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Expanding The Concept of Contractual and Relational Governance Interplay in Public-Private Partnerships: A Dynamic Realist Approach

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CONTRACTUAL AND RELATIONAL GOVERNANCE INTERPLAY IN PUBLIC-PRIVATE PARTNERSHIPS: A DYNAMIC REALIST APPROACH

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Abstract: This working paper presents a preliminary conceptualization of a process theoretical approach for studying the interplay between contractual and relational governance activities in Public Private Partnerships. Taking into account that “action” is not necessarily an instrumental consequence of decisions, we argue that day-to-day practitioners aim at balancing their role as a member of an organization, a part of a PPP team and personal professional interest. Their subjective concern for improving or maintaining their positions trustworthy "experts" drives modes of interaction and governing activities. The approach integrates the traditional functional-regulatory approach extensively used for studying the interplay in terms of complementarity/substitutivity, with theoretical insights from critical realism theory on trust and control in working organizations. The illustrative case is the interaction between a public project manager and a private facility manager during the introduction of changes in the exploitation phase of a Public Private Partnership in the Netherlands.

There are inconsistent findings in the IOR literature regarding the extent to which contractual and relational governance support or undermine each other, and their joint impacts on performance. Researchers have hypothesized that inconsistencies might be the consequence of moderating effects from institutional environments, interorganizational relationships type and relation length, being these elements a matter of further research (Cao & Lumineau, 2015). Rather to define “*what*” is the interplay between contractual and relational governance (complementary or substitutivity), a more insightful debate is “*how*” and “*when*” contractual and relational governance complement (or undermine) each other. To advance towards this direction for Public Private Partnerships (PPP), the traditional lenses to study the interplay should be revisited in the light of four shortcomings.

- The analysis of the interplay is strongly influenced by the “static matching proposition” central in Transaction Cost Economics (Zenger, Lazzarini, & Poppo, 2001), which implies a one-shot choice to define at front-end of the project an optimal combination between relational and contractual governance, overlooking the **dynamic** nature of governing.
- The analysis of the interplay in a specific project cannot be isolated from the policy and social context, where it takes place. On the contrary, “stratified interconnections

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between micro-level and macro-level social mechanisms is fundamental to an explanation of the trade-offs between trust and control in specific organizational situations” (Reed, 2001, p. 203).

- The traditional discussion focuses on the interplay as a matter of functional substitutivity and complementariness. But it has blurred the centrality of agency, and the “activity dependent” nature of governance mechanisms (governing). Systemic and Neoinstitutional approaches to governance overlook “the possibility **that agency** might spontaneously (re)create structure, that the activities of governing might (re)create the forms of governance” (Sanderson, 2012, p. 440).
- The traditional analysis is not totally framed for a “project setting”, as it does not take into account the difference between governance at project level, the level of parent organizations, and the intermediate levels that links parents’ organizations to projects (Biesenthal & Wilden, 2014). Considering the **multilevel nature** of project governance is fundamental for PPPs, as parents organizations involved in PPP agreements are guided by different organizational logics and values.

Summarizing, current approach provides few insights into the dynamics, enablers and constrictions to the spontaneous governing activity of real managers embedded in the ongoing process of value co-creation. The objective of this paper is developing a process model theory, expanding the current conceptualization of the interplay between contractual and relational governance addressing the named shortcomings.

- **Dynamic:** Two aspects that define the dynamics of the interplay are (a.) the effect of (endogenous) path dependence, having initial conditions a disproportionate effects on the development of interorganizational relationships (Doz, 1996; Edelenbos & Eshuis, 2012; Vlaar, Van den Bosch, & Volberda, 2007), and (b.) the existence of external contingencies that triggers different type of interaction (Majchrzak, Jarvenpaa, & Bagherzadeh, 2015).
- **Macro-micro:** Managers are involuntaristic predisposed to engage collaborative or confrontational modes of interaction according to the structural complementary or contradictory relations between public and private organizational logics, expressed by a specific type of PPP policy and contractual agreement.
- **Agency:** Although the structural predisposition influences the interaction between public and private manager, it does not determine their actual behaviour. Effective behaviour results from the individual capability to reflect on the system of rewards and penalties if they deviate (or not) from the structural predisposition. The point of reference is their personal project to maintain or improve the status as “trustworthy professional”.
- **Multilevel nature:** The process model focuses on the interaction between private and public contract managers, which professional position and activity represent the point of articulation between project contingencies and parent organizational pressures.

In short, the extent to which relational and contractual activities complement or undermine each other is the result on how managers creatively solve problems and address misunderstandings, who are involuntaristic predisposed to engage collaborative or confrontational modes of interaction, and have at day-to-day stake maintaining or improving their professional reputation, which open their possibility to control the dynamics of the project.

Revisiting the current conceptualization from a Dynamic perspective

Current discussion about the interplay between contractual and relational governance is grounded under the insights of Systemic Theories and Neo-institutionalism. Being contracts mechanisms based on control, and relational governance a mechanisms based on trust, Systemic Theories emphasise that both have the same functionality: increasing performance predictability by limiting the number of possibilities to be taken into account by performers (Edelenbos & Eshuis, 2012). Trust reduces complexity and increases system predictability by discarding possible negative consequences in the future upon the confidence of a positive outcome, based on the expectation that the performer refrains from opportunistic behaviour. Control reduces complexity by restricting a number of possibilities, setting enforceable standards to the performer for reaching a desired objective or state. Systemic theories privilege the integrative role of trust and control in social systems. Their interplay can be "symbiotic" or "interferential", being the former reinforcing relationship between trust and control and the latter mutually weakening (Teisman, van Buuren, & Gerrits, 2009). The emphasis on the functional properties of trust and control mechanisms "producing certainty" is also pervasive in Neo-Institutional theory. Neo-Institutional theory draws attention to their regulative role stabilizing social actors' mutual expectations (Bachmann, 2001; W. R. Scott, 2013). In this regard, there are multiple "institutional pillars", which make patterns of interaction predictable by different sanctioning mechanisms (formal power, informal social sanction or cognitive dissonance)(Henisz, Levitt, & Scott, 2012). At organizational level, the interplay issue is "whether the use of one type of institution increases or decreases the functionality of the other" (Zenger et al., 2001).

Substitutive interplay comprises two mechanisms: replacing and damping. Replacing regards the substitution given the functional equivalence between contractual and relational governance: The high level of trust leads to cooperation that makes redundant contractual governance for increasing performance (Tushar Kanti Das & Teng, 2001; Dyer & Singh, 1998; Gulati, 1995; Gulati & Nickerson, 2008; Inkpen & Currall, 2004; Wang, Yeung, & Zhang, 2011; Zaheer & Venkatraman, 1995). Damping refers to pernicious effects of one type of governance on the basis of the other type. For example, lack of trust triggers the dimension control of contractual governance harming even further relational governance being a signal of distrust (Bijlsma-Frankema, 2004; Ghoshal & Moran, 1996; Lewicki, McAllister, & Bies, 1998; Sitkin & Roth, 1993; Sundaramurthy & Lewis, 2003; van Marrewijk, 2004). Or closeness between actors that guide their interaction upon relational governance hinders the basis for enforcing contracts and leads to ambiguity (Carson, Madhok, & Wu, 2006).

On the other hand, complementary interplay comprises two mechanisms: enabling and compensating. Enabling is creating conditions that facilitate the functionality of the other governance mechanism. For example, contractual clarity mitigates misunderstandings, which leads to trust building and cooperation (Hoecht, 2004; Malhotra & Murnighan, 2002; Ring & Van de Ven, 1994). Similarly, focusing on contractual roles and responsibilities provides a common knowledge structure and information symmetry which favours a climate of fairness and development of trust (Tarun K Das & Teng, 1998; Dyer & Chu, 2003; Eshuis & Van Woerkum, 2003; Yang, Su, & Fam, 2012). Building relations on trust fosters a win-win mindset and open communication which enable the adjustment of contracts, and higher levels of formal coordination and control (Bastl, Johnson, Lightfoot, & Evans, 2012; Dekker, 2004; Dyer & Chu, 2003). Compensating refers to situations where the strengths of one off-set the weakness of the other governance mechanisms. For example, defining roles and obligations in contracts

constitute a formal guarantee that strengthens relational governance (Deakin & Wilkinson, 1998; Li, Poppo, & Zhou, 2010; Woolthuis, Hillebrand, & Nooteboom, 2005). And relational governance favours learning for improving or adapting contracts (Mayer & Argyres, 2004; Poppo & Zenger, 2002).

Using qualitative formalization for System Thinking, interplay is re-framed in terms of reinforcing (complementary) or balancing (substitutive) loops between elements of relational governance (relational norms and trust) and contractual governance. It is important to highlight the existence of loops that only concerns variables of one of the governance mechanisms (labeled as autonomous) and loops that involve elements of various governance mechanisms (labeled as interplay) (Annex 1).

Figure 1. Interplay between relational and contractual governance from functional-regulatory perspective

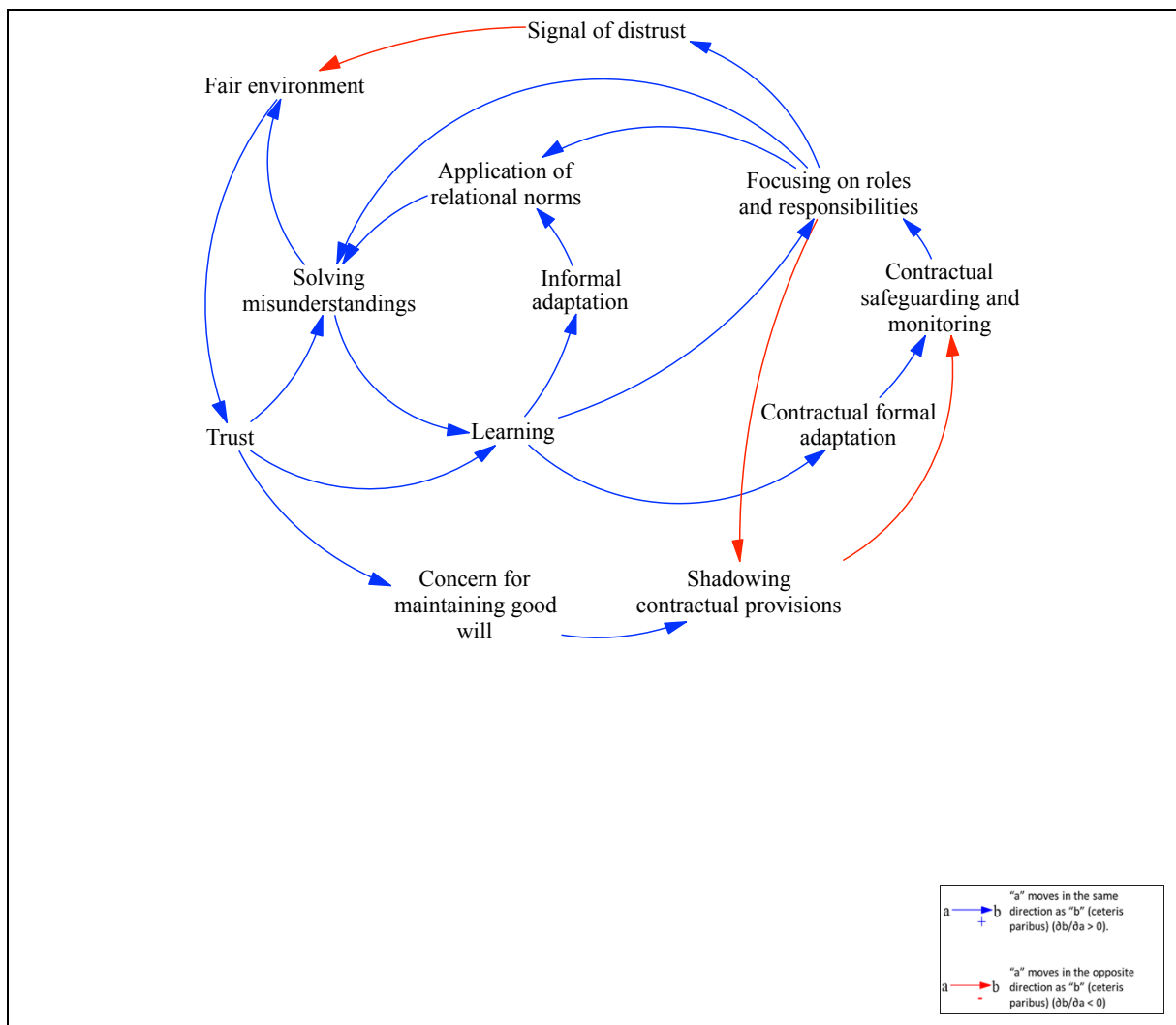


Table 1. Conceptual definitions in a system of interplay between relational governance and contractual governance

Variable	Definition
Trust	Psychological state based upon positive expectations of the good will of others and their capacity to perform obligations/commitments (Kadefors, 2004; Rousseau, Sitkin, Burt, & Camerer, 1998)
Signal of distrust	Event that compromises the positive expectation of good will from other or their capacity to perform obligations/commitments (Ghoshal & Moran, 1996; Malhotra & Lumineau, 2011)
Concern for maintaining good will	A situation where any partner have the concern to keep the mutual perception of good will from other intentions/ or their capacity to perform obligations (Antia & Frazier, 2001) (Wang et al., 2011; Yang et al., 2012).
Fair environment	Situational logic shared by partners characterized by mutual perception of fairness and reciprocity (Poppo & Zenger, 2002).
Shadowing contractual provisions	Shadowing formally prescribed workflow and authority relationships based on contractual provisions (Antia & Frazier, 2001) (Wang et al., 2011).
Focusing on roles and responsibilities	Activities or events to clarify the scope of the roles and responsibilities defined in the contract (Li et al., 2010)
Application of relational norms	Norms established as non-binding rules for organizing the day-to-day partner's interaction based on open communication, solidarity and transparency.(Kaufmann & Dant, 1992; Macneil, 1980)
Finding common ground	Activities for finding common ground between the conflicting interests (Klijn, Steijn, & Edelenbos, 2010).
Learning	Cognitive outcomes from processes of a trial, feedback and evaluation regarding responsibilities or rights in the contribution of project outcome (Teece, Pisano, & Shuen, 1997; Weber & Mayer, 2011).
Misunderstandings	A situation where partners have a different interpretation of their responsibilities or rights for the accurate contribution for the project outcome (Li et al., 2010).
Informal adaptation	Changes for increasing the effectiveness of norms established as non-binding rules for organizing the day-to-day partner's interaction (Poppo & Zenger, 2002; Schepker, Oh, Martynov, & Poppo, 2014; Yang et al., 2012).
Contractual formal adaptation	Activating procedures to introduce changes in the contract, according to defined tolerance zones for unexpected events (Poppo & Zenger, 2002; Schepker et al., 2014).
Contractual safeguarding and monitoring	Activating controlling mechanisms for executing of contractual obligations, including the safeguard of investments (Chang, 2013; Schepker et al., 2014; Williamson, 1981, 1991).

Expanding the conceptual categories from a realist point of view

In PPP, tensions and synergies are the core of the process of value-creation. Diverse organizational logics allow the generation of new value-creating opportunities, depending on the actual capability to align public and private interest as well as differential capabilities for innovation and economic value creation (Mahoney, McGahan, & Pitelis, 2009). But, at the same time, diverse logics from Public-Private organizations brings additional confusion to the inherent dilemmas and tension when two private organizations compromise specific and sunk investments in the process of value co-creation (R. E. Scott & Triantis, 2005; Villani, Greco, & Phillips, 2015). The proposition according to which managers are involuntaristic predisposed to engage collaborative or confrontational modes of interaction is developed upon the contextualization their responsibilities and capabilities within the relations between private and public organizations.

From a realist point of view, relational and contractual governance are “**positioned practices**”, defined as activities that individuals are able to engage by virtue of their social

position (e.g places, functions, rules, tasks, etc)(Bhaskar, 1979 #205)(Archer, 1995 #42)(Reed, 2001 #215). Enforcing a contractual clauses, renegotiating contracts or bringing together diverse stakeholders for discussing a project issue are positioned practices. The condition of possibility for engaging (or not) a governing activity is granted by the position (role and resources) of the public contract manager as a member of an organization (e.g. public contractual manager), and as a trustworthy professional able to control socially-defined risk and uncertainty in a working scenario (e.g knowledge on contract management). Nevertheless, positions that enable certain practices are far from being static, but they are rather contested. Their emergence and change are driven by actors' interest to improve or maintain their positions in relation to others, as well as defend or enhance related assets² (**vested interests**). If the agent changes position, then so do the vested interest being defined by the relative advantages (or disadvantages) defined by their position in a social system. In this regard, there are two different levels of analysis, the interaction level *at the present* where agents carry out activities to maintain or improve their positions and assets (t1), and the structural level which defines *in advance* agents' positions and resources (t0). The involuntaristic predisposition to engage conflictual, coalitional or consensual modes of interaction at present (t1), emerges from the kind relations between pre-existing structures that grant people a place in the project (t0). Public and private contract managers have by default a predisposition to collaborate or confront, according to pre-existing tensions and synergies between the structural configuration of public and private organizations.

The conceptual categories elaborated by Archer and Reeds are useful to systematically examine how these complex configuration of synergies and tensions between public and private parties predisposes collaborative or confrontational modes of interaction. On the one hand, Archer differentiates between ideological structures from institutional structures. Ideological structure regards the system of shared beliefs and normative assumptions about what constitute "trustworthy knowledge" to control uncertainty and social defined risk. Institutional structure regards the system of rewards and penalties based on the relations of power and material resources to control uncertainty and social defined risk. These structural components within and between organizations are related to each other in a contradictory or complementary fashion, in a necessary or contingent configuration. The extent to which their relations are compatible or incompatible in a necessary or contingent level. Necessary refers to relations that are internally related and logically inevitable, while contingency refers to relations resulting from the specific context³. From the combination of necessary and contingent contradictions and complementariness, Archer (1995) infers four "**situational logics**": Correction between two social entities when they are embedded in necessary relations, but these relations represents a contradiction as their nature of their operations threaten the endurance of the relationship itself. Protection between two social entities, when they engage necessary relations, and their operation are mutually reinforcing strengthening the relationship itself. Elimination between two social entities when they result to have relations for contingency, they are not mutually necessary for each other, and their operation threatens the endurance of the relation. And opportunism between two social entities, when the operation of

² This conflictive assumption is the essence of a realist view, compared to functionalist and regulative approaches which. A discussion why a realist approach is more

³ While the difference between contradictory and complementary relations are intuitive, defining when a relation is contingent rather than necessary requires a higher level of abstraction. In fact, one of the main critics against critical realism is the difficulty in establishing the necessary nature of a relationship between different objects. One alternative to facilitate the understanding of "necessity" is the construction of counterfactual questions: In a set of elements that composes a necessary unity, does subtracting one element imply the elimination of the unity? If it does, their relation is necessary, if not, the relation is contingent.

their relationship reinforces itself but the entities are not necessary for each other⁴. A specific “situational logic” not only predispose actors to engage certain type of interaction, but also to reproduce or change the configuration of institutional and ideological configurations of the social system.

Table 3. Cultural and structural morphogenesis/morphostasis at the systemic and social levels

	Contradictions		Complementarities	
	Necessary	Contingent	Necessary	Contingent
Situational Logic	<p>Correction: Initial will for nullifying opposition is not strong enough, leading to compromises and continuity. In ideological terms, correction takes the form of syncretism between various theories, beliefs and values. In institutional terms, indicates containment of different material and political interests</p>	<p>Elimination: Willingness to compete and nullify the opposition and completely change the system.</p>	<p>Protection: There is a complete harmony between institutional and ideological components, favouring integration. Continuity, not change, is to be expected from this particular context.</p>	<p>Opportunism: Further institutional diversification or ideological specialization allows certain groups to benefit from this context and change the existing order</p>

Source: Archer 1995 and Kino 2013

Situational logics only pre-dispose certain strategies in reflexive agents, but it does not work as a deterministic factor. Agency is central to this approach, as its main property is creativity and deliberation in a context that imposes opportunity cost when agents do not follow their social role granted by their involuntaristic position. Then, individual reflexivity "not only mediates the impact that structures have on agents, but it also conditions individual responses to particular social situations" (Caetano, 2015, p. 62). Archer develops a three-way model to describe how reflexive mediation evolves (Archer, 2003, 2007). In sum "(1.) Structural properties shape the situations that agents face involuntarily and have generative powers of constraint and enablement over (2.) individuals' subjectively defined concerns; and (3.) therefore, social practices are produced from agents' reflexive deliberations, which determinate their projects by reference to their objective social circumstances" (Caetano, 2015, p. 62). The mediation of agency to structural conditioning leads to effective behavioural interaction in an effort to maintain or enhancing their relative positions, by means of "power induced compliance" activities to control other's actions, "reciprocal exchange" activities based on trust, and activities for harmonization of desire. The key aspect of emergence and change of **positioned-practices** is defining how prior structural context shapes "action", and how agency reflexivity and activity at present reproduces or changes the structural conditions for the next cycle of interaction.

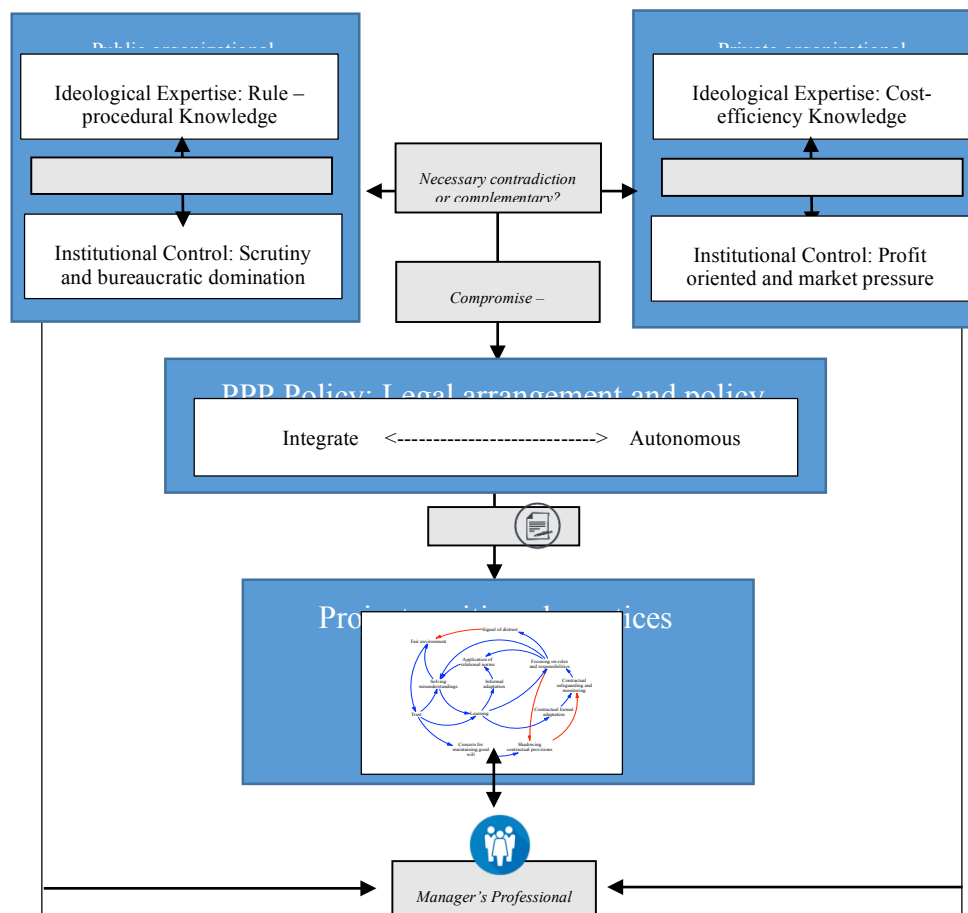
Multilevel framework analysis for a dynamic realist analysis of contractual and relational governing

Using the insights of Critical Social Theory for revisiting the current conceptualization of contractual and relational governance interplay, **Figure 2** represents a multilevel framework of analysis to guide the empirical research in ongoing PPPs. The relations between different structural configurations should be taken as a preliminary hypothesis, based on existing insights

⁴ Here, opportunism has a different connotation than in Transaction Cost Economics. Opportunism refers to gains from compatibilities that only can accrue from their exploitation (Archer, 1995).

in the literature of Public-Private Relations. The first level is the parent organizational structure. The second is the Partnership level, as emerging level from the relations between parent organizations. The third level is the specific project, which governing dynamics overtime are defined by positioned practices.

Figure 2: Organizational, policy and project structure Public Private Partnerships



The structural configuration of **parent organizations** has an institutional dimension which provides systems of rewards and penalties, and an ideological dimension which defines the kind of trustworthy knowledge to control uncertainty and social defined risk. These dimensions are necessarily connected in the boundaries of the organization and, in principle, they are complementary. The system of beliefs that defines what knowledge is "trustworthy" is reinforced by a system of penalties and promotions to discourage practitioners to deviate from the inherent values attached to knowledge. Nevertheless there is the possibility of internal struggles within the organization between competing groups, which is why the actual definition of this relation is up to the specific case⁵. The definition of "trustworthy knowledge" and "rewards and penalties" are a matter of case-specific definition according to PPP. As hypothesis from existing literature, institutional configuration of public organizations are characterized by procedural rigidity, responsiveness to stakeholders and intense scrutiny; being the systems of

⁵. The very existence of multiple expertise groups in organizations, industry, economic sector and society, implies the existence of contradictory or complementary system of expert-knowledge that predispose expert groups to compete or collaborate. Given the hierarchical configuration of organizations, there is usually a prevailing expertise group (or a coalition of a group of experts) with defined positioned-practices according to their expert-knowledge profile.

penalties and rewards based on bureaucratic domination. Institutional configuration of private organizations are characterized by profit-oriented rationality for building cost advantage or differentiation advantage, being the system of penalties and rewards based on market pressures. Concerning ideological configurations, relevant expertise in public organizations emphasizes on rule-procedural and administrative knowledge, while relevant expertise emphasizes on cost-efficiency knowledge (Rufin, 2012 #188)(McCarter, 2013 #179)(Villani, 2015 #186).

The emerging level of **partnership policy** is a result of previous social interaction between actors, who set the structural constraints to engage public and private agreements, defining legal procedures and policy discourse. The underlying structural relation between public and private party at this level is better characterized as necessary⁶. In principle, the relation between public and private structural configurations from which partnership emerges is “necessary contradiction”. The mutual alignment of public and private structural configurations is a condition of possibility of value co-creation but their logic of operation draws on the tension between (a.) procedural rigidity, responsiveness to stakeholders and intense scrutiny in public organizations, and (b.) Profit-oriented rationality for building cost advantage or differentiation advantage, based on continuous market pressure. However, the possibility of complementarity is also a possibility, given that private organizations engage relationships with public organizations to materialize economic opportunities, relying on the government authority to solve collective dilemmas in the provision of public service, e.g. internalizing the cost of public goods by authoritative taxing (Rangan, Samii, & Van Wassenhove, 2006). The emerging range of organizational choices between integrative and autonomous modes of a partnership as policy is the expression of emergent compromises and integrations, given the trade-offs and synergies between public and private values and the resulting from strategic negotiation in a particular socio-historical context.

At the **project level**, day-to-day governing activities engaged by practitioners are conditioned (but not determinate) by the organizational form defined by policy prescription and the “positioned practices”. These positioned practices are based on the kind of "expertise" holding by practitioners and the control rights granted by their organizational positions, which are the resources for strategic action during the interaction between practitioners when they have to address the materialization of social-defined risks and uncertainties. Eventual contradictions and synergies between institutional configurations and organizational culture of expertise are mediated by subjective concerns relate to the individual cost associated with not complying to social expectations; either as a member of an inter-organizational team which main responsibility is reaching project outcomes, or as an agent/steward of their specific organization, accountable to for watching for organizational stakes and principles. During the day-to-day interaction, situated-governing-practices are the result of interaction upon the extent to which restricting partners' possibilities (control) or relying on positive expectations of partners' autonomy (trust) align the (a.) hierarchical (vertical) pressures from their organizations, (b.) horizontal needs to address project contingencies in the PPP team, and (c.) personal expectations of professional development in the future within the project and own organization as an "expert".

ILLUSTRATIVE CASE

We use as a case study the interaction between a Public contract manager and Private operation Director during the execution changes during the operation phase of a DBMFO

⁶ What PPP would be possible if either public or private institutional or ideological mechanisms are subtracted?

contract in the Netherlands. Our research design is based on the principles of Action Research (McKay & Marshall, 2001), being data collected while the research was supporting a PPP practitioners networks to make sense of the complexity of the contractual provisions to introduce these changes in ongoing DMBFO projects. Their interest was providing mean for summarizing existing knowledge on dealing with contractual changes in DBMFO projects and supporting a knowledge-share-session for a networking event that brought together more than 100 PPP practitioners in the Netherlands. The methodology to address the practical problem was Group Model Building (GMB), which is a managerial technique tool for building commitment, shared vision and social learning in groups that have to tackle a managerial or governance issue (Vennix, 1996). GMB consists of a series of facilitated workshops by the researchers, encouraging open dialogue between practitioners using building Causal Loop Diagrams. Insights from the Group Model Building were complemented with personal interviews to the consultant in charge of the networking event, and the Contractual Manager and Operation Director of one of the projects shared during the networking event.

Emergence of PPP policy from the previous interaction between Public and Private Sector in the Netherlands

Public-Private Partnerships appears in the Dutch policy agenda as a topic of discussion in the mid 80's, aligned with the rise of New Public Management (NPM) doctrine that encouraged business of many public-private infrastructure projects to pressure for liberalizing the provision of Public Infrastructure. Nevertheless, the process was delayed by the internal resistance of Public Organizations at public level in charge of the implementation of public works strongly grounded on the *Rijlands* model, also known as "Cooperate Style" (Winch, 2010). From then on, a number of progress reports, parliamentary forces, committees and business shaped the path towards Public-Private Collaboration (Verweij, 2015), insisting on the need to bridge two value criteria for Infrastructure and Public orks (Priemus, 2010). Criteria Type (A) referred to "market failures, which are characterised by the absence of proper market forces [consisting on] five elements: liberalization, privatization, unbundling, corporatization and internationalization" (Priemus, 2010, p. 20). Criteria Type (B) concerned "market failures, which are characterised by an ineffective realisation of long-term public values, such as innovation, safety, health and the environment" (Priemus, 2010, p. 20). Whereas these balance increases the attention for partnership-alliance like collaboration (integrative) by independent experts and academics, the prevailing form implemented was the concessional one (autonomous) formalized in Design, Build, Finance, Maintain and Operate DBFM(O) agreements.

DBFM (O) contracts aim at organizing the interaction between Public and Private under the principle of "Risk Transfer"(Davies, Frederiksen, Dewulf, Taylor, & Chinowsky, 2010). The underlying rationality that provides cohesion and legitimacy to DBFM(O) partnerships is the extent to which projects guarantee the availability of services at the best possible cost, providing Value for Money. Contractual forms define the boundaries and relations of these temporal organizations, where the Public party negotiates with the Private which risks being transferred in a public procurement process. A "payment upon availability" is the primary control mechanism for safeguarding partners' investment, and controlling the execution of contractual obligations. As a consequence, "Risk Transfer" regime advocates for a clear differentiation between principal and agent, where the former defines their needs and the later the means. In this regard, governmentality approach is outcome-oriented, using as point of reference the assessment of project performance. Value for Money emerges from the efficiencies introduced by Private Party when they bear the responsibility to define the best

way (inputs and processes) to deliver what the Public Party has defined in terms of “outputs”. Organizations are brought together in temporal hybrid organizations, in a tight-couple systems, and project leader has managerial roles, applying their professional criteria according to contract precepts and risk-adverse behavior. Concerning innovation, the partnership provides room for adaptation and ingenuity, in the sense that Private Party is entitled to define the best ways (input-specifications) to fulfil availability requirements.

The meaning for referring to PPP agreements in Dutch (Public-Private *Samerwerking*) has closer connotations to “Collaboration” than “Partnership”. In fact, it is common to find voices in the Dutch industry and scholars who are reluctant to consider DBMF (O) contractual regimes as “real” *samerwerking*. In any case, the preference for DBMF contracts over Alliance-like forms of a partnership is the result of a compromise between the increasing pressure from market forces and the efforts from National Public Agencies to maintain strong standing public responsibility and maintain in-house control (Eversdijk, 2013). According to the study of Public Private Comparator (PPC) during 2000-2010, alliance PPP never had a chance. PPP was actually implemented as a tool for reaching financial gains, but capital in the broader sense. Eventually, the actual adoption of PPP agreements took the form of contractual tool, politically employable for facing changing tides, including the administrative re-organizational tasks of Public offices vis a vis economic and ideological fluctuations in society.

Over the last couple of years, the Dutch infrastructure sector has witnessed an increased tensions between public and private parties in the delivery of infrastructure projects leading to serious adverse effects on outcomes and image of the industry. Private companies have expressed their concerns about the fairness of current DBFMO-oriented mode for arranging public and private relationships. There are doubts about the actual room for innovation promoted by DBFMO contracts, besides “ingenuity”. Furthermore, there are widespread concerns about levels of reciprocity resulting from the formal governance design of Competitive Dialogue process and DBFM payment mechanisms. For example, tendering conditions are perceived as unrealistic offers with an excessive bureaucratic burden for competitors. Penalties included in DBFMO contracts are hardly predictive, under the control of contract managers with restricted knowledge about the complexity of infrastructure delivery. On the latter point, negatives incentives are actively applied to the private partner, which seem to be unbalanced given the fact that similar incentives are not contractually defined to control public party behavior. Based on that, a number of public and private partners has started to develop a joint vision on the future cooperation within the sector to be able to cope with upcoming societal challenges and expectations. This vision knows several guiding principles that set the basis for a change in the way the entire infrastructure supply chain is working together, from hierarchical client-contractor to “collaborating in the chain on the basis of the same relationship dignity and complementarity, each with its roles and responsibilities and in which the task is paramount”. Although with this new vision public and private parties in the Dutch infrastructure sector have created the awareness for a fundamental change in the working relationship between them, the actual interaction of the sector seems to be far from being ruled by principal-to-principal interaction.

DBFMO project and positioned practices to include contractual changes

The project is a military complex extended in 19 hectares, which construction was the result of the Secretary of Defence process of administrative reorganization. According to their organizational plans, the Ministry define as a need concentrating different working units in one location with good accessibility about the environment for about 3.000 Defence staff. For this endeavour, in 2005 the Ministry of Defence and the Ministry of Finance agreed on carrying out the project as a DBFMO pilot, based on the principle that PPP fits in "modern government"

providing either “same quality for less money” or “more quality” for the same money. After a process of tendering guided by the rules of Competitive Dialogue, a 25 years contract was granted to Special Purpose Vehicle for €300 million having the financial closure in November 2007. In July 2012, the SVP received the final completion certificate, fulfilling all requirements completion; contractual obligations associated with the design, construction and the start of the operational phase. The facility was completed within schedule and budget, leading to savings of 15%. During the operation and maintenance phase, facility management was in charge of the Director of Operations from the S.P.V monitored by a Contract Manager dependent on the National Real Estate Agency (*Rijkvastgoedberijf*), but serving to the Ministry of Defence. His role is different from the one assumed by a direct employee of the Ministry of Defence acting as a “user” of the Facility.

According to the DBFMO agreement, eventual changes during had to be addressed by the amendment procedure included in the numeral 12th (wijzigingenprocedure). The procedure opens the opportunity to introduce changes in the functional specifications or the penalty regime. The process contemplates a clear differentiation between the role assumed by the Contractor and the role assumed by the Client. Most of the changes are introduced by Clients' requirement, who have to define new functionalities in terms of output specifications. For its part, the Contractor assesses the impacts of the change in terms of expected functionality, financial implications and emergent risk. The procedure is an iterative process, based on the interchange of information and documents which increasingly details the financial and operative implications of the change. Both have the right to require further information either for defining the change proposal (in the case of the Contractor) or for accepting the proposal (in the case of the Client). In the case of disagreements or Contractor's refusal to carry out the change, the contract anticipates a provision to scale issues to arbitration. In fact, the Client can force implementing a change, leaving to arbitration the effective estimation of the financial burden and the allocation of emergent risk. The client is only entitled to refuse to implement change for "important reasons, such as the fact that funding for the modification is not assured. In line with the spirit of risk-transfer regime, the procedure defines times for negotiating and reaching agreements upon the interchange of information and bargaining in the late stages of the procedure.

Public and Private interaction at project level

The formal procedure was marginally and incrementally modified by the Contract Manager and Operation Directors within the boundaries of the contract, based on the learnings from actually implementing changes. During the first years, parties made a careful effort to guide their interaction within the letter of the contract, under the pressure of initial changes asked by Ministry of Defence staff using for first time the Facilities. Given that it was a DBFMO pilot, the Contract Manager and the Director of Operations engaged an extra effort for assessing the process and outcome of the change procedure, identifying unnecessary administrative burdensome and alternatives for making the process shorter. Parties developed more efficient ways of working without modifying the numeral 12th in the contract, but including an additional provision in the annex granting the reimbursement of Contractor's working hours spent on withdrawn proposals by the Client. Eventually, partners structured a faster process by with a preliminary informal assessment of the requirement, which leads to a rough estimation of the solution and its cost to use as a criterion for starting (or not) the implementation of the formal procedure. By the time data was collected, partners had agreed that the exchange of requirements and proposals was based on trusting the professional criteria

of the counterpart. For example, the Public Contract Manager would not put into question the price set by the Director of Operations, and even stated that he does not need to know how pricing was defined. But, at the same time, the Contract Manager insisted that reaching this level of trust was an outcome of important previous efforts in the past, including extensive dialogues for making sense and agreeing on the appropriate way to address two critical aspects of the change procedure: "how to ask the right requirement in terms of output specification" and "how to define the life-cycle cost of the change". These two aspects emerged from the necessary contradiction between public and private organizations during the process of value re-creation and re-appropriation, predisposing partners to guide their interaction under a containment logic to reach material compromises.

The Early dialogue was a determinant contributor of trust between partners, which would lead to smoother alternatives for implementing changes in the Project. The substantive aspects addressed by early dialogue were framed in the difficulty of the Public Party to define output specifications, a fundamental aspect of DMBF(O) contracts, in comparison to traditional ways of contracting. The dialogue implied the possibility to "weaken" the actual application of the DBFM(O) regime, according to which the Public Party should restrict to define input-specifications upon a clear definition of output specification. In practice, the Private Party seemed to be in a better position to technically frame the appropriate "language", knowing how the Public Party "should ask" him a particular change. This situation could put the Public Party in a vulnerable position, as opening the opportunity "to define what is going to be asked for" was perceived as a fertile ground for opportunistic behaviour. Nevertheless, the contract manager from the Project pointed that, at the moment, the early dialogue was not a common practice anymore. The team had learnt how to define output specification after spending significant time and efforts at the beginning. New requirements triggered by new needs leads to establish a dialogue about specifications, but this does not automatically lead to a higher emphasis on actually framing the request in this language. On the contrary, the dialogue itself increases the need for asking more information, and it only has a positive impact on the actual formulation of requirements in terms of "output specifications" if it increases the know-how. In turn, the accumulation of know-how reduces the need of engaging "early dialogue", increasing the rate of requests that are framed in terms of "output specifications" and reducing delay. Nevertheless, accumulation known-how is not only a matter of experience but requires high levels of trust in private party to accept their support in the formulation of output specifications.

Pricing is the most critical aspect when the private handles the proposal for acceptance and the rate of acceptance itself. Dialogue about prices is triggered by the extent to which functional specifications are clear. In a similar way that early dialogue might increase the rate of proposal re-defining, as there are new aspects to discuss on the table. But, as dialogue on prices increases the number of changes that have a "fix price", the need for discussing prices is lower, and it increases the rate of handling proposals to be approved. Lifecycle pricing is the factor that drives the acceptance rate, which brings in the model the role of the lender as a constitutive part of the DBFM(O) regime. The lender evaluates the risk emerging from a given change, assessing the extent to which the private party would be able to provide the availability of the new service. The higher the risk assessed, the higher the life-cycle-cost included in the proposal. Public project managers do not interact directly with lenders and the reasons that ground risk assessments are not always clear for them. Lenders are sensitive to the number of changes required, consistently increasing the risk premium overtime. Private contractors have a better understanding of lender decisions, having direct interaction with the lender. The private party can even anticipate lenders' opinion about changes and can provide information about risk management measures to decrease risk perception. The definition of fix prices also was

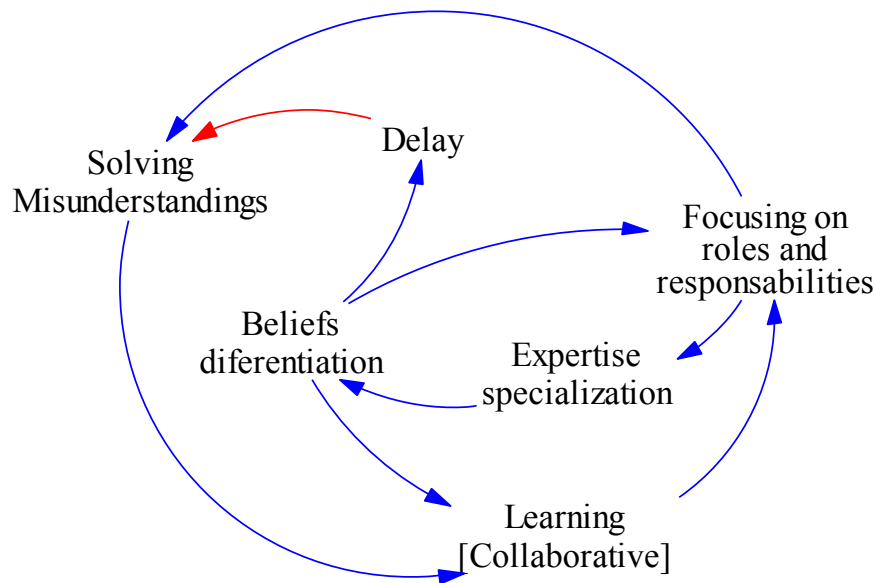
considered as a factor that can reduce the perception of risk. The definition of price appeared to be fundamental, being selected as a leverage point to structure practical recommendations. The practical solution is increasing certainty and clarity about pricing by sharing information in the network of practitioners. This would speed up the process and decrease eventual frictions.

Accounting for the difficulty to define output specifications and the relevance to defining "fixed" price brought in the discussion the need to highlight leverage of the "User" during the procedure. Even when the Private Party is entitled to start the procedure, the Public Party from the request of the "User" is who actually initiates changes during the exploitation phase. Given that source of the change were the emergence of new requirements of the user, requirements were not in line with the "output specification form" as the traditional way of contracting entitled the user to define the specific way to fulfil a functional requirement. Additionally, the price included in the "change proposals" submitted was frequently questioned by the "User". He usually overlooked the fact that price not only includes the direct cost of the modification, but the life-cycle cost (including risk). Reactions such as "I can have this change cheaper when I refurbish my own house" was evidence of the User's incomprehension about the essence of DBFM(O) contracts according to the Private and Public Party. Furthermore, it was a source of frustration and pressure, particularly to the Public Party. The tension between contract manager and the user, being the user interested in speeding up the process at the lowest price, while the contract manager as a responsible of the cost-efficient use of public budget, not necessarily as user-oriented. The kind of organization which is the one that the client it is perceived as pivotal, being the user more willing to accept the logic of DBFM(O) contracts, even when in both cases the logic does not is aligned with the organizational logic. Whereas the source of frustration was linked to this mismatch between the DBFM(O), practitioners found themselves restricted to suggest any recommendation for solving this tension.

Dynamic analysis

According to the initial functional conceptualization (Figure 1), focusing on roles and responsibilities increases the capacity to solve misunderstandings between partners, leading to a collaborative learning that further increases the level of clarity and on roles and responsibilities. Depending on the systemic relation between "Private knowledge regime" and "Public knowledge regime", the reinforcing loop between these three variables are affected according to the extent to which the contingent relationship between "regimes of knowledge" at inter-organizational level acquires new properties at the project level. Increasing focus on roles and responsibilities defined in the contract brought to the table what were the complementary skills to address DBMF(O) requirements to address changes. Nevertheless, building confidence in expertise specialization increase the time and resources spent for solving misunderstandings in terms of "what is an output specification" and " what is a life-cycle cost". In this regard, the time spent clarifying these two aspects from the perspective of the public actor can be considered initially as a control activity using as a reference contract provisions, which over time builds confidence upon the differentiation of expertise between the public contract manager and the private facility manager. This possibility was opened by the contingent possibility to collaborate under the principles of functional differentiation in roles and responsibilities, which nevertheless is constrained by the structural contradiction between public and private values and interests.

Figure 3: Relational configuration of systems of value and expertise in Public-Private Partnerships.



The increasing focus on roles and responsibilities leads to expertise specialization increasing beliefs differentiation. Practitioners segment the areas of expertise increasing the delay in solving misunderstandings, but opening the possibility to collaborative learning but oriented to define further independent domains of expertise open the contingent possibility to collaborate under the principles of functional differentiation in roles and responsibilities.

CONCLUSION

Trust and control can be conceptualized as activities carried out by practitioners during the day-to-day interaction, enabled and constrained by their position as experts in their organizations. In this regard, trust and control are activities related to "other", shaped by the situational logic where professionals are embedded. There are "power induced compliance" activities to control other's actions, "reciprocal exchange" activities based on trust, and activities for harmonization of desire. Governing activities unfolds upon the professional reflexivity, understood as the individual internal dialogue to define "personal project" by reference to objective working circumstances, and subjective defined concerns. Objective circumstances include their role as a member of an organization, the social attributed trust as a member of a community or practitioners, the specific issue at hand which requires to be controlled (uncertainty or/and social defined risk), the existence of other agents with vested interested related to the given issue at hand, and the nature of the process of value co-creation and capture. Subjective concerns relate to the individual cost associated with not complying with organizational expectations; and professional expectations.

The empirical challenge is articulating this perspective in a coherent explanation of the interplay of different governance mechanisms, and how they change over time as a consequence of governing activity. Private and Public organizations are social entities, and their economic interaction is furniture by the structure of necessary and contingent contradiction and complementariness between public and private organizations. The motivation behind is an increasing need to confront decision-making models to the actual life of the projects, providing better frameworks for understanding change in inter-organizational relations, in temporal settings that bring public and private organizations. In fact, developing

an alternative ontological assumption to the functional-regulative perspective that informs empirical variance research is a contribution to "understanding of the mechanism that supports functioning, avoid inefficiencies and ensure survival following establishment" (Villani et al., 2015, p. 3).

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Annex 1. Dynamics of the interplay between trust, relational and contractual governance.

Autonomous		
Reinforcing loop	Trust	Trust -> Solving misunderstandings -> Fair environment->Trust
	Relational norms	Application of relational norms -> Solving misunderstandings ->Learning -> Informal adaptation -> Application of relational norms
	Contractual	Focusing on roles and responsibilities -> Solving misunderstandings Learning ->Contractual formal adaptation-> Contractual safeguarding and monitoring ->Focusing on roles and responsibilities
		Contractual safeguarding and monitoring -> Focusing on roles and responsibilities -> Shadowing contractual provisions -> Contractual safeguarding and monitoring
		Focusing on roles and responsibilities-> Solving misunderstandings -> Learning -> Focusing on roles and responsibilities

Interplay		
Reinforcing loop	Relational norms and contractual	Application of relational norms -> Solving misunderstandings -> Learning -> Focusing on roles and responsibilities->Application of relational norms

		Application of relational norms-> Solving misunderstandings -> Learning -> Contractual formal adaptation -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities -> Application of relational norms
	Trust and contractual	Focusing on roles and responsibilities -> Solving misunderstandings -> Fair environment ->Trust ->Learning -> Focusing on roles and responsibilities
		Contractual safeguarding and monitoring -> Focusing on roles and responsibilities -> Signal of distrust -> Fair environment ->Trust -> Concern for maintaining good will -> Shadowing contractual provisions ->Contractual safeguarding and monitoring
	Relational norms and trust	Application of relational norms -> Solving misunderstandings -> Fair environment -> Trust -> Learning -> Informal adaptation -> Application of relational norms
Relational norms, contractual and trust		Application of relational norms -> Solving misunderstandings -> Fair environment ->Trust -> Learning -> Focusing on roles and responsibilities -> Application of relational norms
		Focusing on roles and responsibilities -> Solving misunderstandings -> Fair environment -> Trust -> Learning -> Contractual formal adaptation -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities
		Application of relational norms -> Solving misunderstandings -> Fair environment -> Trust -> Learning -> Contractual formal adaptation -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities ->Application of relational norms
Balancing loop	Trust and contractual	Trust -> Solving misunderstandings -> Learning -> Focusing on roles and responsibilities -> Signal of distrust -> Fair environment -> Trust
		Focusing on roles and responsibilities -> Solving misunderstandings ->Fair environment -> Trust -> Concern for maintaining good will -> Shadowing contractual provisions -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities
		Trust -> Solving misunderstandings -> Learning -> Contractual formal adaptation -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities -> Signal of distrust -> Fair environment -> Trust
		Trust-> Learning -> Focusing on roles and responsibilities -> Signal of distrust -> Fair environment -> Trust
		Trust -> Learning -> Contractual formal adaptation -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities-> Signal of distrust -> Fair environment -> Trust
	Relational norms, contractual and trust	Application of relational norms -> Solving misunderstandings -> Fair environment -> Trust -> Concern for maintaining good will -> Shadowing contractual provisions -> Contractual safeguarding and monitoring -> Focusing on roles and responsibilities -> Application of relational norms

RQ1: How the interplay between contractual and relational governance at project level is conditioned by the situational logics

RQ2: How project managers establish their collaborative relations

RQ3: