

ADVANCES IN MANAGEMENT ACCOUNTING

ADVANCES IN MANAGEMENT ACCOUNTING

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ACCOUNTING VOLUME 32

ADVANCES IN MANAGEMENT ACCOUNTING

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STATEMENT OF PURPOSE

Advances in Management Accounting (AIMA) is a publication of quality, applied research in management accounting. The journal's purpose is to publish thought-provoking articles that advance knowledge in the management accounting discipline and are of interest to both academics and practitioners. The journal seeks thoughtful, well-developed articles on a variety of current topics in management accounting, broadly defined. All research methods including survey research, field tests, corporate case studies, experiments, meta-analyses, and modeling are welcome. Some speculative articles, research notes, critiques, and survey pieces will be included where appropriate.

Articles may range from purely empirical to purely theoretical, from practice-based applications to speculation on the development of new techniques and frameworks. Empirical articles must present sound research designs and well-explained execution. Theoretical articles must present reasonable assumptions and logical development of ideas. All articles should include well-defined problems, concise presentations, and succinct conclusions that follow logically from the data.

REVIEW PROCEDURES

AIMA intends to provide authors with timely reviews clearly indicating the acceptance status of their manuscripts. The results of initial reviews normally will be reported to authors within eight weeks from the date the manuscript is received. The author will be expected to work with the Editor, who will act as a liaison between the author and the reviewers to resolve areas of concern. To ensure publication, it is the author's responsibility to make necessary revisions in a timely and satisfactory manner.

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MANUSCRIPT FORM GUIDELINES

1. Manuscripts should include a cover page that indicates the author's name and affiliation.
2. Manuscripts should include a separate lead page with a structured abstract (not to exceed 250 words) set out under four to seven subheadings; purpose, design/methodology/approach, findings, research limitations/implications (if applicable), practical implications (if applicable), social implications (if applicable), and originality/value. Keywords should also be included.
3. The author's name and affiliation should not appear on the abstract.
4. Tables, figures, and exhibits should appear on a separate page. Each should be numbered and have a title.
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7. Authors should email the manuscript in two WORD files to the editor. The first attachment should include the cover page and the second should exclude the cover page.
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INTRODUCTION

This volume of *Advances in Management Accounting (AIMA)* represents the diversity of management accounting topics, methods and author affiliations, which form the basic tenets of *AIMA*. Included are papers on traditional management accounting topics such as employee performance, control and managerial decision-making, as well as those on broader topics of interest to management accountants of trust, environmental uncertainty and sustainability; issues of importance to academics regarding appropriateness of performance measures are also included. The articles in this volume employ a wide variety of methods including interviews and archival data analysis. Finally, the diversity in authorship is apparent with affiliations from Australia, the Netherlands, Germany, and the United States.

This volume begins with a study by van Veen-Dirks and Giliam that uses semi-structured interviews to investigate the vertical management control packages between local governments and public sector joint ventures. Specifically, the authors test alliance level determinants of control and perceived risk. The effects of parent size, diversification and output measurability on control are included in this examination of behavioral uncertainty, environmental uncertainty and asset specificity on perceived risk.

In the second article, Golden, Kohlbeck and Rezaee examine whether environmental, social and governance (ESG) sustainability factors are associated with cost stickiness. Primary findings are that sticky corporate social responsibility (CSR) activities are associated with cost stickiness, but non-sticky CSR attributes are not. In addition, CSR strengths and concerns are both associated with sticky selling, general and administrative (SG&A) costs; however, only CSR strengths are associated with sticky operating costs. The study also finds that ESG sustainability disclosure scores are high when both CSR and costs are sticky.

In a further investigation of cost stickiness, in the next article, Gray investigates an existing research gap in the cost stickiness literature. Namely, the study examines whether lease costs, in the setting of retail firms, are sticky and behave similar to other operating expenses. Cost stickiness implies that costs do not decrease as fast when revenues decline compared to cost increases relative to revenue increases. Several early studies have shown that SG&A costs as a whole, or components of SGA costs, exhibit stickiness in relation to revenues; however, this study examines a unique perspective regarding whether the same follows for leasing costs.

Loy and Hartlieb continue our learning about cost stickiness by exploring the role of sunlight-induced mood on managerial resource adjustment decisions. A distinguishing feature of this premise is that weather and mood are transitory phenomena, whereas the determinants of sticky costs established in the prior

literature are largely persistent. The results support that daily sunlight is associated with sticky costs, in a large sample spanning many years, geographical areas and industries. The choice of control variables and error clustering by industry are thoughtful and appropriate elements of the analysis. Happier managers are less likely to make cuts when the firm is experiencing a downturn. The authors attribute this result to a managerial “status quo bias,” which is in line with the “mood-maintenance” and “affect-as-information” hypotheses from social psychology.

Malina and Tucker address a critical dilemma in academia that has become particularly sensitive in the past two decades. The increased competition among universities (business schools in particular), driven by accreditation bodies and rankings, has put the measurement of research quality and efficiency at the forefront of academic interests. However, as the authors rightly note, the extent to which various research performance measures truly reflect the relevance or impact of academic research efforts is questionable. Dysfunctional metrics employed by universities have led to manipulations in building academic citation counts, not to mention the growth in the number of specialized journals with self-citation requirements. University tenure criteria have further spurred the short-termism of academics trying to demonstrate their research productivity (more than the relevance). This discussion is therefore highly relevant.

In the final article, Ghosh, Huang and Sun hypothesize and find that managerial ability is positively associated with employee productivity. They further find that managerial ability has the greatest impact on employee productivity for firms in financial distress and those operating under high environmental uncertainty. The authors’ proxy for managerial ability was developed by Demerjian et al. (2012) using data envelope analysis.

The six articles in Volume 32 represent relevant, theoretically sound and practical studies that extend our knowledge within the management accounting discipline. These articles manifest the journal’s commitment to providing a high level of contribution to management accounting research and practice.

Laurie L. Burney
Editor

UNDERSTANDING THE INTERACTIONS BETWEEN CONTROL, TRUST, AND PERCEIVED RISK IN PUBLIC SECTOR JOINT VENTURES

Paula van Veen-Dirks and Anneke Giliam

ABSTRACT

Purpose – This study focuses on the relationship between local governments and public sector joint ventures (JVs). Public sector JVs are separate administrative entities that undertake public service activities on behalf of local governments. The aim of this study is to examine the vertical management control packages that are used by local governments to control the relationship with their public sector JVs.

Design/methodology/approach – Two case studies have been conducted in two public sector JVs, owned jointly by more than 20 local governments. The analysis of the two cases is informed by an integrated conceptual framework describing how transactional and relational factors influence control, trust, and risk in the context of public sector JVs.

Findings – The case studies provide a nuanced understanding of the interplay between the vertical management control packages, trust between the parents and the public sector JVs, and risks as perceived by the local governments. The case findings not only reveal how local governments struggle with adequate outcome control but also highlight how and why they rely on behavioral control. A related finding is that while the probability of poor business performance does not have a significant impact on the design of the vertical control packages, the social impact of failure has the potential to create a sense of urgency with regard to changes in the design of vertical management control packages.

Originality/value – *This study adds to the literature on interorganizational relationships by providing insight into the use of vertical management control packages in the specific, but relevant, setting of public sector JVs.*

Keywords: Public sector joint ventures; control; trust; perceived risk; management control package; interorganizational relationship

1. INTRODUCTION

Nowadays, it is widely recognized that cooperation in the form of interorganizational relationships (IORs) can result in significant benefits. Interorganizational cooperative arrangements are aimed at realizing the various partners' strategic goals (Das & Teng, 2001). Public sector organizations are also increasingly cooperating in order to exploit economies of scale, minimize risk, and gain access to expertise (Cäker & Siverbo, 2011). Cooperation in the public sector is often the result of reform agendas that aim to enhance the efficiency and effectiveness of the delivery of public services (Grafton, Abernethy, & Lillis, 2011).

This study examines public sector joint ventures (JVs) in which multiple public sector organizations cooperate. Such a public JV is a separate established entity which is owned by two or more public partners. These separate administrative entities undertake public service activities on behalf of the local governments involved. Much of the research about IORs relates to the private sector (e.g., Das & Teng, 2001; Langfield-Smith, 2008; Van der Meer-Kooistra & Vosselman, 2000; Van Veen-Dirks & Verdaasdonk, 2009), while the research on cooperation between public sector organizations is rather underdeveloped and requires further research (Cäker & Siverbo, 2011; Kastberg, 2016). Given that partner cooperation within the public sector is as common as IORs in the private sector (Cäker & Siverbo, 2011), greater research attention needs to be paid to cooperation in the public sector.

This study analyzes the interactions between control mechanisms, trust, and perceived risk in public sector JVs. Although there have been studies on the relationship between trust and control in JV processes, there is still much to learn about this relationship in general (Das & Teng, 1998; Inkpen & Currall, 2004). JVs in the public sector may differ significantly from those in the private sector due to differences in goal complexity and ambiguity (Rainey & Bozeman, 2000), due to the highly institutionalized context in which local governments cooperate (Grafton et al., 2011), and because of the multiple levels that can be distinguished within public parties involved in the relationships, including a higher level with politicians who are at a distance from the daily management and control relationships and an operational level engaged in regular activities (Ter Bogt & Tillema, 2016). For this study, we will therefore not only draw on the literature on interfirm relationships and JVs but also on the literature on public sector firms.

This study addresses the question of how control mechanisms, trust, and perceived risk interact in the context of the vertical relationship between local governments and Dutch public sector JV companies, and how transactional and relational factors influence the control–trust–risk nexus. Our aim is to shed

light on this issue by developing an integrative framework linking transactional and relational factors, control, trust, and perceived risk and by conducting two in-depth case studies in two public sector JV companies, guided by this framework. The case studies, referred to as “Public Participation” and “Waste Management,” are both joint-stock companies with provincial and municipal governments as the only shareholders.

This article is structured as follows: In Section 2, we review the relevant literature on control, trust, and risk in IORs and propose a conceptual framework based on this literature. In Section 3, we explain the methodology. The findings are described and analyzed in Section 4 before Section 5 discusses the results, and Section 6 draws conclusions and provides suggestions for further research.

2. CONCEPTUAL FRAMEWORK

Much research has investigated the relationship between control, trust, and risk in IORs. Many scholars in this domain emphasize that control, trust, and risk are inextricably connected to each other (Das & Teng, 2001; Kamminga & Van der Meer-Kooistra, 2007; Langfield-Smith, 2008). Drawing on this literature, we argue that these three concepts should be jointly examined in order to understand how local governments can manage their vertical relationships with public sector JVs. Since little is known about public sector JVs, the literature on IORs and JVs in the private sector is used alongside the literature on public sector firms to guide our theory development that builds to an integrated framework that combines all the relevant concepts.

2.1. *Why Controlling Public Sector JVs Matters*

Partner cooperation is not only very common in public administration, there is also an increase in collaboration within and across policy fields, both nationally and internationally (Metcalf & Lapenta, 2014). For example, in the Netherlands, local governments increasingly work together following the decentralization of social policy (Deloitte, 2015). On average, each local government has 16 government-related organizational entities with a total equity value of approximately 5.4 million euros. The number of government-related entities is increasing, which results in greater financial and governmental interest and risks (Deloitte, 2015).

There are various types of public cooperation, such as partnerships, strategic alliances, outsourcing, or contracting relationships. This study will focus on public sector JVs in which local governments (provincial and/or municipal) jointly own a separately established entity that undertakes public service activities. An important characteristic of public sector JVs is that local governments remain responsible and accountable for service delivery (Narayanan, Schocht, & Harrison, 2007). As such, it is important for local governments to coordinate the control processes. Most research in public administration focuses on other collaborative forms such as public-private partnerships and outsourcing (Cäker & Siverbo, 2011). According to Cäker and Siverbo (2011), the lack of interest in public sector JVs is remarkable since the interorganizational setting is very complex in these JVs, which is likely to result in coordination challenges. In public sector JVs,

horizontal relationships exist between the owners of a public sector JV company, while vertical relationships exist between each owner and the public sector JV company itself. There are often vertical coordination problems that are difficult to solve, many resulting from the desire to align the public sector JV's behavior and the local government's interests. The environmental setting of public sector JVs is usually relatively stable and the level of trust between the parent organizations high and, in such settings, horizontal control is usually of limited importance (Cäker & Siverbo, 2011; Kamminga & Van der Meer-Kooistra, 2007). This study therefore focuses primarily on the vertical management control packages used by local governments to influence and align the behavior of the public sector JV company.

2.2. Management Control

Inspired by Ouchi (1979), the general management control literature often distinguishes three types of management control mechanisms: outcome control, behavior control, and social control. Research on interorganizational control also typically uses these three types of management control (Johansson, Siverbo, & Camén, 2016). The management control mechanisms can be considered as elements in a package of control systems that are not always designed in a coordinated way because various interest groups will introduce different components based on which control problems they see as critical (Malmi & Brown, 2008).

Outcome control mechanisms involve measuring to what extent prespecified performance targets are achieved by partners in a relationship. The partners are held accountable for the results (Johansson et al., 2016). In this context, goal setting can enhance goal congruence and clarify shared expectations, especially when goal achievement is linked to reward systems (Das & Teng, 1998). With outcome control, accurate and reliable measurement instruments are required to assess performance. Behavior control mechanisms specify the behavior that is desired from a partner, and to what extent actual behavior complies with the prespecified behavior is monitored. Behavior control mechanisms include planning, programs, reporting structures, rules, and standard operating procedures. Further, a JV Alliance Board can also be seen as a behavior control mechanism as it monitors and supervises the behavior and actions of the JV (Dekker, 2004).

Outcome and behavior controls can both be considered as formal controls, whereas social control can be seen as informal control (Eisenhardt, 1985; Langfield-Smith & Smith, 2003; Ouchi, 1979). Social control is based on culture and shared norms, values, and beliefs that encourage certain behaviors. Social controls amount to more subtle ways of controlling the partners involved in a relationship (Dekker, 2004) and amount to unwritten control mechanisms that are based on commitment and consensus about appropriate behavior and can be related to Ouchi's "clan control" (Ouchi, 1979). The effect of social control is strengthened by activities such as frequent interactions, meetings, negotiations, codes of conduct, and rituals (Langfield-Smith & Smith, 2003).

Public sector organizations, like private organizations, use a mix of different types of management control. However, the appropriate balance between these types of control is debated heavily in the public sector (Van der Kolk, Van

Veen-Dirks, & Ter Bogt, 2019). An important issue in this debate is to what extent a focus on outcome control is desirable given that objectives are often ambiguous in the public sector. That is, an important condition for results-based control cannot be easily met as it is difficult to specify the results to be achieved (Speklé & Verbeeten, 2014; Verbeeten & Speklé, 2015). Given this background, the vertical control packages used in public sector JVs may well have a stronger reliance on behavior and social controls and a weaker reliance on output control when compared to the vertical control packages used in JVs in the private sector.

2.3. Interorganizational Trust and Risk

Interorganizational trust can be defined as “the extent to which organizational members have collectively-held trust orientation toward the partner firm” (Zaheer, McEvily, & Perrone, 1998, p. 143). Research on interfirm trust posits that trust reduces perceived risk (Das & Teng, 2001; Vosselman & Van der Meer-Kooistra, 2009). Many authors argue that trust has beneficial effects on partnerships (Edelenbos & Klijn, 2007; Van der Meer-Kooistra & Vosselman, 2000). Nooteboom (1996), for example, states that “trust may concern a partner’s ability to perform in line with the intentions and expectations of a relation, or his intentions not to defect willingly” (p. 7). Based on this statement, Das and Teng (2001) distinguish two dimensions of trust: competence trust and goodwill trust. Both dimensions will be included in our study. Competence-based trust refers to trust based on a partner’s technical, economic, and managerial competences, including skills, know-how, credibility, and reliability (Vélez, Sánchez, & Álvarez-Dardet, 2008). Competence-based trust can be enhanced through investments that enable the transfer of knowledge and technology. Factors that may build competence-based trust include proactive information collection, satisfaction with the relationship, achieving acceptable results, high levels of professionalism, and the size of the partner firm (Vélez et al., 2008). Goodwill-based trust is based on the willingness of both partners to cooperate, their moral responsibilities, and their non-opportunistic behavior in unexpected circumstances (Vélez et al., 2008). In order to create goodwill-based trust, joint objectives and interests have to be established. Many factors influence the level of goodwill-based trust including shared values and norms, frequent contacts, openness, and a partner’s reputation (Vélez et al., 2008). Joint activities and interactions can significantly increase interorganizational trust. As such, in order to control processes and to develop trust in governance networks, more frequent formal and informal interaction can be facilitated.

Several scholars argue that interfirm collaboration is often associated with high risks that result in a high failure rate (Das & Teng, 2001; Ding, Dekker, & Groot, 2013; Langfield-Smith, 2008). Since managers associate risk taking more with negative outcomes than with possible gains, and given that downside risk is also often considered to be the most relevant type of risk from a managerial perspective (March & Shapira, 1987), most empirical studies on interfirm relationships focus on downside risk (Das & Teng, 2001). Consistent with these studies, this study also focuses on downside risk.

Perceived risk is an estimation of risk by a manager, while objective risk is based on the probabilities that certain consequences will occur (Das & Teng, 2001). Since managers may well have different perspectives on risk, and this may influence the choice of control mechanisms (Langfield-Smith, 2008), this study will focus on perceived risk. According to Das and Teng (2001), perceived risk can be subdivided into relational risk and performance risk. Relational risk is the risk of a partner acting opportunistically, which expresses itself in shirking responsibility, deception, and withholding or distorting information (Das & Teng, 2001). Relational risk exists in strategic alliances if the interests of the partner firms are not congruent. One could expect conflicting interests to be present in the vertical relationships between local governments and public sector JVs. Performance risk is defined as the probability of having an unsatisfactory business performance. This is not unique to interfirm relationships but exists in all types of business operations (Das & Teng, 2001). While performance risks can be shared between partner firms in IORs, relational risks cannot.

2.4. Transactional Factors

A common approach in the accounting literature to examine governance and control structures in IORs is to use insights from Transaction Cost Economics (TCE) (e.g., Langfield-Smith & Smith, 2003; Sridharan & Akroyd, 2011). In this literature, the characteristics of a transaction are typically used to establish the risks in these relationships (Grafton & Mundy, 2017) and, in turn, to determine the appropriate governance and control structures. In a similar vein, TCE can be used to study the problem of how public sector JV companies can be controlled by their parents. The transactional factors which are expected to have a direct or indirect (through the perceived risk level) influence on the design of vertical control packages for use in public sector JVs are: (1) output measurability, (2) asset specificity, (3) behavioral uncertainty, and (4) environmental uncertainty (Kamminga & Van der Meer-Kooistra, 2007; Langfield-Smith, 2008; Langfield-Smith & Smith, 2003).

If there is a high level of asset specificity, the investments will lose value if the public sector JV is terminated (Williamson, 1985). Asset specificity is considered a key construct when studying the governance structures of IORs (Langfield-Smith & Smith, 2003) because investments in specific assets can result in opportunistic behavior by the other party. TCE predicts that dependency is created between parties when there is a high level of asset specificity, which will result in high switching costs and complicated governance situations (Langfield-Smith & Smith, 2003). In the context of JVs, Kamminga and Van der Meer-Kooistra (2007) explain that parent companies use control mechanisms to safeguard their specific investments in a JV.

Behavioral uncertainty arises when there are difficulties in predicting the intentions and activities of a partner firm (Langfield-Smith, 2008). Environmental uncertainty is caused by factors that are not within the control of the partner firms and refers to environmental dynamism and complexity (such as technological developments, demand and supply conditions, and competition).

According to TCE, transaction characteristics, such as asset specificity, environmental uncertainty, and behavioral uncertainty, are factors that influence relational risk and performance risk (Williamson, 1985). Langfield-Smith (2008) assessed the relationships between transactional characteristics and the perceived performance risk and relational risk, and argued that a high level of asset specificity results in dependency between partner firms and high switching costs, with an increased level of relational risk as a result. Furthermore, when behavioral uncertainty is high due to difficulties in aligning goals, relational risk is expected to be higher. In contrast, environmental uncertainty tends to increase performance risk due, for example, to market volatility or a lack of partner capabilities. We would expect there to be a high level of human asset specificity in the context of public sector JVs. This is because, when local governments do not perform the activities themselves, this may lead to a loss of internal knowledge within the parent organization as a result of knowledge transfer to the public sector JV companies. As a consequence, the public sector JV companies acquire a high level of human assets which leads to a dependency between the partners and high switching costs, which in turn results in a high level of relational risk (Langfield-Smith, 2008).

Output measurability is a transactional factor that refers to the extent to which the output can be measured objectively and precisely (Eisenhardt, 1985; Ouchi, 1979). As discussed above, public sector organizations often face difficulties such as measuring output, interpreting output, and developing outcome measures (e.g., Van Slyke, 2007; Smith, 1993; Speklé & Verbeeten, 2014; Verbeeten & Speklé, 2015). If the output and objectives of public sector organizations are difficult to define and to measure (e.g., Van Slyke, 2007; Smith, 1993; Speklé & Verbeeten, 2014; Verbeeten & Speklé, 2015), local governments can be expected to rely more on behavior and social controls rather than outcome controls.

While asset specificity, behavioral uncertainty, and environmental uncertainty directly affect the perceived risk level, they will also indirectly affect the vertical controls. In contrast, output measurability is expected to directly affect the design of the vertical controls. Furthermore, output measurability and asset specificity play an especially important role due to goal complexity and ambiguity in the public sector (Rainey & Bozeman, 2000) and the high interdependency between the public sector JV company and the parent organizations.

2.5. Relational Factors

Whereas transactional factors refer to the nature of the transaction, relational factors reflect the nature of the parents' standing in the relationship. Cäker and Siverbo (2011), when studying management control packages in public sector JVs, focused on relational factors and argued that parent size and activity diversification might affect the breadth of control and the control tightness. Breadth of control refers to the number of activities which are subjected to control mechanisms. For example, in a narrow vertical control package, only a few activities are controlled by the parent companies. Control tightness refers to the extent to which the parent companies control the actions of the public sector JV (Cäker & Siverbo, 2011). When there is loose control, the parent companies are less involved

in key decisions and the behavior of the public sector JV is monitored less frequently. Furthermore, a dominant position by one owner might be the result of differences in parent size. This dominant position might lead to a situation in which the design of vertical control packages is affected by the control packages used by the dominant partner in other public sector JVs (Cäker & Siverbo, 2011).

If the parents use the public sector JV to diversify, that is, they do not remain closely related to the other activities of the local government, it is likely that the parent company applies loose control mechanisms. If diversification has occurred, vertical information asymmetry increases, and this makes it more difficult for the parent companies to apply tight controls since they may well lack the specific knowledge required to control activities (Cäker & Siverbo, 2011).

Cäker and Siverbo (2011) found that parent size and diversification of activities have an influence on vertical control packages. Also based on their arguments, it is likely that these factors influence the design of management control systems in public sector JVs.

2.6. Interactions between Trust, Control, and Risk

Previous research is not conclusive as to how trust and control relate to each other. In the literature, three different perspectives can be distinguished regarding this relationship. The first perspective suggests that control and trust are substitutes, meaning they are inversely related (Dekker, 2004; Gulati & Nickerson, 2008; Inkpen & Currall, 2004). That is, if the trust level is low, there will be more emphasis on control; while if the trust level is high, there is less need for formal control. Likewise, greater control reduces the need for trust, while too much emphasis on control can even damage established trust (Varoutsas & Scapens, 2018). Gulati and Nickerson (2008) argue that trust between organizations can lead to a somewhat formal governance mode being superseded by a less formal mode. In such a relationship, trust is seen as a substitute for a formal contract and can, in that sense, be an alternative to control. Furthermore, trust can minimize goal conflict and therefore reduce the need for formal controls to discourage opportunistic behavior (Dekker, 2004). Moreover, the substantial use of formal control mechanisms may give the impression of a lack of faith (Das & Teng, 1998) and thus crowd out trust.

The second perspective is the complementary perspective. This perspective views formal governance and trust as complementary, meaning that control and trust are mutually reinforcing (Costa & Bijlsma-Frankema, 2007; Das & Teng, 1998). This implies that more control leads to more trust and vice versa (Costa & Bijlsma-Frankema, 2007). The use of formal control mechanisms may result in a trustworthy relationship developing by reducing risks and by recording the behavior and performance of both partners (Das & Teng, 1998; Poppo & Zenger, 2002).

The third perspective is the interactive perspective. In this perspective, trust and control interact with each other, implying that control requires trust, and trust needs control (Minnaar, Vosselman, Van Veen-Dirks, & Hassan, 2017): one cannot function without the other. This interactive perspective on the control–trust nexus is based on “duality” (Möllering, 2005), which implies that trust and