to present the change, to come with an idea, or ask them to recognize this and find the improvement. So you finally come up with an improving process and be very focused on what you want to focus at. And it is actually, we made one sheet with line items, the same line items, technical, facilities management, demand management, savings, finance, euh operation

and we defined the 1st situation, the current situation and where we want to be within one year. And also where we want to be in two years when the contract ends. And, so we are very focused on line item level where we want to have the improvement. And this actually, in this case you are able to focus very clearly on the steps to make with each other."

The future of the relationship

CF and MF have a very trusting relationship and therefore they want to move to the next step. At present, the relationship between CF and MF is at a *Sourcing* Solution level, wherein MF handles the operational part and most of the relational part. It does not handle the contractual part, however. One of the possibilities is, that CF would move to *Management* Solution wherein the operational, the relational and the contractual part of facilities management is handled by MF, while the strategic part remains with the outsourcer (CF). This is also called Total Facilities Management (TFM). This will improve CF's flexibility and efficiency, but may increase dependency and, thus, increase transaction costs.
A similar prediction is made by the MF manager:

"*We are now looking at possibilities to make it a total FM arrangement so we can also take over the contracts so we can work on things as having more leverage because we have several accounts so maybe on more accounts we can challenge suppliers to do something about the tariffs and something like that."*

However, TFM might increase transaction costs because of increased dependency. Contrary to the UK, TFM is not very well developed in the Netherlands. Therefore, it is difficult to find suppliers and there are limited switching possibilities.
Although managers express (in their own words) a weigh off between flexibility and efficiency at the one hand and transaction costs at the other hand, the trust in the present relationship indicates a decision for further outsourcing. This not only regards the movement from *Sourcing* to *Management,* but also regards the possibility to outsource the hard facilities services to FAB's. The latter is also related to the fact that production is

falling and is also moving to Asia. It might even be that FABs is closed within a couple of years. As the managing director (country manager) indicates,

"But due to the fact that FABs will be closed in next couple of years it means we get problems that a number of people in facilities management have to get fired, looking at the size of FABs"

Accounting, control and trust in the relationship

All operational accounting issues are handled by MF. The suppliers send invoices to MF that, in turn, sends one or two monthly invoices to CF. This implies that all the costs are running through the books of MF. The invoices, sent to CF by MF, have three components, i.e. cost of services, organization cost and management fee. The costs of services correspond with the payments to be made to the suppliers and, to a large extent, these costs vary with the volume of work. Organization cost is a fixed fee charged by MF. The organization cost is agreed upon on a yearly basis. The management fee is 8 to 10 percent of all the costs running through MF's books. Any change in the management fee percentage has substantial consequences because it is calculated on total costs. Management fee is at risk when MF does not achieve cost savings targets. This is in fact an incentive- and penalty system. The system incentivizes the search for cost savings. If MF achieves the targets, it receives the fee. If MF does not achieve cost saving targets, the management fee is reduced accordingly. However, in case of savings that are higher than the target, both CF and MF share the excess savings equally. So, there is a strong incentive to search for savings.

MF is doing all the calculations and reporting for CF in this relationship. The manager of MF expresses:

"CF isn't making any calculation. We are doing everything for them. We are making the business cases, we are trying to find out how it could be smarter, cheaper, more efficient than now [...] we make a quarterly report what we have done this quarter, we tell them about the financial situation, we tell them about the KPI set and the levels we are in, we tell them about the states of the savings, we tell them about the operations how we are

doing our business how satisfied is the end user how satisfied are they themselves so we will have a what we call ... Client Satisfaction Survey, we tell something about how suppliers are doing their business as well as we have a lot of [....] improvement activities."

Sometimes, there are disagreements s between MF and CF. Although they might have caused problems in the relationship, it proves they turned the relationship into a partnership where issues are discussed together and solution are also agreed upon together.

The manager RE&FM recalls that their relationship is better than the relationship PF had with the suppliers. In is not only self-interest, reflected in a price, that counts, but there is more commitment to a stable relationship:

"[In] PF purchasing was always the method of euh suppliers, there was a very strong customer supplier relation and the customer asked them, actually pushed them so deeply in their price levels, that they were not able to earn money. And you can do this, in some cases for some suppliers that's right, but on the other hand if you don't allow them to make money, they will never give you the right service, because they are not able to manage to deliver the right service. And it is finding the right levels. Traditional the PF purchasing department always worked in this way. Push, push push. And finally, being surprised that you don't get the right service."

The facilities manager also has a good feeling about the relationship,

"[..] that's one part, the contract changed, but also the way of working changed. There was more working together, more discussion, more communication, more respect."

Now CF and MF have (and aim at further building) a trusting relationship as can be seen from the following remarks of the country manager (managing director) of CF:

"At this moment we are working with MF for two years. I fully trust them. But I say, well, you do for me the whole purchasing part. I don't want to care about it. You choose the

right supplier[...] Of course, we agree kind of cost down targets year after year. There is also the matter whether our purchasing people trust MF enough that they say ok we won't do it any more, you do the whole contract. Therefore, you have to build trust, that takes time."

He further adds,

"Yeah [..] when you outsource the important activity to a partner, you know you are becoming totally dependent on your partner. Then you need to build up the trust between those companies that you can have that interdependence because MF also becomes dependent on us. A large part of their revenue is from CF company and if that drops out because we kick them out and ask someone else to do it, it is very bad for them. Then they feel it also in their bottom line. So as soon as you start doing outsourcing of important activities, you get interdependence between companies and you have to manage that interdependence. That's why I know the boss of MF. We have a review two times per year how does it go and have we built trust enough to outsource even more so to MF."

The above quote reveals that the manager views trust building to be a solution for growing interdependence. The reference to the dependence of MF on CF indicates that he considers a certain balance in dependency to be a kind of a safeguard in the relationship. Given this safeguard, further trust has to be built.

From the perspective of MF, trust building is inter alia reflected in the existence of a transparent open book system. Anyone can log into that system. The manager of MF says,

"Every client from CF, every demand manager can look in CF PMS[performance measurement system]. KPI [key performance indicator] systems they can see everything. So they can click on high level and then they can click through to the bottom."

Apparently, by opening up the books, MF seeks to show it's commitment to the relationship and it's willingness to act cooperatively in the interest of the relationship.

The Accounting & Finance department of CF does not show much involvement in the relationship between MF and CF. The controller says:

"To be very honest, I mean as a controller or finance guy, we are being interested in the very simple services at the lowest cost. That is what I am there for. So whether it's MF or anybody else, it's really not something I should be worried about. Its not my responsibility"

And:

"But we are not decision makers. We are decision supporters. Final decision is to the Manager RE&FM and the country manager [Managing Director]. Very straightforward."

Different formal (contractual) and informal (non-contractual) sets of activities used to govern the relationship are shown in table 3:

Formal or contractual activities	**Informal or non-contractual activities**
Contract & Service level agreements and setting of target of saving of 500,000 euros every year	Open book system
PMS (KPIs) and Incentive-Penalty system (Gain sharing system)	Roadmap discussions
Quarterly report	Joint development of business Cases
Monthly Review meeting (strategy, savings & control, operations, finance)	Budget tracker, commitment list and Benchmarking suppliers

Table 3[2]: Formal and informal accouting activities

Table 3 shows that both formal and informal control activities are being performed by both CF and MF. MF is doing all formal accounting and control activities (including performance measurement system (PMS) using key performance indicators (KPIs) and monthly and quarterly review for CF. Budget tracker is a monthly overview of cost of

[2] The table has been made just to clarify the distinction between formal and informal control. Formal and informal may be intertwined. For instance during a monthly meeting or a quarterly review meeting many informal signals are given and much informal information is shared between the parties that can affect the relationship positively or negatively.

commitments to suppliers and the actual expenditure. This is prepared by MF. Similarly, the commitment list is also prepared by MF. The commitment list comprises the phone calls made on a location (Nijmegen or Eindhoven) to the service desk of MF. Regarding benchmarking, actual benchmarking of MF is absent since MF provides a rather unique and custom-made service: the management of a mix or package of different facilities services. The managerial 'product' delivered by MF carries a mix of activities, the output of which is hard to measure. There are some external measure based controls in place, in the form of cost saving targets (objectives) and in the form of a result-oriented incentive system. There are also informal (non-contractual) control mechanisms in place. They take the form of agreed upon more or less regular roadmap discussions and reviews. Moreover, there is voluntary action at MF to enhance transparency. MF benchmarks the suppliers of facilities services by transparently comparing the bids of different suppliers. They also transparently open up their books. A demand manager of CF can log into the PMS and immediately see the state of affairs. Furthermore, MF signals that it aims to help CF in producing a good business case and that it really tries to reduce costs. The MF manager:

"We are making the business cases, we are trying to find out how it could be smarter, cheaper, more efficient than now [..] we tell them about the states of the savings, we tell them about the operations how we are doing our business, how satisfied is the end user how satisfied are they themselves [...] we tell something about how suppliers are doing their business as well as on our improvement activities."

At the other hand, CF also seeks to keep MF informed about future plans and strategies and to manage each other's expectations. A CF manager:

"In the relation with MF it is very important that they are also involved and knowing where we are going to. That they are able to step on the train, instead of missing the train and we have found a way, also by a meeting structure, how we are deploying this and about how we look at it and how we want them to look at it. But also ask them, what is

your policy? As a company, where are you going to? What is your development? Where does MF want to be in a few years?"

To sum up, both parties express that they have a stable and trusting relationship. It proves that there is both formal and informal (accounting) control. The contract is important in this regard, yet parties show additional commitment to the relationship by voluntary agreeing to additional informal control and by voluntary decisions to increase transparency. It is important that interests are aligned properly, yet safeguarding behavior is not up front. Building a stable and trusting relationship is. Accounting controls predominantly prove to serve coordination requirements and the building of trust. As far as there are appropriation concerns, they are in the background.

Developments in the governance of facilities services: a summary

Table 4 chronologically summarizes the important events:

May 2006	**September-06**	**End 2006**	**Beginning 2007**	**End 2007**	**2008**	**2009 till Now (Sep-09)**
Decision to outsource management of facilities services of PF Semiconductors	Formation of CF	Change in Local Management (New country manager and new manager RE&FM)	Revision of contract with MF	Achievement of cost savings targets by MF and good interfirm relationship. Reorganization strategy of CF. CF suffers losses in its core business.	Achievement of cost savings targets by MF and better interfirm relationship. Continuation of reorganization strategy of CF. Financial crisis adds to the problems and huge losses suffered by CF.	Discussions of Total Facilities management (TFM) and outsourcing of the management of FABs facilities services.

Table 4: Timeline of the relationship

The timeline summarizes the history in terms of major events. The original decision to outsource the management of facilities services was made on the basis of previous experience PF had with MF in May 2006. It proves that PF had a trustworthy relationship with MF and as a result they also outsourced the management of facilities services of PF Semiconductors to them. The decision to outsource the management of facilities services was made just four months before PF sold PF Semiconductors to a group of private equity investors in September 2006. The local management (PF Semiconductors) is not involved in the outsourcing decision amid the news of sale of the PF Semiconductors. PF trusted MF. That's why the PF Semiconductors' contract is awarded to MF. Local management did not agree with the decision by top management. Although CF had no distrust in MF, this situation had a negative effect on the interfirm relationship between CF and MF. At that time, the country manager and the facilities manager did not show cooperative behavior. As a result, in the beginning the relationship between CF and MF was not working properly. Then, at the end of 2006, there is a change in the local management of CF. A new facilities manager (Manager RE&FM) and a country manager entered the organization.

In the beginning of 2007, the new local management revised the contract with MF. The revision took place in a certain institutional context: the present contract still had not expired, MF had a good reputation and five employees of CF had been transferred to MF. This event in the time line strongly affected both formal control and the building of trust. As for the formal control, the contract revision re-aligned interests of CF and MF by credible commitments in the form of cost savings targets, performance measurement systems and an incentive system. As for the incentive system, it was agreed that savings above target would be shared equally, thus producing contractual trust between partners. Because local management was actively involved in the process of contract writing, it produced ownership in the relationship. Therefore, the contract revision no doubt produced thin trust (Van der Meer-Kooistra and Vosselman, 2009). But the contract revision (i.e. the change in the formal control system) also affected the cooperation and the building of thick trust (Vosselman and Van der Meer-Kooistra, 2009). It produced positive expectations about the future. Such a building of thick trust is expressed by the managers and is reflected in the decrease in the information flow during 2008 (see table 2). Moreover, the formal accounting and control practices stemming from the new contract helped producing thick trust. All the formal reports, financial or non-financial, were prepared by MF. At the end of 2007 MF met the cost savings target, and that achievement enhanced the level of competence trust. It also enhanced goodwill trust. For although the reduction in costs is very small as compared to the total operating costs of

CF, the facilities management department was able to present good results in terms of cost savings in facilities services to CF's senior management. In this way, the relationship with MF facilitated them in contributing to CF's overall strategy aiming at a reduction of manufacturing facilities and reduce operating costs. MF proved to be a good ally in the positioning of the facilities department in CF.

The year 2008 brings another problem for CF in the form of a financial crisis. CF suffers huge losses in their core business. However, the relationship between MF and CF produced 'super savings' (beyond the target savings), thus further contributing to trust building.

In sum, the formal accounting and control practices in the two years 2007 and 2008 produced a track record of competence and integrity. They therefore build thick trust in the relationship by creating positive expectations for the future. These positive expectations are reflected in many discussions taking place in 2009. Parties aim to enhance the scope of relationship by including the contract writing with suppliers (i.e. by further moving towards Total Facilities Management). Moreover, parties discuss possibilities to bring the facilities services to FABs into the relationship. Both parties show a strong commitment to these possibilities.

Theoretical implications

Our study has a number of theoretical implications. This section explores and, to a certain extent, builds upon them.

Contracting for safeguarding and trust building

While prior research theorizes that trust is particularly important and may be a replacement for control in transactional relations that are characterized by high complexity and environmental uncertainty (e.g; Van der Meer-Kooistra and Vosselman, 2000), our study reveals that trust is also of significance in transactional relations characterized by relatively low or moderate levels of complexity and environmental uncertainty. Here, it does not replace control but it both adds to and interacts with control.

Earlier work (Dekker, 2004; Van der Meer-Kooistra and Vosselman, 2009) theorizes that formal control structures (in the form of performance management and incentive systems) are deliberately written down in a contract in order to align interests and, thus, in order to cope with appropriation concerns. However, our study suggests that this safeguarding aspect of contracting is not prevalent. The prevalent aspect of contracting is the inducement of commitment to the transactional relationship. This is consistent with Woolthuis et al., (2005) who argue and demonstrate that contracts serve various purposes. Starting from rather autonomous positions, by (re)negotiating a contract mutual ownership of the relationship is created. Furthermore, the accounting and control *practices* that stem from a formal contractual base (performance measurement and management) also induce the building of trust. This is not only due to the exchange of rather 'objective' performance information (as suggested by Tomkins, 2001), but to the possibilities parties have to express their normative and cooperative frames of the relationship. Apparently, both contracting and control practices are opportunities for expressing commitments to the relationship and, thus, for building trust. They shape expectations for stable and durable relationships. Therefore, this study suggests that contracting and formal control not only produce thin trust by compensating for legitimate mistrust (Vosselman and Van der Meer-Kooistra, 2009), but first and foremost provide opportunities for the production of thick trust by giving relational signals (Lindenberg, 2000; Chaserant, 2003; Vosselman and Van der Meer-Kooistra, 2009). Apparently, the building of thick trust may draw on formal controls and formal accounting information. External measure based control not only provides explicit incentives or constraints, but also provides opportunities for joint evaluations and problem solving. They may provoke dialogue and improve commitment to the relationship.

The emergence of informal control structures

Another theoretical implication of our study is, that the contract is not the only base for the exchange of formal accounting information, but that such a base may also be socially constructed in a more informal way. Once they feel ownership, parties also voluntarily agree upon and introduce periodical review meetings through which accounting information is exchanged, or parties voluntarily decide to open up the books. In doing so, they institute rather informal structures through which interests are aligned, coordination is enhanced and commitment is expressed. The intensity of such informal structures, however, decreases as the trusting relationship evolves. This is consistent with Tomkins (2001).

Trust as implicit control

A further implication is that trust building should be conceptually distinguished from the design and use of informal control. Both formal control and informal control (or social control) are instituted in the relationship, and, as we demonstrated and theorized, they both can be vehicles for producing trust. Once trust is at a sufficient level, it proves to reduce the intensity of control. We suggest that once trust is at a sufficient level, the *explicit* (formal and informal) control structures are to some extent replaced by an *implicit* control structure. Trust building apparently results in structure as it is theorized in institutional theory (Giddens, 1984; Garud and Karnoe, 2001). It strengthens the embeddedness of agency. Similar to explicit controls, extant trust (and thus commitment to the relationship) constraints behavior to some extent and it provides implicit incentives to act in the interest of the relationship. Although parties enter the relationship out of self-interest, it is through trust building that they show their willingness to act in the interest of the relationship, and, thus, to constrain and guide their behavior. Viewed from this perspective, the building of trust is a form of 'control in the making'. It is a form that implicitly constraints and incentivizes behavior, and, thus, implicitly embeds agency. It prevents actors from acting opportunistically out of their self-interests without a demand for explicit structure. It thus mobilizes stable and durable relationships.

As is shown by our field study, trust as an implicit control structure may be the result of the working of (changes in) formal control systems and informal control systems. However, trust building is not restricted to the practicing of control structures, to control practices. It may stem from voluntary actions out of local positions, actions that are not directly induced through explicit control practices. More in general, human agency is at the heart of trust building, embedded as it may be. Embedded agency mobilizes the institution and practicing of formal and informal controls, and, through that, trust may be built by showing commitment to the relationship. Yet, embedded agency also mobilizes the building of trust in a more direct way. Parties that really want to cooperate in a proper way may signal that to each other in various ways. There is also a self-regulating process of relational signaling (Lindenberg, 2000; Vosselman and Van der Meer-Kooistra, 2009), induced by parties' interests in a stable relationship. For example, MF's attention for potential improvements in the business processes at CF was not induced by a formal or an informal control structure, but was an act of agency. The informal control structures were a vehicle through which commitment could be expressed, not initiators. We suggest that it was a deliberate act by MF out of free space, driven by *enlightened* self-interest (Chaserant, 2003; Vosselman and Van der Meer-Kooistra, 2009). MF seeks to cooperate appropriately in order to serve it's long term interests.

We conclude that, essentially, both the institution and practicing of controls, and the signaling of commitment stemming from free space, are voluntary and deliberate actions to constrain the behavior of both the Other and the Self. Both institution and signaling produce *structure,* constraining and incentivizing behavior either explicitly or implicitly. This does not imply that social uncertainty or doubt about potential behaviors of other partners is completely eliminated. There always remains free space that can be used opportunistically by a partner. Therefore, as is theorized in earlier work (Vosselman and Van der Meer-Kooistra, 2009), parties involved will continuously search for signals that the others stay committed to the relationship.

In sum, explicit control proves to produce trust not only by aligning interests, but also by providing opportunities to show commitment to the relationship. Trust proves to produce implicit control, thus providing a powerful safeguard for opportunistic behavior. And formal accounting information proves to be a trust building as well as a safeguarding device.

The above discussion can be summarized in the following figure (4) which shows the interactive nature of control and trust, along with a description of how embedded agency (self action) influences explicit controls (i.e. formal and social controls) and implicit control (trust).

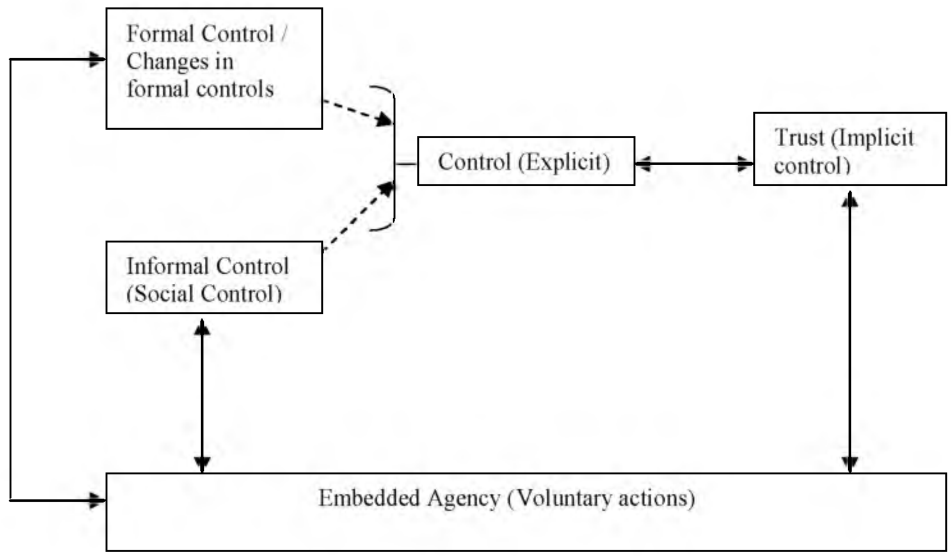

Figure 4. Explicit and implicit controls and embedded agency

Interaction between control and trust in a developing institutional context

The interaction perspective on our field study shows how control and trust are dynamically related to each other and how such dynamics create a structure that mobilizes a stable and durable relationship. However, this does not imply that effective interaction automatically takes place. An important theoretical implication of our study is that control and trust (building) interact within a broader institutional context. Apparently, (changes in) this broader institutional context prove to be important for an effective interaction between explicit control and trust. Such changes in the broader institutional context are connected to the transactional relationship through boundary spanners. Boundary spanners represent their organization in the relationship. They are organizational members of each of the partner organizations who process information in the interfirm relationship (Janowicz-Panjaitan & Noorderhaven, 2009; Aldrich & Herker, 1977; Perrone et al., 2003). There can be boundary spanners at least two levels in the hierarchy of an organization: the operating level and the corporate level. The initial award of the contract to MF by PF was done by the corporate boundary spanners based on their strategy to save costs and focus on core operations, on their own prior experience with MF, and on MF's reputation as one of the market leaders. PF's corporate boundary spanners concluded the contract and handed it over to the operating boundary spanners (local management of PF Semiconductors). This local management (operating boundary spanners) had no influence whatsoever on the contracting process. As a consequence, local management did not feel ownership and failed to further build structure in that relationship. As the original contract was not the result of local management's agency, the (explicit and implicit) structure in the relationship could not really develop. Only when new boundary spanners entered the organization and renegotiated a contract with MF, ownership came into existence. The revision of the contract, however, was not the result of unconstrained agency. There were two obvious institutional constraints. One was that the extant contract had not expired yet, so there was a lock-in situation with MF. The other was, that employees had been transferred to MF and such transference also resulted in a lock-in situation because of the labour laws in the country. Yet, despite these constraints, as a consequence of the renegotiation and recontracting not only interests were realigned, but also the trust building process accelerated.

In sum, our study suggests that the role of boundary spanners is important for an acceleration of the interaction between control and trust (building). Moreover, our study suggests that it is important that the boundary spanners act from a rather autonomous position, i.e. they experience agency. Such agency may very well be embedded in a wider institutional context. A change in boundary spanners may mobilize such embedded agency.

Conclusion

This paper produces theoretical knowledge on the development in the governance of an interfirm relationship. Particularly, it emphasizes the interaction between control and trust and the way such interaction is embedded in developments of the institutional context in the relationship. It does so by reflecting on a specific outsourcing relationship regarding (the management of) facilities services.

The field study gives evidence that the outsourcing of certain relatively simple services and the current in-house production of services that are very crucial to the primary business processes of the company, is consistent with a transaction costs economics (Williamson, 1991) based explanation of governance choices. Services characterized by a rather low level of complexity, uncertainty and asset specificity can be efficiently outsourced because outsourcing entails no strong dependency and, thus, relatively low transaction costs, while outsourcing services with a rather strong business asset specificity entails relatively high dependency and, thus, relatively high transaction costs. However, our analysis goes beyond a transaction cost based explanation as it is the processes in the events, the processes in governance, we are interested in. Our emphasis on process inter alia reveals that trust is an important mobilizer of, and not simply an alternative to control in complex and uncertain situations. Important events in the field study emerge in the area of contracting. An original contract, concluded by parties of which one was not directly involved with the further operational processing of the relationship, does not create ownership at the side of the outsourcing party. Although there is a formal contract between parties, the relationship between the original contracting parties does not develop the way it was intended. This particularly starts to get problematic when the outsourcing party separates from its parent company (that was the original contracting party). Only when new boundary spanners emerge, ownership in the outsourcing company develops. The contract with the contractor is renegotiated from a position of embedded agency. Although it is the managers' free will that drives the renegotiation of the contract, to a certain extent there are institutional constraints. One is, that the current contract did not expire yet. Another is, that the transference of a number of employees as it was part of the original agreement had created a kind of 'locked in'-situation. Yet, be it embedded, the agency in the renegotiation increases commitment to the relationship and accelerates the building of trust between the parties. Although the renegotiation also results in a realignment of interests between the parties by changing the incentive system, appropriation concerns are not up front in the renegotiating process. In the first place, parties' intentions are not to safeguard their own interests, but too enhance a cooperative attitude. To them, the re-contracting process provides opportunities to show their commitments to the relationship.

The control practices that stem from the renewed contractual arrangement and the accounting information that is part of them further enhance the building of trust. The control practices provide a vehicle for dialogue, for a joint production of the business cases and for joint problem solving. In addition to the contractual control practices, also control practices on a more informal basis emerge. Gradually, the intensity of these control practices decreases, thus reflecting not only a routinization of the work processes, but also the building of trust. This observation is consistent with the theorizing by Tomkins (2001) and Wicks et.al (1999).

Our study suggests that, in the first place, formal accounting practices do not produce thin trust by compensating for legitimate mistrust (as theorized by Vosselman and Van der Meer-Kooistra, 2009), but produce thick trust. Formal accounting and control practices may first and foremost provide opportunities to show commitments to the relationship; to show cooperative attitudes and to signal an absence of short-term opportunistic behavior. This suggests that formal accounting and control practices are not primarily safeguarding devices, but trust building devices. Control produces trust. A second implication is that the building of trust does not increase the level of agency, but further embeds it by creating an implicit structure. Once it exists, trust has the potential to guide partners actions into a cooperative direction, and, thus, to implicitly incentivize and to safeguard against opportunistic behavior. Trust produces control. Yet, such implicit control retains partners' perceptions that they act out of free will, be it in an embedded way. We suggest that it is this character trait of trust that keeps fueling the relationship and, thus, has the power to further develop that relationship. Trust may even produce new formal accounting and control structures that produce new vehicles for the building of trust.

Our study further implies that trust is not a designed social control mechanism or internal value based control system as opposed to an external measure-based control system, but that its development is intertwined with external measures and measurements. In addition, social mechanisms in the form of rituals, ceremonies, orientation programs and networking may provide *vehicles* for expressing trust.

Our study positions data in order to theorize the interaction between control and trust. It suggests how there may be an interaction between explicit and implicit control. That interaction occurs in a certain institutional context where boundary spanners prove to be very influential. It further suggests that it is the implicit control structure that has the highest potential to further develop the (governance in and of) the relationship. Such an implicit control structure is the result of positive attitudes and expectations. At the same time, safeguards against opportunistic behavior are created, but they are not up front. They are more a side effect of the building of trust.

We propose, that in situations where explicit safeguarding behavior is up front, the trust building process might be hindered. Then control structures and control practices might imply the opposite of what is intended: opportunistic behavior by the parties involved. Therefore, in order to build further theory it is essential to conduct more field studies, preferably also studies of relationships that did not succeed.

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Appendix 1 (Interviewees):

i. Director CF Netherlands (Country Manger)
ii. Real Estate & Facilities Manager CF Netherlands (two interviews)
iii. Facilities Manager CF Nijmegen
iv. Facilities Manager CF High Tech Campus Eindhoven
v. Director of Services Industrial Center Nijmegen
vi. Manager Facilities & Material Management Industrial Center Nijmegen
vii. Purchase Manager Nijmegen
viii. Manager Purchase Operations
ix. Controller accounting and finance
x. Controller CF Netherlands
xi. Account Manager MF

Appendix 2 (List of Codes):

MF Information

Accounting by MF

Accounting by accountants

Accounting by non-accountants (CF)

Accounting role

Accounting tools

Ambiguity

Amounts

Background of manager

Benefits

Capacity for Action

Coercive Isomorphism

Complexity

Consequences of relationship

Continuous Change

Cost savings

Demand Management

Economic Structure

Events

Expected changes in future

Field Institutional Entrepreneur

Field of FM

Field of CF

Flexibility

Hierarchical Practices

History of FM

horizontal control

Institutional Context

Institutional Structure

Interdependence

Interest Dissatisfaction

Legitimacy

Leverage

Management Control

Market Context

Market Practices

Mimetic Isomorphism

non-core

Normative Isomorphism

CF information

Opponents

Organizational Institutional Entrepreneur

Path Dependency

Pattern of Value Commitments

performance management

Power Dependencies

Professionalization of MF

Rationalized Myths / Institutional Logics

Relationship information

Relationship Issues

Relationship Practices

Reputation

Social Structure

strategy

Technical Structure

top management

Trust

Type /nature of Services

Uncertainty

vertical control