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## The trust-control nexus in public private partnership (PPP) contracts

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### ABSTRACT

This study examines the trust-control nexus in the context of public private partnership (PPP) contracts. It draws on the literature and the case of two UK school PPP contracts with varying degree of trust among the partners to illustrate the role of control in building competence trust and goodwill trust, and how trust in turn affects control. Prior to entering into the PPP contract, under a condition of high risk and low trust, reliance was placed on formal control to evaluate competence trust for the purpose of selecting a preferred bidder, whilst goodwill trust, which takes time to evolve, played no role in the selection process. During contract implementation, formal control formed the basis for demonstrating competence and nurturing goodwill trust. Trust subsequently determined the extent of reliance on formal control and informal control. In the case of School 1, high level of trust led to a reliance on informal control which enabled partners to focus resources on solving problems, whilst formal control operated in the background. In the case of School 2, low level of trust and perceived lack of transparency led to a demand for additional formal control. This study adds to the trust-control literature by shedding light on how trust relates to control, in the context of long-term PPP contracts which are difficult to specify in advance.

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## 1. Introduction

Trust has been conceived as a state of mind that entails a positive expectation about behaviour, whilst control has been conceived as an action that entails influencing behaviour (Bachmann, 2001; Das and Teng, 2001). Understanding the trust-control nexus is important because both are co-ordination mechanisms that have the objectives of improving performance, managing uncertainties and achieving success in competitive and complex business environments (Emsley and Kidon, 2007; Free, 2008). However, the relationship between trust and control is inadequately understood and its studies in various settings have yielded contradictory findings (Costa and Bijlsma-Frankema, 2007), because the interlink between trust and control depends on context, task characteristics and nature of inter-dependencies.

The trust-control nexus does not exclude the co-existence of trust with control, and vice versa (Bijlsma-Frankema and Costa, 2005), although there has been some debate as to whether trust and control are substitutes (Dekker, 2004) or complements (Coletti et al., 2005; Vélez et al., 2008). Control, which assumes the potential for opportunistic behaviour, may

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undermine trust building among partners because it creates an atmosphere of mistrust (Das and Teng, 2001). Unsurprisingly, in the context of tasks requiring high degree of professional autonomy, some studies have suggested that trust should be substituted for control (Dekker, 2004; Piccoli et al., 2004). However, trust may complement control by opening communication channels among partners to enable them coordinate activities, reach compromises and make flexible adjustments (Bisbe and Sivabalan, 2017; Minnaar et al., 2017). Some studies have cautioned that too much trust in relationship can be harmful, as partners may suspend reliance on control, which can lead to opportunism and betrayal (Langfred, 2004). As such, a balance is required to minimise dysfunctional behaviour and adverse consequences (Emsley and Kidon, 2007).

The objective of this study is to examine the trust-control nexus in the context of UK school public private partnership (PPP) contracts. This study adds to the accounting literature in two main ways. First, whilst prior accounting studies have mainly focussed on the influences of control on trust (Bisbe and Sivabalan, 2017; Mahama and Chua, 2016; Minnaar et al., 2017), this study focusses on the role of trust in managing uncertainties and complexities and its implication for control. It extends our understanding of the trust-control nexus which has been mostly examined in the sociology and management literature (Bijlsma-Frankema and Costa, 2005; Inkpen and Currall, 2004) by showing that high trust in relationships enables partners rely on informal control to reduce agency costs and find creative ways to solve problems. Second, this study contributes to the public sector accounting literature by examining the interplay between trust and control, and showing how trust relates to control in the case of two UK school PPP contracts with varying degree of trust among the public sector and private sector partners.

PPP provides an interesting case for studying trust and control because, firstly, it involves bringing partners with different ideologies to share risks in the pursuit of public and private objectives (Agyenim-Boateng et al., 2017). Secondly, PPPs are riddled with uncertainties and complexities, because it is difficult to precisely specify outputs at the outset of long-term contracts. The PPP case studies highlight the role of calculative practices in deciding which potential partner can be trusted, and the role of control in building trust. The findings highlight that information used by the partners to discuss, monitor and evaluate performance and demonstrate competency subsequently led to the development of goodwill trust. Perceived trustworthiness of the private sector contractor in turn determined the extent of reliance on formal control and informal control (Inkpen and Currall, 2004). Trust and mistrust among the partners have cost and resource implications.

Prior studies have criticised the PPP decision making process by arguing that: the PPP consultation process is not effective at incorporating the needs of users in the contract which is between the local government authority and the private sector (Edwards and Shaoul, 2003); the perceived lack of government funding for conventional public sector project creates an incentive to bias the investment appraisal process in favour of PPP (Shaoul, 2005); PPP appraisal involves making subjective judgements regarding cash flows and risks, whilst uncertainties are ignored (Broadbent et al., 2008; Froud, 2003); and, PPPs serve the government's new public management agenda of modernising the public sector using private sector expertise and innovativeness (Asenova and Beck, 2010; Broadbent and Laughlin, 2005). At the post PPP implementation stage, studies have found that PPPs offered poor value for money because of improper forecasting, pricing, and management of risks (Burke and Demirag, 2015; NAO, 2005; Toms et al., 2011); PPPs are expensive and created affordability problems (Shaoul et al., 2011); PPP governance structures lacked accountability (Agyenim-Boateng et al., 2017; Shaoul et al., 2012), and it is difficult to evaluate value for money and risk transfer because the private sector partner used complex subcontracting arrangements to diffuse risks (Demirag et al., 2012; Edwards et al., 2004; NAO, 2010). However, whilst these studies have examined important accountability, risk transfer and value for money issues, none have examined the role of control in building trust in the context of PPPs, and the implication of trust on control. Hence the objective of this study.

The remainder of this paper is organised as follows. The next section provides a theoretical framework for this study, by elucidating the concepts of trust and control, and discussing the trust-control nexus. The third section explains this study's research methods. The fourth section presents the findings by examining trust and control at the PPP contract negotiation stage, and the evolution of trust and its implication on control during contract implementation. The final section concludes the paper.

## 2. Theoretical framework: Trust-control nexus

### 2.1. Trust: concept, forms and bases

Trust is a complex, elusive and multifaceted concept which cannot be universally defined to suit all purposes. It has often been referred to as a psychological state that involves "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party" (Bachmann, 2001; Mayer et al., 1995, p. 712). Expectations of actions with positive outcomes involve confidence in the trustee's ability to competently and independently perform a particular activity or fulfil a responsibility for mutual benefit, without any explicit contractual agreement or control to safeguard against opportunistic behaviour (Gambetta, 1988; Nooteboom, 1996).

Trustors need to find intelligent reasons (or bases) to bestow trust and believe that the risks of trusting are low, otherwise they will refrain from trusting (Bachmann, 2001). O'Neill (2002) cautions that a crisis of trust cannot be overcome by blindly or naively placing more trust. Rather, trust should be intelligently placed, based on evidence of competence (or reliability), integrity (or honesty) and benevolence (or goodwill). Competence dimension of trust relates to resources and capabilities to

get things done. Integrity relates to adherence to moral principles and values acceptable to the trustor, and benevolence relates to good intentions and refraining from opportunism. Competence can be assessed at an early stage of a relationship whilst benevolence and honesty take time to emerge (Tomkins, 2001).

Only when actors have found reasons or bases to trust that trust is likely to be used as a co-ordination mechanism in social relationships (Nooteboom, 1996). The main bases of trust stems from familiarity and knowledge of the interests, values and norms of the partners which engender trustworthy behaviour. However, familiarity of interests, norms and values of a partner can also lead to a calculative form of trust involving an assessment of the costs and benefits of breaching trust and exploiting vulnerabilities (Adler, 2001).

Trust is not a static concept, but evolves overtime through relevant mechanisms (Inkpen and Currall, 2004). Trust does not rely on explicit mechanisms such as threat of enforcement of an agreement, but relies on implicit mechanisms such as threats of loss of reputation, gossips, and loss of future contracts. Trust mechanisms tolerate ambiguity and uncertainty and promote the development of mutually acceptable norms of behaviour to deal with (un)expected issues as they arise when contract progresses overtime. Interrelated mechanisms through which trust is developed, strengthened and maintained include: sustained interaction among the same partners over an extended period of time; quality of interaction; reputation of the partners; successful fulfilment of expectations; and, transparency through disclosure of information and access to underlying records (ter Bogt and Tillema, 2016).

Whilst trust absorbs uncertainty and diffuses complexity, reliance on another partner produces risk (Luhmann, 1979). Because trust involves taking a 'leap of faith' beyond what economic reasoning would warrant, it creates risk (Das and Teng, 2001). Reliance, or putting one's fate in the hands of another, creates the risk that the trustor will experience negative outcomes if the trustee proves untrustworthy. Partners who place trust due to their limited ability to deal with complexity and quest to reduce uncertainty may seek reasons to justify why the risk involved in trusting is acceptable. Partners extrapolate on future behaviour based on available information and interaction prior to determining trustworthiness, as disappointment often ensues when trust is misplaced. Risk is thus an unavoidable feature of trust.

Betrayal and breach of trust often result in emotional, reputational and financial damage, leading a partner to seek redress. Legal course of action and sanctions help reduce risk of placing trust, and provide redress in case of breach of trust (Luhmann, 1979). In an institutional environment characterised by a strong legal system that promotes monitoring and conformity of social actors to accepted norms and practices, the propensity and risk to cheat is not as high as would be the case in an institutional environment with weak legal system where social actors might be tempted to cheat (Bachmann, 2001). Whilst the legal system can foster the constitution of trust, it should only be conceived as latent (or secondary) consideration that offers assurance and redress among partners should they decide to engage in a trust-based relationship (ibid.).

## 2.2. Control: concept and forms

Control is generally conceived as a process of regulating and monitoring behaviour to reduce uncertainty and opportunism in the pursuit of objectives (Adler, 2001; Ouchi, 1980). Control in alliances can be achieved through formal and informal processes and mechanisms (Das and Teng, 2001; Eisenhardt, 1985). Both formal control and informal control regulate behaviour and align expectations by defining responsibilities, clarifying expectations, promoting goal congruency, and mitigating conflicts of interest (Bijlsma-Frankema and Costa, 2005; Das and Teng, 2001). However, whilst formal control influences behaviour through performance measurement, reporting, supervision, regulations and procedures, informal control influences behaviour through creating shared meanings and internalising values and goals (Tomkins, 2001).

Formal control assumes that partners cannot be fully trusted. It relies on contractual processes and mechanisms to measure and monitor performance in accordance with outputs specified in the contract, and implement performance-based payment mechanisms to sanction deviant behaviour and reward good behaviour (Bijlsma-Frankema and Costa, 2005; Costa and Bijlsma-Frankema, 2007). However, formal control is hard to activate, because specifying, measuring and evaluating performance are costly and time consuming, require expertise and depend on task characteristics (Bisbe and Sivabalan, 2017).

Long term contracts are riddled with complexities and uncertainties, which make it difficult to satisfactorily codify transactions, tasks and relationships (Eisenhardt, 1985; Ouchi, 1980). Ex-ante specification and codification during contract negotiation raise transaction costs and may subsequently slow-down actions if partners have to extensively refer to rules ex-post. Therefore, it has been suggested that in situations where outputs and tasks can be clearly specified, and uncertainty and interdependency are low, formal control is more effective than informal control at achieving objectives (Ouchi, 1980; Tomkins, 2001). In contrast, in situations where outputs and tasks cannot be clearly specified, and uncertainty and interdependency are high, formal control is less effective than informal control at achieving objectives (ibid.).

Informal control involves using information to interact, keep up to date with progress, and facilitate mutual learning (Bijlsma-Frankema and Costa, 2005). Informal control promotes flexibility and creativity in solving problems, by enabling partners develop their own consensus surrounding appropriate behaviour and outcome where such behaviour and outcome cannot be clearly specified (Ahmad et al., 2020). It reduces the problem of opportunistic behaviour by creating shared values and making partners realise that their self-interest may be best served through the pursuit of common interest (Das and Teng, 2001; Ouchi, 1980). Through interaction and socialisation partners internalise organisational goals, thereby increasing commitment, goal-congruency and motivation to achieve objectives (Das and Teng, 2001).

### 2.3. Trust-control nexus in alliances and partnerships

Whilst trust and control are interlinked, the way they interact to achieve objectives is contested by proponents of the complementary perspective, and the substitution perspective (Costa and Bijlsma-Frankema, 2007; Mahama and Chua, 2016).

From a complementary perspective, trust and control reinforce each other. Control promotes the development of trust in relationships by providing partners with rules and measures to evaluate performance which result in a track record overtime (Bijlsma-Frankema and Costa, 2005). Formal control helps build competency trust, whilst informal control helps build goodwill trust (Emsley and Kidon, 2007). Vélez et al. (2008) suggest that performance track records provided by control, and the coordination function of control helps nurture and strengthen trust among partners. Similarly, Coletti et al. (2005, p. 477) examined “the effects of control on trust and cooperation” and provided evidence to suggest “that a strong control system can enhance the level of trust among collaborators”. They state that trust can be increased by strengthening control systems (i.e. rewards-sanctions incentives and performance feedback mechanisms) used to govern partnerships. Control deploys calculative practices to portray an image of objectivity, neutrality and rigour to bolster trust among partners (Abdullah et al., 2018; Free, 2008).

From a substitution perspective, trust and control are inversely related, in the sense that more trust requires less control and vice versa (Dekker, 2004). At an extreme, trust may substitute for control when partners fully trust each other because of successful prior alliances (Gulati, 1995). Proponents of the substitution perspective argue that, the development of trust based on past interactions and familiarity promotes cooperation and solidarity of objectives which reduces uncertainty and lowers monitoring and agency costs (Luhmann, 1979). Trust in the competence of a partner and the presence of goodwill trust reduce the need for control. Conversely, a lack of competence trust and the absence of goodwill trust may lead to a demand for control to provide assurance that outputs are being delivered according to contractual specifications (ibid.).

Trust helps reduce agency costs and risks, by replacing formal control with handshakes and replacing the fear of non-conformance and shirking with mutual confidence (Alder, 1991). Tomkins (2001, p. 161) argues that “all relationships depend to some extent on trust”, and suggests that “a regular pattern of trading creates *social bonds* between parties based upon mutual understanding and trust and, consequently, lower transactions costs”. If there is lack of mutual understanding and trust in a partnership, then partners would require complete information about plans, processes, and key performance indicators to reward or punish behaviour (Wicks et al., 1999). Brown et al. (2007, p. 607) found that “contracts become less complete over time as trust evolves between parties”, and “less complete contracts become more complete when trust deteriorates between parties”. Although detailed contracts can protect the trustor against opportunism and reduce uncertainty over expectations regarding risks, responsibilities, costs, and profits, they stifle creativity and innovation (Brown et al., 2007). In contrast, less detailed contracts provide the trustee with flexibility and can spur creativity and innovation to solve unforeseen problems and meet challenges, but they leave room for opportunism and can lead to disagreements.

A minimum level of trust is required at the start of a relationship for a contract to proceed, whilst the evolution of trust results in adjustments to collaborative processes and extent of reliance on formal control and informal control. In this respect, Inkpen and Currall (2004, p. 587) “argue that the selection of initial controls is influenced by trust between the partners, which in turn is influenced by collaborative objectives”. Initial conditions give way to evolved conditions after partners learn from and about each other through interactions, which would lead to a reconfiguration of control. Competency trust reduces the need to monitor and enforce contracts, whilst goodwill trust reduces the perceived likelihood of opportunistic behaviour occurring which reduces agency costs (Bachmann, 2001; Bisbe and Sivabalan, 2017).

Vlaar et al. (2007) suggest that trust and distrust result in relationships to evolve along virtuous or vicious circles, which are self-reinforcing. Distrust and vicious circle increase reliance on formal control, whilst trust and virtuous circle increase reliance on informal control. Das and Teng (2001) caution that formal control aimed at controlling behaviour and output undermines trust, because the use of strict rules and measures creates an atmosphere of mistrust about a partners' goodwill and competence, and reduces autonomy to decide what works best. The authors suggest that informal control can act as a substitute for detailed formal control to increase trust, on the grounds that frequent meetings, communications and ‘culture blending’ reduce reliance on prescriptive behaviour and outcome measures to provide partners with the autonomy to set appropriate targets and develop appropriate processes. They argue that informal control helps breed trust by creating mutual understanding about shared goals, values and norms, and promotes flexibility and long-term thinking as opposed to meeting short-term performance targets. Partners who have confidence in each other's competence and goodwill can substitute formal control with trust based informal control, because of the mutual understanding that opportunistic behaviour would violate internalised values, principles and behaviours which would be detrimental to both parties (Barney and Hansen, 1994).

### 3. Research methods

This study uses data collected from the full business cases of two UK PPP schools, government documents (HM Treasury, 2003, 2012) and twenty-three interviews conducted with public sector and private sector interviewees who were knowledgeable about the PPP contracts. Case studies are helpful for understanding the operation of complex concepts, such as trust and control, in real life practices and settings (Roberts and Scapens, 1985; Yin, 2008). The two PPP schools were individually

procured in 1999 and began operation in 2002. They were called PPP schools, rather than private finance initiative (PFI) schools, because they were procured under the UK's Labour government.

PFI are design, build, finance and operate (DBFO) contracts which were introduced in 1992 by the UK's Conservative government. These contracts emphasised formal contractual relations and were rebranded as public private partnership (PPP) in 1997 by the UK's Labour government to emphasise partnership. In 2003, the Labour government introduced a 'Building Schools for the Future' (BSF) programme, which involved procuring a bundle of PPP schools, to reduce costs for both the public sector and private sector. However, this programme was terminated in 2010 by the Conservative-Liberal coalition government because the bundling of schools with different needs created complexities which resulted in the public sector losing control over expenditure (Shaoul et al., 2013).

In 2010, the Conservative-Liberal coalition government further refined the PPP policy, which it renamed to PF2, to curb the problem of opportunism by enabling "greater alignment of interests... a more collaborative approach... greater visibility of project information and more involvement in strategic decision making... more transparency", and sharing "in the ongoing investment returns, reducing the overall cost of projects to the public sector" (HM Treasury, 2012, p. 7). Under PF2, the government acts as "a minority equity co-investor" in PPP projects, which is expected to improve the public sector's access to information and records held by private sector contractors (p. 7). However, the literature has questioned whether the hoped for alignment of interest and transparency would occur in practice given the minority interest of the public sector (Agyenim-Boateng et al., 2017). Following the collapse of Carillion in 2018, the Conservative government "announced that it will no longer use Private Finance 2 (PF2), the current model of Private Finance Initiative (PFI)", although it would continue to support existing PFI, PPP and PF2 projects (HM Treasury, 2018, p. 1).

Prior to conducting the interviews, the researchers wrote to the local government authorities to request for the full business cases of the schools, because they were responsible for contracting with the private sector partner on behalf of the schools. The local government authorities provided the full business cases, after redacting minor information which they considered commercially confident. The full business cases, which formed the basis for negotiating with the 'preferred bidder' and writing the PPP contract, contained important and detailed information about the PPP contracts. The issues specified in the full business cases (such as, the services to be supplied under the contract, project financing and refinancing, risk sharing, price and performance payment mechanism, contract management and control, change in service requirements, guarantees, insurance, confidentiality, dispute resolution, early termination clauses, step-in rights, and change in service providers) were consistent with the government document entitled *The standardisation of PF2 contract* (HM Treasury, 2012). The objectives of the standard contract document were "firstly, to promote a common understanding of the main risks which are encountered in a standard PFI project; secondly, to allow consistency of approach and pricing across a range of similar projects; and thirdly, to reduce the time and costs of negotiation by enabling all parties concerned to agree a range of areas that can follow a standard approach without extended negotiations" (HM Treasury, 2012, p. 1).

The full business cases were read to enable the researchers engage in meaningful discussion with the interviewees, and corroborate the data collected during the interviews. These documents were also helpful to enhance the credibility of the data collected by enabling interviewees better recall and elucidate some of issues encountered during the procurement process. Whilst government documents and full business cases provided insights into control and the assessment of competency trust, goodwill trust was discursively apprehended through discussion with the interviewees as the latter resides in practices and routines (Mahama and Chua, 2016).

Table 1 shows details of the interviewees. Interviewees from the local government authorities explained how they assessed the needs of school stakeholders, what issues were specified in the contract, how they monitored the contract to implement the PPP performance payment mechanism, what problems they encountered, and how they resolved them. The partners from a Big4 public accounting firm were interviewed to understand the tasks that were undertaken by the consultants during the PPP procurement processes. Both local government authorities and schools engaged the same Big4 public accounting firm to manage the user-consultation process, undertake a value for money investment appraisal, evaluate and

**Table 1**  
Detail of the interviewees.

Job title of interviewees	Number of interviewees	Organisation
Head teacher	2	School 1 & School 2
Deputy head teacher	2	
Teacher	2	
Facilities manager	2	Service provider 1 for School 1
Contract manager	2	Service provider 2 for School 2
Director (Equity financier)	2	
Director (Debt financier)	2	Bank
Head of property services	2	Local government authority 1 for School 1
Project manager	2	Local government authority 2 for School 2
Contract manager	2	
Chief finance officer	1	
Partner/PPP advisor	2	A Big4 public accounting firm



select the preferred bidder, and write the full business cases. To cut costs, the Big4 accounting firm followed a standard approach to undertake the preceding tasks and used a standard template to write the full business cases.

The headteachers, deputy headteachers and PPP service providers provided insights into their roles during contract procurement and negotiation, their day-to-day interaction during contract implementation, their perception of the PPP services delivered, what problems they encountered, and how they worked to resolve these problems. During the interviews, the facilities managers showed us a sample of helpdesk monitoring reports containing information of problems reported to helpdesk, time taken to resolve problems, availability of services, and change orders. As trust develops and evolves overtime through interaction, it is important to note that the headteacher from School 2 was newly appointed and was not involved in the original procurement which explains her sceptical views presented in the findings section. It is important to note that the facilities manager for School 1 was physically located onsite which promoted the development of trust, whilst the facilities manager for School 2 was located offsite which hindered the development of trust.

The interviews were conducted face to face and lasted between 45 and 75 min, with an average interview duration of one hour. A semi-structured interview questionnaire containing themes relating to procurement, evaluation of bidders, and implementation, was used to guide discussion. Interviewees provided insights into issues relating to the evaluation of bidders for competency, goodwill and benevolence during service delivery, performance evaluation and feedback processes, and the control mechanisms used. Interview discussions were recorded with the permission of the interviewees, transcribed in MS Word documents, and were read individually for the purpose of data analysis. Data analysis was iterative and started during data collection to enable reflexivity (Alvesson, 2003; Creswell, 2013). After the first eight interviews were conducted, data was analysed to identify themes discussed by the interviewees in relation to trust and control, and to better focus the remaining fifteen interviews. The evidence provided by the different interviewees were corroborated with each other and with data from secondary sources to ensure consistency and to develop plausible storylines (Guba and Lincoln, 1994). For the purpose of writing the findings and fleshing out the theoretical framework, issues related to competence and goodwill trust were uncovered, formal and informal control processes that were followed during contract procurement and implementation were ascertained (Broadbent and Laughlin, 1997).

#### 4. Findings: Trust-control in the context of school PPPs

This section presents the findings by examining trust and control nexus when the public sector entered into the PPP contractual relationship with the private sector, and the trust and control nexus as relationship matured during contract implementation.

##### 4.1. Trust and control at the PPP contract negotiation stage

Under a condition of high risk, competence trust of bidders from the private sector was evaluated through a formal bid evaluation process to choose a suitable partner who would best be able to deliver the PPP objectives. Bidders were invited to express interest, and three bidders were formally invited to submit proposals and make presentations on their proposals. The face to face presentations provided the private sector bidders with the opportunity to discuss and convince the public sector partner about the value for money and innovativeness of their proposals, and their ability to deliver on their promises.

The proposals were ranked on the basis of the four primary evaluation criteria of quality of design; quality of services; financial viability; and, contractual arrangements. A cost per unit of benefit was calculated for the purpose of ranking. The bidder's proposal which ranked first was chosen as preferred bidder and invited to negotiate further. Refer to Table 2, which shows that School 1 chose partner N as preferred bidder, and School 2 chose partner B as preferred bidder, on the basis of lowest cost per unit of benefit. The preferred bidder was subsequently invited to have meetings with the public sector partner (i.e. the local government authority) and service users (i.e. headteachers and teachers from the school) to refine performance objectives, expectations and project proposals; agree on the sharing risks and responsibilities; and, design interface and governance systems to monitor the achievement of objectives, provide feedback, and reward performance. It is interesting to note that in the case of School 1, the estimated cost of traditional public sector procurement (£21.5 m) was the same as the cost of PPP procurement (£21.5 m), whilst in case of School 2 the cost of PPP procurement was cheaper than the estimated cost of traditional public sector procurement by £1.81 m (i.e. £19.0 m minus £17.19 m).

During procurement, high reliance was placed on calculative practices to evaluate the competence of potential private sector partners by considering resources, capabilities, expertise, reputation and track record of successes in past alliances (Bisbe and Sivabalan, 2017; Das and Teng, 2001). The public sector partner (i.e. the local government authority) did not evaluate intentions or goodwill of the potential private sector partners.

Following discussion and negotiation, a PPP contract was drawn up between the local government authority and the private sector partner to make the agreements legally binding. The contract contained agreements regarding service levels, key performance indicators (KPIs), risks and responsibilities, governance framework to monitor and evaluate performance, incentive mechanisms, handover arrangements at the end of the contract, and provisions for dealing with changes in service requirements.

Articulation of clear and unambiguous objectives regarding expectations from the partners in the contract supported the development of trust when the contract was implemented, as managers had proper understanding of what was expected of them. Because the parties entered into the contract under a condition of low trust at the contract negotiation stage, contract

**Table 2**

Selection of a preferred bidder: Competence evaluation criteria.

School 1 (Estimated cost of traditional public sector procurement = £21.5 m)		Potential private sector partner		
Criteria to evaluate competence	Maximum score	D	N	A
Quality of design and construction	35	25.4	22.2	19.3
Quality of services provision	25	16.3	14.5	12.9
Financial viability	20	13.2	13.6	15.2
Contractual arrangements	20	12.6	11.9	10.5
<b>Total benefit/value</b>	<b>100</b>	<b>67.5</b>	<b>62.2</b>	<b>57.9</b>
Ranking prior to consideration of cost		1	2	3
<b>Net present cost of PPP (£m)</b>		<b>30.5</b>	<b>21.5</b>	<b>25.9</b>
Cost (£) per unit of benefit		0.451	0.345	0.457
<b>Final ranking based on value for money</b>		<b>2</b>	<b>1</b>	<b>3</b>
School 2 (Estimated cost of traditional public sector procurement = £19.0 m)		B	N	M
Design and Technical Services	25	21.40	11.15	17.92
Financial	25	11.76	8.94	7.97
Legal	25	18.90	17.15	19.65
	25	18.90	16.89	18.65
<b>Total benefit/value</b>	<b>100</b>	<b>70.90</b>	<b>54.13</b>	<b>64.19</b>
Ranking prior to consideration of cost		1	3	2
<b>Net present cost of PPP (£m)</b>		<b>17.19</b>	<b>17.55</b>	<b>17.70</b>
Cost (£) per unit of benefit		0.24	0.32	0.27
<b>Final ranking based on value for money</b>		<b>1</b>	<b>3</b>	<b>2</b>

Source: Big4 (1999a), *Final Business Case, School 1*.  
Big4 (1999b), *Final Business Case, School 2*.

completeness was perceived to be important to lower the risk of either parties exploiting each other (Demirag et al., 2011). However, although the local government authorities and the private sector partners consulted with the school users to ascertain their needs, interviewees from the schools stated that the PPP contracts were incomplete because they did not know what to ask for. As stated by a teacher: “if you go and ask the heads of departments whether they got exactly what they wanted, most of them would say no, because they did not know at that time what they should be asking for”.

The problem of incompleteness of the PPP contract was addressed through a change order mechanism. The change order process was perceived to be costly, because the school was owned by the private sector partner who added a mark-up for getting third party contractors to do additional work. Moreover, the contracting partners were companies which were more interested in undertaking large projects than minor work. As stated by a contract manager from the local government authority:

*I think the contracting arm of the consortia is too big, really, to bother with minor work. In hindsight, we shall get quotations from other small companies rather than go through the contract. But obviously the consortia will add a management charge on top of the cost the contractor would provide to us, because it is their building and they would have to coordinate the work.*

The PPP contract relied on a performance based payment mechanism that “puts into financial effect the allocation of risk and responsibility between the Authority and the Contractor, determines the payments which the Authority makes to the Contractor, and establishes the incentives for the Contractor to deliver the Service required in a manner that gives value for money” (HM Treasury, 2012, p. 157). The payment mechanism was crafted with the purpose of incentivising performance. As stated by a PPP advisor: “to me, payment mechanisms aren’t working, if there are loads of incidents where the contractor is not taking a penalty for not meeting their service levels, or prefers to take a penalty rather than meeting service levels”.

When the PPP contract was newly implemented, control formed the basis for the formation of trust between the school and private sector service provider (Coletti et al., 2005). The partners were conscious of the task inter-dependency and unity of objectives between them. The school relied on the private sector to make classrooms available to enable the provision of education services, and the private sector were interested to ensure that there were no performance deductions due to unavailability of classrooms. The private sector facilities manager explained that she was responsible for ensuring that no penalties were incurred, and for managing the expectations of the consortia and the service users:

*I am accountable to the consortia and the customer for delivering the services specified in the facilities management contract. The consortia are primarily accountable to the bank, to make sure that the monthly payment is being received on time and that we are not being penalised for any quality failure. It is down to us to make sure that there are no quality failures or unavailability deductions. Sometimes my responsibilities would clash, and I have to be diplomatic with the players.*

The development of trust requires close proximity, regular face to face interactions, and dealing with the same partners (Uddin et al., 2017). In the case of School 2, the private sector service provider did not have a facilities manager on site. It used a centralised helpdesk system which catered for the needs of numerous PPP schools to “reduce its costs and maximise profits” (contract manager, local government authority). Lack of face to face interaction and distance, which make the interpretation of verbal and non-verbal cues difficult, hindered the development of trust (Bisbe and Sivabalan, 2017). Unsurprisingly, the headteacher of School 2 argued that “negotiating with the facilities manager if anything has to be done to the building, such the installation of data projectors and interactive whiteboards, has been a nightmare”.

In the case of School 1, there was a facilities manager located onsite which facilitated interactions, created personal attachments, and led to the development of trust. The headteacher pointed out that:

*We trust in each other, because we have known each other well over a long period. We have always been working with the same facilities manager. I think it is important that she is onsite – it is a bonus. We possibly couldn't have this type of feeling if we were dealing with a different facilities manager or somebody else was the headteacher – we would have to start over.*

In summary, during procurement high emphasis was placed on the competence and reputation of the private sector partner, and less emphasis was placed on goodwill trust as the partners barely knew each other. The competence of bidders was formally evaluated to select a proposal that represents best value for money. Whilst calculative practices were used to portray an image of objectivity, the value for money benefits of PPP and conventional procurement was marginal, and subjective judgements were made to evaluate proposals and rank bidders. Under the condition of high risk, a preferred bidder was chosen to negotiate further and make agreements reached during negotiations legally binding in the PPP contract. Consistent with HM Treasury guidance, the PPP contract provided a structural framework to control the service delivery process, by specifying service levels, performance measures which were linked to payment mechanism (e.g. availability of classrooms and penalty for unavailability), risks and responsibilities of the partners, procedures for dealing with change orders, recourse in case of disputes, and termination clauses. The contract provided the framework for demonstrating competence and developing goodwill trust during implementation, by explicitly specifying performance expectations and criteria for judging and rewarding performance.

#### 4.2. The evolution of trust and its implication for control during contract implementation

Trust evolved during contract implementation and determined the extent of reliance on control. At the beginning of a partnership, the partners started with an existing stock of relationship asset where they got to know each other (i.e. a honeymoon period) and built competence trust and goodwill trust. Demonstration of competence, and the development of goodwill trust resulted in a shift from formal control to more flexible informal control. As partners got to know each other, the perceived risk of opportunism faded, although the risk associated with PPP asset specificity and partner reliance remain unchanged (Das and Teng, 2001).

Trust was not blindly placed (O'Neill, 2002). Performance information were used to validate trustworthiness and consolidate interpersonal trust. The headteachers and facilities managers reviewed helpdesk reports detailing the time taken to resolve problems and availability of classrooms. The interviewees pointed out that performance deductions were rarely made and enforced except for major transgressions, as there was a threshold for missing performance targets beyond which a classroom was considered unavailable and penalties were implemented. Control and monitoring information containing performance indicators provided visibility and feedback about the services delivered, and provided comfort that the private sector service provider was not engaging in opportunistic behaviour to harm the interest of the school. Discussion of control and monitoring information also formed the basis for justifying PPP payments and building both competency and goodwill trust.

The headteachers did not refer to the PPP contract to check whether services were being delivered according to contract specifications. A PPP advisor argued that “A contract should be like a pre-nuptial agreement which should be used only when relationship breaks down”. The private sector was trusted to prepare ‘self-monitoring’ reports to demonstrate that services are being delivered according to expectations. As highlighted by a project manager from the local government authority:

*There is an element of trust and an element of self-monitoring to ensure that the project operates smoothly. If people are being held accountable for every detail, I think they will work to whatever is in the contractual document.*

In the case of School 1, the headteacher and facilities manager had developed interpersonal trust, by demonstrating competence, using discretion to solve problems, and developing track records of meeting or exceeding performance expectations. Regular face to face interactions helped strengthen bonds, blend culture, understand mutual dependencies, and develop goodwill trust. Formal control operated in the background in a symbolic manner, and was not extensively relied upon to evaluate the achievement of outputs or targets specified. As explained by the headteacher from School 1:

*Although there is a formal network, a lot of problems are sorted out informally. We don't always follow the letter of the law – there is give and take. If we were all very rigid and intransigent, then PPP would not work.*

Trust resulted in a coordinated and adaptive response by both parties to deal with the problem of uncertainty. The facilities manager from School 1 explained that they work in the spirit of partnership and do not follow the formal contract to penalise each other for quality failures:



*We work in the spirit of partnership. For example, if a pupil damages the door, we have the right to charge the school to replace or repair the door. But we would say: "we would repair that out of our cost, however, if the bin did not get emptied, we would offset that against that quality failure". If the client does not have trust or faith in you, as the operator, and you don't have trust and faith in the client, then they will go by the contract, by the letter, as will you. You will charge the client for every bit of vandalism or misuse and they in turn will deduct for any quality failure that they can find. The contract is there for a purpose, but generally you have to try and work together, and find a balance otherwise the PPP will never work.*

The facilities manager from School 1 developed goodwill trust by using her discretion and flexibility in the management of the budget for repairs and maintenance. Whilst costs associated with wear and tear are borne by the private sector and costs associated with vandalism are borne by the school, the facilities manager used her discretion to bill her company for minor costs associated with vandalism by using money set aside for wear and tear to maintain good relationship. As explained by the facilities manager:

*It is important to build trust and rapport in a PPP relationship and try to meet people, who understand your constraints, half way with their requests. Otherwise you can forget about it - the PPP won't work. There are things that you cannot do and there are others that you can do. For example, a replacement door can be treated as either a wear and tear item which is billed to the consortia or treated as vandalism which is billed to the school. There is money allocated over 30 years for wear and tear. So, there are ways to get things done by not hammering the customer all the time.*

However, the same facilities manager explained that formal control mechanisms were followed for 'major' transgressions, such as vandalism resulting in costly repairs which would adversely affect profitability of the private sector, or unavailability of classrooms which would affect teaching:

*If a pupil vandalises 4 or 5 doors, which cost £200 a door to replace, then the client has to hold their hands up and pay for these repairs. If 4 or 5 classrooms are not heated to 18 degrees and teachers cannot teach, then we have to hold our hands up and say, right the classrooms were unavailable. Those sorts of costly and serious things are not negotiable, but little things like, a bin was not emptied or pupils broke chairs are negotiable.*

The private sector service provider also attempted to develop goodwill trust by sponsoring the activities undertaken by the schools, such as "healthy eating competition, football teams, and doing little things that do not show on spreadsheets" (Contract manager, School 1).

In the case of School 2, interpersonal relationship was weak and bonds were at an early stage of development because the headteacher involved in the procurement had retired. The change in the headteacher destabilised relationship and inhibited the development of trust as the partners had to start over again to learn trusting each other. The newly appointed headteacher did not seem to trust the facilities manager and was sceptical about the self-monitoring helpdesk report prepared by the latter. She argued that the school should have greater involvement in verifying and monitoring performance reports to ensure that services were being delivered according to the service level agreements specified in the PPP contract:

*When money is involved, there needs to be careful procedures in place to monitor what the schools are getting. The contractor needs to make a profit. I feel that there needs to be somebody in the school to monitor that services are delivered according to service level agreements.*

Similar to the case of School 2, in the context of early PFIs in roads and hospitals, Edwards et al. (2004, p.9) found that "self-monitoring systems require high levels of trust, which is not always present, and public sector partners are conducting more monitoring activities than expected."

The lack of trust in the case of School 2 suggests that control information can be used to nurture trust and alleviate concerns, by providing evidence of the services delivered, and the responsiveness of the facilities manager in dealing with requests. Feelings of exploitation, betrayal, scepticism and mistrust can be reduced through transparently disclosing information and providing open access to records to the partner placing trust (Powell et al., 2004). In the case of School 2, a lack of trust led to a desire for more detailed control, which may eventually lead to increase in trust if detailed information is provided and expectations are met.

However, the demand for information to build trust increases agency cost. Although the public sector could be involved in monitoring performance, this process requires time and cost resources. A PPP advisor pointed out that "The payment mechanism is overly complex, and requires tracking of performance, but the schools themselves may not be tracking performance because the headteacher may not have the time or be willing to monitor services".

In summary, whilst control is important for competence trust building during contract negotiation, the development of goodwill trust and mistrust among the partners influenced the extent of reliance on control during contract implementation. Trust and distrust in PPP relationship determined whether the behaviour of the partners developed into self-reinforcing virtuous or vicious circles (Vlaar et al., 2007). For example, distrust and defensive behaviour was apparent in the case of School 2 which could be appeased through greater monitoring and control, whilst trusting behaviour in the case of School 1 resulted in symbolic adherence to formal control which operated in the background. Trust enabled partners to focus on common interest and the 'philosophy' of the contract to find creative ways to solve problems without souring relationship. Whilst penalties were not implemented to nurture goodwill, the partners understood the implications of unavailability of classrooms on education services, and the need to be flexible to creatively solve problems. As Tomkins (2001, p. 163) pointed

out: “large projects are not just “there” with given costs and benefits to be shared. They have to be shaped and developed with modification of partner’s roles and interests”.

## 5. Conclusion

This study has examined trust and control in the context of school PPP contracts. Whilst control engendered trust, the development of trust shifted the focus from spending time and cost resources on control to meeting expectations and solving problems.

Trust in PPP was conceived in terms of competence, common interest, flexibility and accommodative intentions. Trust was built and strengthened overtime by, demonstrating that service level agreements were being met, maintaining proximity to enable face to face interactions, finding innovative and creative ways to solve problems, adhering to the philosophy of the contract rather than the letter of the law (i.e. being flexible and using discretion), showing the willingness to be transparent, providing access to underlying control systems, alleviating concerns that the private sector is solely interested to maximise profits, and improving confidence that the partner is interested in developing a long-term mutually beneficial relationship.

Control did not damage or degrade trust, as suggested in the literature (Das and Teng, 2001), but was needed to demonstrate trustworthiness. Our findings showed that control engenders trust, by inducing cooperation and reducing perceived risks. At the start of the PPP relationship, calculative practices were used to evaluate the competency of bidders to enable the public sector intelligently rather than blindly or naively place trust. Formal control enabled the evaluation of competency trust during contract negotiation, whilst informal control enabled the building of both competency trust and goodwill trust during contract implementation.

However, formal control was overwhelmingly concerned with evaluating competency, and had little to do with goodwill trust which was developed through informal control. Formal control laid the boundaries for behaviour, whilst the use of informal control, discretion and flexibility to conform to the ‘spirit of the contract’ helped the development of goodwill trust. Face-to-face meetings were important for discussing pressing issues, and satisfactory resolution of these resulted in the development of goodwill trust.

Under PPP, the private sector is entrusted with the self-reporting of performance information to demonstrate competency and justify payments. Lack of trust when relationship was newly established prompted a demand for transparency and control. Transparency in the production of self-reported performance information helped foster trust, by alleviating suspicion, improving reliability, and providing assurance that the trustee (i.e. the private sector partner) has nothing to hide or has not undertaken activities to harm the interest of the trustor (i.e. the public sector partner). The findings highlight that transparency in control processes can potentially increase trust (Coletti et al., 2005).

Trust and control are not static phenomena, but evolve through interaction and learning about each other (Costa and Bijlsma-Frankema, 2007). Because trust takes time and regular interactions with the same partner to develop, a change in partner, either from the public sector or the private sector, has the potential to destabilise relationship and reduce trust. Trust was developed through stability in relationship, close proximity, face to face interactions, and mutual understanding.

As trust increased, greater emphasis was placed on informal control whilst formal control operated in the background as fallback mechanism. Informal control provided the partners with the flexibility to restructure practices, find creative ways to solve problems, and avoid the mutual imposition of penalties which has the potential to sour relationship. Mutual dependencies made the parties realise that in the long-term self-interest can best be served through the pursuit of common interest. Informal control shifted the focus from spending time and cost resources on control (i.e. means) to solving problems and meeting expectations (i.e. ends).

Trust has performance implications by reducing the probability of losses and enabling partners to move forward although uncertainties in relationship still remained. The costs of managing, monitoring and renegotiating changes in service requirements can decline overtime when the contractor is perceived to be trustworthy. Trustworthiness reduced the need to check on the private sector, thereby saving time and cost resources which could be put into more productive use, such as solving problems, managing uncertainties and resolving conflicts. Trust enabled the partners work cohesively to purge individual differences (i.e. public versus private) to achieve unity in the objective of delivering public services upon which their success hinged (Uddin et al., 2017).

The findings highlight the complex trade-offs between trust and control (Brown et al., 2007). Whilst control influences trust building, trust among partners may in turn reduce the need for detailed control (Piccoli et al., 2004). Control initially increases transaction costs in the short-term but aligns objectives and fosters the development of trust in the long term to subsequently reduce risks, reliance on control and transaction costs.

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