

# Governance of a Public Sector Joint Venture: The Control Challenges of Dominated Owners

## **Abstract**

*Local governments increasingly choose to provide a wide range of services through cooperation with other local governments. Providing complex services through inter-governmental units creates collaboration risks, and collective action dilemmas that need to be mitigated. Based on a longitudinal case study, an investigation is made into the dynamic processes in the governance of a public sector joint venture and the control challenges of dominated owners. The findings illustrate that the approach to mitigating collective action dilemmas is far less rational than that prescribed by the normative literature, resulting in control challenges at later stages in the relationship. Limitations in the assessment of collaboration risks are explained by drawing on resource dependence theory arguments. Dynamic processes in the joint venture relationship creates the need to adjust the governance system. However, adaptability is constrained by power asymmetry and control complexity.*

Keywords: governance, intermunicipal cooperation, joint venture, institutional collective action, resource dependency, dynamics

## **Introduction**

The use of intermunicipal cooperation as a way to improve efficiency and service quality has become an increasingly popular way of organizing the provision of many different services. As the quality requirements of the public for local government service delivery are continuously increasing (Hulst and van Montfort 2007, 3), many smaller municipalities need to cooperate

with larger ones to gain access to competence and technology. The most common motivation for establishing intermunicipal cooperation is to overcome scale obstacles (Hulst et al. 2009), and fiscal constraint is a prominent driver, especially in Europe (Bel and Warner 2015). However, this way of providing services does involve new requirements for managing the contracting relationships. Agreements need to be designed to address collaboration risks (Feiock 2013) arising from the uncertainty related to the actions of other parties. The risks create collective action dilemmas (Feiock 2013; Feiock, Steinacker and Park 2009; Feiock and Scholz 2010;), and some mechanisms must be put in place to overcome these dilemmas. The ability to handle these issues implies that contracting arrangements creates a need for investment in contract-management capacity by public organizations (Brown and Potoski 2003a). For smaller municipalities cooperating with large dominating ones, the situation is further challenged by power asymmetry. Previous studies have illustrated dominated cooperating partners' limited opportunities for interorganizational control (Cäker 2008; Cäker and Siverbo 2011; Donada and Nogatchewsky 2006), and cooperation is argued to challenge their ability to be accountable for services (Cäker and Nyland, forthcoming). If municipalities are no longer in control of their service provision, this represents a democratic challenge. Evaluation reports also indicate that small cooperating municipalities in Norway experience a greater amount of loss of democratic control (Leknes et al. 2013). To understand the position of small, dominated actors, the analysis draws on arguments from resource dependence theory (Pfeffer and Salancik 1978, 2003). From this perspective, the activities of organizations are largely shaped by the dependency on external actors and the environment for acquiring necessary resources.

The paper is based on a longitudinal case study of dominated owners of a municipal joint venture (JV). The aim is to look closer into the governance of the JV and unravel the dynamic processes taking place, the nature of the challenges that are met, how they are

addressed and what their consequences are over time. There is a large body of literature on interorganizational control including joint ventures, however little attention has been paid to the dynamic processes in the relationships between owners caused by decisions of parent companies and their effects over time (Van der Meer-Kooistra and Kamminga 2015). Some studies are emerging on the dynamics in interorganizational relationships within management literature in the private sector context (e.g. Ariño, Ragozzino and Reuer 2008; Faems et al. 2008; Pernot and Roodhooft 2014), but the topic is largely unexplored in the intermunicipal cooperation literature. The paper contributes to the literature on intergovernmental cooperation in three ways. First, it illustrates how collective action dilemmas may be addressed far less rationally than the prescriptive literature, based more on heuristics and quick assumptions. This can be understood in the light of resource dependence theory (Pfeffer and Salancik 1978, 2003). Secondly, it provides an example of how dynamics in the relational characteristics alter the need for control and how this results in the need for adjustments in the governance system. Thirdly, it contributes by showing how the necessary adaptability of the governance system to achieve alignment to changing circumstances ceases to exist because of control complexity and power asymmetry.

## **Literature background**

Cooperative public sector services have been studied from a variety of different perspectives, for example joint ventures (Cäker and Siverbo 2011), networks (Goldsmith and Eggers 2005; Schalk 2013), negotiations (Agranoff and McGuire 2004), accounting (Kurunmäki and Miller 2011; Miller, Kurunmäki and O’Leary 2008), and many more. Much work has been done to investigate the motivations for different contracting decisions, including cooperative arrangements (e.g. Bel, Fageda and Mur 2013; Brown and Potoski 2003b; Rodrigues, Tavares and Araújo 2012; Wassenaar, Groot and Gradus 2013). Yet another topic is the potential

criteria leading to a successful collaboration (Agranoff 2005; Chen and Thurmaier 2009). A recurring theoretical concept across many of these topics is the institutional collective action framework (Feiock, Steinhacker and Park 2009), including transaction costs (Williamson 1979). Due to the wide recognition of transaction cost economics' inability to capture the importance of relational factors, *trust* is also a recurring concept in the study of local government collaboration (e.g. Shresta and Feiock 2009; Thurmaier and Wood 2002).

### *Institutional collective action framework*

The institutional collective action (ICA) framework is broadly applied in understanding the barriers faced, and the emergence of collaborative action to realize a potential joint benefit. When local governments come together to jointly provide services, it 'can be viewed as collective action generalized to governmental institutions' (Feiock, Steinhacker and Park 2009, 256). The basic assumption in the ICA framework is that cooperation will emerge when the benefits outweigh the *transaction costs* (Williamson 1979) related to mitigating the risks of 'incoordination, unfair division, and defection' (Feiock 2013, 406). Different governance mechanisms are used to align incentives, and safeguard transactions exposed to these risks. *Governance* of intergovernmental cooperation, therefore, is a direct result of the ICA dilemmas that arise because of collaboration risks. Depending on the complexity of the tasks that are to be collaborated on, the level of transaction costs will vary. They can be categorized into four groups, following Feiock, Steinhacker and Park (2009, 257): bargaining costs, agency costs, division costs and enforcement costs. Overarching forms of governance to resolve ICA dilemmas may range from social embeddedness, contractual agreements to political authority (Feiock 2013, 401). The higher the collaboration risks and complexity of ICA dilemmas, the more authoritative mechanisms are needed. 'Simple' coordination problems may easily be addressed employing a form of governance based on social embeddedness, while tasks imposing defection or division risks are characterized as more difficult to handle and require

the more authoritative mechanisms. A typical example of the latter is the cooperation of governments to achieve economies of scale, which often will require long-term commitments and capital-intensive investments (Feiock 2013, 411). The ICA framework predicts that if collaboration risks get too high, the transaction costs exceed the potential gain and cooperative action will not emerge.

As mentioned previously, trust is recognized as a central component of collaboration. It can be the mechanism that helps resolve the ICA dilemma with lower transaction costs than other mechanisms (Thomson and Perry 2006, 28). Trust is a willingness to accept vulnerability (Vélez, Sánchez and Álvarez-Dardet 2008) and entails a reduction of experienced risk (Das and Teng 2001; Ring and Van de Ven 1994). Thus, trust reduces the need for control mechanisms designed for preventing defection or division problems. In the context of public–private partnerships, Brown, Potoski and Van Slyke (2007) demonstrate that increased trust reduces contract completeness. Trust can be established through extensive information sharing between the parties (Tomkins 2001) that builds a reputation for trustworthiness. A trusting relationship ‘evolves gradually over time through repeated interaction and has to be carefully nurtured’ (Madhok 1995, 33). Therefore, parties must be prepared to invest some time and energy in the relationship for trust to become an effective mechanism (Thomson and Perry 2006). Trust can also be established by indirect information provided through network participation (Thurmaier and Wood 2002). An actor with a reputation in the network for trustworthiness, will be a more attractive collaboration partner.

### *Resource dependence theory*

Resource dependence theory (RDT) was developed by Pfeffer and Salancik (1978, 2003), in response to the previously dominating focus on the internal circumstances of the organization. The authors highlight the importance of the environment in understanding the choices and

actions of organizations. An organization needs resources to survive, which potentially makes it dependent on external sources to obtain them.

The image presented is one of dynamic interaction and evolution of organizations, environments, and interorganizational relations over time as the various social actors manoeuvre for advantage. (Pfeffer and Salancik 2003, xii)

The RDT describes several organizational responses to the interdependencies, and the formation of interorganizational units such as a joint venture is seen as resource dependency in practice. From an RDT perspective, the great increase in collaborative service provision in the public sector is a direct response to the interdependencies arising from public organizations' resource needs. Interdependencies construct power relationships, and the focus on power over economic efficiency is an important difference between RDT and transaction cost economics (TCE) (Davis and Cobb 2009; Pfeffer and Salancik 2003:). This 'other directed' view of the organization is a contrast to the arguments from the ICA framework. Instead of optimizing the level of transaction costs, the organization acts in response to its external dependency. Resource dependence theory has been applied in several public sector contexts (e.g., Agostino and Lapsley 2013; Erakovic and Wilson 2006; Jung and Mood 2007), and is often applied when issues of power are discussed (Davis and Cobb 2009, 22). This framework is not yet adopted in the study of local governments' contracting decisions. However, authors identify RDT arguments as motives for contracting. Wassenar, Groot and Gradus (2013) find, for example, that lack of availability of expertise is an important driver in these decisions.

### *Interorganizational dynamics*

A joint venture, as one type of interorganizational relationship, is usually established with a long-term perspective. Over time a variety of different things can arise, which change both the transactional circumstances and the relationship between parent companies and the relationship between each parent and the JV. According to Ring and Van de Ven (1994), cooperative

interorganizational relationships repeatedly go through the stages of negotiation, commitment and execution as continuous assessments of the relationships' efficiency and equity are made. In cooperation over time, Doz (1996) stresses the importance of adaptability, responsiveness to new conditions and sequences of learning cycles. Within the joint-venture literature specifically, Van der Meer-Kooistra and Kamminga (2015) have developed a framework of JV dynamics. This framework identifies different sources of dynamic processes: circumstances within the JV relationship, within the parent companies or within the environment of the JV or a parent company (Van der Meer-Kooistra and Kamminga 2015; Yan and Zeng 1999) and their potential effects on the relationships. It is argued that an alignment between the governance system and situational characteristics is important for performance and continuation of the relationship (Kamminga and Van der Meer-Kooistra 2007; Pernot and Roodhooft 2014). Thus, when these characteristics change, the governance system needs to adapt. Ariño, Ragozzino and Reuers' (2008, 164) study on renegotiations suggests that smaller firms are less responsive to governance misalignment and less likely to make contractual adjustments in these situations. They note that the challenges of small firms in this respect should be analysed in more depth.

## **Research method and design**

To analyse the governance, control challenges and the relational dynamics between the owners demands an in-depth understanding of the processes taking place in the JV. To achieve this, a combination of a longitudinal and a retrospective case study is found to be appropriate. This approach allows the investigation of decisions made by owners and their consequences over time – and their interrelation with the governance system and relational characteristics. The case study method is well suited for theory building and refining, however it is not the basis for statistical generalizations (Yin 2003).

The data consists of semi-structured interviews with key decision-makers at three levels: the municipal (owner) level, the JV board level and JV management level. Informants from five out of six dominated owners were interviewed, in addition to informants from the dominating owner. Respondents are municipal CEOs, CFOs, a mayor, JV CEO and chairman of the JV board. The respondents are chosen based on their proximity to the decision-making process of the joint venture. Interview questions were open and categorized by main topics, directed more at setting an agenda for open discussion than collecting short, specific answers. The interviews were conducted during spring 2013, spring 2015 and autumn 2016. In addition, the data is retrospective, describing events from the establishment of the JV in 2008. This means that the validity of the data to some extent relies on the recollection of respondents. The correspondence between the informants' descriptions and secondary data is assured to validate the data and minimize the risk of recollection errors. In addition to interviews, relevant documents were analysed (JV agreements, municipal reports, annual reports, audit reports, strategic plans).

[Insert Table 1 here]

The average duration of the interviews was one hour. All interviews were recorded and transcribed. Reports were sent to the informants, giving them the opportunity to comment or correct possible errors.

## **The case study: An asymmetric public sector JV**

### *Background to the JV*

The joint venture was established in 2008 by a relatively big city together with two smaller, neighbouring municipalities, and provides fire and rescue services. Two more owners joined the JV in 2011, and another two in 2012. After the last revision of the ownership shares in 2013,



the big city owns 82.3% of the company. The next biggest parent owns 6%, and the smallest 1.2%, showing the dramatic asymmetry in size. The responsibility for costs along with the distribution of authority is based on these percentages. Up until 2014, the owners' shares were based on the municipalities' prior budgets for fire services.

The company has two governing bodies, a board of representatives and a professional board of directors. The board of representatives consists of mayors from the owner municipalities, and six additional members from the big city. The board of representatives elects seven members to the board of directors whereas three, including the chairman, are decided by the big city.

The process of developing the annual budget is a central issue in the JV. The budget is based on a risk and vulnerability analysis in all the cooperating municipalities, which results in a fire arrangement that describes what factors need to be taken into account. A proposed budget from the fire chief is first handled by the board, and after any adjustments, proposed to the mayors. Informally, the municipal CEOs have the responsibility of negotiating an agreement before the final decision is made by the board of representatives.

When the smaller municipalities chose to join the JV rather than providing fire and rescue services on their own, their decision was based on two major motivations: access to competence and economies of scale.

The municipalities had two intentions. The first was to operate more efficiently, thus to save money. The second was to upgrade the competence. (M2b: 2013)

### *A lack of assessment of collaboration risks*

The relationship between the seven parents is regulated in the JV agreement, and there are no additional documents developed to supplement the contract. The agreement consists of very general information and is described as deficient and unclear on many aspects. The agreement

states the formal organization of the JV, its governing bodies and how the members of these boards are chosen, a general description of the JV's strategy and tasks, when the budget must be decided on, and the municipalities' respective owners' shares. The parents have, for example, not formulated anything regarding service quality indicators, level of investments or efficiency, and even the division of a major part of the costs – the rent of fire stations – is vaguely articulated.

Everybody considers this [the JV agreement] to be very bad. All the owners acknowledge that, even the big city. (M4: 2013)

The smaller municipalities entered the joint venture with a large and dominating partner in spite of the vagueness of the agreement. Despite the fact that considerable relationship-specific investments would be needed, the lack of safeguarding is prominent. Regarding the quality of services and the performance of the JV, the municipalities' lack of concern in terms of safeguarding can be explained by the reputation of the JV. The fire brigade had a very good reputation for quality and competence, which was also the focus upon entry.

We are resting a little bit in our armchairs, because we have outsourced an important service to a serious player. We expect that they [the JV] are in full control. (M4: 2013).

By selecting a partner with a solid reputation for high competence, the smaller municipalities felt safe letting go of the control of the service. They are certain that the JV is in control, that the quality of service is good, and that all laws and regulations are adhered to.

Beyond the quality assurance through relying on reputation, the municipalities risk assessments and evaluations of potential consequences of different scenarios are very limited. The municipal reports from the four last municipalities to enter the JV, presented to the council upon making a decision on whether to enter or not, reveal that the decision is largely influenced by the JV itself and the municipality plays only a minor role. The groups evaluating whether the municipality should enter the JV consist mainly of fire professionals, the majority of whom

from the JV and the work is led by a representative from the JV. Consequently, the reports focus on the practical issues and possibilities for technical and competence improvements. Potential issues in the JV agreement, for example, are not discussed and it is only concluded that the municipalities should enter on the suggested conditions. When asked about the lack of concern about governance issues, the lack of assessment of and safeguarding against collaboration risks, respondents explain this with the presence of trust.

When we entered the cooperation, it was mainly based on trust. Even if there should be anything strange or problematic in the contract, I guess we reasoned that we trusted we would be able to solve it together. It would be something totally different if we entered an agreement with some [private] supplier. (M3: 2013)

Trust between us plays a major role, and it has to. (M2a: 2013)

That the municipalities lacked the resources, whether it is expertise or time, to assess many of the potential risks is evident. The practice of basing owners' shares on prior budgets led to questions of whether owners had entered on equal premises. The valuation of existing assets or the proximity to the next threshold of investments,<sup>1</sup> for example, was not taken into account.

The problem was that it happened too fast. We didn't have time to consolidate. (...) The other municipalities can't comprehend all of this, all these complicated models, who understands it? Poor CFO in a small municipality. (BC1: 2016)

### *Dynamic processes: the realization of goal misalignment and division problems*

At the beginning of the cooperation, the owners had agreed on two, partly conflicting goals for the JV; reduced costs *and* improved service quality. As time has gone by, some decisions have

---

<sup>1</sup> The number of standby teams required in a municipality's fire brigade is regulated by certain thresholds of inhabitants.

been made by the big city that have led to conflicts and revealed misalignment of parental interests. These are decisions to build four new and very exclusive fire stations in the big city, and the implementation of a new and costlier fire arrangement. Most of the smaller owners now exclusively focus on the goal of reducing costs, a development partly caused by the environmental circumstances of the parents and increasing financial problems experienced by many of the municipalities. Municipalities are struggling to meet their pension obligations due to an ageing population.

All the municipalities are sort of in a shift now, where we have to make cuts because our pension obligations are rising. Then we are forced to make cuts other places, and the JV hadn't expected to be affected by the owners' financial problems. Clearly, that creates trouble. (M2a: 2015)

Some of the owners were more financially robust than others, and are hit by the pension obligations to varying degrees. The big city is more robust due to its size, and is described as better equipped to tackle the financial challenges. Another small owner, that enjoys particularly high electricity revenues, also illustrates how differences between financial pressure on the parents affect their goals for the JV and the experience of a need to tighten financial control over the company.

Many of the others were *very* concerned about that [the increasing rent costs]. For us it wasn't that important. The main thing for us was the competence. (...) We may have a bit more of a generous financial situation; the main reason is the power revenues. (M5: 2015)

Respondents are beginning to recognize that their goals for the JV are not aligned. The big city's investment decisions have illustrated to the smaller owners that their motivations have drifted apart.

I am not sure that the level of ambition is harmonized concerning the fire service. I have the impression that the big city has higher ambitions than the ‘good-enough threshold’ the rest of us assume. (M3: 2015)

*The issue of dividing costs of renting fire stations.* Simultaneously to a growing awareness of goal misalignment, division concerns and problems in the JV agreement are surfacing. The big city’s investment in fire stations amounted to over NOK 640 millions, and the small owners were informed verbally that these expenses would not affect them. The controversies began when the JV board proposed its budget for 2013 to the smaller owners. The first new station would be utilized in 2013, thus the costs for rent had risen significantly from 2012 to 2013.

Then it dawned on us, not even a year ago, what the consequences were. That the costs of the new buildings should be passed on to all the owners, based on our owners’ share. So that the costs caused by decisions made by *their* [the big city’s] council, are distributed based on the owners’ share. (M3: 2013)

They [the JV] said that construction of the new stations in the big city wouldn’t affect the municipalities that entered the agreement. But that clearly wasn’t true. (M5: 2015)

The smaller owners are overwhelmed by the increase in costs, and group together in an attempt to change the allocation practice in the JV agreement. The aim is to exclude the costs of renting fire stations from the total amount of costs to be distributed based on owners’ shares.

If we do not reach an agreement about the sharing of the costs of these fire stations, it is a realistic alternative for us to leave the cooperation. (M3: 2013)

It might be an alternative [to exit the JV]. And it has to do with the current situation [regarding the fire stations]. (M4: 2013)

Despite relatively strong pressure, the representative board (essentially controlled by the big city) decided that renting costs should be allocated to the smaller owners. The decision gave the smaller owners a large increase in costs because of exclusive fire stations the big city independently decided to build, far away from most of the other owners. This issue is corroding the relationships.

The power ruled on that subject. So that was the result. (...) It was not a good, rational justification for that solution. (M3: 2015)

The rent is kind of an abscess, because it has exploded. In our case, we have more than doubled what we spend on fire services since we joined the JV. That is not because we have twice as much labour, but we have twice as *nice* fire stations. (M2a: 2015)

The drain on the relationship goes both ways, and the big city representative suspects that some of the smaller owners have realized they can use the allocation decision to start building over-the-top exclusive fire stations at the expense of the others. This, in turn, will increase the pressure to cut costs on other activities, which results in a suboptimal vicious circle.

Maybe someone is smart and thinks ‘yes, okay – then we’ll just build a fire station for ourselves. We will have the big city pay 82 per cent, and it is not that big of a deal.’ (...)

This is *not* in our favour when municipality 3 builds a new station for 100 million! (BC1: 2016)

*The issue of the new fire arrangement.* A second decision made by the representative board to cause dynamic processes and division problems was the implementation of a new and more expensive fire arrangement for the big city. It included, among other things, an increase in the minimum staffing of the fire stations. The new fire arrangement in the big city, in addition to still increasing costs of rent and other costs, resulted in a proposed budget from the JV with a

16.3 per cent increase in funds from 2014 to 2015. In comparison, for the same year municipalities could expect an increase in their revenues of about 4 per cent. This increase caused new controversies and negotiations between the owners. In a letter to the big city in September 2014, one municipality stated:

We cannot stand behind such an arrangement. (...) Our suggestion implies among other things that the new fire arrangement must be reassessed, with the aim to realize efficiencies and synergies. (M3: 2015)

The discussions lasted for months, and by the end of the year, the smaller municipalities sent their mayors to the final budget meeting believing that the representative board would agree to cut large parts of the fire arrangement to get the costs down to a more reasonable level. This however, was not the result.

At the end of last year, something happened in the representative board meeting that gave us an extra cost of NOK 600 000. (...) This came at the very end, through political pressure. (M1: 2015)

The mayor of the big city and leader of the representative board is considered very powerful, and decisions can turn out unexpectedly at the final point.

Yes, it has happened [that the big city has used its power] and that has to do with the mayor of the big city – she is powerful. (M4: 2013)

After the discussions about the 2015 budget, the municipality CEOs put together a project group to decide on new investment guidelines and limitations for the JV. The smaller owners have some hope that this will put them more in control of the costs.

A project group has been put together to make suggestions on how the owners can set clear financial frames for the running of the JV (...) and to suggest fiscal rule to guide

the board in operationalizing the efficiency requirements in the JV agreement. (M3: 2015)

The chairman of the board, however, is already expressing scepticism about this work, and doubts that it will be possible to take the potential fiscal rules into account.

It's not just to say '2% increase every year, 1% efficiency every year' or something like that. That's how the municipal CEOs think, right? (JV2: 2015)

According to the JV CEO and the board, all the investments are imperative to keep the quality at the desired level (i.e. the level desired by the big city). The smaller municipalities' wishes to reduce the service quality do not seem to be shared by the mayor of the big city, who together with the chairman of the board has pushed through the suggested budget increases in the representative board.

The chairman and the mayor of the big city agreed on that figure. So then, the others had to accept that increase. (...) With some pressure from them, the smaller owners came along. After 'moderate' pressure from the mayor in the big city. (JV1: 2015)

The smaller municipalities want to be exactly at the state requirement level or maybe below, at least when it has financial consequences. The big city is much better at taking the financial consequences. (JV2: 2015)

As long as the mayor of the big city is in control of the board, and the big city is interested in a significantly higher-quality fire service than the smaller owners believe they can afford, their efforts in articulating investment guidelines and plans for cutting the JV's costs are presumably pointless.

It might very well be that some of the owners deep down want to spend less money on fire services. That might be the case. (...) If a municipality wants to deplete its fire



service, it's easier to do that in a one-to-one dialogue than when you are in a dialogue with six others. (JV1: 2015)

The dynamic processes have led to a weakened relationship among the owners. The assumed trust at the establishment of the JV is clearly not present at this stage.

No, to be honest, we don't [trust that the big city acts in the interest of the relationship]. And that's probably mutual. (...) Our primary role is to attend to *our* municipality and our *own* citizens. (M3: 2015)

They [the big city] have seen the opportunity to get a higher-quality fire service, while at the same time making other municipalities pay for it. But that's how it is, big brother is often the smartest and cleverest one. (M2a: 2015)

Equally, the situation is painted black by the big city respondent, who from their perspective thinks that it is the smaller owners taking advantage – and not the other way around.

They think they're paying *a lot* for this! That is a fairy tale. They are the ones who are benefiting, and we are paying. (...) There is a lot of arguing, unnecessary discord. It takes a lot of energy this work, and the people we put on fire quit one after one. (BC1: 2016)

*The issue of adjusting owners' shares.* Although the big city has the power to dictate any decision in its own favour, a few situations illustrate that the big city also makes concessions to the small owners. When one of the municipalities in particular realized it had a too high a share, when taking the timing of establishment and the investment thresholds into account, the big city agreed to adjust the owners' shares. They would now be based on populations, instead of prior budgets. This change resulted in a slightly reduced share of the costs for the smaller municipalities.

We have actually been really nice! Even if they weren't paying attention, we have given them back those percentages. (...) They probably don't agree, but we didn't *have* to be nice. They were the ones that didn't pay attention. (BC1: 2016)

However, even when the big city acts cooperatively, they are not able to develop a satisfactory solution. Respondents still express concern about the division, and that the big city takes less than their fair share of the total costs. Respondents from the smaller municipalities are of the opinion that a big city represents a whole other type of risk, not necessarily reflected by the number of inhabitants.

Are the owners' shares now correct? The big city has a lot of protected buildings, large university buildings, the big hospital, many students coming in that are not included in the population. (M1: 2015)

The representative board accepted an additional note in the JV agreement, giving the possibility of adjusting the parents' contributions based on risk evaluations. So far, any adjustments based on risk factors have not been done, and the CEO of the JV doubts that they will ever be done. To make such evaluations of how risk is influencing each parents' share of the costs is expected to be too complicated.

I don't think any such adjustments will be done. (...) Risk, that is very debatable. To a very high degree, it is speculation. But theoretically, there is an opportunity to make some adjustments based on risk. (JV1: 2015)

## **Discussion**

At the establishment of the JV, the collaborating municipalities are facing collaboration risks. These are the risks of incoordination, unfair division, and defection (Feiock 2013). To establish cooperation these risks must be assessed, in effect the parties' interests need to be aligned to make them feel confident in making a commitment to the collaboration. In the organizational

form of a joint venture, this is usually done through formal contractual clauses that mitigate most of these risks. The kind of collaboration described in the case study is not a ‘simple’ coordination problem that can be easily solved through social governance mechanisms, but requires long-term commitment, capital-intensive investments and therefore the risks of defection and especially division become prominent. The downside to implementing comprehensive formal governance mechanisms is that the transaction costs will rise (Feiock 2013; Williamson 1979). So how to achieve both interest alignment and low transaction costs? Several authors highlight the importance of trust in interorganizational relations. This has been shown to have the potential to resolve ICA dilemmas with lower transaction costs than other mechanisms (Thomson and Perry 2006). In this case, the smaller municipalities do explain their lack of concern for any collaboration risks as being due to trust between the owners. However, there is weak evidence that trust really is the mechanism at work. Extensive information sharing about the partners’ attributes, values, ethics, aspirations and adaptability (Tomkins 2001) did not take place, but interaction was described as infrequent and discontinuous. The nature of the proposals submitted to the councils on whether to join the JV, the descriptions of a rushed decision-making process, and the accusation from the big city that the smaller owners weren’t paying attention, suggests that it was rather an inability to assess the risks than a trusting relationship that was reducing transaction costs. This is when the resource dependence perspective becomes relevant. Following the arguments of the ICA framework and transaction cost economics, collaboration should not emerge in this case. However, as explained by RDT, organizational actions are better understood in the light of their dependency on resources for survival than the optimization of costs (Pfeffer and Salancik 2003). The smaller municipalities are dependent on the big city in two important ways. Firstly, they are too small to provide a sufficiently good fire service – they are dependent on the physical resources – particularly highlighted is the opportunity to recruit qualified personnel. Secondly, they are dependent on

the big city in terms of their experience in contracting, and their expertise in formulating these types of contracts. The big city has a separate division of about 50 people consisting of lawyers and other specialists to handle ownership and contracting matters. The type of resource that has been labelled contract-management capacity (Brown and Potoski 2003a). Resource dependency not only results in the establishment of the JV to gain access to necessary resources, but also dictates the way this is carried out. The power relationships created by resource dependency have far more explanatory power than the economic efficiency argument. It is, of course, natural for the respondents to rationalize the process by explaining it with a presence of trust. Regardless of the explanation, the resulting governance system is one with a lack of formal safeguarding against collaboration risks, most appropriate for a high-trusting relationship (Kamminga and Van der Meer-Kooistra 2007).

#### *Dynamic processes in the JV relationship*

Dynamic processes during the time studied affect the relationship between the owners, and their goals for the JV. These dynamics in turn affect the dominated owners' needs from the governance system.

The most fundamental development causing dynamic processes in the case is the one of parental goals drifting apart. Firstly, this is a process of discovering that the earlier assumed alignment of interests was mistaken. These differing goals gradually appear through the disagreement on investments. Secondly, environmental developments harming the financial situation of several of the dominated owners strengthen the process of misalignment. A development of goals becoming misaligned is dramatic for a collaboration with a governance system based on trust, which requires limited parental differences (Kamminga and Van der Meer-Kooistra 2007). Different interests result in different needs for control. The owners that are harmed the strongest experience the need to *tighten* control focused on the input by adding new formal control mechanisms.

Thirdly, the use of bargaining power on central decisions contributes to weakening the relationship between owners and demonstrates that collaboration risks are prevailing. Investment and cost allocation decisions made, despite pressure from the smaller owners, illustrate to them that the big city will not always prioritize cooperation before its own self-interest. On two occasions, the dominated owners were ultimately left with the option of accepting the terms or exiting the JV.

### *The challenges in adjusting the governance system*

As the dominated owners experience that the goals are misaligned and division problems emerge, the governance system no longer fulfils their needs for control. In other words, the dominated owners experience a misalignment between the joint venture characteristics and the governance system. Misalignment is destructive to JV performance and continuation (Kamminga and Van der Meer-Kooistra 2007; Pernot and Roodhooft 2014). As a reaction to this, several attempts are made by the dominated owners to implement new formal control mechanisms. The attempts are challenged in two complementary ways – by control complexity and power asymmetry.

In situations regarding differing goals and ambitions for the JV, the dominated owners do not have much choice other than to accept to be overruled by the mayor of the big city. The smaller owners' attempts to change the financing of the fire stations, to stop the budget increase caused by a new fire arrangement in the big city and suggested fiscal rules for investments exemplify this. The JV has ambitions of being the highest-quality fire service in the country, an ambition that from the understanding of the respondents appears to be shared with the mayor of the big city. Should most of the smaller owners want a lower overall level of fire service than the big city, the power asymmetry leaves them with little opportunity to change the course of the JV.

Though the big city will not compromise on the overall level of quality, there are examples of situations where the big city acts cooperatively and is more accommodating towards the smaller owners. This exemplifies that intermunicipal cooperation is a mixed-motive game, where long-term common goals coexist with short-term more conflicting goals. However, even when the big city acts cooperatively they still struggle to implement satisfactory changes in the governance system. This is caused by the uncertainty regarding the division of parent contributions, how much the parents' contributions should be affected by specific risks, such as big hospitals and universities. To overcome this uncertainty requires high levels of trust to create a certainty that, in the end, everyone will contribute their fair share. Without this trust, the governance system is misaligned, which leads to ongoing concerns and adjustment attempts.

## **Conclusion**

The present study illustrates dominated owners' limitations in the face of ICA dilemmas, dynamic processes in the joint venture relationship and the implications for the dominated owners. From the perspective of RDT, the case reveals the weaknesses of dominated municipal owners in collaboration with a large municipality. Their dependency on both the competence and physical resources of the dominating owner severely challenges their ability to assess collaboration risks, their control over service delivery and in turn democratic accountability. A lack of an assessment of collaboration risks leads to a design of the governance system more appropriate for high-trusting relationships. As dynamic processes in the JV relationship reveal the misalignment of parental interests and division problems appear, dominated owners attempt to adjust the now inappropriate governance by tightening control. However, the important adaptability described in the literature is lacking. Adjustments are obstructed by power asymmetry and control complexity, a supposedly common combination of characteristics in the context of intermunicipal cooperation.

## References

- Agostino, D., and I. Lapsley. 2013. "City-Charity Partnerships and the Financial Crisis." *Public Management Review* 15 (5): 633–656.
- Agranoff, R., and M. McGuire. 2004. "Another Look at Bargaining and Negotiating in Intergovernmental Management." *Journal of Public Administration Research and Theory* 14 (4): 495–512.
- Agranoff, R. 2005. "Managing Collaborative Performance. Changing the Boundaries of the State?" *Public Performance & Management Review* 29 (1): 18–45.
- Ariño, A., R. Ragozzino, and J. J. Reuer. 2008. "Alliance Dynamics for Entrepreneurial Firms." *Journal of Management Studies* 45 (1): 147–168.
- Bel, G., X. Fageda, and M. Mur. 2013. "Why do Municipalities Cooperate to Provide Local Public Services? An Empirical Analysis." *Local Government Studies* 39 (3): 435–454.
- Bel, G., and E. Warner. 2015. "Factors Explaining Inter-Municipal Cooperation in Service Delivery: A Meta-Regression Analysis." *Journal of Economic Policy Reform*, Advance online publication. doi: 10.1080/17487870.2015.1100084.
- Brown, T. L., and M. Potoski. 2003a. "Contract–management Capacity in Municipal and County Governments." *Public Administration Review* 63 (2): 153–164.
- Brown, T. L., and M. Potoski. 2003b. "Transaction Costs and Institutional Explanations for Government Service Production Decisions." *Journal of Public Administration Research and Theory* 13 (4): 441–468.
- Brown, T. L., M. Potoski, and D. M. Van Slyke. 2007. "Trust and Contract Completeness in the Public Sector." *Local Government Studies* 33 (4): 607– 623.
- Cäker, M. 2008. "Intertwined Coordination Mechanisms in Interorganizational Relationships with Dominated Suppliers." *Management Accounting Research* 19 (3): 231–251.
- Cäker, M., and K. Nyland. Forthcoming. "Interorganizational Cooperation

- Challenging Hierarchical Accountability: The Dominated Actors in a Municipal Joint Venture.” *Financial Accountability & Management*.
- Cäker, M., and S. Siverbo. 2011. “Management Control in Public Sector Joint Ventures.” *Management Accounting Research* 22 (4): 330–348.
- Chen, Y-C., and K. Thurmaier. 2009. “Interlocal Agreements as Collaborations. An Empirical Investigation of Impetuses, Norms and Success.” *The American Review of Public Administration* 39 (5): 536–552.
- Das, T. K., and B.-S. Teng. 2001. “Trust, Control and Risk in Strategic Alliances: An Integrated Framework.” *Organization Studies* 22 (2): 251–283.
- Davis, G. F., and J. A. Cobb. 2009. “Resource Dependence Theory: Past and Future.” *Research in the Sociology of Organizations* 28: 21–42.
- Donada, C., and G. Nogatchewsky. 2006. “Vassal or Lord Buyers: How to Exert Management Control in Asymmetric Interfirm Transactional Relationships?” *Management Accounting Research* 17 (3): 259–287.
- Doz, Y. L. 1996. “The Evolution of Cooperation in Strategic Alliances: Initial Conditions or Learning Processes?” *Strategic Management Journal* 17 (S1): 55–83.
- Erakovic, L., and M. Wilson. 2006. “The Interaction of Market and Technology in Radical Transformation: The Case of Telecom New Zealand.” *International Journal of Public Sector Management* 19 (5): 468–489.
- Faems, D., M. Janssens, B. Van Looy, and A. Madhok. 2008. “Toward an Integrative Perspective on Alliance Governance: Connecting Contract Design, Trust Dynamics, and Contract Application.” *Academy of Management Journal* 51 (6), 1053–1078.
- Feiock, R. C. 2013. “The Institutional Collective Action Framework.” *Policy Studies Journal* 41 (3): 397–425
- Feiock, R.C and J. Scholz, eds. 2010. *Self-Organizing Federalism: Collaborative Mechanisms*



- to Mitigate Institutional Collective Action Dilemmas*. New York: Cambridge University Press.
- Feiock, R. C., A. Steinacker, and H. J. Park. 2009. "Institutional Collective Action and Economic Development Joint Ventures." *Public Administration Review* 69 (2), 256–270.
- Goldsmith, S., and W. D. Eggers. 2005. *Governing by Network: The New Shape of the Public Sector*. Washington, DC: Brookings Institution Press.
- Hulst, R., A. van Montfort, A. Haveri, J. Airaksinen, and J. Kelly. 2009. "Institutional Shifts in Inter-Municipal Service Delivery. An Analysis of Developments in Eight Western European Countries." *Public Organization Review* 9 (3): 263–285.
- Hulst, R., and A. Van Montfort. 2007. *Inter-municipal Cooperation in Europe*. Vol. 238. Dordrecht: Springer.
- Jung, K., and M. J. Mood. 2007. "The Double-edged Sword of Public-Resource Dependence: The Impact of Public Resources on Autonomy and Legitimacy in Korean Cultural Nonprofit Organizations." *The Policy Studies Journal* 35 (2): 205–226.
- Kamminga, P. E., and J. Van der Meer-Kooistra. 2007. "Management Control Patterns in Joint Venture Relationships: A Model and an Exploratory Study." *Accounting, Organizations and Society* 32 (1–2): 135–158.
- Kurunmäki, L., and P. Miller. 2011. "Regulatory Hybrids: Partnerships, Budgeting and Modernising Government." *Management Accounting Research* 22 (4): 220–241.
- Leknes, E., A. Gjerstad, A.K. Holmen, B. Lindeløv, J. Aars, I. Leknes, and A. Røiseland. 2013. *Interkommunalt Samarbeid. Konsekvenser, Muligheter og Utfordringer*. [Inter-municipal Cooperation: Consequences, Opportunities and Challenges]. Stavanger, NO: IRIS report 203/008.
- Madhok, A. 1995. "Revisiting Multinational Firms' Tolerance for Joint Ventures: A Trust-

- based Approach.” *Journal of International Business Studies* 117–137.
- Miller, P., L. Kurunmäki, and T. O’Leary. 2008. “Accounting, Hybrids and the Management of Risk.” *Accounting, Organizations and Society* 33 (7): 942–967.
- Pernot, E., and F. Roodhooft. 2014. “The Impact of Inter-organizational Management Control Systems on Performance: A Retrospective Case Study of an Automotive Supplier Relationship.” *International Journal of Production Economics* 158: 156–170.
- Pfeffer, J., and G. R. Salancik. 1978. *The External Control of Organizations: A Resource Dependency Perspective*. New York, NY: Harper and Row.
- Pfeffer, J., and G.R. Salancik. 2003. *The External Control of Organizations: A Resource Dependency Perspective*. Stanford, CA: Stanford University Press.
- Ring, P. S., and A. H. Van de Ven. 1994. “Developmental Processes of Cooperative Interorganizational Relationships.” *Academy of Management Review* 19 (1): 90–118.
- Rodrigues, M., A. F. Tavares, and J. F. Araújo. 2012. “Municipal Service Delivery: The Role of Transaction Costs in the Choice Between Alternative Governance Mechanisms.” *Local Government Studies* 38(5), 615–638.
- Schalk, J. 2013. “Interorganisational Relations and Goal Consensus: An Exploratory Study in Two Local Dutch Service Delivery Networks.” *Local Government Studies* 39 (6): 853–877.
- Shrestha, M. K., and R. C. Feiock. 2009. “Governing US Metropolitan Areas: Self Organizing and Multiplex Service Networks.” *American Politics Research* 37 (5): 801–823.
- Thomson, A. M., and J. L. Perry. 2006. “Collaboration Processes: Inside the Black Box.” *Public Administration Review* 66 (s1): 20–32.
- Thurmaier, K., and C. Wood. 2002. “Interlocal Agreements as Overlapping Social Networks:

- Picket-fence Regionalism in Metropolitan Kansas City.” *Public Administration Review* 62 (5): 585–598.
- Tomkins, C. 2001. “Interdependencies, Trust and Information in Relationships, Alliances and Networks.” *Accounting, Organizations and Society* 26 (2): 161–191.
- Van der Meer-Kooistra, J., and P. E. Kamminga. 2015. “Joint Venture Dynamics: The Effects of Decisions Made within a Parent Company and the Role of Joint Venture Management Control.” *Management Accounting Research* 26: 23–39.
- Vélez, M. L., J. M. Sánchez, and C. Álvarez-Dardet. 2008. “Management Control Systems as Inter-organizational Trust Builders in Evolving Relationships: Evidence from a Longitudinal Case Study.” *Accounting, Organizations and Society* 33 (7): 968–994.
- Wassenar, M., T. Groot, and R. Gradus. 2013. “Municipalities’ Contracting Out Decisions: An Empirical Study on Motives.” *Local Government Studies* 39 (3): 414–434.
- Williamson, O. E. 1979. “Transaction-Cost Economics: The Governance of Contractual Relations.” *Journal of Law and Economics* 22 (2): 233–261.
- Yan, A., and M. Zeng. 1999. “International Joint Venture Instability: A Critique of Previous Research, a Reconceptualization, and Directions for Future Research.” *Journal of International Business studies*, 397–414.
- Yin, R.K. 2003. *Case study research: Design and methods*. 3rd ed. Thousand Oaks, CA: Sage Publications.