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ter Bogt, Hendrik; Tillema, Sandra

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Accounting for trust and control: Public sector partnerships in the arts

Henk ter Bogt*, Sandra Tillema

Faculty of Economics and Business, University of Groningen, The Netherlands

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ABSTRACT

This paper discusses the role of trust and accounting information in the control of public sector partnerships, in particular in partnerships in the arts. We present case research conducted in five theatres and municipalities in The Netherlands. Although autonomized, these theatres are still subsidised by the municipalities. Therefore, the municipalities have retained a certain degree of responsibility for the theatres. However, the low measurability of the theatres' outputs and outcomes complicates the municipalities' control as based on performance agreements and accounting information. This complication increases the role of trust. This study provides insight into the practices and processes underlying trust building and the supporting and mediating role accounting information plays here. Transparency and regular informal contacts between the theatres and their municipalities in combination with accounting documents, which 'discipline' the theatres, appear to be crucial in this respect. Furthermore, different hierarchical levels can be distinguished in the trust relationship. Trust first develops at the lower (operational) levels of an organisation, after which it progresses towards the higher organisational level. Finally, the research showed that the economically rational type of control as proposed by New Public Management did not really exist in our cases.

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1. Introduction

In recent years, various new organizational arrangements have been developed in the government sector in The Netherlands and several other Western countries. These arrangements, such as outsourcing, networks and partnerships, do not necessarily fit the traditional vertical hierarchy of a government organization, for example, because the activities involved take place at a distance from the 'parent' government organization. This paper focuses on the control of what we call a public sector partnership, here defined as the (intendedly) long-standing relationship between a government organization and one or more public sector or not-for-profit partners, with the aim of delivering specific goods or services (often) previously provided directly by government. Such a partnership, which essentially is a form of outsourcing of government

* Corresponding author at: Faculty of Economics and Business, University of Groningen, P.O. Box 800, 9700 AV Groningen, The Netherlands.
E-mail address: h.j.ter.bogt@rug.nl (H. ter Bogt).

activities, is generally financed by a government organization to a considerable extent and in that sense the government could be regarded as the controlling party.

In The Netherlands, many partnerships have developed in the field of the arts, including partnerships between municipalities and theatres. Several municipalities have externally autonomized the activities of their theatres, which used to be units within the municipal organization. However, since the municipalities subsidize the theatres, their managers and politicians can still be (politically) responsible for the activities and performance of these organizations. Therefore, it is important that these managers and politicians are informed about the theatre's current status and future plans. Information in accounting documents can be used to make the theatre's performance more transparent and to provide a basis for its control by the municipality. Hood (1995; p. 94) already indicated that accounting is a key element in the control of organizations and the accountability for outputs and effects, as promoted by New Public Management (NPM). But how do the different parties involved in a public sector partnership make use of such accounting information?

The introduction of partnerships is related to NPM, which propagates decentralization and the use of private sector management techniques and methods (Hood, 1995; Pollitt & Bouckaert, 2011). Making use of accounting information as a basis for the control and management of a partnership would also fit NPM's 'rational' view of organizations. Although there are considerable differences between what NPM means in various countries, one could say that it is generally based on the principles of functionalism and economically rational behaviour (Hood, 1995; p. 94; Gruening, 2001). However, it seems that economic rationality and 'economic information', which includes accounting information, are not the only elements relevant to the control of an organization and of activities for which the government still has a certain responsibility. Research has shown, for example, the importance of all kinds of social and relational aspects, including trust (Bouckaert, 2012; Kraus & Lindholm, 2010; Cäker & Siverbo, 2011).

In this paper we explore the role of trust and accounting information in public sector partnerships, in particular in partnerships in the arts. We will do so on the basis of descriptive and exploratory case research which we conducted in five municipalities and theatres in The Netherlands. As the municipalities subsidize the theatres, they still have a certain responsibility for the theatres' activities and performance. However, the low measurability of the theatres' outputs and outcomes complicates the municipalities' control, which may increase the role of trust. For that reason it is interesting to research the control of the partnerships between municipalities and theatres, including the roles of accounting information and trust. In this paper we distinguish among the various parties, i.e. levels, involved in such a control relationship.

The paper will show that, despite the formal picture set out in performance agreements and accounting documents, the control relationship between theatres and municipalities might appear to be very 'loose' and informal in practice. This means that the theatres have much autonomy in making decisions about their activities. At the same time, the accounting documents provided by the theatres to the municipalities are considered as more than just a ritual to formally legitimize the municipalities' support. They help the partnership in realizing and maintaining trust, first on the operational level of the theatre and the municipality, and then also on the higher level (i.e. the alderman – a politician – and the director of the theatre). In turn, this trust forms the basis for the municipality's loose control of the theatre's activities.

The paper is organized as follows. In the next section the NPM context of our research is introduced. In Section 3 we review the literature in the field of accounting, trust and inter-organizational relationships. The exploration of that literature informed our empirical research. In Section 4 we give a sketch of the context of the theatre sector in The Netherlands and we present our research questions. Section 5 presents the research method and introduces the organizations researched. Section 6 contains a description and analysis of our empirical findings. In our presentation there we sketch the typical picture with respect to trust, accounting information and control, as well as the role of the different levels of the control relationship, which arises from our cases. In Section 7 we discuss our findings and in Section 8 we present the conclusions of the paper.

2. New public management, partnerships, accounting information and trust

The use of private sector techniques and methods, as propagated by NPM, has continued to be very important in the public sector in The Netherlands and many other countries (Pollitt & Bouckaert, 2011; Speklé & Verbeeten, 2014). However, several authors have claimed that since the end of the 1990s the public sector's attention has gradually shifted to other instruments and that NPM is being replaced by new concepts, such as 'new public governance' (NPG), or the 'neo-Weberian state' (Pollitt & Bouckaert, 2011; Osborne, 2006). Indeed, various elements – such as citizen participation, the introduction of user councils, and more attention to co-production – have been combined with the more rudimentary forms of NPM which developed in the 1980s and focused mainly on improving (economic) efficiency and effectiveness (see also Hyndman, Liguori, Meyer, Polzer, Rota, & Seiwald, 2014). However, as Lodge and Gill (2011; p. 142) argue for New Zealand, with respect to the basic elements of NPM, there might be much continuity. Further, Lodge and Hood (2012; pp. 83–84) suggest that, particularly since the onset of the financial and economic crisis in 2008 which has had serious effects on the budgets of many public sector organizations, many countries have seen an intensification of NPM-like public sector reforms. So, although various 'NPG developments' cannot be ignored, it seems appropriate to continue using the term NPM. NPM's key concept, increasing economic efficiency and effectiveness, is still very important in the management of the public sector.

NPM promotes the use of private sector, i.e. 'business-like', management techniques and methods, and seems to have influenced the management of many public sector organizations (Pollitt & Bouckaert, 2011; pp. 75–125; Kurunmäki, Lapsley, & Miller, 2011). Changes in financial management are often viewed as a key element in NPM. These changes generally include the more intensive use of financial and management accounting information in the control of

organizations, as well as the use of output and efficiency-oriented performance measures (see, e.g., Hood, 1995). Another key component of NPM is decentralization and the introduction of such organizational arrangements as outsourcing and privatization of public sector activities. Related to this are the 'hybrid' organizational arrangements which NPM has provoked, and which also distance activities from the centre of the organization, as in partnerships between public sector organizations and other public or private sector organizations (see, e.g., Jones, 1999; Kraus & Lindholm, 2010).¹

Accounting information can provide a basis for the control of such a partnership and using it for the control and management of a partnership would fit NPM's functional and rational view on organizations. NPM is not a homogeneous concept which has the same meaning in different countries or the various parts of the public sector. Nevertheless, one could say that it is generally based on the principles of functionalism and economically rational behaviour (Hood, 1995; p. 94; Gruening, 2001). But it seems obvious that economic rationality and economic information, such as accounting information, are not the only elements relevant to the management and control of an organization or a partnership. For example, research in the private sector has shown the importance of trust within networks of organizations, as will be discussed later. However, as NPM is based on ideas from public choice theory, transaction cost economics and agency theory, its focus is on opportunism and distrust rather than on trust (Gruening, 2001; Bouckaert, 2012; p. 99). These theories focus on, for example, individual interests, 'shirking behaviour' by the agent – i.e., not serving the interests of the principal – and the market as an efficient governance form. However, more recently explicit attention has been paid to the role of trust in the management control of the public sector (Kraus & Lindholm, 2010; Cäker & Siverbo, 2011).² In this paper we particularly explore the role of trust and accounting information in the control of public sector partnerships.

Accounting can be used to provide the partners in a horizontal relationship, such as a public sector partnership, with economic information and could thus be an important mediating means of communication between the partners (Kurunmäki et al., 2011; p. 4; see also Miller, Kurunmäki, & O'Leary, 2008; Kraus & Lindholm, 2010). However, by supplementing the basis for control provided by accounting information, trust can also become an important element in the control relationship (Birnberg, 1998; p. 422; see also Nooteboom, 2002). Trust can also be necessary in public sector partnerships. For example, the multiple goals or low measurability of outputs in the public sector can complicate accounting-based control because performance is difficult to define and/or measure (ter Bogt, van Helden, & van der Kolk, 2015). If performance cannot be defined and measured in clear terms, the role of trust in the control relationship may increase.

In the control of a public sector partnership the roles of accounting information and trust, as well as the roles of politicians and other parties, are not very clear. In the next section we will review the literature on these issues.

3. Accounting, trust and control of partnerships: review of literature

An organization, such as a theatre in The Netherlands, which is financially dependent on another organization, e.g. a municipality, will generally have to give account for its activities and for the funding received from that other organization (Laughlin, 1990; Willmott, 1996; pp. 29–30).³ Accountability is a multi-faceted concept, which is defined in different ways and of which various forms can be distinguished (for a more extensive discussion of the issue of accountability see, for example, Sinclair, 1995; Almquist et al., 2013). Accountability can refer, for example, to giving and demanding signs of good conduct. It can also imply a need for control and, for example, the related sanctions and rewards (Almquist, Grossi, van Helden, & Reichard, 2013; p. 480; Smyth, 2012; pp. 231–232). Particularly in a 'rational' NPM context, accounting information could be regarded as helpful in giving account of an organization's activities and for controlling an organization.⁴

The role of accounting and trust in public sector partnerships, also in the arts and in theatres, have received some attention in the accounting literature (see, e.g., Christiansen & Skærbæk, 1997; Brettell Grip, 2009; Chiaravalloti & Piber, 2011; Zan, Bonini Baraldi, Ferri, Lusiani, & Mariani, 2012). However, these issues still seem to be fairly unexplored areas in these types of organizations. They have been studied more particularly in the private sector, as we will discuss next.

3.1. The role of accounting information in the control of a partnership

Since the mid-1990s, the role of management accounting, accountability and management control in horizontal organizational relationships has received the attention of several authors (Gietzman, 1996; Mouritsen, Hansen, & Hansen, 2001; Dekker, 2003; Kamminga & van der Meer-Kooistra, 2007; Håkansson, Kraus, & Lind, 2010; Barretta & Busco, 2011). Much of this research focusses on accounting and management control and their relationship with trust in profit organizations.

¹ Some authors consider inter-organizational partnerships and other forms of hybrid organizations as an important characteristic of the New Public Governance (Osborne, 2006; Martin, 2010).

² In New Public Governance and, more generally, the field of public policy and public management oriented research, the issue of trust relates to both citizens' and organizations' trust in the government and the public sector and the government's trust in organizations and citizens (see, e.g., Christensen & Lægreid, 2005; Bouckaert, 2012). However, in this paper the focus will be on trust between partners within the public sector.

³ In relation to this, Broadbent et al. (1996; pp. 261–262) indicate that such a situation could lead to a principal-agent culture which dissipates trust.

⁴ This does not mean that control and accountability will generally be based on accounting information only. For the control of an organization other, more qualitative information may also be needed. Likewise, accountability will require more than only providing accounting reports.

In the field of public administration, researchers have conducted a considerable amount of research into new organizational forms in the public sector and, for example, related governance issues (Kickert, Klijn, & Koppenjan, 1997; Deakin, 2002; Broadbent & Laughlin, 2003; Mandell & Keast, 2008). However, apart from some – mostly recent – exceptions (Kraus & Lindholm, 2010; Barretta & Busco, 2011; Marques, Ribeiro, & Scapens, 2011; Cäker & Siverbo, 2011; Hyvönen, Järvinen, Oulasvirta, & Pellinen, 2012; but also see Jones, 1999), the role of accounting information in horizontal relationships (such as partnerships) between public sector organizations seems to have received much less attention. This is particularly true for the role of performance agreements, other accounting information, trust, and the different parties/levels in the organizations involved.

The role of the various parties involved in the control of a public sector partnership and how they make use of accounting information, or build on trust, seems to deserve even more attention as they may include multiple hierarchical levels. For example, in The Netherlands, politicians are the people ultimately responsible for public activities and organizations, such as theatres, which are funded from public resources.⁵ These politicians are at a distance from the daily management and control activities and instead they belong to a higher level in the control relationship. This higher level can be distinguished from day-to-day activities, such as organizing theatrical performances and producing and controlling financial management information, which take place at the operational levels in both the theatre and the municipality. Literature in the fields of management and organization has emphasized the role of different organizational levels in a trust relationship (see, e.g., Marchington & Vincent, 2004; Schoorman, Mayer, & Davis, 2007). This literature, which is particularly focussed on the private sector, does not consider an organization as a homogeneous entity. On the contrary, it acknowledges that control, accountability/transparency and trust can relate to the different hierarchical levels of the organizations involved in a horizontal relationship. So it suggests that it is desirable to differentiate between these levels in order to obtain a clear picture of a control relationship.

In horizontal relationships, producing and sharing accounting information can be an important basis for account-giving and also for the control of the activities of the organization (Coad & Cullen, 2006; p. 343; Kajüter & Kulmala, 2010). However, as indicated above, in addition to the relationship between accounting and control, there can also be an association between accounting and trust. Although requests for accounting information and accountability reports can create an atmosphere of mistrust (cf. Ghoshal & Moran, 1996, pp. 24–25), sharing this knowledge with a partner, i.e. being transparent, can enhance trust (Seal & Vincent-Jones, 1997; pp. 407–412; see also Dekker, 2003; p. 3). Tomkins (2001; p. 165) states that information and trust are inexorably linked, whilst Vosselman and van der Meer-Kooistra (2009; pp. 278–279) suggest that stable and durable inter-organizational relationships require interaction and balance between ‘accounting for control’ and ‘accounting for trust building’. Cäker and Siverbo (2011; p. 346) found that the desire to preserve trust may even lead to underdeveloped formal controls, for example, because partners are generally perceived as trustworthy or because a partner fears a loss of trust if further controls are imposed.

These different findings about the relations among accounting information, management control and trust, which are based mostly on research in the private sector, suggest that this topic deserves further research (see also Scapens & Varoutsas, 2010; p. 328). This is particularly the case for the role of accounting information and trust in a public sector setting, which is specific in so far that, for example, it is often typified by multiple and/or vague goals and intangible and difficult-to-measure outputs. Further, public sector organizations can be influenced by politicians who are politically responsible for the activities and whose ‘goal setting’ activities – despite NPM – are probably based on social and political rationality, rather than primarily economic considerations (ter Bogt, 2003; ter Bogt et al., 2015).

3.2. Trust

Trust can be important as a complement, or perhaps even a substitute, to accounting information in the coordination and control of partnerships, because it helps to promote adaptive and flexible adjustments to certain circumstances (Gietzman, 1996; Carney, 1998; p. 460; Barretta & Busco, 2011). Trust reduces the level of risk felt by partners in a partnership. It can have ‘utilitarian roots’ and may involve elements of reciprocity and social capital (Ring & Van de Ven, 1992; p. 489; Carney, 1998). This implies that trust, and the related openness and information sharing, can be developed because it is regarded as useful (and not only because of, for example, mutual ‘warm feelings’).

Apart from the influence of utilitarian self-interest, Free (2008; pp. 635, 649–653) observes that in interorganizational relationships there are also other reasons why the notion of trust should not be idealized. A façade of reliability may in reality hide elements such as opportunism, non-transparency and power inequality (of which the partners may be aware). Lane and Bachmann (1997; pp. 230–234) and Schoorman et al. (2007; p. 351) touch upon this aspect of power in the context of trust. Lane and Bachmann (1997) indicate that as power and trust are not mutually exclusive, they can serve similar roles in an inter-organizational relationship.

⁵ Governmental and political accountability is not strictly restricted to organizations which are part of the public sector in the more narrow sense. The precise definition of what is included in the public sector is debatable (see, e.g. Lane, 1993; pp. 13–16, 45). However, in the Netherlands the umbrella term ‘public sector’ often seems to include such (legally seen autonomous) organizations as museums and theatres, which receive considerable amounts of public money (Hoekman & Houkes, 2000; p. 102). Prowle (2010; p. 15) indicates that in the U.K. such legally autonomous organizations are also often regarded as part of the public sector. However, since they are ‘technically’ private sector in terms of constitution and governance arrangements, they are also denoted as being part of the ‘third sector’.

Trust has to develop on the basis of the mutual experiences of the partners over a period of time, which can make the 'production' of trust expensive (Zucker, 1986; pp. 67–68). Generally, trust increases in situations where information is collectively available to both (all) partners, where the cooperation has lasted for long periods of time, and where the parties have met each other regularly so that they have come to know each other (Free, 2008; p. 633; see also Ring & Van de Ven, 1992).

Although 'trust' is often discussed in relationships between organizations, as if each organization were a homogeneous entity, in practice trust is primarily associated with human behaviour, i.e. with individuals. But according to Nooteboom (2002; p. 8), trust can relate to both people and the organizations in which they work. Further, trust can pertain to, for example, competences, i.e. abilities and knowledge, but also to intentions/goodwill, i.e. aims and benevolence, or to 'calculations'. In the case of calculative trust, which is closely related to intentional trust, one or both of the partners have ascertained that it is to their own (or the other's) interest to be trustworthy and to avoid opportunism (Nooteboom, 2002; pp. 42–52, 57; 2006; p. 249). This suggests that different types of trust and different parties/levels can be distinguished in a relationship of trust and that trust is not necessarily a uniform concept (see also Halpern, 2005; pp. 17–27).

With respect to the levels, trust-related issues may play different roles at different hierarchical levels in organizations (e.g. the corporate and operational levels) and in different contexts (Parkhe, 2003; pp. 308–310; Schoorman et al., 2007; p. 351). Marchington and Vincent (2004; pp. 1031–1032) argue that when studying trust in partnerships the focus should not only be on the top level of the organization, but also on influences coming from the lower levels. In their view, inter-organizational relationships can only develop and sustain if the lower levels in the hierarchy are also significantly involved. It is at these lower levels that the broad agreements have to be put into effect. This is why at these levels the relationships between individuals are of vital importance for the realization of trust (Marchington & Vincent, 2004).

Furthermore, Williams (2002) draws attention to the individual actors, more particularly to those who are engaged in the day-to-day interactions associated with the various management and control tasks and to the roles they can play in facilitating a well-functioning partnership. He regards trust between the interacting individuals as a key factor in realizing 'effective relationships at both an individual and an organizational level' (Williams, 2002; p. 116). Although Williams (2002) argues that trust may essentially refer to relationships between individuals, he also observes that organizations can acquire a reputation of trustworthiness on the basis of the collective behaviour their organizational members (cf. Nooteboom, 2002; pp. 59–61, 75–77).

However, the nature and role of relationships between accounting information and trust at the top and at the lower (operational) levels are still unclear, as is the way in which trust, as suggested by Marchington and Vincent (2004), is interconnected between these levels (cf. Lane & Bachmann, 1997; Williams, 2002). This lack of knowledge applies not only to the private sector, but also to the public sector and particularly to public sector partnerships.

4. The relationship between government and theatres

4.1. Government involvement and autonomization of theatres

As a consequence of the privatization and autonomization of government activities, several public sector partnerships have been developed in The Netherlands over the past few decades. In many municipalities, for example, public activities such as welfare, public schools and public libraries have been autonomized into foundations, which are legally independent and autonomous not-for-profit organizations (but still seen as part of the public sector). Many local governments in The Netherlands have also externally autonomized their theatres. However, with the autonomization of such activities, the municipality does not necessarily lose all responsibility for them. For example, for policy reasons the municipality may still commission the autonomized organization to conduct specific activities and (partly) finance them. In practice such autonomized activities are financially highly dependent on the partnership with the municipality.

Traditionally, in most municipalities in The Netherlands theatres were a unit within the municipal organization. Although many theatres are now externally autonomized into a foundation, there are still very few commercial theatres in The Netherlands; i.e. theatres which are not subsidized at all by local governments.⁶ The traditional reason for subsidizing theatres in The Netherlands relates to the 'intrinsic value' of the arts. Such intrinsic value relates to the enjoyment and 'spiritual enlightenment' which the arts can bring to the individual and which is believed to develop cultural values and to stimulate the public interest and participation in culture.⁷ As such, 'elevating people and society to a higher plane' was and is still considered as an externality of culture which is beneficial to Dutch society. This also indicates why culture is considered a 'merit good' (van Klink, 2005; pp. 134–155; Langeveld, 2006; pp. 64–67). However, economic reasons, i.e. the 'instrumental' benefits of arts, have also started to play an important role in governmental policies aimed at stimulating the cultural sector. For example, cultural activities are expected to contribute to the social and economic fabric of society and improve the liveability of cities in order to attract wealthy citizens and new firms (Rentschler & Potter, 1996; p. 100).

⁶ On average, the municipal subsidies to theatres in the Netherlands amounted to 37% of the theatres' total annual income in 2011, whilst about 8% of the annual income originated from other subsidies, for example from central and provincial governments (VSCD, 2012; p. 18).

⁷ This is related to the educational ideal ('Bildungsideal') of life-long cultural and spiritual development and growth of the individual, as developed by the German philosopher Von Humboldt.

The size of the cultural sector (and the subsidies involved) has increased over the last few decades. However, with the rise of NPM there has also been pressure on theatres to increase their efficiency and to generate a larger share of their revenues 'externally' (i.e., not from the government), and to increase their transparency (see, e.g., [Langeveld, 2006](#); pp. 25–44, 74–76; [Kirchner, Markowski, & Ford, 2007](#); pp. 96–103; [ter Borg, 2010](#)). This pressure has intensified as a consequence of the recent financial and economic crisis and the related cuts in government budgets. As a result, most budgets for cultural activities have been reduced, including those for theatres ([CBS, 2013](#); [NRC, 2013](#)). Moreover, an increasingly critical, and at times even 'antagonistic', attitude to the cultural sector and to its subsidies seems to have developed and is openly expressed in parts of Dutch society and politics. This is probably related to the more general volatility of Dutch society and the political landscape since the late 1990s ([van der Bol, 2010](#); [Heijne, 2010](#); [Kammer, 2011](#); [Deputy Minister of Culture, 2011](#)). Furthermore, many theatres have experienced a decreasing numbers of visitors in the last few years, probably as a result of the economic crisis ([VSCD, 2012](#); pp. 1, 9).

Such pressures have necessitated changes in Dutch theatres. However, the gradual process of external autonomization had already started in the 1990s. Externally autonomized theatres are generally headed by a director. Further, they usually have a supervisory board which is not involved in the daily activities and management of the theatre, and which typically has between three and six meetings a year with the director. With respect to the accounting regulations, external autonomization means that theatres now have to draw up their own annual accounts (which are certified by an independent external auditor). In addition, in the externally autonomized theatres there are more 'flexible' collective labour agreements than in the municipal sector. However, not all municipal theatres are externally autonomized. In several cases, theatres are still an integral part of the municipal organization, or they are a decentralized (i.e. internally autonomized) unit with some autonomy within the municipal organization.

After a theatre's autonomization the municipality remains the owner of the theatre building. The theatre rents this building from the municipality, while the latter subsidizes the theatre, usually to a considerable extent. In general, the formal governing relationship between a municipality and the autonomized theatre is given shape on the basis of a municipal policy note which normally covers a four year period. In such policy notes, generally drawn up in collaboration with parties in the local cultural field and an external local cultural board, the municipal cultural vision and the cultural priorities are set out. Amongst these priorities are often such aims as stimulating the cultural participation of the population in general (for example, by increasing cultural activities in community centres and schools) and increasing the participation of specific groups (such as young adults and ethnic groups). In addition, the policy notes set out and justify the planned cultural activities, list the organizations eligible for support from the municipality, and indicate the amounts planned to be available (see, e.g. [Maastricht, 2008](#); [Groningen, 2012](#)). Such municipal policy notes are approved by the municipal councils, which are the highest authority in Dutch municipalities.

After the cultural vision has been set out in the policy note, a detailed annual performance agreement (i.e., a contract) and a budget are prepared by the theatre (usually in consultation with municipal civil servants). In most cases the detailed annual performance agreement only needs to be endorsed by the Executive committee. Throughout the year, the theatre's director and administrative staff will discuss the general progress of the activities, as well as interim reports and plans for the future, with municipal civil servants and/or the alderman. They also prepare a new performance agreement and a budget for the following year. Furthermore, they also discuss the annual account which has to be formally approved by the Executive (see, e.g., [VNG, 2009](#); [Lelystad, 2008](#); [Eindhoven, 2011](#)). In this respect, various accounting documents play a role during the year. Towards the end of each four year period, civil servants of the municipality prepare a first draft of a new cultural vision for the next four years, again often in close collaboration with the various cultural organizations involved and the external local cultural board.

4.2. Research questions

The above indicates the context of our empirical research. It shows that many municipalities in The Netherlands have made their theatres legally autonomous foundations (from here on labelled theatres) with which they have a long-term open-ended partnership. Earlier, the review of literature in Section 3 highlighted issues with respect to the control of public sector partnerships, and probably partnerships in general, which seem to deserve further attention. This literature, too, informs our empirical research. The literature showed that the role of accounting information in a public sector partnership can vary. For example, it can enable the theatre to account for its activities and it can provide the municipality with a tool for exerting its control. Further, accounting information can help to develop trust. In addition, the literature suggested that the different levels/parties involved in the control relationship also deserve attention.

So, we have defined the following broad research questions to be examined in our exploratory field research project:

- 1.) What are the roles of accounting information and other documentation in the long-term relationship between a theatre and its municipality?
- 2.) What are the roles of accounting information and trust at the operational level of the organizations involved in a public sector partnership?
- 3.) How are accounting information and trust at the operational level related to trust at higher levels of the organizations involved in a public sector partnership?

In order to map out the management control practices, the types of accounting information, and their roles in public sector partnerships, we conducted research in five autonomized theatres, and in their relevant municipal organizations. Before describing our findings, however, the next section will present our research design.

5. Research design and case organizations

This project started with research of two cases in 2010–11. This research resulted in some conclusions about the internal management of the theatres and the control relationship between the theatres and their municipalities. However, during the interviews the participants spontaneously raised a number of issues with respect to the role of trust and the different hierarchical levels involved, which encouraged us to research three new cases in 2013, as well as to do some further research in the two original cases.

In each of the five theatres we interviewed the director and a financial management specialist (except in one case).⁸ In the municipalities we interviewed civil servants responsible for culture and/or financial management and the alderman, i.e. a politician, responsible for culture (except in one case).⁹ Together, these are the people who are directly involved in partnerships between theatres and municipalities and their control. We also analyzed various documents, such as municipal cultural policy notes, performance agreements between the municipalities and the theatres, annual plans and reports and other accounting documents (e.g. interim reports) which the theatres send to the municipalities, and information on the theatres provided to the municipal councils.

We decided to conduct descriptive and exploratory field research because – although the literature could provide guidance to our empirical research – we wanted to learn from the field with an open mind instead of looking for theoretical confirmation or rejection of a particular model or construct (Ahrens, 2004; p. 298). In this paper we present an overall picture; i.e., we give a general sketch of the typical relationship between a theatre and its municipality as based on our findings and in particular on the many commonalities we found in our five cases, which include both smaller and larger theatres with diverse profiles. Where there are relevant differences between the cases we will point them out, but this is not our primary focus. Although we present an overall picture of the typical theatre, the findings of our research need to be understood carefully, since the limited number of theatres and municipalities researched are not necessarily representative of the whole field (cf. Scapens, 2004; p. 260). Nevertheless, our results may give an insight into the topics studied, since the findings were quite similar in the five cases. In that sense they can also provide a basis for further research (see also Berry & Otley, 2004).

In our semi-structured interviews we focussed on topics such as the performance agreements between the theatre and the municipality, the control forms used by the municipality, the theatre's accounting systems, and the accounting information produced by the theatre, including the budgets, annual accounts and interim reports provided to the municipality. Because of its potentially sensitive nature, we did not ask direct and explicit questions about the issue of trust. However, as indicated above, in 2010–11 the theme of trust came up several times spontaneously and in those instances we went into the issue in more detail. Since in 2013 we were more explicitly focussed on trust, we had follow-up questions prepared if the issue was raised by the interviewees (see also Hesse-Biber & Leavy, 2004; pp. 119–120, 126). As it was indeed frequently mentioned by the interviewees and discussed in-depth, we obtained a great deal of information about the roles of trust and accounting in the control of the partnerships. So despite its sensitivity, the issue of trust did not induce superficial and/or socially desirable answers (cf. Cäker and Siverbo, 2011).

Although not a literal transcription, we wrote extensive interview reports (typically between 4500 and 6500 words), which were sent to the interviewees and on which they could comment. In several cases the interviewees proposed some, mostly very minor, changes, but these did not particularly relate to issues of accounting and trust. For our analysis we used the final versions of these reports.

At the very beginning of the research, we had informal discussions with three people who had been engaged for a substantial time in the world of theatre and cultural policy and who helped us select and contact the theatres. We also interviewed seven persons with different backgrounds in the cultural field who helped us better understand the context of the field (the director of an association of theatres in The Netherlands, the impresario/co-owner of a theatre production organization, an alderman, two theatre managers, and two civil servants).

The two theatres we studied in 2010–11 and 2013 are the 'Luxor Theater' in Rotterdam and the 'Agora Theater' in Lelystad. Both theatres are externally autonomized foundations. The three other theatres, researched in 2013, are the 'Stadsschouwburg' in Utrecht, the 'Odeon De Spiegel Theaters' in Zwolle (both also foundations) and the 'Theater aan het Vrijthof' in Maastricht (internally autonomized, i.e. a decentralized unit¹⁰). Expressed in full-time equivalents (fte), the number of employees of the theatres varied between 20 and 50 with permanent contracts (and between about 5 and 35 on a flexible basis). In total, 24 interviews were conducted with 21 persons in the five theatres and their municipalities (see Appendix A).¹¹ The interviews generally took between one and two hours, except for one shorter one by telephone of about

⁸ In one theatre the director had until recently been responsible for finance.

⁹ In one case the alderman for culture refused to be interviewed.

¹⁰ Although the internally autonomized theatre did not have a legally autonomous position, our research findings showed that its control relationship with the municipality was similar to that of the externally autonomized theatres.

¹¹ Although most interviewees indicated that they did not object to their name being mentioned, this was not the case for all. We therefore informed all of them that we would anonymize their words as much as possible (or completely, if they objected to using their words). However, none of the interviewees objected to having their names and positions recorded in an appendix (see Appendix A). To show which different persons are quoted, the text of the paper indicates the interviewees on the basis of the order in which they were interviewed for the first time (e.g., director 3 is the third person we interviewed, and alderman 18 the eighteenth).

35 min. Our empirical research was guided by our literature review (Eisenhardt, 1989; p. 56). So via our interview questions (for an overview, see Appendix B) we tried to obtain information on the various issues raised in the literature. The next section analyzes the five cases and gives a general picture of the typical control relationship between a theatre and a municipality.

6. Empirical findings

6.1. Municipal objectives and performance agreements

Apart from the control relationship, we discussed with the aldermen why subsidizing theatres was an activity in which they, as politicians, and their municipalities were involved. We also debated the objectives behind this subsidization, and whether the municipal control of the partnership was focussed on outputs and outcomes related to the formulated goals.

The aldermen we interviewed reported that the reasons for subsidizing the theatre were related to the intrinsic value of arts, but also to the social and economic significance of theatres. However, compared to the other municipalities, the municipality of Lelystad – a relatively new and isolated town established in a polder¹² – more clearly emphasized social reasons for subsidizing the theatre and other parts of the cultural sector. Even today, the social coherence and sense of community are being considered as meagre in this area. The alderman indicated that although intrinsic and economic reasons played a role, cultural activities were regarded as crucial for providing a platform where people can meet and which could help in promoting the sense of a shared identity in his town. In the other municipalities intrinsic reasons to subsidize the theatre were regarded as important, e.g. offering people the opportunity to develop themselves and to enjoy culture, providing artists with the opportunity to show their work and develop their skills, and facilitating cultural innovation. However, in the cultural policy notes a great deal of attention was devoted to more social and economic aspects, such as increasing public participation in culture and society by various groups, strengthening social cohesion, making theatres and other cultural activities ‘accessible’ to as many people as possible (e.g. by introducing these activities into their districts and keeping ticket prices relatively low), having the youth and the elderly participate in (‘innovative’) cultural activities, making the municipality visible as a ‘city of culture’, and contributing to the creation of a pleasant living environment and business climate.

Alderman 18 gave a clear overview of the various reasons for the municipality's involvement in subsidizing the theatre: “As a municipality we find it important that art can present itself. This also includes the provision of a hall where the public can enjoy all forms of culture. What you want is to give the people the opportunity to develop themselves and become inspired; this is important for them as individuals, but also for the community as a whole. . . . It may sound a bit exaggerated, all those wonderful objectives and the talking about the intrinsic value of culture, but I personally still find this really important. Showing engagement with culture as a government body and subsidizing it remains crucial. . . . In addition, and this element has played an ever increasing role the past few years, the presence of cultural organizations, such as theatres, is in an economic sense enormously significant for a city. . . .”

With respect to cultural policy objectives, all the aldermen considered the theatre as an important partner in the local and regional cultural domain, and as an instrument which should help them realize the municipal ambitions. The theatre director would have to show adequate cultural entrepreneurship to make a good contribution. However, several aldermen also made clear that, although the objectives were considered as important, it was not possible to control the theatre very strictly on its contribution to realizing these objectives. The aldermen found it difficult to express the aims and the theatre's intended outputs in clear and measurable terms. And this issue complicated the control of the activities and performance of the theatre.¹³

More in general, the content of the documents (such as the annual performance agreements, and the theatres' budgets and annual accounts/reports) and the information we obtained during the interviews, seemed to give the impression that the relationships between the theatre and municipality were loose and informal and that the theatre decided to a large extent autonomously about its activities. For example, there were annual agreements about the theatre's performance, but they were mostly not very specific and/or they mainly related to cultural policy elements considered important by the municipality (such as making a contribution to the local cultural life or increasing the cultural participation of the elderly). That is to say, these agreements hardly touched upon the main activities of the theatre, i.e. organizing performances. Furthermore, in the annual reports the accounts given by the theatres of their activities were mostly rather general.

Civil servant 2 observed that the performance agreements between his municipality and the theatre included aspects such as a specific emphasis on focus groups, like the youth and inhabitants with an immigrant background. Furthermore, the programmes presented should, for example, be a reflection of the arts performances as generally offered in The Netherlands. The civil servant also indicated, however, that what is put on paper is usually rather general and that it is quite difficult to

¹² A polder is a diked tract of land that is reclaimed from the water (the sea or a lake) and lies below the surrounding water level.

¹³ There is a certain ambiguity with respect to the term performance in the context of our paper in that performance can relate to the concerts and plays as shown in the theatre, but also to the outputs and outcomes of the work of the theatre. We tried the best we could to avoid confusion in this respect; the context of the sentence should make clear which meaning is implied.

make concrete and precise agreements on these issues. The items agreed upon should mainly be seen as ‘intended directions’.

Our interviews also indicated that in most meetings between employees and the director of the theatre on the one hand, and civil servants and the alderman on the other hand, the performance of the theatre was not discussed in much detail either. The civil servants and the aldermen we interviewed clearly stated that it was difficult to make clear agreements about the theatre’s performance and to obtain clear accounts of their details. They also argued, however, that in their opinion there was no need for them to be very closely involved in the theatre’s activities. They considered the people of the theatre as professionals with specialist knowledge about the artistic world and the taste of the local audiences, who should be given sufficient room to do their work as autonomously as possible. This was confirmed by the directors of the theatres, who indicated that they could operate and make decisions quite autonomously (sometimes after having discussed the main lines of their plans with the theatre’s supervisory boards).

Civil servant 7, working in the field of cultural policy, expressed the autonomous position of the theatre as follows:

“They are the experts; making theatre is not the core business of a municipality. [They] know how it really works in the theatre world, whereas we as government officials have far less knowledge of this sector. This is why we want to hear from them what is really going on. . . . Performance information does not play a prominent role, neither in the assessment of the theatre’s annual plan at the end of the year nor during the yearly subsidy allocation.”

In a similar vein, theatre director 1 remarked that his municipality was not very strict in making performance agreements, while director 3 observed:

“It has never happened, for example, that we specifically discussed particular financial amounts or performance achievements. . . . We have much freedom to make our own choices and to do as we see fit.”

With respect to making performance agreements, alderman 9 said:

“Paper is patient. I don’t attach much importance to the arrangements made in the official policy documents as regards performance achievements. . . . The objectives which one wants to see realized can often not simply be expressed by figures . . . I find it much more important that we invest in a good relationship with the organization and the people who work there.”

The relatively substantial autonomy of the theatre with respect to its activities, does not mean that the municipality does not settle anything at all in the annual performance agreements. For example, in all five cases the agreements included such issues as the annual number of performances and visitors¹⁴ (or the number of visitors per ‘theatre season’, which ranges from September until June). In its reports, the theatre also provided the municipality with information on the actual numbers. Although these indicators did not provide an in-depth insight into performance, they were regarded to be giving information on the theatre’s activity level and the ‘popularity’ of its theatrical performances. Furthermore, the municipality valued to receive some information about the theatre’s actual contribution to the municipal cultural policy objectives. However, these objectives often could not be expressed in very clear and concrete terms.

Similarly, we found that the performance agreements and the theatres’ annual accounts/reports were often brief and/or vague about the contribution to the municipal policy objectives. So, all in all the performance agreed and the performance information presented is not very concrete. Different interviewees indicated, however, that they did not believe that the low level of accountability required and, more generally, the limited involvement of the municipality in the theatre’s activities could only be attributed to difficulties in measuring output. In their opinion, the freedom of the theatre was also strongly related to the municipality’s confidence that things were running smoothly.

However, there were indications that the municipality’s confidence in the theatre’s activities was partly related to a difference in (financial) power between the two partners in the partnership. For example, as the more powerful party, the municipality knew that it could put pressure on the theatre if it did not function or cooperate properly. Several interviewees indicated that, although the issue hardly played a role in discussions, in the end it was the municipality which financially supported the theatre. This situation influenced the control relationship. As civil servant 8 said: “Of course everyone realizes that we are on the money tap. . . . We don’t play it that way intentionally, certainly not, but it will probably work like that.”

6.2. *Informal contacts and trust*

Given the above views, which were basically very similar amongst all the interviewees, it might look as if the municipality controlled the theatre in a very loose and informal way. However, apart from the power element, trust was mentioned as an important element in this informal approach. One of the civil servants (interviewee 11) made this very explicit by saying that discussions about performance mostly took place in very general terms, with little focus on details, because there was so much trust in the knowledge and skills of the theatre’s director and staff members. This indicates that the level of trust in the theatre’s competence was high.

Civil servant 12 confirmed the role of trust in the control relationship. Of course, he indicated, the municipality formulated its main cultural objectives and policy aims, which were clarified mostly by informal discussions with the people

¹⁴ Theatres in the U.K. seem to speak about customers, but theatres in The Netherlands speak about visitors.

from the theatre. This was meant to give both parties more insight into how the theatre could contribute to realizing the municipal plans. However, in particular, good contacts and trust were regarded as essential in the control relationship. For example, apart from the annual agreement on the number of visitors and the balance between the more popular and the more 'artistic' performances (which was basically the same every year), additional quantitative agreements were regarded as meaningless bureaucratic exercises. Civil servant 12 was skeptical about measuring the theatre's 'real' performance achievements, while considering detailed performance agreements as not useful. What was conceived as much more important was trying to determine – based on impressions and qualitative evidence – whether the theatre was going in the 'right direction'. It was argued that the professionals and specialists as employed by the theatre had all the knowledge required to run the organization effectively. Based on the 'guidelines' of the general policy aims, these people should be trusted and be granted a large degree of autonomy.

With respect to the role of trust in one another, alderman 9 observed:

"How do you achieve what you want to achieve as a municipality, that's the core question. I'm convinced that it's all about good contacts and relationships You have to be able to trust that the other person does his best and is up to his task, and you have to have a mutual trust. The people of the organization therefore have to be sure that I have their backs, because I know that they do their utmost to make things work. The formal arrangements, thus the agreements made on paper about the organization's functioning and performance, mainly serve as a safeguard if things go wrong in the mutual relationship and the operation of the theatre"

Other interviewees, both from the theatres and the municipalities, also mentioned the link between having trust in each other and issues such as 'meeting and getting to know each other', frequent informal contacts, being transparent, avoiding surprises, and, more in general, having good relationships. As regards these issues some aldermen and directors emphasized the importance of knowing, i.e. of being convinced, that both parties were on the same 'wavelength' as far as cultural ideals and ambitions were concerned. This was considered to contribute to trust between the partners and openness in the discussions.

So, according to several of our interviewees, there was generally a great deal of trust between the theatre and the municipality. The high level of trust was particularly confirmed by the way in which our interviewees expressed themselves as regards this matter, and their examples of the activities and the work processes in the partnership. Furthermore, several interviewees said that the trust relationship was not damaged by 'unpleasant' developments caused by external circumstances, such as decreasing numbers of visitors and financial losses (as in Rotterdam and, to a lesser extent, Lelystad), as long as they could be explained and were reported as soon as possible. The municipality and the alderman, who could be confronted with questions in the municipal council or from the local press, should be informed about possibly relevant developments in the theatre. As civil servant 8 said, a "problem is not really a problem if we are informed about it in a timely manner".

Although the number of formal meetings were limited (varying from one to five meetings a year between civil servants and employees and/or the director of the theatre, and one or two meetings per year between the theatre director and the alderman), the number of informal meetings and discussions, as well as the contacts by telephone or email, were quite high. These informal contacts could, for example, take place at the opening of a new exhibition in an art gallery or a museum, after a performance in the theatre or at an open air summer festival, and also before or after meetings with schools or organizations in the local cultural field. The directors and the aldermen, in particular, met frequently on an informal basis, often about once a week. This informality included socializing and 'small talk', but in many cases also the discussion of more substantial issues, such as the alderman's new policy note, the cultural objectives the municipality should focus on over the next ten years, how things were going in the theatre, or possible new developments in the plans of the theatre.

Some of the directors also suggested that, to a certain extent, they used the informal contacts with the alderman and civil servants to gently bring up certain less usual topics or ideas. "People can then get used to it", as director 3 said in this context. Informal meetings were also used to explore how the municipality felt about a particular issue. In some interviews the notion was put forward that directors sometimes consciously nourished a feeling of 'togetherness and informality', in particular in discussions with civil servants. For example, cultural policy civil servant 7, who was positive about the contacts with the theatre and its director, observed: "The director often involves us in all kinds of matters; he likes to hear [our] opinion. . . . Often also on subjects which aren't the business of the municipality at all." However, despite the more calculating or utilitarian elements which sometimes might have played a role in the discussions, the theatre directors seemed to be convinced of the desirability and even necessity of good formal and informal contacts, as well as openness and trust.

Therefore, the relationships between the municipality (the alderman or other members of the Executive and the civil servants) and the theatre (the director and staff members) in our five cases can generally be characterized by a mutual trust in each other's competences. Having trust in each other's competences formed an important basis for the informal control relationship. Although the organizations were trusted, trust developed first through contacts among the individuals in those organizations and having trust in an individual's competences.

Competences as expected from the aldermen were, for example, that they could 'help' the theatre, if necessary, and were able to make arrangements within the municipal organization or with other organizations which facilitated the work of the theatre. Some of the directors explicitly said that they trusted that the alderman would defend them, for example, in the event that their subsidies were questioned by a political party in the municipal council, or if a specific issue had drawn the

attention of a local newspaper. The director's trust in an alderman's competences was important to stimulate open contacts between the partners. Some of them had already experienced the support of politicians in the case of problems with external parties. Director 1 indicated that because of this mutual trust verbal agreements were not always set down on paper.

6.3. *The importance of transparency and financial discipline*

During the interviews, the participants indicated that the informal character of the control relationship was specifically the result of the high level of mutual trust. However, the interviewees made clear that the control relationship between the municipality and the theatre was not loose and/or informal in all respects. Although there were not many clear (or quantitative) agreements on the theatres' activities, two issues were very important for the theatre, namely being transparent with respect to financial matters and not exceeding the budget.

This was linked to the two focal points for the municipality's control, which can be summarized as operating within the budget and financial health. The theatre's annual accounts are approved by a professional external accountancy firm before the municipality receives them, but the municipality also carefully considers these accounts and other financial documentation. The municipality is not interested in checking all the details, but the civil servants particularly focus on whether the documents confirm the picture they have based on their previous experiences and information previously (probably informally) provided by the theatre. In addition, when the process of preparing a new budget is started, civil servants in the field of finance and/or cultural policy usually discuss its content with the theatre, while they give the final version of the budget a last check. So as regards matters of a financial nature it seems that the municipality's control is in fact very strict.

Related to this, the interviewees from the theatres mentioned their 'discipline' with respect to not exceeding their budgets. Further, they said that they wanted to be transparent on financial issues or developments which may have financial consequences, so that financial surprises for the municipality were avoided as much as possible. And in the case of problems, the municipality was informed as soon as possible.

The interviewees from the five theatres clearly recognized that immediate information about (possible) problems was very important in maintaining a good relationship and a high level of trust. Several interviewees also acknowledged that the financial power of the municipality – which subsidizes the theatre – increased the need for good contacts and openness. In this respect, both the theatre's transparency in financial matters and its more general openness were regarded as very important. More generally, most interviewees from the theatres indicated that they wanted to inform the municipality about all possible developments and incidents which could be relevant to the municipality and the alderman (and which could, for example, cause political problems for the alderman). To conclude, the basis of the trust relationship is formed by transparency on the part of the theatre (as regards its activities and possibly relevant developments) and avoiding financial problems. It seems that this openness and the provision of information on financial and other possibly relevant issues develop the municipalities' trust in the intentions (i.e., goodwill) of the theatres and in their competences. This municipal trust in the goodwill and financial competences may, in turn, provide the basis for the theatre's autonomy with respect to its activities (which is, however, also related to the municipality's trust in the theatre's artistic competences).

Transparency on the part of the theatre is achieved by continuously providing the municipality with sufficient information. The provision of information may include clear accounting documents, but also informal notes, whilst mentioning relevant issues during an informal meeting between the director and a municipal civil servant or the alderman can also be part of it.¹⁵ Theatre director 15 expressed this process of being transparent on financial issues and building trust as follows:

"In fact, the municipality's control . . . is not really based on figures [in the performance agreement]. . . . Well, we have to remain within the financial budget; this is an important prerequisite for all that goes on here in the theatre . . . It is therefore important that until now we have always succeeded in operating within the budgetary framework. This has largely contributed to the trust the municipality has in us and the freedom it has given us in all kinds of respects."

In the interviews, aldermen also expressed the importance attached to sound financial management and accounting information, the avoidance of surprises, and timely updates in both formal and informal ways. This provided a basis for trust, particularly in the theatre's financial competences. Alderman 17 said:

"I think it's . . . important that the theatre's financial affairs are adequately arranged and that within the municipality these agreements are monitored. I have to be able to count on that, which is fortunately the case in practice. . . . Especially when you can rely on it that financially things are in order, you can, in your function as an alderman, focus on subjects which really matter culturally, such as the development of new initiatives . . . And so although I do not directly participate in it, a solid financial base is very important for the theatre."

However, the interviewees also indicated that in practice the accounting documents mostly confirm what the municipality already knew. This was because any financial deviations or incidents which might have significant financial consequences for the municipality were either formally or informally reported in a timely manner. Despite its formal autonomy, the theatre is very open about financial issues, because it knows this forms the basis for the trust relationship with

¹⁵ Several interviewees said that the partners' awareness of the financial power of the municipality played a role here, as we indicated before.

the municipality and for its autonomy within the frame, i.e. the strict financial boundaries, as set by the municipality. Financial discipline and regular information about financial developments, in combination with openness and frequent contacts about other incidents and developments, seem to form the basis for the trust relationship.

6.4. Different hierarchical levels in the control relationship

Trust forms the basis for the seemingly rather loose and informal control as exerted by the municipality on the activities, outputs and outcomes of the theatre. However, as indicated above, this looseness and informality does not apply to the financial situation of the theatre. The aldermen made clear that they did not pay much attention to the financial documents of the theatre, such as the annual budget and annual account. Instead, the civil servants assessed these financial documents. The civil servants, i.e. employees at the operational level of the municipality, informed the alderman only in the case of 'notable' events or 'new' developments (which were rare, due to the theatre's financial discipline and openness). In this context, alderman 18 observed that "the budget, the annual account, and other related matters are looked at by the civil servants . . . If a problem arises I will hear it from them".

Several interviewees mentioned the importance of trust at the operational level as a basis for trust at the higher hierarchical level, i.e. it was the basis of the 'trust hierarchy'. To build the civil servants' trust in the theatre, transparency formed the key and the accounting documents had to confirm both the formal and informal information about the theatre. Although not all details are fully investigated (the more since the annual account has already been certified by the external accountant), some civil servants said that they closely monitor the theatre's financial affairs. The civil servants also discussed the financial documents during formal meetings with financial employees of the theatre – i.e. also people on the operational level – and/or with the director of the theatre.¹⁶

Theatre employee 13, responsible for financial management, said:

"We specifically discuss the year plan and annual account with the civil servants, but we do this in general terms. As long as the budget as set by the municipality is not exceeded, there is no problem. . . . It is actually more of a general meeting about how things are going, what is expected The municipality trusts that we manage our theatre adequately. This trust has been created in the course of the years on the basis of mutual experiences. In this context, the financial documents may especially serve the purpose of supporting this trust, showing that the theatre has nothing to hide and that things run smoothly. . . . We are open towards one another and . . . we generally can work together well . . . This is also because there is an atmosphere of trust."

The aldermen agreed that the thorough manner in which the civil servants studied the different financial documents and informed them about their content contributed to their good relationship with the theatre. It was very important for the aldermen that the theatre operated within the financial boundaries as set by the municipality. If necessary, they were informed on this topic by their civil servants (in internal meetings or notes). The aldermen's contacts with the theatre consisted of the (mostly informal) meetings and talks with the director. Financial issues might briefly be touched on in a meeting if something special was going on or just to formally confirm that the municipality approved the way in which financial matters were handled. Alderman 18 said:

"The civil servants from the municipality are considerably alert when it comes to the financial affairs. . . . And especially because I know that the financial issues have been adequately looked at . . . , I can comfortably work with the theatre director on the formulation of future plans in an atmosphere of mutual trust and openness."

In all our cases the discussions at the higher hierarchical level, i.e. that of the alderman and the theatre director, were said to be very open, containing much trust between the partners. However, the scope of the alderman's trust was largely determined by the internal signals about the financial health and functioning of the theatre he/she received from the civil servants, i.e. the lower municipal level. The directors and aldermen made clear that their formal and informal discussions mainly focussed on topics such as plans, the theatre's activities and future, the municipal cultural policy, and more in general, strategic issues. Theatre director 19 remarked:

"The talks are more content-based, about strategic matters, so to speak. This is why I never want to discuss the [financial] reports [in meetings]. . . . In the meeting with the alderman we . . . focus on the future"

In a similar vein alderman 14 said:

"When the civil servant tells me that [in financial terms] things are running smoothly in the theatre, I can build on that, I rely on it These financial documents can . . . be regarded as fundamental in the relationship between the municipality and the theatre. When they are in order, it simply brings stability and trust as far as we're concerned. . . . As an alderman . . . I do regularly talk with the theatre's director about the future, the broad lines, and . . . about what could perhaps be called the strategy of the theatre and the municipality."

So the interviewees made clear that two hierarchical levels can be distinguished in the trust-based control relationship between the theatre and the municipality: the operational (i.e., lower) level and the higher (i.e., top) level. The development

¹⁶ In one theatre the director was also directly involved in all the discussions with the municipality about financial issues. So in that case, the position of the director entailed – more than in the other cases we researched – a combination of higher-level and operational-level activities.

of trust over time at the lower level seems to form the basis for the development of trust at the higher level, more in particular the trust of the alderman in the theatre. Theatre director 20 said that if the theatre's contacts with the civil servants are good, it is easier to obtain a trust relationship with the alderman.

As we suggested before, it appeared that to a certain extent competence trust also played a role in the opposite direction, namely trust of the theatre in the municipality. This trust encourages having open discussions and relates to the lower as well as the higher level of the municipality. Generally, the interviewees from the theatres regarded the civil servants as competent discussion partners, who have a good understanding of the world of the theatre and its problems. The theatre's trust in the competences of the alderman, i.e. the higher level, also seemed to play a role, for example the confidence that the alderman was able to 'protect' the theatre (for example, from more serious budget cuts). The directors were aware that the theatre's transparency was necessary to develop trust. But some of them indicated that their trust in the alderman's intentions and competences was also important in guaranteeing really open discussions and developing good relationships.

So the interviews showed that the contacts at the lower operational level and the perceptions at the municipal operational level of the theatre's functioning were very important for the wider trust relationship between the two partners. The perceptions at the operational (i.e., lower) level formed the basis for the municipality's trust in the theatre's competences – artistic and financial – and for the development of organizational trust over time. In this way the formal and informal information as reported by the civil servants at the lower level shaped the basis for trust at the higher level, i.e. the alderman. Transparency and the avoidance of (financial) 'surprises' seemed to have been instrumental for developing and maintaining the civil servants' trust in the goodwill and competences of the theatre and its employees over the years.

7. Discussion

Our empirical research of five public sector partnerships between theatres and municipalities in The Netherlands has given an insight into the processes and practices of management control in this specific type of inter-organizational relationships (cf. [Kurunmäki & Miller, 2011; p. 238](#)). We have particularly focused on the general picture with respect to accounting, trust and control in such a partnership. The control focus implies that, for example, the various types of accountability, which could be an important issue in a publicly subsidized organization like a theatre, have not been debated here (see for that, e.g., [Laughlin, 1990; Sinclair, 1995](#)).

Although nowadays many theatres in The Netherlands are autonomous, in practice the relationships with the municipality are mostly still quite strong, if only because of the theatre's financial dependence on the municipality.¹⁷ Since the municipality subsidizes the theatre, it has to account for the money allocated to the theatre (e.g. vis à vis the municipal council and citizens) and how it controls the partnership. However, to a certain extent the municipality is also dependent on the theatre, for example because the latter possesses specific knowledge about the cultural field and the preferences of the local visitors to the theatre. Furthermore, the theatre rents the theatre building, which is a highly specific asset owned by the municipality. In sum, there are strong mutual ties between the municipality and the theatre. This does not alter the fact, however, that financially the municipality is the more powerful partner – which implies that in practice the municipality's control of the theatre is an important aspect of the partnership. This aspect of the partnership makes the trust relationship somewhat asymmetrical.

Our research showed that, although New Public Management propagates economic rationality and the use of 'rational' management styles and techniques, the control of the partnership between the theatre and the municipality does in practice not merely include economic dimensions (such as explicit performance agreements and accountability for the activities, outputs and outcomes). Instead, apart from the financial transparency required, i.e. transparency on inputs, control is commonly exercised through regular formal meetings and especially through informal contacts (see [Hall, 2010; p. 311](#)). As regards the latter, good social relations between the partners ('knowing each other') seem to be valuable at both the higher level (the aldermen and the director, who are in charge of strategic issues) and the operational level (cf. [Granovetter, 1985; pp. 496, 504–507](#)).

At the operational level, the work-related contacts between civil servants of the municipality and the employees of the theatre generally cover long timespans. This is not always the case at the higher level, where in particular an alderman – a politician – can lose his/her job relatively easy. For that reason, the contacts at the operational level and the impression the civil servants have of the theatre are very important. The notes, advice and discussions used by the civil servants to inform their alderman, determine to a large extent whether the latter feels confident to engage in open dialogues with the director, e.g. about the theatre's future activities and/or the future of the local policy on culture.

The annual formal agreements made between the municipality and the theatre about the theatre's activities and objectives are usually not very elaborated. This low level of detail can be explained by the fact that the partners are of the opinion that the 'real' performance of the theatre and its contributions to cultural policy goals are difficult to quantify. So in that sense, a 'system of compliance' and a strict control of the theatre's activities are not considered possible (see also

¹⁷ Although not further discussed here, with respect to a theatre's 'real' autonomy, the issue could be raised as to what extent the outsourcing of theatre activities by municipalities has led to changes in the control of the theatres. Related to this, and following Brunsson, the questions could be posed which specific 'problems' as existing in the past have been solved now, and whether theatres are 'complete' organizations ([Brunsson, 2006; Brunsson & Sahlin-Andersson, 2000](#)).

McMillan, 2004; p. 948). Furthermore, the municipality knows that its knowledge of the world of performing arts is limited, whilst it recognizes the experience, ambitions, professionalism and local knowledge of the theatre. This local knowledge (Vaivio, 2004; pp. 53–55), which is also important in developing the municipality's future cultural policy, cannot be expressed by quantitative indicators but via qualitative information and informal contacts. Another reason why well-specified contracts are not used relates to the fact that the municipality is the more powerful party, since it subsidizes the theatre. If considered necessary, the municipality could relatively easily intervene in the way the theatre operates. So elements of calculative trust play a role here.

Our research has indicated that in all five cases the municipality has a great deal of trust in the competence of the theatre, both at the operational and the higher level. Nooteboom (2002, 2006) defines competence trust as having confidence in, for example, another party's knowledge, skills and innovative capabilities, and its ability to manage the organization effectively. In our study competence trust has been observed at the level of the municipality, i.e. the municipality has trust in the theatre's artistic, financial and management competences. It is this trust which forms the basis for the theatre's autonomy in determining its own programming and other activities. As the low measurability of the theatre's outputs and outcomes complicates the municipality's control, calculative trust (being more powerful) may play a role in choosing a loose form of control. However, it seems that the relatively loose and informal way in which the theatre's activities are monitored by the municipality can particularly be explained by the degree of competence trust. Further research, however, may shed more light on the precise role of the various elements (i.e., the low measurability of outputs, power, and the degree of competence trust).

Having trust in the theatre's financial competence does not mean that the municipality does not strictly control the theatre's financial performance. In all five cases, accounting documents and financial information are crucial elements in the municipality's control of the theatre. This finding suggests that a high level of competence trust does not always lead to loose forms of control. Issues which could harm the municipality (for example, financial problems in the theatre leading to political problems for the alderman), are bound to be strictly controlled. In this situation the municipality's strict control on those issues should not necessarily be regarded as an expression of distrust in the theatre, which could have negative effects on the relationship (Johansson & Baldvinsdottir, 2003; p. 229). It rather should be looked upon as an extra safety measure which is considered necessary because the issues are so important in the municipal organization – and thereby for the smooth functioning of the partnership. Our cases made clear that the theatres understand the municipal need for a strict control of, for example, their financial situation. This awareness was also shown by the fact that they disciplined themselves in being very strict as regards their finances.

To a certain extent, competence trust also played a role in the opposite direction. The interviewees from the theatres considered the civil servants as competent professionals who had an understanding for the world of theatre. On the higher level, the theatre directors showed trust in the competences of the aldermen, for example, by being confident that the aldermen would support and protect the theatre, if necessary. Related to this, the directors indicated that they were aware that transparency is necessary to maintain the municipality's trust, and that trust in the alderman's goodwill and competences creates the climate for open discussions. This suggests that in our cases there is a strong interrelationship between the development of trust and openness over time. Our findings indicate that the openness of the theatre helps to build the municipality's trust, while the theatre's trust in the municipality (i.e., the civil servants' and alderman's competences) stimulates this openness. This process of openness and trust between the two parties seems to deserve attention in further research.

In some of the cases we found that the higher level (the directors and aldermen) was quite explicit in expressing its shared goals, i.e. the like-mindedness with respect to the role of culture and the theatre in the local community, and the direction into which the theatre could go (see also Ghoshal and Moran, 1996; p. 36). We did not observe such shared goals so explicitly at the operational level. This finding suggests that, at least at the higher level, there was in several of our cases a so-called goodwill trust, i.e. trust in the partner's dedication to actively support the goals as commonly pursued without any opportunistic behavior (Nooteboom (2002, 2006).

With respect to the issue of goodwill trust, our study suggests that it is closely related to – and probably also based on – the level of competence trust. In our cases, competence trust was built on contacts and experiences at the operational level. However, it seems that if competence trust was low at the operational level, which was then communicated upwards, this would not only result in a low level of competence trust at the higher level, but also in little room for the development of goodwill trust at this level (i.e., 'sharing ideals' and open discussions between the director and the alderman). Therefore, future research may also focus on the extent to which goodwill trust (apart from competence trust) stimulates a loose and informal form of control of the theatre. For example, does a positive attitude of an alderman as regards the theatre's intentions decrease the pressure felt by the operational level of the municipality to be strict in controlling the theatre's activities? Our field research suggests this to be the case, but we did not encounter situations in which goodwill trust and good and open relations were absent at the top.

Our research has indicated that the various parties are aware that the municipality is the more powerful party, because it decides on the theatre's subsidy. Several interviewees (from both the theatres and the municipalities) made it clear that the municipality obviously had the more dominant position in the relationship (cf. Free, 2008; Lane and Bachman, 1997). Apart from the desire to build trust, this knowledge was probably an incentive for the theatre to remain within its financial boundaries. So the power aspect in the relationship seemed to trigger 'utilitarian' behaviour (Ring & Van de Ven, 1992; Carney, 1998). This utilitarianism implied, for example, an understanding on the part of the theatre that transparency on

financial issues and financial discipline ‘makes life easier’ and will lead to a great deal of autonomy over its activities.¹⁸ It suggests that – although the theatre operates proficiently and with ‘positive intentions’ – a form of calculative trust also plays a role, i.e. choosing a course of action which ‘maximizes its utility’ (see, e.g. Nooteboom, 2002; pp. 7–9, 42–43).

Our findings seem to support the suggestion made by Nooteboom (2002, pp. 55–77), Williams (2002, p. 116) and others, that although trust generally refers to relationships between individuals, it can also apply to organizations, which means that the organizations can acquire a reputation of trustworthiness. In our five cases, the reputation of trustworthiness – in particular that of the theatre – first seemed to build among individuals at the operational level. After some time this trust in individuals gradually developed into trust in the organization. Over the years, the civil servants – who generally hold their functions for a considerable period of time and much longer than most aldermen – have witnessed a sincere openness of the theatres in their information provision, for example by delivering clear and reliable accounting reports. In turn, the trust in the theatres (and their financial management) resulting from this approach influenced the civil servants’ reports to the alderman, thereby forming a basis for building trust at the higher hierarchical level.

So the accounting reports played an important role in building trust at the different levels and had a highly disciplining effect on the theatres (cf. Liang, 2000; Arya et al., 2004). For example, the avoidance of ‘surprises’ in the reports contributed to the trust between the theatres and the civil servants. The civil servants reported the absence of surprises and their approval of the financial documents to the alderman, i.e. to the higher level of the municipality (cf. Granovetter, 1985; p. 490; Gulati, 1998; pp. 295–302). Apart from providing factual information about financial issues, the civil servants were also able to present a more ‘coloured’ account of the theatre’s reputation, as based on their experiences with the organization over the years. As such, the lower level’s ‘experiences over the years’ and knowledge about ‘details’, not only leads to trust at the lower level, but also forms the basis for building trust at the higher level.

So, the interconnectedness of trust at the different hierarchical levels in the organization, as suggested by Marchington & Vincent (2004), is visible in our five cases. More in particular, we found that the interconnectedness of trust between the different levels is strongly related to accounting information. By the absence of financial surprises, the theatre shows its financial competence. The accounting documents and the other financial information play an important supporting and mediating role in building the ‘trust hierarchy’ (see also Kurunmäki et al., 2011; Kraus & Lindholm, 2010), which is a basis for the autonomy given to the theatre.

8. Conclusions

With the introduction of New Public Management (NPM), several new organizational forms have emerged aimed at distancing particular activities from the ‘core of government’. In this paper we studied the control of public sector partnerships between theatres and municipalities in The Netherlands. The municipalities have to control the autonomized theatres because they subsidize them to a considerable extent.

Our empirical research of five theatres and their municipalities has shown that trust is a very important element in the control of these public sector partnerships. The importance of trust is reinforced because the civil servants and aldermen are aware of the difficulty of expressing the objectives of the municipal cultural policies in quantitative terms. The same holds true for the contribution of the theatre’s outputs and outcomes to realizing these objectives (see also Speklé & Verbeeten, 2014).

Our research has also given an insight into the practices and processes through which trust develops. In addition to the formal meetings, issues such as transparency and regular informal contacts between the theatre and its municipality appear to be crucial for the development of trust in the partnership. Apart from the theatre’s openness about financial and other matters, the easy availability of its accounting documents and its ‘disciplined’ financial behaviour were also found to be significant for building trust between the two parties (see our first research question). Our empirical research further suggests that in the longer term trust is important at both the lower (operational) and the higher hierarchical levels. The regular contacts between the theatre’s financial specialists and the civil servants responsible for finances and cultural policies seem to be instrumental in building trust between these individuals at the operational level (which can then gradually develop into organizational trust). In particular the role of the civil servants is important here, as they are in charge of checking the accounting documents and also obtain a close impression of the various cultural activities of the theatre (see our second research question). If there are no unexpected issues or ‘surprises’ (either financial or non-financial), the civil servants inform their alderman (the higher hierarchical level), after which the accounting documents will receive little further attention. Once the alderman has been informed that there are no financial problems, he/she can focus on the more strategic issues in his/her discussions with the theatre director.

So both the checks of accounting documents and the further communication about cultural activities and financial details particularly take place at the lower level. This means that the civil servants engaged in finance and cultural policy and the financial specialists of the theatre play an important role in the creation and enhancement of trust. They develop trust at the lower level, which forms the basis for trust at the higher level (see our third research question).

¹⁸ Using terminology of agency theory, which is a theoretical basis for NPM, the theatre (the agent) seemed to be actively involved in so-called ‘bonding activities’ to convince the principal (the municipality) of its willingness to cooperate (see also Liang, 2000; pp. 469–470; Arya, Glover, Mittendorf, & Zhang, 2004, pp. 400–401, 410–411).

Since the accounting documents rarely contain any 'new' information, they are not extensively discussed in the formal top level meetings. This limited formal attention, however, does not mean that this form of rendering account is unimportant in the trust relationship between the partners. On the contrary, these reports (and the additional financial information provided informally) seem to have a pivotal role in the trust relationship. They confirm that the situation is as expected and desired and, as such, they have a stabilizing effect on the relationship between the partners (cf. [Vosselman & van der Meer-Kooistra, 2009](#)). The primary function of the accounting documents is therefore not to accurately measure the theatre's performance or to check if the objectives have been met, but to show 'compliance', i.e. to simply confirm the theatre's financial position and that it is operating within its financial boundaries (cf. [Cunningham, 2004](#); p. 275; [Chenhall, Hall, & Smith, 2010](#); pp. 743,753). The theatre's budget can be regarded as a boundary and if there are any external circumstances which make it necessary to cross this boundary, they should be reported to the municipality immediately. It is important that the theatre is transparent and provides all relevant information.

With respect to NPM and its idea that performance and economically rational considerations should play a more important role in the control of the public sector, it appeared that in the five cases we studied this 'NPM-like' type of control of the theatres' activities did not really exist. In the control of the partnership, performance contracts only played a minor role. The financial, i.e. input-oriented, information in the accounting documents, however, was essential because the theatre's outputs and outcomes cannot be measured in concrete terms. Therefore, the municipality had to have trust in the theatre's knowledge and professionalism. This trust built over time. In addition to the information from the accounting documents, municipal control predominantly consists of informal contacts about, for example, the theatre's activities and its contributions to the local cultural policy. Although the municipality controls the partnership quite strictly in a financial sense, aspects such as economic efficiency are not assessed (primarily because it is difficult to define and measure the performance achievements of organizations like theatres). Problems with measuring output and efficiency are not unique ([Carter, 1991](#); [ter Bogt, van Helden, & van der Kolk, 2015](#)). Particularly in the public sector and in the case of the theatres, they are very obvious. The people we interviewed would probably argue that, rather than following the strict NPM perspective on control, some flexibility with respect to the control form chosen is desirable (see also [Birnberg, 1998](#); p. 427). However, as the municipality is the more powerful party, whether outputs are clear or not, it can exert pressure on the theatre. This supports the view that clear performance agreements on outputs and outcomes, as suggested by NPM, are not essential for the control of the municipality-theatre-relationship.

Good contacts, knowing one another, as well as different forms of trust appeared to be crucial in the control of the partnerships we studied. However, the theatres' freedom is particularly facilitated by their financial discipline and the municipality's operational level's focus on their accounting documents and other financial aspects. This financial focus provides the basis for the trust hierarchy; i.e. the mutual trust between the parties at both the lower and the higher levels in these public sector partnerships.

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Appendix A.

List of interviewees in the five theatres and municipalities researched

Rotterdam: R.J. Wiegman (director of Luxor Theaters until 2011; interviewed twice); G.A. Kroeze-Knol (director Luxor Theaters since 2011); E. de Bruin (deputy director Luxor Theaters and responsible for finance); M. Heuvelman (civil servant municipality of Rotterdam, interviewed together with J.C. Verburg); J.C. Verburg (civil servant municipality of Rotterdam, interviewed together with M. Heuvelman).

Lelystad: J. Gras (director of Agora Theater, interviewed three times individually and one time together with E.G.W. Pul); Y.E. Verkerk (Agora Theater, head of finance); H. Luiken (Agora Theater, head of technical services); J.A. Fackeldey (alderman of culture municipality of Lelystad, interviewed together with E.G.W. Pul); E.G.W. Pul (civil servant municipality of Lelystad, interviewed one time individually, one time together with J. Gras and one time together with J.A. Fackeldey).

Utrecht: L. Claus (director Stadsschouwburg); J. Kok (Stadsschouwburg, head of finance and ict); F.C.W.C. Lintmeijer (alderman of culture municipality of Utrecht, interviewed together with N.E. Terpstra). N.E. Terpstra (civil servant municipality of Utrecht, interviewed one time individually and one time together with F.C.W.C. Lintmeijer).

Zwolle: E.G.C. van Honk (director Odeon De Spiegel Theaters); N. Vedelaar (alderman of culture municipality of Zwolle, telephone interview); J. van der Bij (civil servant municipality of Zwolle).

Maastricht: H. Haeghens (director of Theater aan het Vrijthof); J. Spauwen (finance director Theater aan het Vrijthof); J.E. L. Costongs (alderman of culture municipality of Maastricht); L. zum Vörde sive Vörding (civil servant municipality of Maastricht).

Appendix B.

Overview of interviews questions

In our interviews with the people in the theatres and the municipalities we addressed the following issues:

- the relationship between the theatre and the municipality and possible changes therein;
- the involvement of the municipality – and more in particular that of the civil servants and the alderman – in the management and control of the theatre;
- the contacts of the director and other (financial) employees of the theatre with the municipality;
- the role of formal and informal meetings involving civil servants, aldermen, the theatre director and/or theatre employees and the issues discussed in such meetings;
- the discussions about and the accountability towards the annual performance agreement; the documents and themes discussed in formal meetings;
- the way in which accounting documents and the theatre's plans are discussed and monitored and their role in the control of the theatre;
- the influence of budget cuts on the theatre and the organization's relationship with the municipality.

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Further reading

Other documents used: various internal policy and accounting documents of the theatres and municipalities researched; municipal policy documents and notes for the municipal councils in the municipalities researched.