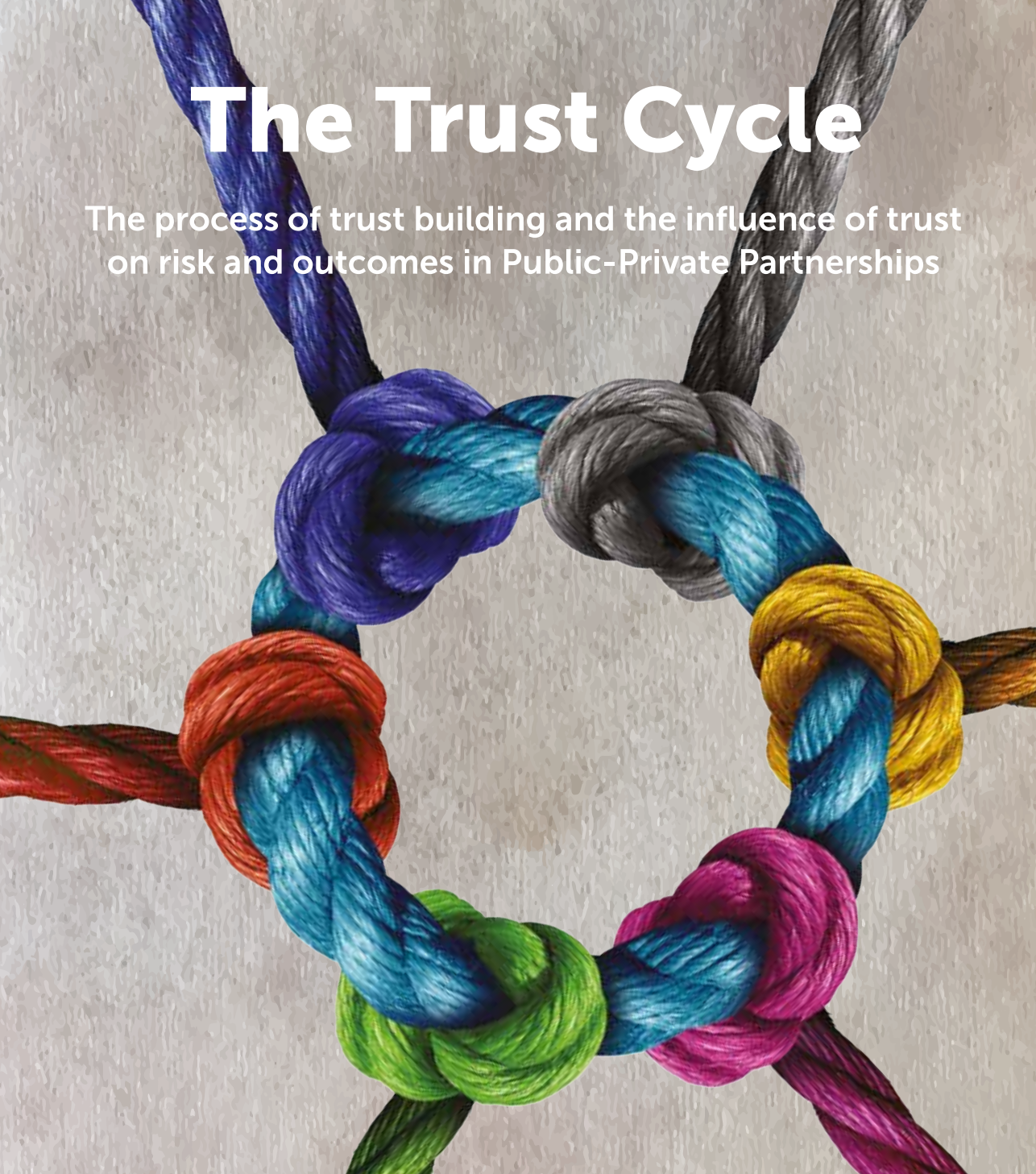# The Trust Cycle

The process of trust building and the influence of trust on risk and outcomes in Public-Private Partnerships

Carley Pennink

Propositions

Carley Pennink

1. Contrary to Williamson's contention, risk and trust are not simple mirror images of each other. Not only may the perception of risk diminish as trust grows, but trust may also remain strong, even in situations of high risk. In fact, partners will be willing to take more risk, something a rational agent would normally not be willing to do (Chapters 5, 6, 7 and 8).

2. There are limits to trust. Though partners may trust each other, there are times when external risks are unmanageable. Partners may choose to act opportunistically, breaking the moral code. This may destroy the trust that has been built and cause partners to exit the relationship (Chapter 5).

3. Building trust outside of the partnership is essential. A lack of trust on the part of peripheral parties may give rise to political risk that can make or break a Public-Private Partnership (Chapters 5 and 6).

4. Trust in consistently higher among partners that interact more frequently and intensely. These partners are dependent on each other for the outcome of the interaction and will invest additional resources in maintaining this trust relationship (Chapters 5, 6, 7 and 8).

5. Decision making in Public-Private Partnerships is never 'free and autonomous'. It is often hampered by the external influences of politics. If not managed well, political risk is potentially the most harmful risk to a Public-Private Partnership (Chapters 5, 6, 7 and 8).

6. Fake news in social media has a negative impact on Public-Private Partnerships: partners need to expend resources on verifying the truth; fake news puts the transparency needed among partners at risk.

7. Corruption is the norm in many African and Asian countries and affects investor confidence. Corruption is an additional risk and cost to a Public-Private Partnership. Trust building is impossible until these countries build a mature set of institutions.

8. A culture of 'un-learning' in local government is essential for and contributes to the performance of local government organizations.

9. Boundary spanners, acting as a third party in and as the facilitator of a collaboration between two parties, can promote learning and improve performance in a partnership.

10. A smart city is not only about technology, but about linking people, information and innovation to technology.

11. Trump's mind is subject to a conflict of interest. He should be protecting public interest, but his mind is absorbed with private interests.

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the influence of trust on risk and outcomes
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The Trust Cycle
The process of trust building, and the influence of trust on risk and outcomes in Public-Private Partnerships

De vertrouwenscyclus
Het proces van het opbouwen van vertrouwen en de invloed van vertrouwen op de risico's en uitkomsten in publiek-private samenwerkingen

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List of Abbreviations

Abbreviations Bogusława Street Case Study, Poland	
ARS	American Retail Systems, Ltd.
CB	City Board
CC	City Council
CEREMI	Center Renowacji Miasto Sp z.o.o
CoS	City of Szczecin
EBRD	European Bank for Reconstruction and Development
ESPEBEPE	Szczecińskie Przedsiębiorstwo Budownictwa Przemysłowego, construction company
LoI	Letter of Interest
m²	Square metres
MD	Managing Director
MoI	Ministry of Interior
MP	Master Plan
MRT	Municipal Renovation Team
MT	Management Team
NT	Negotiations Team (City of Szczecin)
PBKS	Polish commercial bank with Headquarters in Szczecin
PPP	Public-private partnership
RH	Replacement housing
SB	Supervisory Board (of STR)
SCR	Szczecińskie Centrum Renowacyjne Sp. z o.o. (Szczecin Renovation Centre Ltd),
Secesja	the Social and Economic Association
STR	Szczecińskie Towarzystwo Renowacyjne Sp. z o.o. (Szczecin Renovation Association Ltd)
SU	Project start up
TBS	Non-profit housing associations, Poland
UNDP	United Nations Development Programme
URGN	Urban Renewal Group Norway
WBHFP	World Bank Housing Finance Program

Abbreviations Battery Park City, USA	
B of E	Board of Estimates of New York City
BPC	Battery Park City
BPCA	Battery Park City Authority
BPCAPC	Battery Park City Authority Park Corporation
CFO	Chief Financial Officer

CPC	The New York City Planning Commission
DLMA	The Downtown- Lower Manhattan Association
DMA	New York City Department of Marine and Aviation
F^2	Square feet
FAR	Floor Area Ratio
Ft.	Feet
MoU	Memorandum of Understanding
NY & NJ PA	Port Authority of New York and New Jersey
NYC	New York City
NYS	New York State
O & Y	Olympia and York
US$	United States Dollars
WTC	World Trade Center
CEO	Chief Executive Officer

Abbreviations Brabantse Poort, the Netherlands	
b.v.o.	Bruto-vloeroppervlakte or the gross floor area
BV	Besloten vennootschap or Limited Liability Company
EZ	Economische Zaken or Ministry of Economic Affairs
LoI	Letter of Intent or Intentieovereenkomst , in Dutch
MoF	Ministry of Finance
Nfl.	Netherlands Guilders
NIB	Nationale Investeringsbank or National Investment Bank (Dutch)
NS	Nederlandse Spoorwegen or Netherlands Railways
PvA	Plan van Aanpak or Action Plan for the City Development Zones
PA	Partnership agreement or samenwerkingsovereenkomst in Dutch
TRN	Company that fused with and became part of Deloitte and Touche
VOF	Vennootschap onder firma or Limited Liability Partnership
VROM	Ministry of Housing, Planning and the Environment

Acknowledgments

Doing this PhD was a journey, figuratively and literally. Someone asked me at the beginning, 'Why do you want to do a PhD? Frankly, I was curious about the topic of trust, and I wanted to have the chance and the luxury to look into something deeply and to learn something. This happened.

I would like to acknowledge the honour and pleasure of working with my promoters. Erik Hans Klijn, with whom the interaction was always stimulating, and who listened, guided and provided room for healthy debate. He provided invaluable support and made the process logical and straightforward. It is an art to make something complex simple. Joop Koppenjan, I got to know in another way, but he provided wonderfully discerning and wise support.

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I had the honour to encounter many wonderful people during this journey, who were willing to talk to me and to help me with the research. I went to their offices to interview them. I interviewed them on trains, in tea houses, and in their homes, whenever they could make time. They answered my questions with sincerity and thoughtfulness, and they told me some wonderful, inspiring stories. I entered into a real network of professionals, all doing their jobs to achieve something in and for cities, and this network grew incrementally over time, as knowing one person led to contact with another and then another.

I would like to thank all of you in Szczecin, New York City and Nijmegen who were willing and gracious enough to take the time. I fear that I will not be able to name all of you. However, you are in my mind and memory.

English Summary

Chapter 1: Introduction

The central question in this research is:

Is there evidence of a trust cycle in partnerships and does trust have an influence on risks and outcomes as perceived by the partners?

Over the last 50 years, the complexity and interrelatedness of issues in cities have brought about the need for a shift in urban policy. Approaches to urban decline have become more strategic, such as urban regeneration, with Public-Private Partnerships as a dominant instrument. This research focuses on three long-term, urban regeneration partnerships, in Poland, the USA and the Netherlands, and the process of trust build-up (or breakdown) between partners. Trust is increasingly seen as important for long-term interactions of high interdependence, such as PPPs; trust can act as a governing mechanism in situations of high risk. The research analyses the interaction between partners and charts the changes of levels in trust between partners and other external actors over the length of the PPP, in the form of a 'trust cycle'. It assesses whether trust can be linked to positive outcomes as perceived by the partners and the reduction in the perception of risk on the part of the partners. It also analyses whether partners are willing to take more risk in circumstances when trust is present and outcomes are positive. It explores the limits of trust, in cases in which trust was not sufficient to offset the perceptions of risk. It analyses the factors that contribute to trust build-up (or breakdown) and concludes on the key factors present in the cases and most prevalent in building strong and resilient trust.

The research looks at the dynamics of trust in an international perspective. It studies trust in these different contexts to see if trust is the same notion. The research does not study the influence of context on trust, but instead develops a theoretical model and uses it to look at the interaction between partners, the growth or decline of trust, the factors that build (or breakdown trust) and the links of trust to risk and outcomes.

Chapter 2: Conceptualization of Public-Private Partnerships

The research defines Public-Private Partnerships as *a more or less sustainable cooperation between public and private actors in which joint products and/or services are developed and in which risks, costs and profits are shared*. The definition underlines the characteristics of PPPs, specifically the 'jointness' of partnerships: two or more partners collaborate; they combine and share

resources, risk and returns. In looking at the rationale for PPPs, the assumption is that a cooperation of an intense nature between public and private parties provides added value: greater outcomes, including greater efficiency, effectiveness and increased innovation, are argued to stem from the complementarity and synergies of the partners.

Taking this to the urban context, this research studies a type of urban regeneration partnership classified by Bailey (1995), as a 'development partnership', namely a PPP that covers a single site or area (i.e. town centre), and includes partners such as the local government, a private developer and/or housing association. These partnerships typically promote commercial and non-profit development; and execution of activities that focus on mutual benefit. In the cases chosen, the core partners are the public and private sector, though members of the community (as external actors) play an important role. This positions the PPP in complex networks, subject to complex decision-making processes. The PPP then becomes the 'vehicle' used to highlight the interaction between partners, with the partners and other actors taking part as 'players' in a complex decision-making process.

Chapter 3: Conceptualization of trust

The importance of trust

A growing amount of literature underscores the importance of trust in achieving outcomes. These outcomes include, for instance, the tendency to cooperate, coordination efficiencies and the realization of innovation. Trust is also argued to lead to an increase in exchange of information and sharing of resources between partners, as well as mutual learning. Trust facilitates negotiations and aids in the settling of conflicts. Trust is argued to contribute to organizational performance and in doing so to the productiveness and growth of the economy.

It is argued that trust is fundamental in governing transactions, particularly in a situation in which a rational agent would not normally proceed with the transaction. Trust is crucial to situations with high risk, where the creation of trust makes actors that are incompletely protected by law willing to forgo policing of every interaction, and put great trust in transactions that they perceive as involving high risks.

Economists take a negative view of trust, arguing that in economic exchange, agents are naturally opportunistic, and the decision to interact is based on an assessment of the risk of undertaking the transaction. In fact, trust is simply risk taking: calculating the costs and benefits of working together.

Some authors, however, argue that this rational, calculative and impersonal perspective is empirically incorrect and inefficient, as dependency on control mechanisms would be extensive and prohibitively expensive. In the absence of controls, trust plays an important role as a governance mechanism. Sociologists, on the other hand, look at the social dimensions of the relationship as it evolves over time. Social exchange theory assumes that partners voluntarily provide benefits to each other, make themselves vulnerable to the other party, creating an obligation to reciprocate. Over time, partners develop a social bond, and trust develops as expectations are met.

The definition of trust

This research defines trust as: *the perception of an actor that another actor will refrain from opportunistic behaviour should the opportunity arise and the perception of an actor that another actor will have the ability to perform according to agreements*. This definition focuses on perception, and not on the behaviour that is a result of the decision to trust. This reflects an important distinction: behaviour is *not* trust; behaviour is a result of the decision to trust and act on this trust. The definition presumes a lack of opportunism on the part of the trustee, that the trustee has a sense of moral obligation and takes the trustor's interests into account. It also presumes that, in addition to the goodwill or intention to fulfil obligations in the relationship that partners will also be capable to fulfil the tasks agreed upon. This definition is argued to be the most relevant for partnerships where not only intentions are important, but also the ability to perform.

Trust building over time: building an analytic model

Trust is not static over time, but develops, growing or declining (in a trust cycle). Trust can be argued as part of a process and trust growth as resulting from certain factors or actions. Trust is broken as a result of behaviour that breaks the code of the relationship. The research combines the Rounds Model developed by Teisman (2000), which allows for the study of an interaction to be broken into 'rounds', with a model developed by Lewicki and Bunker (1996) that looks at trust building over time. The analytic model assumes that trust is built in phases and that the nature of trust as well as its antecedents (factors that build trust) change over time as the relationship develops.

In the first phase, trust is built based on pure calculus; on an assessment of a partner's reputation, qualifications, and past performance. In addition,

penalties stipulated in the contract will have to be sufficient to ensure the compliance of the other party. In the second phase of the growth of trust, trust will be based on knowledge: parties know each other well enough to be able to predict behaviour, they will be willing to share information and resources with each other, and will come to know and respect each other's capacities. In the third phase: trust is based on 'identification': parties come to speak the same 'language' and to share the same values and norms.

Chapter 4: Research design

The research takes an exploratory and explanatory approach, combining theories on partnerships and on risk and trust with an analysis of empirical evidence from three case studies. The research chooses a multiple case study strategy, where the validity of measures must rely on multiples sources of evidence, which come together in a triangulation fashion. The overall design of this research incorporates three case studies and uses embedded qualitative designs as instruments of analysis: document and archival analysis, semi-structured interviews, observations, and a questionnaire to confirm the information from the interviews and to quantify growth of trust and the perception of outcomes.

This research studies the interaction process between partners at different moments in time in the PPPs, analysing the perceptions of, and decisions taken by two types of partners: key partners and peripheral partners. As the research analyses both the factors that build trust, as well its influence on risk and outcomes, this implies is that the research looks at trust both as a dependent variable and an independent variable.

Chapter 5, 6 and 7: The Three Case Studies

These chapters chart the process of interaction in three PPPs: in Szczecin, Poland; New York City, USA; and Nijmegen, the Netherlands.

The Case Study of the Bogusława Street Partnership, Szczecin, Poland

The city government worked with two sets of partners on the Bogusława Street project. The first partner, Urban Renewal Group Norway (URGN), a Norwegian consortium, partnered with the city from October 1991 until the termination of the contract in November 1995, when the lack of secure funds for the project drove the local government to end the relationship. The second partner was an American investment company, American Retail Systems (ARS); it submitted a proposal in January 1997, signed a contract a year later, and bought shares in the newly established joint venture, local

renovation company Szczecin Renovation Association, Ltd (STR), in May 1998. When political parties changed in 1999 and support for the partnership on the part of the city waned, the American partners bought out the city's shares in the renovation company, and the partnership ended in November 1999. The two partnerships were characterized by dynamic levels of trust, growing at the beginning and then lessening over time. The final divorce was conflictual and subject to low levels of trust between partners.

The Case Study of Battery Park City, New York City, USA

In the face of intense political and economic risk, the partnership between a Canadian developer, Olympia and York (O & Y), and the public entity, the Battery Park City Authority, initiated in 1980, was instrumental in getting the Battery Park City project off the ground. The BPCA-O & Y concession partnership built the Commercial Center, the flagship project that provided the anchor tenants, and brought in the revenues to make the project viable and to repay the rising debt incurred by the BPCA. This financial achievement increased investor confidence and developers flocked to the site to build out the remainder of the site, making the project the success it is today. The relationship between the partners was characterized by high levels of trust, which grew over time

The Case Study of Brabantse Poort, Nijmegen, the Netherlands

On 18 July 1989, the city released a tender document to 18 potential candidates. At the end of 1989, the Council and City of Nijmegen released the information that they had decided on a consortium comprised of three private parties, two developers (Heijmans and Hendriks) and the Dutch National Investment Bank (NIB). In March 1990, three months after the start of negotiations, the private partners attracted their first (anchor) tenant. Even prior to the completion of the negotiations on the partnership agreement, in October 1991, the partners landed three big clients and began working together on completing the first portions of the project. The partners have now been working together in a limited liability company for over 25 years and are completing the build-out of the project. This relationship is characterized by high levels of trust, which grew stronger over time.

Chapter 8 and 9: Empirical conclusions: key findings and value of the research

Chapter 8 compares and analyses the data per case study and Chapter 9 concludes with key findings of the research. The final chapter also discusses the value of the research and defines possible areas of future research.

Empirically, there is evidence of a trust cycle in all three cases studies: in two cases, trust building over time, and in one case, trust dynamic, growing and declining, then growing and declining again. In two cases (Dutch and US cases), there is evidence that strategies employed and outcomes contributed to trust, and trust, in turn, contributed to the performance of the projects and the PPP. On the other hand, the research also identifies the key factors that led to the deterioration of trust, and ultimately to outcomes that were less than desired. In the Polish case, the deterioration of trust was slow, but once gone, it was gone. Trust can be good in mediating an interaction, in paving the way for cooperation and increasing the amount of investments. Trust breakdown, on the other hand, can hamper an interaction substantially, and cause defensive behaviour.

The results of the analysis show that trust is consistently higher among partners that interact intensely, and are essential for the realization of the project (all cases studies). This shows that when interaction is frequent, and partners are dependent on each other for outcomes, building trust is important. If built, trust is highest in these types of partners. Partners, will in fact, expend additional resources to ensure that relationships are maintained. Trust has a focus.

The US and Dutch cases (and initially the Polish case) reveal that in 'high trust' situations, partners revert to strategies that are more effective in coping with risks and in bringing about outcomes that benefit the partnership. Partners are also more willing to take greater risk, for instance to increase the intensity of the interaction and to invest additional resources to ensure that obstacles are overcome. The results reveal, contrary to Williamson's contention, that risk and trust are not simple mirror images of each other. The cases reveal that even in situations of high risk, it is possible to build trust, or that trust will remain strong even in conditions of high risk. And again, partners are willing to take more risk than would normally be thought wise. Of note was that trust was perceived by some of the respondents as approaching 'blind faith'. The research, however, reveals that this type of trust was necessary to deal with the urgency being faced by the partners. The

risks being faced by the partners (post-communist transitions, economic recessions), were so substantial that this type of trust was needed to take on the risks.

The cases also demonstrate that outcomes and trust are not simple mirror images of each other (trust rising when positive outcomes are achieved, and falling when outcomes are negative). In other words, trust can remain strong in the face of negative outcomes. When trust is strong, partners give each other the 'benefit of the doubt'; this occurred in all of the case studies. Partners must then resolve the issue, and outcomes have to improve for trust to be maintained over the longer term. The Polish case shows how trust deteriorates if outcomes do not improve.

Trust *does* have its limits. The research reveals that there are circumstances in which risks are perceived as so extensive, particularly risks external to the project (political risks), that partners revert to opportunistic behaviour and exit the relationship. This is a rational decision, but breaks the moral code and causes a break in trust. This was the case in the URGN and the ARS phases of the Polish case.

The analysis of urban regeneration partnerships positioned the interaction between the core partners in a complex network, and a complex decision-making process. In fact, one could argue that decision making between core partners is never really 'free and autonomous', no matter the autonomy of the organization. Decisions were often hampered by the City Council (Poland and the Netherlands, at a certain point) or the community (Poland and the US). The cases demonstrate how important it is to engage the community and to build the trust of external parties, and how potentially damaging political risk, if not managed well, can be to a partnership.

The research also demonstrates that trust building is dependent on certain key factors. Some factors appeared to be more relevant than others: respondents in all cases felt the knowledge basis of trust to be more relevant: the sharing of information and resources, in particular, but also predictability and respect for capacity. The research also revealed the factors that contributed to the decline in trust, such as the withholding of information or predictability (getting to know your partner and being able to predict *negative* behaviour). This brings one to conclude that while these factors are key to trust build-up, the opposite or negative form of these factors (partners withholding information, for instance), leads to the erosion of trust.

The findings of the research underline the fact that trust building is an 'iterative' and cyclical process; this is true for both trust and for the perceptions of risk and outcomes. Strategies that result in positive outcomes result in trust build-up. As trust builds, so does the willingness to take risk. Willingness to take risk (the actual taking of risk) is a factor of trust. If the perception of outcomes is negative and does not improve, trust declines. As trust declines, so does the willingness to take risk. Trust building is not a linear process, but is affected by additional factors, such as risk taking and outcomes.

This research also highlights relevant factors that certain authors have recently started to explore. For one, the type of organization chosen for the execution of the partnership influences trust (the organizational setup that also influences how decisions are made). A 'truly' autonomous organizational structure that provides partners with the opportunity to focus on project build-out, without political interference (to the extent that this is possible), is important to trust build-up. The cases also revealed the relevance of certain management strategies as being important for trust build-up.

This research contributes to the development of empirical evidence on the growth of trust in partnerships through the in-depth analysis of a series of case studies. It has taken a step to further the theory on trust, as well as the theory on the relations between trust, risk and outcomes. A key value of this research is that it provides an in-depth analysis of trust over time, and has been able to chart the dynamics of trust in a trust cycle, over time. The research gained insight into trust in three cases in an international context, applied the theoretical model in different contexts, and the empirical evidence was able to demonstrate that trust was important in all three partnerships, in spite of the context.

Nederlandse Samenvatting

Hoofdstuk 1: Introductie

De centrale onderzoeksvraag is:

Bestaat er bewijs voor het bestaan van een vertrouwenscyclus in samenwerkingsverbanden en beïnvloedt vertrouwen de risico's en resultaten in de perceptie van de partners?

In de afgelopen 50 jaar is een verschuiving in het stedelijk beleid door de toegenomen complexiteit en de onderlinge samenhang van problemen in steden. De aanpak van stedelijke problematiek is strategischer geworden, zoals stadsvernieuwing, waarbij de publiek-private samenwerking (PPS) vaak wordt ingezet als instrument. Dit onderzoek is gericht op drie lange termijn samenwerkingsverbanden voor stadsvernieuwing in Polen, de VS en Nederland, en op de totstandkoming (of teloorgang) van het vertrouwen tussen de partners. Vertrouwen wordt steeds meer gezien als een belangrijke factor voor lange termijn interacties waarbij sprake is van een sterke wederzijdse afhankelijkheid, zoals het geval is in een PPS; vertrouwen kan in zeer risicovolle situaties optreden als sturend mechanisme. In dit onderzoek wordt de interactie tussen partners geanalyseerd en worden veranderingen in de mate van vertrouwen die gedurende de PPS tussen partners en andere, externe actoren in kaart gebracht in de vorm van een 'vertrouwenscyclus'. Er is bepaald of vertrouwen in verband kan worden gebracht met de door partners waargenomen positieve resultaten en met een vermindering van het door de partners waargenomen risico. Ook is er onderzocht of partners bereid zijn meer risico te nemen wanneer er vertrouwen bestaat en de resultaten positief zijn. De grenzen van vertrouwen zijn verkend in gevallen waar er niet voldoende vertrouwen bestond om de waargenomen risico's te compenseren. De factoren die bijdragen aan de totstandkoming (of teloorgang) van vertrouwen zijn geanalyseerd en er zijn conclusies geformuleerd over de meest belangrijke factoren die in de casussen zijn geobserveerd en die het sterkst naar voren komen in de totstandkoming van een sterke en veerkrachtige vertrouwensband.

Het onderzoek kijkt naar de dynamiek van het vertrouwen in een internationaal perspectief. Vertrouwen is in verschillende contexten bestudeerd om te zien of het steeds om hetzelfde besef van dit vertrouwen ging. Het onderzoek heeft zich niet gericht op de invloed van de context op vertrouwen, maar heeft een theoretisch model ontwikkeld en dat gebruikt

om te kijken naar de interactie tussen partners, de groei of afname van vertrouwen, de factoren die bijdragen aan de totstandkoming (of teloorgang) van vertrouwen en het verband tussen vertrouwen en risico's en resultaten.

Hoofdstuk 2: De conceptualisering van de publiek-private samenwerking
Ten behoeve van het onderzoek is de publiek-private samenwerking gedefinieerd als *een min of meer duurzame samenwerking tussen publieke en private actoren waarin gezamenlijk producten en/of diensten worden ontwikkeld en waarin risico's, baten en lasten worden gedeeld.* De definitie benadrukt de kenmerken van de PPS en dan vooral de 'gezamenlijkheid' van de samenwerking: twee of meer partners werken samen; zij combineren en delen middelen, risico's en opbrengsten. De redenen die worden opgevoerd om een PPS in te zetten is de aanname dat intensieve samenwerking tussen publieke en private partijen een toegevoegde waarde heeft: dat er meer resultaten - inclusief een toename van efficiëntie en effectiviteit en meer innovatie—uit voortvloeien vanwege de complementariteit van en synergie tussen de partners.

Dit onderzoek is toegepast op een stedelijke context en het heeft het type stadsvernieuwingssamenwerking bestudeerd dat Bailey (1995) heeft geclassificeerd als een 'development partnership' (samenwerkingsverband voor ontwikkeling), dat wil zeggen een PPS die zich toelegt op een specifieke locatie of gebied (bijvoorbeeld het stadscentrum) en waarbij de partners kunnen bestaan uit onder andere de lokale overheid, een particuliere ontwikkelaar en/of een woningbouwvereniging. Zulke samenwerkingen ondernemen doorgaans bouwprojecten die hetzij commercieel, hetzij zonder winstbejag opereren en voeren activiteiten uit die zijn gericht op wederzijds voordeel. In de gekozen casussen zijn de publieke sector en de private sector de kernpartners, hoewel andere leden van de gemeenschap ook een belangrijke rol spelen (als externe actoren). Dit plaatst de PPS in een complex netwerk dat onderhevig is aan complexe besluitvormingsprocessen. De PPS wordt een 'vehikel' dat wordt ingezet om de interactie tussen partners te benadrukken en de partners en andere actoren worden 'spelers' die een rol vervullen in een ingewikkeld besluitvormingsproces.

Hoofdstuk 3: De conceptualisering van vertrouwen
Het belang van vertrouwen
Het belang van vertrouwen voor het bereiken van resultaten wordt in steeds meer literatuur onderschreven. Het gaat om resultaten zoals de geneigdheid en bereidheid om mee te werken, de efficiëntie van coördinatie en het realiseren van innovatie. Ook wordt betoogd dat vertrouwen ertoe leidt dat

partners meer informatie uitwisselen, meer hulpbronnen delen en meer van elkaar leren. Vertrouwen vergemakkelijkt onderhandelingen en helpt bij het oplossen van conflicten. Er wordt beargumenteerd dat vertrouwen bijdraagt aan de prestaties van een organisatie en daarmee aan de productiviteit en de groei van de economie.

Er wordt tevens gesteld dat vertrouwen een fundamentele en bepalende rol speelt in transacties, vooral in situaties waarin 'rationele personen' (rational agents) normaal gesproken zouden afzien van de transactie. Vertrouwen is cruciaal in zeer risicovolle situaties. Het gewekte vertrouwen zorgt er dan voor dat actoren, die onvoldoende beschermd zijn door de wet, er desondanks *niet* toe overgaan elke interactie te controleren en *wel* vertrouwen stellen in transacties die zij nochtans als zeer risicovol ervaren.

Economen zien vertrouwen als iets negatiefs en betogen dat de bij economische uitwisseling betrokken personen vanzelfsprekend opportunistisch zijn en dat de beslissing om te interageren is gebaseerd op een inschatting van het risico dat het afsluiten van de transactie met zich meebrengt. Iemand vertrouwen is in feite simpelweg het nemen van een risico: men berekent de lasten en de baten van het samenwerken. Sommige auteurs betogen echter dat dit rationele, berekenende en onpersoonlijke perspectief empirisch onjuist en inefficiënt is aangezien het een veelomvattende en onbetaalbare afhankelijkheid van controlemechanismen met zich mee zou brengen. Bij gebrek aan controlemechanismen speelt vertrouwen een belangrijke rol als bestuurmechanisme. Sociologen kijken echter naar de maatschappelijke dimensies van de relatie en over hoe die zich in de loop der tijd ontwikkelt. De sociale uitwisselingstheorie neemt aan dat partners elkaar op vrijwillige basis voordelen bieden en zich kwetsbaar opstellen tegenover de andere partij zodat er een verplichting tot wederkerigheid ontstaat. In de loop der tijd ontwikkelen partners een sociale band en vertrouwen ontwikkelt zich als aan de verwachtingen wordt voldaan.

De definitie van vertrouwen
Dit onderzoek definieert vertrouwen als: *de perceptie van een actor dat een andere actor zich van opportunistisch gedrag zal onthouden indien de kans daarop zich voordoet en de perceptie van een actor dat een andere actor in staat zal zijn om volgens afspraken te presteren*. Deze definitie richt zich op perceptie, en niet op het gedrag dat het gevolg is van de beslissing om iemand te vertrouwen. Dit weerspiegelt een belangrijk onderscheid: gedrag is *niet* gelijk aan vertrouwen, maar gedrag is het gevolg van de beslissing om

te vertrouwen en om op basis van dit vertrouwen te handelen. De definitie veronderstelt een gebrek aan opportunisme van de trustee (die vertrouwd wordt) en veronderstelt dat de trustee een morele verplichting ervaart en rekening houdt met de belangen van de trustor (die de ander vertrouwd). De definitie veronderstelt tevens dat de partners niet alleen welwillend zijn en het voornemen hebben om de verplichtingen die de relatie met zich meebrengt na te komen, maar ook in staat zullen zijn de overeengekomen taken te vervullen. We stellen dat deze definitie het meest relevant is voor samenwerkingen waarbinnen niet alleen intenties van belang zijn, maar ook het vermogen om te presteren.

De totstandkoming van vertrouwen in de loop der tijd: het ontwikkelen van een analytisch model
Vertrouwen is niet statisch in de loop der tijd, maar het ontwikkelt zich, het groeit of neemt af (in een vertrouwenscyclus). Vertrouwen kan worden opgevat als onderdeel van een proces en de groei van vertrouwen als iets dat voortvloeit uit bepaalde factoren of activiteiten. Vertrouwen wordt geschaad door gedrag dat niet in overeenstemming is met de code van een relatie. In dit onderzoek wordt het door Teisman ontwikkelde Rounds Model (2000), dat het mogelijk maakt onderzoek naar een interactie op te delen in zogenaamde 'ronden', gecombineerd met een door Lewicki en Bunker ontwikkeld model (1996) dat kijkt naar de totstandkoming van vertrouwen en hoe dit verloopt en verandert in de tijd. Het analytische model berust op de aanname dat vertrouwen gefaseerd tot stand komt en dat de aard van het vertrouwen en de antecedenten (de factoren die vertrouwen opbouwen) veranderen door de tijd en terwijl de relatie zich ontwikkelt.

In de eerste fase vindt de totstandkoming van vertrouwen plaats puur op basis van berekening: op een inschatting van de reputatie, kwalificaties en eerdere prestaties van de partner. Daarnaast moeten de in het contract vastgelegde sancties voldoende zijn om de naleving van de andere partij te waarborgen. In de tweede fase vindt de groei van vertrouwen plaats op basis van kennis: de partijen kennen elkaar goed genoeg om toekomstig gedrag te kunnen voorspellen en zullen bereid zijn informatie en middelen met elkaar te delen en elkaars capaciteiten te leren kennen en respecteren. In de derde fase is het vertrouwen gebaseerd op 'identificatie': de partijen beginnen dezelfde 'taal' te spreken en dezelfde normen en waarden te delen.

Hoofdstuk 4: De onderzoeksopzet
Het onderzoek hanteert een verkennende en verklarende benadering waarbij theorieën over samenwerkingen, over risico's en over vertrouwen

worden gecombineerd met een analyse van empirisch bewijs uit de drie praktijkvoorbeelden. Bij dit onderzoek is gekozen voor een strategie op basis van meerdere casussen, waarbij triangulatie is toegepast: de validiteit van de metingen berust op bewijsvoering die wordt gebaseerd op meerdere bronnen. De algemene opzet van het onderzoek omvat drie casussen en er wordt gebruik gemaakt van 'embedded' kwalitatief ontwerp om het materiaal te analyseren: document- en archiefanalyse, semigestructureerde interviews, observaties en een vragenlijst om de informatie uit de interviews te bevestigen en om de groei van vertrouwen en de perceptie van resultaten te kwantificeren.

In dit onderzoek wordt de interactie tussen PPS-partners op verschillende momenten bestudeerd en worden de percepties en besluiten van twee soorten partners geanalyseerd: kernpartners en externe partijen. In het onderzoek worden zowel factoren die een rol spelen bij de totstandkoming van vertrouwen als de invloed van vertrouwen op risico's en resultaten geanalyseerd en dat impliceert dat het onderzoek vertrouwen opvat als een afhankelijke variabele én als een onafhankelijke variabele.

Hoofdstuk 5, 6 en 7: De drie casussen
In deze hoofdstukken worden de interactieprocessen die een rol hebben gespeeld in drie PPS-en in kaart gebracht: Szczecin in Polen; New York City in de Verenigde Staten en Nijmegen in Nederland.

De casus van Bogusława Street, Szczecin, Polen
In het Bogusława Street-project werkte het stadsbestuur samen met twee groepen partners. De eerste partner, het Noorse concern Urban Renewal Group Norway (URGN), was een partner van oktober 1991 tot het contract in november 1995 afliep omdat het stadsbestuur de relatie moest beëindigen wegens een gebrek aan financiering voor het project. De tweede partner was een Amerikaanse investeringsmaatschappij, American Retail Systems (ARS). Deze diende in januari 1997 een voorstel in, tekende het contract een jaar later en kocht in mei 1998 aandelen in het nieuw opgerichte joint venture, het lokale renovatiebedrijf Szczecin Renovation Association, Ltd. (STR). Toen het politieke klimaat in 1999 veranderde en de steun van de stad voor de samenwerking afnam, kochten de Amerikaanse partners de aandelen van de stad in het renovatiebedrijf op en eindigde de samenwerking in november 1999. De mate van vertrouwen binnen de twee samenwerkingen was dynamisch: in het begin groeide het vertrouwen en in de loop der tijd nam het weer af. De laatste scheiding was een

vechtscheiding: het vertrouwen tussen de partners bereikte toen een dieptepunt.

De casus van Battery Park City, New York City, VS
De in 1980 geïnitieerde samenwerking tussen de Canadese ontwikkelaar Olympia & York (O & Y) en de openbare instantie Battery Park City Authority (BPCA) speelde een grote rol bij het van de grond komen van het Battery Park City-project in een periode van grote politieke en economische risico's. Via de concessiesamenwerking van BPCA en O & Y kon er een Commercial Center worden ontwikkeld, een paradepaardje dat garant stond voor huuropbrengst en dat de inkomsten genereerde die het project levensvatbaar maakten en die nodig waren om de groeiende schulden van de BPCA terug te betalen. Deze financiële prestatie verhoogde het vertrouwen van beleggers en de ontwikkelaars stonden in de rij bij het bouwterrein om de rest van de locatie te bebouwen. Dit maakte dat het project het succes werd dat het vandaag de dag is. De relatie tussen de partners werd gekenmerkt door een hoge mate van vertrouwen, dat in de loop der tijd groeide.

De casus van Brabantse Poort, Nijmegen, Nederland
Op 18 juli 1989 gaf de Gemeente Nijmegen een aanbestedingsdocument vrij aan 18 potentiële kandidaten. Eind 1989 maakten de Raad en de Gemeente bekend dat zij hadden gekozen voor een consortium bestaande uit drie private partijen: twee ontwikkelaars (Heijmans & Hendriks) en de Nederlandse Investeringsbank (NIB). In maart 1990, drie maanden na het begin van de onderhandelingen, vonden de particuliere partners hun eerste belangrijke huurder ('anchor client'). Al vóór de afronding van de onderhandelingen over de samenwerkingsovereenkomst in oktober 1991 hadden de partners drie grote klanten binnengehaald en begonnen ze samen te werken aan het voltooien van de eerste delen van het project. De partners werken nu al meer dan 25 jaar samen in een besloten vennootschap en zijn bezig met het afronden van de bouw van het project. Deze relatie wordt gekenmerkt door een hoge mate van vertrouwen, dat in de loop der tijd sterk is gegroeid.

Hoofdstuk 8 en 9: empirische conclusies: belangrijkste bevindingen en bijdrage van het onderzoek
Hoofdstuk 8 vergelijkt en analyseert de gegevens per casus en hoofdstuk 9 eindigt met de belangrijkste bevindingen van het onderzoek. In het laatste hoofdstuk worden ook de waarde van het onderzoek besproken en mogelijke gebieden van toekomstig onderzoek gedefinieerd.

Er is in alle drie de casussen is empirisch bewijs gevonden voor het bestaan van een vertrouwenscyclus: in twee gevallen komt vertrouwen in de loop der tijd tot stand en in één geval is het verloop dynamisch: het vertrouwen groeit en neemt af, groeit weer en neemt weer af. In twee casussen (de Nederlandse en de Amerikaanse) hebben de gebruikte strategieën en de resultaten bijgedragen aan het vertrouwen en heeft het vertrouwen op zijn beurt bijgedragen aan de prestatie van de projecten en van de PPS. Anderzijds zijn in het onderzoek ook de belangrijkste factoren geïdentificeerd die hebben geleid tot de teloorgang van vertrouwen en, uiteindelijk, tot resultaten die niet wenselijk waren. In het Poolse voorbeeld verliep de teloorgang van het vertrouwen langzaam, maar toen het eenmaal geschaad was, kwam het niet meer terug. Vertrouwen kan een interactie bemiddelen, de weg effenen voor samenwerking en het aantal investeringen doen toenemen. De teloorgang van vertrouwen kan anderzijds de interactie aanzienlijk belemmeren en defensief gedrag oproepen.

De resultaten van de analyse laten zien dat er altijd meer vertrouwen is tussen partners die intensief interageren en die elkaar nodig hebben om een project te realiseren (in alle casussen). Dit laat zien dat de totstandkoming van vertrouwen van groot belang is wanneer er frequent interactie plaatsvindt en de partners afhankelijk van elkaar zijn om tot resultaten te komen. Als er eenmaal sprake is van vertrouwen dan is het vertrouwen tussen dit type partners het sterkst. Zulke partners zullen in feite bereid zijn extra middelen aan te spreken om ervoor te zorgen dat relaties behouden blijven. Vertrouwen heeft een focus.

Uit de Amerikaanse en Nederlandse voorbeelden (en aanvankelijk uit het Poolse) blijkt dat de partners in situaties waarin veel vertrouwen bestaat effectievere strategieën hanteren om met risico's om te gaan en dat ze meer positieve resultaten weten te bewerkstelligen, die de samenwerking ten goede komen. De partners zijn ook eerder bereid meer risico te nemen, bijvoorbeeld om de intensiteit van de interactie te vergroten of om extra middelen te investeren om ervoor te zorgen dat obstakels worden overwonnen. De voorbeelden onthullen, in tegenstelling tot wat Williamson beweert, dat risico en vertrouwen niet eenvoudigweg elkaars spiegelbeeld zijn. Uit de casussen blijkt dat het zelfs mogelijk is vertrouwen te creëren in situaties die een hoog risico met zich meebrengen en dat er in die situaties ook een hoge mate van vertrouwen kan blijven bestaan. En nogmaals: partners zijn dan bereid meer risico te nemen dan gewoonlijk als verstandig zou worden beschouwd. Opmerkelijk genoeg werd 'vertrouwen' door sommige van de respondenten bijna opgevat als 'blind vertrouwen'. Het

onderzoek toont echter aan dat die partners dit type vertrouwen nodig hadden om de urgentie waarmee ze geconfronteerd werden tegemoet te treden. De risico's waar deze partners voor stonden (postcommunistische transities, economische recessies) waren zo substantieel dat dit type vertrouwen nodig was om de risico's te kunnen nemen.

De casussen tonen ook aan dat resultaten en vertrouwen niet eenvoudigweg elkaars spiegelbeeld zijn (het vertrouwen stijgt wanneer er positieve resultaten worden behaald en daalt wanneer de resultaten negatief zijn). Met andere woorden, er kan een hoge mate van vertrouwen blijven bestaan in het licht van negatieve resultaten. Wanneer er veel vertrouwen is, geven partners elkaar het voordeel van de twijfel. Dit gebeurde in alle casussen. Wil het vertrouwen op de lange termijn in stand blijven dan moeten de partners het probleem oplossen en moeten de resultaten verbeteren. Het Poolse voorbeeld laat zien hoe vertrouwen afneemt als de resultaten niet verbeteren.

Vertrouwen heeft zeker grenzen. Uit het onderzoek blijkt dat er omstandigheden zijn waarin risico's worden gezien als zó groot - vooral als het gaat om externe risico's, buiten het project (politieke risico's)—dat de partners teruggrijpen op opportunistisch gedrag en de relatie beëindigen. Dit is een rationele beslissing, maar hij breekt de morele code en zorgt voor een vertrouwensbreuk. Dit was het geval in zowel de URGN-fase als de ARS-fase van het Poolse voorbeeld.

In dit onderzoek zijn stadsvernieuwingssamenwerkingen bestudeerd en dit betekent dat de interactie tussen de kernpartners plaatsvindt in de context van een complex netwerk en complexe besluitvormingsprocessen. In feite zou je kunnen zeggen dat er nooit echt sprake is van 'vrije en autonome' besluitvorming tussen kernpartners, ongeacht de autonomie van de organisatie. De besluitvorming werd vaak belemmerd door gemeenteraden (in Polen en in Nederland, op een gegeven moment) of door de gemeenschap (in Polen en in de VS). De voorbeelden tonen aan hoe belangrijk het is om de gemeenschap bij zaken te betrekken en een vertrouwensrelatie op te bouwen met externe partijen, en hoezeer politieke risico's die niet goed in de hand worden gehouden een samenwerking kunnen schaden.

Uit het onderzoek blijkt ook dat de totstandkoming van vertrouwen afhankelijk is van bepaalde sleutelfactoren. Sommige factoren bleken relevanter te zijn dan andere. De respondenten vonden de kennis op basis waarvan vertrouwen tot stand komt in alle gevallen het belangrijkst: het ging

daarbij vooral om het delen van informatie en middelen, maar ook om voorspelbaarheid en respect voor capaciteiten. Het onderzoek onthulde ook welke factoren hebben bijgedragen aan de afname van vertrouwen, bijvoorbeeld het achterhouden van informatie of een gebrek aan voorspelbaarheid (een partner leren kennen en *negatief* gedrag kunnen voorspellen). Dit leidt tot de conclusie dat deze factoren van groot belang zijn voor de totstandkoming van vertrouwen en dat het tegendeel of de negatieve vorm van deze factoren (bijvoorbeeld een partner die informatie achterhoudt) leidt tot de teloorgang van vertrouwen.

De bevindingen van het onderzoek onderstrepen het feit dat vertrouwen tot stand komt tijdens een 'iteratief' en cyclisch proces. Dit geldt zowel voor vertrouwen als voor percepties van risico's en resultaten. Strategieën die tot positieve resultaten leiden, resulteren in de totstandkoming van vertrouwen. Terwijl vertrouwen tot stand komt, neemt ook de bereidheid om risico's te nemen toe. De bereidheid om risico's te nemen (het feitelijk nemen van een risico) is een factor die bijdraagt aan de opbouw van vertrouwen. Wanneer de perceptie van resultaten negatief is en er geen verbetering optreedt, neemt het vertrouwen af. Als het vertrouwen afneemt, neemt ook de bereidheid om risico te nemen af. Vertrouwen komt niet tot stand in een lineair proces, maar wordt beïnvloed door bijkomende factoren, zoals risico's en resultaten.

In het onderzoek worden daarnaast relevante factoren belicht die sinds kort ook onderwerp van studie door andere auteurs zijn. Zo heeft de organisatievorm die voor de uitvoering van de samenwerking wordt gekozen bijvoorbeeld invloed op het vertrouwen (de organisatorische opzet beïnvloedt hoe beslissingen worden genomen). Een 'werkelijk' autonome organisatiestructuur die partners de mogelijkheid biedt zich te concentreren op projectuitbouw, zonder politieke inmenging (voor zover mogelijk), is van belang voor de totstandkoming van vertrouwen. De voorbeelden hebben ook uitgewezen dat de relevantie van bepaalde managementstrategieën van belang is voor de totstandkoming van vertrouwen.

Dit onderzoek draagt bij aan de ontwikkeling van empirisch bewijs over de groei van vertrouwen in samenwerkingen door middel van de diepgaande analyse van een reeks casussen. Het onderzoek brengt de theorievorming over vertrouwen en over de relatie tussen vertrouwen, risico en resultaten een stap verder. Een kernbijdrage van dit onderzoek is de diepgaande analyse van de ontwikkeling van vertrouwen; het heeft de dynamiek van vertrouwen in een grafiek weergegeven als een trustcyclus die zich ontwikkeld over de tijd. Tijdens het onderzoek is inzicht verworven in de rol

van vertrouwen in drie casussen in een internationale context, is het theoretische model in verschillende contexten toegepast en is empirisch bewijs gevonden dat aantoont dat vertrouwen in alle drie de samenwerkingen belangrijk was, ondanks de context.

1 Introduction

1.1 The challenges of building trust between partners

Imagine that you are a government official sitting across the table from a recently chosen private partner in a large urban regeneration project that could last up to 20 years to implement. You know very little about each other (though you have done some checking on your partner's past performance and there has been a bidding process), just that there are mutual interests to be involved in this project and to (potentially) collectively achieve something. It is clear that your and your partner's interests may also be different, and this may cause some difficulties.

What you also know, in the negotiations and decisions that will ensue, is that you will be walking a fine line. On the one hand, you need to negotiate your own interests to maximize the benefits of the project for your organization; on the other, you know that you have to build a solid and successful relationship with your partners to make the partnership work over the longer term. How can you get what your organization wants and needs, but still build the trust of your partners in you?

Working in these long term, multiuse urban regeneration projects is very risky: multiple interests and coalitions are at work, there are uncertainties in the (future) market, you know a limited amount about what partners are able to do and are willing to input. Can you trust them? Or:

- Will your partners take opportunities to protect their own interests at the expense of yours? Will they act opportunistically, thereby jeopardizing the project and the partnership?
- Will your partners be competent and fulfil their obligations as promised over the different phases of the project?

Your partner's capacity to meet their obligations, as well as their choosing to avoid acting opportunistically (protecting your interests and the interest of the partnership, sometimes over their own) are fundamental to you being able to trust them. You have to do the same to have them trust you.

If trust is built, you may perceive that the risks you face in this complex and long-term project are less daunting; after all, you are in this together. You might also be more willing to take additional risks and invest more (time and

resources) in the partnership. In fact, the more you perceive that your partner is acting according to expectations, and the outcomes are positive, the more willing you are to make yourself vulnerable to your partner: to be open, to share information, and to invest more (to take more risk). But time will tell; it will take time to build up the relationship and trust.

1.2 Filling the gap

Increasingly, trust is seen as key to long-term interactions of high interdependence, such as Public-Private Partnerships (PPPs). Trust is, however, an elusive concept. It is difficult to build, and takes time and effort to grow. Trust takes longer to build than it takes to break (Lewicki and Bunker 1996). Though the amount of research on trust (interpersonal and interorganizational) is growing, little research looks at the dynamics of trust in public and private partners in a PPP.

The concept and practice of partnerships have become popular. A growing body of literature looks closely at the reality of executing PPPs and the issues faced, noting the difficulties that public and private partners have dealing with issues such as conflicting interests and cultures, as well as the sharing and management of risk between partners. Trust is cited as fundamental to the relationship, but little research has been done to look at how partners can build trust during the collaboration and the importance of trust for the execution of the partnership.

1.3 This research

This research deals with two concepts that are receiving more attention: Public-Private Partnerships and trust. It focuses on three long-term, urban regeneration partnerships (case studies in Poland, the USA and the Netherlands) and the process of trust build-up (or breakdown) between partners. The research analyses the interaction between partners and charts the changes of levels in trust between partners and other external actors over the length of the PPP, in the form of a 'trust cycle'. It assesses whether trust can be linked to positive outcomes and the reduction in the perception of risk on the part of the partners. It also analyses whether partners are willing to take more risk in circumstances when trust is present and outcomes are positive. It explores the limits of trust, in cases in which trust was not sufficient to offset the perceptions of risk. It analyses the factors that contribute to trust build-up (or breakdown) and concludes on the key factors present in the cases and most prevalent in building strong and resilient trust.

1.4 Changing forms of policy in the urban context: the shift to urban regeneration

The PPPs studied in this research take place in an urban context. Cities are dynamic and complex; the centres of opportunities as well as problems. In the past five to six decades, many Western cities have been subject to a rate of change that has brought positive growth, but also problems of a complex nature. This has also brought about an evolution in urban policy and a shift to urban regeneration as an approach (Ball and Maginn 2007, Booth 2005, Roberts and Sykes 2000, Roberts et al 2016).

In that period, there have been a number of visible and common phenomena. Coupled with population growth, many cities have seen intense growth in population from inward migration. This has put pressure on the housing, infrastructure and services of cities. There has also been a noticeable shift in the economic bases of cities. Cities have ceased to be the centres of manufacturing, instead transforming into centres for services and consumption (Couch et al 2003; Nijkamp et al 2007, Roberts and Sykes, 2000, Roberts et al 2016). There has been a clear shift in the relative importance of the functions in cities: each city has seen a shift in the demand for shelter, security, social and cultural actives, recreation, education and health services, as well as the exchange of goods and services (Booth 2005, Roberts and Sykes, 2000, Roberts et al 2016, Ysa 2007). This has brought about the need for a recycling of these functions and of physical facilities.

Parallel to this, there has been a distinct change in the demographics of Western cities. Starting a number of decades ago, higher-income residents began to shift to the suburbs, leaving behind the lower-income population and an increasing number of migrants, all with reduced spending power. There has, since then, been an attempt to bring higher-income earners back to the city and to provide the housing and services to make this attractive. These changes have put new demands on cities for land and properties, infrastructure as well as the range of facilities needed to service the changing population. The issues faced in Western cities are complex and interrelated. Over the years, urban policies have sought to deal with these changes, taking on different approaches. Urban regeneration interventions have included the coexistence of physical regeneration projects, activities to restructure the economy and sustain social frameworks, with different elements dominating at different moments in time (Booth 2005, van Boxmeer and van Beckhoven 2005, Roberts and Sykes, 2000, Roberts el al 2016).

It is important to note that though Western cities face challenges, they are also perceived as the location of growth and opportunities. In the era of globalization, cities have grown into multicultural hubs and nodes in a broader network of cities (Castells 1996). They are often the centres of political power, innovation, education and the knowledge economy. Their physical fabric is an enormous source of wealth. Cites provide scale economies, and with the current advancements in technology and ITC, are attractive to existing and new businesses. They are players and compete in the regional and, often, international arena, attracting working-age and foreign-born residents, and generating jobs (Nijkamp et al 2007, Roberts et al 2016). Cities are complex and approaches to development have needed to achieve the correct balance in policy decisions and strategies.

Roberts et al (2016: 17) cite six key trends and themes that act as a basis for and influence the need for a shift in policy approaches of time:

1. The relationship between physical conditions and social response (deprivation).
2. The continued need for the replacements of many elements of the urban fabric: how to respond when the relative importance of functions in cities change, become derelict and the physical fabric of the city requires upgrading.
3. The importance of economic growth for prosperity and of quality of life in cities.
4. The need to optimize the use of urban land and to avoid unnecessary sprawl.
5. Growing environmental awareness; the need for regeneration to take on the goals of sustainable development.
6. Understanding and recognizing that urban policy mirrors the dominant social conventions and political forces of the day.

Ysa (2007) adds to this, stating that the need for change stemmed from two other common phenomenon in cities. One phenomenon involved the increasing blight in city centres, coupled with the competition faced by these centres from more attractive and modern areas with a wide range of services; another, the need to meet unmet demand for functions, and to find and direct public investment to particular strategic areas.

As stated in point six above, policy responses have reflected the sociopolitical and economic values and structure of cities. The table below provides an overview of the changes in policies and approaches to urban problems, and

the shift to urban regeneration and to partnerships.[1] Over the years, one notes a shift from publicly driven projects in the 1950s and 1960s (post-war reconstruction) to privately driven projects in the 1970s and 1980s. With greater decentralization and the realization that the local government could not do everything, the political ideology in the 1970s and 1980s was to favour the market, to lean towards property-led development and to leverage private funds and expertise (Van Boxmeer and Van Beckhoven 2005). In the UK, in particular, this approach also involved the setup of special-purpose agencies to work with the private sector; however, their activities had the tendency to circumvent the interests of the local government and the community in development (Ball and Maginn 2007).

In the 1990s, one notes the acceptance on the part of policymakers that the interrelated nature of the problems in cities created the need for a strategic and integrated interventions; partnerships then also became the dominant approach (Ball and Maginn 2007, Booth 2005, Roberts and Sykes 2000, Roberts et al 2016). Urban regeneration was not predicated on market forces, and a clear step was taken away from property-led development. It was not based on national government planning directives and did not position the local government as major builder and landlord. There was more focus on involving the community in expressing its needs and in decision making, with a recognition of the social and environmental aspects of policy issues (Ball and Maginn 2007, Van Boxmeer and Van Beckhoven 2005).

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[1] This table reflects the trends in urban policy in the UK. However, it is also, to a great degree, representative of trends in Western cities and therefore useful. Ball and Maginn (2007) state that trends in private sector development in urban regeneration have been broadly similar on an international level.

Table 1-1: The evolution to urban regeneration

Period	1950s	1960s	1970s	1980s	1990s	2000s
Policy type	Reconstruction	Revitalization	Renewal	Redevelopment	Regeneration	Regeneration in recession
Major strategy and orientation	Reconstruction and extension of older areas of towns and cities often based on a 'master plan'; suburban growth	Continuation of 1950s theme; suburban and peripheral growth; some early attempts at rehabilitation	Focus on *in-situ* renewal and neighbourhood schemes; still development at periphery	Many major schemes of development and redevelopment; flagship projects; out-of-town projects	Move towards a more comprehensive form of policy and practice; emphasis on integrated policy and intervention	Restrictions on all activities with some easing in the areas of growth
Key actors and stakeholders	National and local government; private sector developers and contractors	Move towards a greater balance between public and private sectors	Growing role of private sector and decentralization in local government	Emphasis on private sector and special agencies; growth of partnerships	Partnership the dominant approach	More emphasis on private sector funding and voluntary effort
Spatial level of activity	Emphasis on local and site levels	Regional level of activity emerged	Regional and local levels initially; later more local emphasis	In early 1980s focus on site; later emphasis on local level	Reintroduction of strategic perspective; growth of regional activity	More local initially with developing sub-regional activity
Economic focus	Public sector investment with some private sector involvement	Continuing from 1950s with growing influence of private investment	Resource constraints in public sector and growth of private investment	Private sector dominant with selective public funds	Greater balance between public, private and voluntary funding	Private sector dominant with selective government funding

Social content	Improvement of housing and living standards	Social and welfare improvement	Community-based action and greater empowerment	Community self-help with very selective state support	Emphasis on the role of community	Emphasis on local initiative and encouragement of third sector
Physical emphasis	Replacement of inner areas and peripheral development	Some continuation from 1950 with parallel rehabilitation of existing areas	More extensive renewal of older urban areas	Major schemes of replacement and new development; 'flagship schemes'	**More modest than 1980s; heritage and retention**	Generally small-scale schemes, but larger projects returning
Environmental approach	Landscaping and some greening	Selective improvements	Environmental improvement with some innovations	Growth of concern for wider approach to environment	**Introduction of broader idea of environmental sustainability**	General acceptance of sustainable development model

Taken from: Roberts & Sykes, 2016: 19-20

Urban regeneration is defined as "*comprehensive vision and action which seeks to resolve urban problems and bring about a lasting improvement in the economic, physical, social and environmental conditions of an area that has been subject to change or offers opportunities for improvements.*" (Roberts et al 2016: 18). This definition underlines certain key characteristics of the approach, which seeks to

- understand and deal better with the processes of decline and complex nature of problems in cities, as well as the opportunities that exist in cities,
- make interventions that go beyond physical interventions, tackling the diversity of issues experienced in an area, and
- avoid an ad hoc approach to dealing with problems, taking on a more integrated approach embedded in a city-wide strategic framework (McQuaid 2000, Roberts and Sykes 2000, Roberts et al 2016).

The case studies in this research were developed in the 1990s and were therefore affected by the ideology of that time.

1.5   The importance of alternative forms of governance in times of complexity

The changes in society of the past four decades have brought about the need for alternative forms of governance such as PPPs and relationships built on trust. A decrease in the popularity of hierarchical forms of governance and a search for new forms of governance began in the 1980s, when the pressures on governments to perform increased, requiring them to get things done better and with fewer resources (Klijn 2009). Governments faced the challenge of improving the management of public organizations as well as ensuring good, inclusive and transparent systems of governance. Increasing decentralization brought more authority for local governments, as well as more responsibility and accountability (Larbi 1999, Batley and Larbi 2004). Being closer to the people implied that citizens and the civil society had more to say about how things were done and how decisions were made. Public managers had to face the reality that they could not do everything and that they needed to work with others to get things done (Osborne and Gaebler 1993). The new public management paradigm led to the increase in deregulation, privatization of services and outsourcing of public tasks (Hood 1991, Savas 2000).

Negative views of performance of the public sector led to arguments that there were benefits to be realized from working with the private sector. The cumbersome nature of the government, and its ties to political objectives, often resulted in less than optimal ways of working and inefficiencies in the provision of services. Bad public management resulted in the waste of scarce government resources (World Bank 1994). All this led to criticism of the public sector and a search for alternative approaches to government tasks, including a move to less intervention by the government ('letting the market work'), greater concentration on primary tasks and less bureaucracy. This implied more room for working with the private sector (Osborne and Gaebler 1993, Pollitt and Bouckaert 2011). Public-Private Partnerships were increasingly seen as a commonplace and instrumental tool for providing policies and services around the world (McQuaid 2000, Osborne 2000, Osborne 2010).

In the 1990s, experiences with and a view that new public management delivered less than desirable results brought about a shift in thinking on governance (Kickert et al. 1997). Government, businesses and the civil society increasingly faced complex and persistent problems in society: called 'wicked problems' (Koppenjan and Klijn 2004, Rotmans and Loorbach 2009). As cities grew and development became more and more dynamic, uncertainty was an increasing characteristic of modern society, as well as growing individualism, specialization, fragmentation and pluralism (Ibid.). Governments encountered parties who disagreed not only on the problems being faced, but also on the solutions to those problems. In addition, actors were no longer, individually, in possession of sufficient information, knowledge and resources to deal with issues on their own. Organizations in modern society needed each other and were dependent on each other for finding a resolution to problems (Ibid). Decision making was complex and occurred in situations of dependency.

This implied the need for changing forms of governance and rethinking the role of government. Governance involved a process of joint working between organizations (Edelenbos and Teisman 2008) as well as balancing a multitude of interests and mediating differences. Complexity gave rise to many different arenas of interaction, where actors interacted in complex networks to achieve their objectives and to take part in strategic games (Kickert et al. 1997, Koppenjan and Klijn 2004). No longer at the top of the strategic apex, the public sector began to use horizontal networks as a means to manage processes and relations. Trust became a fundamental element of these relations. Problems that crossed the boundaries of organizations and of the

public and private sectors created the need for new forms of institutional relations and ways of working (Koppenjan and Klijn, 2004:6). Public-Private Partnerships was one of the forms of governance relations (McQuaid 2000, Bult-Spiering and Dewulf 2006, Osborne 2010).

1.6 PPPs in urban regeneration

Due to the diversity and complexity of issues, urban regeneration processes are characterized by a wide range of actors, including the central and local governments, the private sector, the local communities and other civil society actors that interact to deal with the problems faced. Partnerships, in various forms, are a dominant aspect of regeneration processes: "*strategically designed, locally based, multi-sectoral and multi-agency*" relations (Carter 2000: 37, Roberts and Sykes 2000, Robert et al 2016). They exist to ensure that interventions are not purely state- or market-led (and subject to the state or market failures of the past), and to mobilize the collective efforts of actors involved (Lowndes and Skelcher 1998). They provide the basis for a collective discourse and negotiations of solutions (Ball and Maginn 2007, Booth 2005, Carter 2000, Roberts and Sykes 2000, Roberts et al 2016). The greater involvement of different actors in the decision-making process also enhances the argument that PPPs are intrinsically a more efficient use of resources and an equitable way of using public funds (Carter 2000, 2016).

Regeneration interventions are, by nature, multiuse and large scale, and subject to long implementation periods (McQuaid 2000). They are subject to the substantial risks over time related to shifts in market conditions. All this implies that no single actor can undertake these initiatives alone. The private sector considers undertaking regeneration projects alone far too risky, (local) governments have also experienced financial difficulties in dealing with projects of such a comprehensive nature (Codecasa and Ponzini 2011, Sagalyn 1997, van Boxmeer and van Beckhoven 2005). These uncertainties lead to a mutual dependency, and the need for relationships such as partnerships to deal with the level of complexity and to share risks.

The type of arrangements chosen depends largely on the aims and objectives of the partnership, as well as the scale, size of the project, market circumstances, political relations and economic cycles (McQuaid 2000, Roberts and Sykes 2000). In the case of the United Kingdom, for instance, the government set up special purpose bodies such as urban regeneration companies, in fact a form of PPP, to execute regeneration projects (Kort and

Klijn 2013). There are diverse forms of partnerships. Key elements of regeneration partnerships are: long-term interactions, complex and characterized by high interdependence.

1.7 Benefits of Public-Private Partnerships

The concept of partnership has become popular with researchers and practitioners in the West and, increasingly, in developing and emerging economies. Klijn and Teisman (2003: 137) define partnerships as "*a more or less sustainable cooperation between public and private actors in which joint products and/or services are developed and in which risks, costs and profits are shared*".

The contention is that a PPP is an "*ideal model for the design of inter-organizational relationships in public sector management*" (Friend 2006: 261). The suggestion is that PPPs can act as an impetus for public sector reform and provide benefits, such as efficiency gains, better transfer and sharing of risk, alternative forms of accountability and, potentially, an increase in democratic legitimacy (McQuaid 2000, Plummer and Heymans 2002, Hodge 2004, Yescombe 2007, Hodge et al. 2010, Kort and Klijn 2013).

The assumption is that a cooperation of an intense nature between public and private parties provides added value by producing better and more efficient provision of services and outcomes (Savas 2000, Hodge and Greve 2005, Hodge et al. 2010). Efficiency gains are often argued to be attributable to the private sector, which is able to deliver outcomes at a reduced cost. Given ease of entry to the market, the private sector is argued to perform more efficiently and to have greater access to market signals (Batley 1996). Proponents also argue that the private sector brings to the relationship specialized technology, funding and management expertise (Savas 2000, Grimsey and Lewis 2004).

Added value is often argued to derive from the collaborative effort; greater outcomes, including increased innovation, are argued to stem from the "*complementarity of the sectors, the fact that the work of each can improve the performance of the others, so that the whole is, indeed, much more than the sum of the individual parts*" (Kloppenborg 1991: 164). Partners who are involved earlier on in the decision-making process are more 'invested' in the relationship than in a normal client-service provider relationship (principal-agent) (Kort and Klijn 2013). In the process of collaborating, partners harness each other's knowledge and skills, and synergies produce better and more

innovative solutions (Agranoff and McGuire 2001, Huxham and Vangen 2005). Closer and more intense involvement allows the partnership to deliver better quality and, therefore, value for money (Kort and Klijn 2013).

For the private sector there are also benefits from working with the government: partnerships are argued to open up new markets, enhance the negotiation of benefits to all parties and improve coordination of activities (Pennink 1997, McQuaid 2000). From the perspective of the private sector, working together, particularly in times of recession, attracts more business, helps in diversifying and creates better reputation and position in the market. Private parties are motivated by opportunities to gain greater access to public monies (grants and subsidies) and public powers, and in gaining certain concessions from the public authorities. By working together, private parties also hope for better co-ordination (horizontal and vertical integration) of components of projects (Klijn et al. 2010).

1.8   The importance of trust in PPPs

Trust is argued to be important in situations of uncertainty, complexity and increasing interdependence, and in situations of horizontal steering and cooperation. A growing amount of literature underscores the importance of trust for achieving cooperation and for improving results; it is also linked to the realization of innovative results. In partnerships as well, trust is argued to be an effective coordination mechanism, due to the 'jointness' of the relationship, and where hierarchical rules and direct supervision are no longer seen as effective in achieving coordination (Ring and Van De Ven 1992, Child 1998, Rousseau 1998, Nooteboom 2002, Edelenbos and Klijn 2007).

Fukuyama argues that nations in which a high degree of trust prevails are suited for advancing economic relations and efficiency. In contrast, nations with a low degree of trust suffer the disadvantages of their economies and have to rely on authoritarian bureaucratic regulations (Fukuyama 1995). He believes that policing mechanisms such as property rights, contracts and law are indispensable institutions, but that substantial economies can be realized with the existence of trust. "*People who trust each other and are good at working with one another can adapt easily to new conditions and create appropriate new organisational forms*" (pp. 335-336).

Gambetta (1988) argues that trust is a precondition for cooperation between organizations (such as in PPPs). In seeking ways to reduce risk, partners will be more likely to take part in a transaction if they believe that their partners

will not act opportunistically. This presumes a form of reliance on other people, "*which involves beliefs about the likelihood of their behaving in a certain way*" (Misztal 1996: 82). Cooperating firms make an assessment of each other's ethical stance, organization culture and prior performance. If a person or organization judges that the probability of misbehaving is low, then cooperation is possible. In turn, successful transactions are embedded in relations between agents developed over time. Successful exchange builds trust, which then generates more lasting relations. The temporal quality, repetitiveness and frequency of the transactions are also crucial to the build-up of trust, and the effectiveness of the intervention.

Throughout the relationship, partners try to minimize risk and maximize utility through various means. Trust is built incrementally, but if the means used results in distrust and the need for coercive behaviour, this has more dramatic and catastrophic consequences, potentially the breakdown of relations. Ostrom furthers this idea by stating that if agents are interdependent, coercion is not necessary. The objective is then to develop a strategy for cooperation that obtains joint benefits (Ostrom 1990).

Another perspective on trust underlines that in long processes (such as urban regeneration PPPs) the frequency of the transactions and human factors give rise to costs and risks that agents seek to reduce and for which they must develop policing mechanisms (negotiations, contracts and monitoring) and governance systems (i.e. alternative organization arrangements). However, in complex transactions involving high risk, not all policing mechanisms and governance structures can cover all contingencies, even in a society in which legal sanctions are enforceable. It is possible that the cost of policing is so great that it outweighs the benefit to be derived from the relationship (Lazerson 1988). It is argued that trust is fundamental as an "*efficient lubricant to economic exchange or the most efficient mechanism for governing transactions*" (Arrow 1974: 23), particularly in a situation in which a rational agent would not normally proceed with the transaction. Moore (1994: 819) states that trust is crucial to situations with high risk, and that the generation of trust makes agents, *"incompletely protected by law willing to dispense with detailed personal policing of every transaction, and put great trust in exchanges involving large apparent risks"* (see also Furlong 1996).

1.9   Research questions

The main research question of this research is:

Is there evidence of a trust cycle in partnerships and does trust have an influence on risks and outcomes as perceived by the partners?

More specific research questions are as follows:

- What was the nature of the interaction between partners and other actors during the partnership processes, over the rounds, in the three cases?
- What was the nature of outcomes and risk as perceived by the partners and other actors over the rounds of the partnership?
- What were the dynamics of the growth of trust over time as perceived by the partners and other actors over the rounds of the partnership?
- What important factors led to the growth of trust?
- Did trust have an influence on risk and the outcomes achieved, and if so what kind?

1.10   Significance of the study: trust in an international context

This research aims to contribute to the development of empirical evidence on the growth of trust in partnerships through in-depth case study research and to further the theory on the relations between trust, risk and outcomes.

This research looks at cases in three countries, in an international context. Of particular interest in this study is to look at the dynamics of trust in this international perspective. The intention is to study trust in these contexts to see if it is the same notion: trust, the mechanisms used to build trust and the influences of trust on the perceptions of risk and outcomes. It is not the intention to go into cultural differences and their effects on trust. Instead, the research has developed a theoretical model and has used this to look at the interaction between partners, the growth or decline of trust, the factors that build (or break down trust) and the links of trust to risk and outcomes, to see if there are similarities or differences in the cases. If, in spite of the context, trust is important and the factors to build trust are similar, as well as the perceptions of risks and outcomes, then one can argue that trust and the mechanisms to build trust are important in all contexts. This research contends that this is the case.

There is a body of work that looks at the influence of culture on trust (Doney et al. 1998, Ferrin and Gillespie 2010, Saunders et al. 2010). Ferrin and Gillespie (2010) argue that in many cases, instead of the results of research being induced from empirical cases, most of the work has been deduced from 'logic and argumentation' (p. 44). In addition, they argue that the models produced are set up to understand how trust is different across cultures, but do not consider that trust might be a universal concept (and that trust as a universal concept might be desirable). Additionally, some authors argue that, in a globalizing world, there are some paradigms that can and should be seen as universal across cultures. *"Theories . . . that cannot be applied in more than one culture are increasingly irrelevant"* (Tjosvold et al. 2001: 171). They argue that, in joint ventures, partners use methods that are appropriate for their interaction and, in doing so, develop a 'third culture' all of their own.

The value of this research is that it is a detailed analysis of the change in trust over time, and it follows in detail the trust cycle (the growth or break down of trust) through different rounds of partnerships. The aim is to gain a deeper understanding of the dynamics of trust in three cases and in three contexts. It is also the first research to look at trust in detail in Public-Private Partnerships; it is practical relevance to the partnerships that are being promoted worldwide.

1.11 Design of the research

The research was set up in a particular manner. Based on an extensive literature review and the research questions, a model was designed that analysed trust development over time, and the factors of trust build-up (trust as a dependent variable). The model also analysed the perceptions of risk and of outcomes at key moments in the PPP interaction and the influences of trust and trust build-up on these perceptions (trust as an independent variable). The research used this 'trust cycle' model to guide the structuring of the work on the empirical case studies.

The empirical chapters were set up to respond, one by one, to the research questions, but, in doing so, to be able to analyse the results and compare these to the theory on trust, and its influence on the perception of risk and outcomes.

The empirical analysis chapter compares the cases, analysing the differences and similarities. The research, in effect, analyses if the partners in all three

case studies built trust and achieved positive outcomes, and how they did so. If not, why is this? If the trust built resulted in a reduced perception of risk, similar in all cases, why is this? How did trust contribute to these outcomes and influence perception of risk? Can the research generalize on this? The research assumes, as Yin (2003) stated, that if the results of two or more cases support the theory, one can claim replication, namely 'analytic generalization'. The results are generalized to a broader theory.

1.12 Limitations of the research

There were certain limitations in conducting this research. For one, the choice was to focus on projects that were complete, so respondents could reflect on the interaction over the entire length of the project. In the identification of partners and other key actors, the research sometimes encountered difficulties in making contact with people of interest. In some cases, potential respondents had died or had moved away and were unreachable.

In addition, as part of the triangulation process necessary for the qualitative design, the research executed a questionnaire to confirm the results of the interviews and information from the documentation. Though it was the intention to include both the 'core' actors (the contractual partners) and 'peripheral' actors (players in the interaction, external to the contractual relationship) in the execution of the questionnaire, it soon became clear that core partners were more comfortable in scoring the trust they had in their other core partners than their trust in peripheral actors. In some cases, peripheral actors were unwilling to score the core partners, stating that this was difficult, as they did not have a core function. There were also instances where respondents did not feel comfortable assessing trust in their own organization, and so did not fill in this portion of the questionnaire. This reduced the number of respondents in some of the cases, but also led to some interesting conclusions in the research on trust and on whom a person chooses to focus trust.

The research attempted to the best of its ability to be rigorous in its interpretation of the data. For instance, when triangulation of different data sources yielded conflicting interpretations, the research made note of this and made an explicit attempt to explain these differences.

1.13 Structure of this research

Following this introductory chapter, Chapters 2 and 3 provide a literature review of the theories underpinning Public-Private Partnerships and trust/risk/outcomes. Chapter 4 focuses on the research design and methodology. Chapters 5 through 7 detail the three cases studies: the interaction in rounds, and an analysis of the perceptions of outcomes, risk and trust per round, as well as the factors that built (or broke) trust. Chapter 8 provides the empirical conclusions, deriving these from a cross-case analysis and addressing the key research questions one by one. The final chapter concludes with key conclusions, relevance of the research and recommendations for further research.

2 Public-Private Partnerships

2.1 Introduction

This chapter explores the rationale for and key characteristics of Public-Private Partnerships. It looks at the theories that underpin partnerships, discusses different perspectives on partnerships and determines that the network perspective of partnerships coupled with the strategic management theory provide a strong theoretical base for the research. Within the context of network theory, the actors and their interaction become a focal point of study. Their interaction is affected by the complexities and uncertainties of the problem and the strategies they choose are driven by their perceptions of the problem and solution. The final section introduces a model for analysing the process of interaction between partners as part of an interorganizational relationship – the partnership.

Network governance theory argues that trust is becoming important in horizontal relationships such as PPPs, in mediating interests among actors, in reducing the risk as perceived by different actors and achieving improved outcomes (innovation, cooperation, sharing of information and resources) (Koppenjan and Klijn 2004, Klijn et al. 2010, Klijn and Koppenjan 2012). As there is often a lack of trust between the public and private sector when entering a PPP, the build-up and the study of that build-up of trust, is essential for PPPs.

PPPs are argued to be beneficial as they provide an effective way of sharing risk. This sharing of risk and the bundling of skills and resources are seen as an improved manner of achieving outcomes. The research question of this study is therefore extremely relevant for PPPs, namely testing to see if there is evidence of trust build-up in the PPP interaction and whether this trust has an influence on risk and outcomes, as perceived by the partners and other actors.

2.2 Understanding what Public-Private Partnerships are

Partnerships as a phenomenon are difficult to define. There is clearly some disagreement in the literature on the precise meaning of the term. This stems from the fact that, in practice, there are numerous types of partnerships being implemented; these definitions try to reflect what partnerships are in

practice, in different contexts, and attempt to describe a wide range of relationships (Bult-Spiering and Dewulf 2006: 25).

This chapter looks at partnerships using a 'urban regeneration lens', meaning that the sections that follow will look more closely at the key aspects of partnerships in the context of complex, multifunctional, multi-actor urban regeneration projects. These are PPPs positioned in complex networks, subject to complex decision-making processes. The argument is that these types of projects are distinct from, for instance, infrastructure projects, and require a particular type of partnership relationship that reflects the specific nature of the project and what it is trying to achieve. Put another way: *"If form does follow function, then the most significant dimension concerns the aim of the partnership"* (McQuaid, 1998: 6).[2]

Taking a look at definitions and literature on PPPs, one notes that they tend to focus on the *characteristics* of partnerships (i.e. a PPP exists when there is . . .) and on *aspects that distinguish* PPPs from other types of relations where actors work together (Bult-Spiering and Dewulf 2006). In addition, definitions focus on the *purpose of or rationale for* setting up a partnership, in other words, the arguments concerning why a partnership is *beneficial* or preferable to another form of relationship in a certain context. The definitions dealing with the rationale behind partnerships focus on two dimensions: the justification in terms of what the partners gain from the relationship (i.e. for mutual benefit), and what, in broader terms, partnerships are argued to achieve (i.e. to achieve efficiencies and innovation or better outcomes).

2.3   The rationale for partnerships

Why partnerships? The literature on partnerships argues that PPPs provide benefits: cooperation of an intense nature between public and private parties provides added value by producing better and more efficient provision of services and outcomes (Savas 2000, Hodge and Greve 2005, Hodge et al. 2010). The Knowledge Centre of the Dutch Ministry of Finance underlines that:

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[2] Version published in: McQuaid, R.W., "The Role of Partnerships in Urban Economic Regeneration", IV International Conference on Public-Private Partnerships, Llubjana, Slovenia, 21-23 May 1998. Published in: L. Montanheiro, B. Haig, D. Morris and N. Hrovatin (eds) Public and Private Sector Partnerships: Fostering Enterprise. Sheffield: Sheffield Hallam University Press, pp. 315-330, 1998.

> *"The result of the collaboration is added value: a qualitatively better product for the same money, or the same quality for less money, or both. There are benefits for both sides: for the private sector there are not only new opportunities in a growing market, it can make its own contribution to a project that is also attractive from the commercial angle; to the government, the benefit is the prospect of enhanced quality and/or reduced project costs"* (http://www.pps.minfin.nl).

As stated before, the private sector is argued to be more efficient and able to deliver outcomes at a lower cost. The collaborative effort creates greater outcomes, including increased innovation. The 'synergies' from resource coordination and collaborative efforts result in added value, i.e. innovative policies or solutions (Hastings 1996, Adams and Hastings 2001). In the process of partnering, partners harness each other's knowledge and skills and synergies produce better ideas and better (Lemstra 1996, Klijn and Teisman 2000) as well as more innovative solutions (Agranoff and McGuire 2001, Huxham and Vangen 2005).

> *"The result of collaboration is usually more than the sum of its parts – certainly where two sides work together with a win-win situation . . . . This is a goal that can be achieved if both government and private sector do what they are best at"* (http://pps.minfin.nl).

This text underlines that PPPs are set up to make maximum use of the characteristics and skills of the public and private sectors.

As well, and as intimated above, Kloppenborg (1991: 1) emphasizes the possibility of using partnerships as a means to counteract social problems.

> *"Through their high complexity and scale such (social) problems are of an extraordinary nature and require alternative devices for ordering interests apart from the effective mechanisms of market and state hierarchy."* McQuaid (2000: 19) further develops this statement by stating that *"partnerships can be argued as an effective way of overcoming market imperfections that are caused by externalities"*.

These two statements are of relevance to urban regeneration, characterized by complexity and scale. They establish the precedent for the assumption that there are benefits to be realized from the two sectors working together, the benefits from collaboration that normally would not be achieved if the two sectors worked separately, leaving development subject to simple market mechanisms or to hierarchical government approaches.

In addition, the two authors point to the justification for partnerships as 'alternative devices for ordering interests' (Kloppenborg 1991). Partnerships are seen as being able to deal with extraordinary problems, characterized by multiple interests, where traditional approaches have failed to do so. Partnerships are also seen as an approach that focuses more on the broader concerns of citizens and community and on broader outcomes, and less on narrow performance goals and outputs that stem from partnerships driven by competition (Denhardt and Denhardt 2000, Teicher et al. 2006).

From the literature above, the rationale for partnerships, with regard to urban regeneration, can be summarized as
- adding value in terms of products, creating innovation and synergy;
- improving coordination of outputs;
- bringing complementary skills and resources together;
- providing an alternative device for ordering interests to deal with complex problems; and
- achieving commercial as well as social goals.

The arguments for partnerships underline endogenous and well as exogenous outcomes, meaning that they focus, on the one hand, on the benefits for the partners and, on the other, on the wider benefits to the society at large.

2.4   Characteristics and dimensions of partnerships

What are the key characteristics of a partnership? This research uses Klijn and Teisman's (2003: 134) definition of partnerships, namely: "*A more or less sustainable cooperation between public and private actors in which joint products and/or services are developed and in which risks, costs and profits are shared."* The characteristic upon which this definition focuses is the 'jointness' of partnerships: at least two partners become involved and they combine and share resources, risk and returns.

A scan of the literature further highlights the following characteristics of partnerships (in urban regeneration):

- Partnerships involve people and organizations from two or more sectors: these include the public and private sectors, but also could include NGOs and the community (World Bank 1994).

- The interactions often involve multiple interests and allow the integration of those interests (Kloppenborg 1991, Bailey 1994:293, Koppenjan and Klijn 2004).
- The partners interact to achieve common and often complementary goals (McQuaid, 1998) (McQuaid 2000, Klijn and Teisman 2003).
- In pursuit of these interests and goals, partners combine resources so that they can achieve their own goals as well as those of the partnership as a whole (Steijn et al. 2011).
- Partners often enter into organizational arrangements to improve the coordination processes (Savas 2000, Hodge and Greve 2005). These arrangements are with an eye on simplifying work processes and coordination, and securing shared risk and profits. These arrangements can range from informal working groups to consortiums set up with partners as members (Kloppenborg 1991). There are other hybrid organizational forms (Faulkner, 1995; Waddock, 1991).
- Partners retain their identity and have predetermined responsibilities. This implies that this is: (1) not a situation in which permanent change of ownership occurs (as in privatization), and (2) that as the partnership is executed as a project, it occurs over a finite period of time (http://www.pps.minfin.nl).
- There is joint acceptance of risks and returns (Pennink 1997, Teisman and Klijn 2002, Klijn and Teisman 2003, Huxham and Vangen 2005, Koppenjan 2005, Bult-Spiering and Dewulf 2006).

Taking this idea further, the Knowledge Centre of the Dutch Ministry of Finance distinguishes two typologies of PPPs; the table below demonstrates the differences (see also Sullivan and Skelcher 2002, Hodge and Greve 2005).

1. First is a PPP (i.e. a concession) in which vertical integration occurs over the project cycle (the design, build, finance and operation phases of a project, often found in infrastructure projects) and which is contracted to a private party.
2. Second is a joint development PPP in which different projects or interventions are combined (i.e. multifunctional urban regeneration projects) and might involve the setup of a joint organizational form (joint venture partnerships).

Table 2-1: Integrated Contracts versus Joint Development

	Integrated contracts	Joint development
When should the private sector be involved?	Construction	Planning and construction
Focus on:	Contract (for construction)	Process (arriving at a plan)
Responsibility	Public	Shared
Risks	Risk allocation (transferring many risks to the private sector)	Shared
Which elements should be included?	Vertical integration (design, construction, maintenance, operation)	Horizontal integration (public and private investments are combined)
Roles of parties	Government is client, private sector is contractor	Equality of parties

Source: http://pps.minfin.nl (accessed 2002).

This research argues that partnerships in urban regeneration belong to the second typology, a relationship where development is joint, in fact there is interdependence and equality between partners. In the case of joint development, the emphasis is placed on the horizontal nature of relations and on the process, in other words, the interaction of the partners.

The literature on partnerships in the UK underline the argument above, stating that urban regeneration partnerships are distinct from the Public Finance Initiative (PFI) approach, which falls into the first typology, and is characterized by private sector involvement in public service delivery. Ball and Maginn (2007) state that urban regeneration partnerships distinguish themselves as they focus on a range of issues, and often involve the setup of special purpose organizations, the governance of which may involve a range of stakeholders.

The typology of urban regeneration partnerships

This section describes in greater detail the types of partnerships found in urban regeneration processes. In some countries, partnerships have been seen as the default mode to deal with urban regeneration. In the UK, for instance, the political agenda and funding streams have required the development of partnerships involving the public and private sectors, but in many cases, a three-way partnership also involving the community and voluntary sectors (Roberts 2000, Robert et al 2016). In the Netherlands, the national government has also encouraged PPPs in urban regeneration projects and national funding has been made available to stimulate the setup

of partnerships (Regeerakkoord 1986, Van Boxmeer and Van Beckhoven 2005).

In these countries, there are different ideologies behind governments giving priority to partnerships. For one, public funding is made available to strategically leverage funding from the private sector, and where possible the civil society (Booth 2005). In addition, involving all sectors in the decision-making process, in essence, allows for different actors to have a 'voice' (challenging what is seen as the paternalism of the government) (Hastings 1996, Ball and Maginn 2007). All interests are then represented when developing a strategic approach to the regeneration of an area. This may involve a platform for both the bottom-up and top-down expression and integration of interests. "*Partnerships should reflect shared ownership, shared interests, local diversity, common ambitions and joint understanding*" (Roberts el al 2016: 65). Finally, partnerships reduce fragmentation and single agency or sector approaches to problems. They allow for coordination across traditional agency boundaries (Roberts et al 2016: 51).

The types of partnerships have expanded over the decades, evolving to respond to changing policy issues. They involve an increasingly diverse mix of partners taken from the public, private, community and voluntary sectors, and assume the representation of the community in decision making (Ball and Maginn 2007, Carley et al 2000, Carter 2000); this implies more complex relationships and processes of decision making.

This positions urban regeneration PPPs in a complex network. The success of the partnership is also dependant on the quality of these networks (Skelcher et al 1996). Networks combine the strengths of different agencies and individual local partners and offer the possibility of a shared perspective.

Boyle (1993), Bailey (1995) and Bailey et al (2003) categorize urban regeneration partnerships as:
- Development partnerships: this type covers a single site or area (i.e. town centre), and can include partners such as the local government, a housing association and a private developer. The objective can be to promote a mix of commercial and non-profit development; execution of activities that focus on mutual benefit.
- Development trust: this type deals with a clearly defined area (a neighbourhood or estate), and is community based. The trust works independently of public bodies but may coordinate closely with representatives of the local authorities. The aim of this non-profit

venture is to achieve community-based regeneration, and to create benefits for the community; all 'profits' are recycled back into the trust.

- Joint agreement: this type is executed locally in an area chosen for regeneration, but may occur as a result of national policy. The partners may be public, private and, in some cases, non-profit. The aim is to develop a strategy for the area together, and sometimes implementation is via third parties.
- Promotional: This type is mobilized by a local party, for instance the Chamber of Commerce, and may have city-wide or district coverage. It is sponsored by the private sector or a development agency and the focus is on city marketing or promotion of economic growth.
- Agency: this type focuses at the urban or regional levels of development, and involves funding from a sponsoring agency. The agency executes work via a development agency or funds the setup of a partnership (many times three-way). The aim is to achieve multiple tasks, and the partnership is for a limited time frame.
- Strategic: this type is set up at the sub-regional or metropolitan levels, involves all sectors for the purpose of developing a city-wide strategy to guide development. The partnership is for the development of the strategy, while implementation often occurs via third parties.

The cases in this research fall into the first category, of a development partnership. Of note is that the primary relationship is between the public and private sectors, though external actors will still play a role in the interaction.

Ball and Maginn (2007: 24) mention that since various partners are involved in decision making, the governance structures of such partnerships are not *"hierarchical with the client at the top"*. Partnerships focus on more than just property development, on the more complex issues faced in an area. Projects are not driven by a single goal, but are multifaceted. Partnerships and decision making are subject to an *"intensive debate"* and *"tend to be negotiated, not simply laid out before"*.

This implies that, in the governance of such partnerships, partners need to deal with the tensions between ensuring cooperation and building of consensus between 'partners', while also guaranteeing that structures and systems allow for the completion of a complex project on time and on budget, while also maximizing the synergies derived from working together.

A partnership is not privatization

A partnership is not privatization! The term 'privatization' assumes that private economic agents take over what were public tasks; there is a shift from public to private production of goods and services as well as the risk. Awortwi (2004) states that privatization is related to handing over ownership to the private sector ('selling off the state'). Other authors distinguish privatization as relationships bound by contracts; Linder (1999), in a comparison of concepts of privatization and partnerships, argues that the hallmark of privatization is competition, while cooperation is that of partnership.

In contrast, in partnerships actors from the private and government sectors come together to create a good or service (Pennink 1997, Klijn and Teisman 2000) and mutual dependence is an aspect of production of that service (Bovaird 2004). Partnerships are a relationship where ownership may remain with the public sector, and the private sector becomes involved in the provision of a service, which would normally remain in the public domain because of excludability or externality problems.

Klijn and Teisman (2000) further argue that privatization is used in situations where output and performance can be measured and the principal can specify the service to be produced by the agent in a contract. This contrasts with partnerships, where more complex situations make output and performance more difficult to define, where governments have difficulty determining the products and the policies they want to produce. These situations can be characterized by uncertainty in goals and outputs, and, potentially, by a multitude of interests, such as is the case in urban regeneration. This view also stops trying to redefine the boundaries between the public and private (Linder 1999), to keep the principle and agents at arm's length. Instead, partnerships blur the boundaries and argue for greater interdependence (Edelenbos et al. 2007).

This points to the fact that researchers are increasingly diverging from the purely economic perspective of partnership (partnerships to achieve efficiency) to a governance perspective of partnerships: relations set up to deal with 'wicked problems' (Kickert et al. 1997, Bovaird 2004, Koppenjan and Klijn 2004).

2.5 The theoretical underpinnings for partnerships

This section considers the conceptual frameworks that are used to look at and analyse partnerships. The section will look at a number of theories and their perspectives over the years. It focuses on the trend from the economic perspective of partnerships to a more governance, network perspective of partnership. Discussing the differences here is important to be able to judge the shortcomings of certain perspectives and argue why one perspective is more appropriate to determining the focus of this research than another. The section will analyse the relevance of the theory for partnerships in urban regeneration.

Public choice theory, principal-agent theory, transaction cost analysis, new public management, strategic management and concepts of public governance and networks are often used to justify the role of partnerships in urban development (Kickert et al. 1997, Awortwi 2004, Bovaird 2004, Koppenjan and Klijn 2004, Teicher et al. 2006).

The first three come from different streams of economic theory. Much of their relevance for partnerships stems from the failures of governments to perform in the delivery of services and the arguments by economists that the resources can be mobilized more efficiently through the use of market mechanisms and the involvement of the private sector (Awortwi 2004, Bovaird 2004).

Public choice theory stipulates that the introduction of competition is essential for lowering costs of services and bringing about greater efficiency (Awortwi 2004). The private sector provides more choice and minimizes monopolies that can occur under public provision (Teicher et al. 2006). The role of the government is minimized; authors argue for as little government intervention as possible and only in situations of market imperfections. In the provision of public services, the government takes a key role in ensuring the development of competition and in regulating and monitoring the delivery of services. These concepts are the basis of much of the trend to privatization, and to deregulation (World Bank 1994).

Agency theory presumes a relationship between a principal and an agent, the former contracts with the latter for the delivery of a service for compensation. In exchange for this compensation, the agent agrees to take on the risk related to the execution of responsibilities. The principal takes the role of monitoring the activities of the agent. Monitoring is an essential

incentive for the agent to perform as agreed, as without it the chance of being caught is minimized, along with the pressure to fulfil obligations. Monitoring reduces the risk of opportunism by the agent (Batley 1996, Batley and Larbi 2004). Agency theory also implies that the separation of the roles of the principal and the agent is essential: the monitoring and enforcement of the contract is dependent on maintaining an arm's-length relation between the two entities and avoiding the possibility of entering into a relationship, which could cause a conflict of interest (Awortwi, 2004). The independence of roles can be seen in the separation of the tasks in many partnership schemes: the government, as regulator and purchaser of services, is separated from the private entity, as suppliers and service providers (Osborne and Gaebler 1993, Batley 1996, Batley and Larbi 2004). Agency theory has been central to the management of contractual relations used in certain partnerships.

Partnerships are also influenced by transaction cost analysis, a stream of economics which claims that transaction costs are an important element of market transactions (Williamson 1985). In transaction cost theory, transactions between agents are not costless, but involve substantial costs related to "*obtaining information, bargaining, making decisions, policing and enforcing contracts*" (Hodgson 1988: 180). Transaction cost theory has been applied to partnerships when looking at the nature of relations that can lead to the reduction of the costs of doing business and the role of public and private relations in doing this.

Aspects of public choice theory, agency theory and transaction cost analysis have been essential to the tenets of New Public Management, which advocates the application of private sector skills and practices to the public sector (Bovaird 2004). Professionals in the public sector are informed by private sector management models. This results in explicitly set standards of performance, a focus on outputs and efficiency in use of resources, disaggregation of organizations and the decentralization of decision making to accountable public managers (Hood 1991). New Public Management also promotes outsourcing and contractual relations with the private sector. The application of this in practice has influenced the behaviour of public-sector professionals and their relationship with the private sector.

These theories are important for partnerships, particularly in circumstances where greater competition is necessary and efficiency is one of the primary goals. However, even though efficiency may be a key concern in urban regeneration and a good justification for involving the private sector, one has

to wonder if it should be the primary criteria in situations of such complex problems and complex relations and in situations of dealing with social problems.

In fact, critiques of these theories have come from agency and transaction costs theorists themselves, who maintain that the complexities of transactions and relationships are such that it is unlikely that (1) (public) principals can monitor and influence (private) agents so that they execute contracted activities in a socially efficient manner (Halachmi and Boorsma 1998), and (2) that the costs of designing, negotiating, allocating, monitoring and enforcing contracts can be kept at an acceptable level to justify setting up partnerships on efficiency grounds. In complex transactions involving high risk, not all policing mechanisms and governance structures can cover all contingencies, even in a society in which legal sanctions are enforceable (Lazerson 1988). It is possible that the cost of policing is so great that it outweighs the benefit to be derived from the relationship. Bovaird (2004) contends that, in situations of such complexity, it is necessary to revert to relational contracting, which is based on trust. The criterion for moving to relational contracting is when the costs related to detailed, specification-based contracting are so great that a partnership is not justified. He also argues that confrontational contracting, which assumes that rational actors act opportunistically and in fact seek to take advantage of each other (they act individually or collectively to maximize their own utility and to minimize costs), is misguided and should be replaced. This implies a new style of partnership, based on relational contracting, a situation in which parties involved make decisions together, look for ways to help each other, and negotiate outcomes. Bovaird (2004: 199) states that partnerships are characterized by "*working arrangements that are based on mutual commitment*" (over and above that implied in a contract).

This trend is noted in strategic management literature, which underlines the importance of partnership and working in a collaborative as opposed to being purely in competition. Strategic management theory analyses the increasing interdependence between firms in the private sector, which has led to the wide-scale setup of strategic alliances (Bovaird, 2004). The benefits of such alliances are well documented in the literature. One example is seen in the partnerships that large multinationals build for competitive advantage with local firms in foreign countries in which they choose to invest (Bovaird 2004, Koppenjan and Klijn 2004). Increasingly, private sector firms are finding themselves in situations of uncertainty, in markets where technology is changing at such a pace that firms are becoming dependent on other firms

with specialized knowledge to compete in the production of goods and services. The literature on the increasing trend to strategic alliances (Das and Teng 1998, Klijn and Teisman 2000, Das and Teng 2001) covers the need for greater interdependence between firms to spread risk and access knowledge and skills in certain market segments. Governments are finding themselves in the same boat; they find that they increasingly need the private sector for the production of complex services and in urban regeneration.

Theories of strategic management also argue that long-term strategic alliances are typically based on trust, require joint decision making and cooperation, involve the sharing of assets and resources (including information and knowledge), and a commitment to mutual learning (Lorange and Roos 1993). Theorists contend that repeated interaction will help to create the 'collaborative advantage' that comes from knowing each other well; it is then that partnerships gain 'competitive advantage' over competitors (Huxham 1993, Moss Kanter 1994, Faulkner 1995). Aspects of the long-term relationship and relational contracting in complex situations contribute to improved outcomes (Bovaird 2004, Koppenjan and Klijn 2004).

The public governance paradigm, influenced by strategic management literature (Kooiman 1993, Rhodes 1997), gained importance in the 1990s. The advent of public governance marked a significant shift from the premises of New Public Management and efficiency as the major criteria for judging the performance of public organizations and public services. Though efficiency remained important, the focus shifted to the need to confront and solve the 'wicked problems' in society. Wicked problems are problems of such magnitude that the public sector cannot tackle them on its own and requires public agencies to work with a wide range of actors from other sectors (Stoker 1998, Pierre and Peters 2000, Koppenjan and Klijn 2004). Interdependence among actors becomes an element of relations. The government is no longer in the position to impose control on actors, but is dependent on others for making decisions. This locates actors in partnerships and networks where no single strategic vision dominates but the perceptions and strategic choices of actors influence each other, and agreements are reached through negotiation (Bovaird 2004).

Theories of networks are to be found in economic theory (the market, hierarchy and network school as part of transaction cost theory (Williamson 1975, Ouchi 1980, Powell 1990) and in public administration and governance literature (Kickert et al. 1997, Koppenjan and Klijn 2004). Literature on the network approach also emphasizes the need for a shift in perspectives. From

the economic perspective, it argues that neither markets (associated with the private sector) nor hierarchical approaches (associated with a government that coordinates through bureaucratic procedures) solve problems in the face of complexity. This has led, as mentioned before, to dependency of firms on each other and the increasing operation of firms in 'industrial networks' and strategic alliances (Klijn and Teisman 2000). From a more governance and policy process perspective, the government is no longer in the position to steer the policy process (the central rule model), and cannot depend on the bottom-up perspective that takes into account the values, interests and preferences of other actors (the multi-actor model). The network model, however, takes on the bottom-up aspect and incorporates the idea that public policymaking and governance take place in networks of actors (individuals, groups and organizations), none of which have the power to determine the outcome of a situation on their own (Hanf et al. 1978, Hufen and Ringeling 1990, Klijn et al. 1995, Kickert et al. 1997). The policy process is seen as "*an interaction process in which actors exchange information about problems, preferences and means, and trade off goals and resources*" (Kickert et al. 1997: 9). Networks are characterized by interdependency among the public, private and civil sectors (Castells 1996), and cooperation (or the lack thereof) and the build-up of trust are crucial to the realization of collective action. The interaction between actors leads to complexity, as partners negotiate outcomes based on perceptions and interests, which sometime results in conflict (Klijn et al. 1995, Klijn and Teisman 2000).

When an issue receives relevance on the policy agenda and interaction around an issue results in the formulation and execution of a concrete project, a portion of the network, called a 'policy arena', is 'activated' (Teisman 1998, Klijn and Teisman 2003). Targeted initiatives, such as projects, involve a more limited number of actors (not all relations are activated) (Friend et al. 1974, Kickert et al. 1997: 47). The policy arena organizes itself around the problem as perceived by a series of actors and can result in interaction among a number of organizations in the public, private and civil sectors. The way the interaction is organized can take a series of forms, one of which is a Public-Private Partnership. The government and other actors decide to involve themselves in concrete projects as a 'party among other parties' (Kickert et al. 1997: 59).

Given the complexity of problems and society, the advent of the governance paradigm and network theory provides a strong theoretical foundation for the study of partnerships. Focal in the study of partnerships is then *the actors and their interaction* in the partnership. On one hand, as partnerships are

frameworks for coordinating interests, it is important to come to understand who the range of actors or partners are and their interests. On the other hand, the theories help to provide a way of analysing their position and input into the partnership. Finally, in contrast to analysing a rational contract relation (the concept of principle-agent) of the New Public Management and economic paradigms, the nature of interaction points to long-term interorganizational relationships in which joint decision making and relational contracting takes place, and trust is important.

This implies the need to establish a clear framework of analysis for the process of interaction in which partners take part. The following sections look at the uncertainties actors face in situations of complexity and interdependence; how partnerships fit into network theory, the range of actors in urban regeneration partnerships, where conflicts can occur between partners and a model that can be applied to the process of interaction during a partnership.

Complexity, uncertainties, the role of perceptions and their importance for relationships

The complexity and the interaction in which actors find themselves produces uncertainty when they enter into partnerships and these uncertainties influence how they interact in the relationship. Koppenjan and Klijn (1994) argue that the uncertainties with which actors have to deal, revolve around three different themes.

First, *substantive uncertainty* is related to actors and their perceptions of a situation. When individuals, groups of people or organizations attempt to make decisions, information is essential to assess issues and make informed decisions (Teisman 2000: 939). Partners have different interests and perceptions of problems, and view these using different frames of reference. As a result, their interpretation of the facts will also differ. Perceptions are used as a yardstick for judging the value of solutions.

Perception is the lens through which people view and make sense of the world and influence how they create responses (Kickert et al. 1997) (see p. 82 for authors), evaluate outcomes of strategies to be employed (Van Twist and Termeer 1991). Perceptions are the "*images that actors have about their game situation and they use them to give meaning to and evaluate their actions and actions of others*" (Koppenjan and Klijn 2004: 7). Perceptions are important to the outcome of a situation, as they are the basis upon which

actors evaluate the possible outcomes of (policy) processes, choose a strategy and make decisions.

Strategic uncertainty relates to the choices that people make, the strategies they chose to solve problems (Crozier and Friedberg 1980, Ostrom 1990). Their strategies are founded on their own perceptions, which others may not understand, know of or acknowledge. This may result in a range of strategies being developed to deal with an issue. In addition, the problem-solving process may involve actors anticipating each other's moves and reacting to them. This can lead to complex and unforeseen types of interactions.

The uncertainty (and complexity) can be enhanced by the fact that actors take part in different patterns of interaction along the length of the process: some interact a lot, some stay on the periphery of a problem. One can encounter separate sets of interactions (games) along the way; different activities can be happening at different levels. Interactions are likened by Koppenjan and Klijn (2004) to a game with players who each have a stake in the game, a game that is governed by certain rules and in which strategies are important to the outcome.

Institutional uncertainty stems from the fact that processes also involve actors who belong to different groups or organizations. Their interactions are influenced by the institutional setting from which they come (their 'membership' in an organization or group): the tasks, opinions, rules and language of their social group or organization (Koppenjan and Klijn 2004). This institutional 'embeddedness' is important for understanding the interaction between partners; it will drive perceptions and strategies.

Complexity and the uncertainties that stem from it are important for the research in a number of ways. When looking at the choices that people, groups or organizations make, it is essential to understand the perceptions that are behind the positions that actors take and that drive the choices made. Different types of uncertainties will influence actors' perceptions of risk. In addition, strategies are played out in different arenas, at different levels and are influenced by different institutional regimes. It is important to understand the different arenas and institutional regimes in which partners take part and the influences that these have on perceptions and choices. Understanding interests of partners and their membership in a particular institutional regime is important to understanding perceptions. For this it is also essential to understand the role partnerships play in networks.

Given an understanding of how partnerships are located in networks, the following section looks at the potential range of actors in urban regeneration partnerships. That is followed by a discussion on how the nature of the partners can create tensions and add to complexity.

The range of actors in a partnership

The range of actors is a key dimension in partnerships. Who could potentially be involved in partnerships in urban regeneration? There are a variety of actors that have to be taken into account: in a situation of interdependence, it is important to understand who has influence on and input into the process.

Urban regeneration can be characterized by a range of key actors, and identifying them is influenced by the increasing blurring of boundaries between them (McQuaid 2000, Plummer and Heymans 2002) and by the complexity of some of the partnership arrangements (Huxham and Vangen 2000). General categories include national and local government, the voluntary sector, the private sector and the community (groups and individuals) (McQuaid 2000). Within these groupings, there are many different types of actors; even within one organization, there may be different groups or actors (i.e. the military comprises the Army, Navy, the Air Force, etc., and the Navy also consists of different groups) (Ahlbrandt and Weaver 1987, McQuaid 2000). This extends the complexity of identifying interests and relevance of actors to the partnership. Still, McQuaid (2000) argues that the type of partnerships will provide a natural ordering for determining what actors are involved, i.e. the community will be important for a partnership that focuses on the improvement of the situation of vulnerable groups.

The private sector as one grouping, for instance, includes a wide range of actors with different motives and resources to bring to the relationship. Related to urban regeneration, these could include firms whose business it is to deal with urban regeneration, such as developers, architects, financiers and bankers; and businesses that are affected by regeneration, including various size shops or businesses located in the areas (or in the surrounding areas). Businesses also vary along other dimensions: whether they are local or only branches of larger firms, how large they are, or whether they have strong ties to the community (i.e. for business and income) or not. All these dimensions influence interests, and whether goals are purely commercial or reflect some social elements (McQuaid 2000).

McQuaid (2000) argues that several other aspects influence the typology and range of actors involved in partnerships. For one, the structure of the partnerships, which is derived from legal frameworks, will influence who takes part and what kind of legal entity they are. If contracts are more formalistic because the transaction is a more commercial one, the number of partners may be very limited and specified in the contract. In more informal circumstances, however, the number of partners taking part in the process may be greater. Also, informal networks often play a very important role in partnerships: being conscious of the informal relations between parties, such as key community leaders and politicians, is essential for understanding the workings of a partnership. Informal structures can have large impacts on partnerships, on their operations and the process of decision making, so these actors must be taken into account.

The description of these relations and roles refers back to the point that each of the actors comes from institutional regimes when entering into a partnership and has to be identified as such. In addition, the circumstances described resemble the construct introduced by Klijn and Teisman (2000) (see also Klijn and Teisman 2003), that using the game perspective, games take place in arenas, and several arenas at once. Arenas are made up of a range of actors, who find themselves in certain decision-making situations and organizational arrangements. What makes it complex is that actors can be located in one or more networks at once, and that some of the actors will not be involved in all of the networks. The relevance of this is that there are a number of factors influencing interests, perceptions and role, stemming from membership in and the decisions made in different arenas. The impact on the interaction is therefore difficult to trace (Klijn and Teisman 2003). Still, it is possible to distinguish, in a partnership, between key players and peripheral actors. Key players are those formally involved in the process, who interact *"on the substance and process of the project"* (Klijn and Teisman 2003: 141); they will be bound by a signed agreement. Peripheral actors are those who may have an interest in the process, but are not included in the interaction on a consistent or systematic basis. This does not diminish their importance to the process, and the influence that their decisions and strategies (possibly in another arena) can have on the partnership.

This implies that the research will have to make a scan of the actors, key and peripheral, and their role and involvement over time. Their role may change depending on the period in the partnership; actors may exit and enter the arena at different times.

What are the differences in the characteristics and interests of partners?

Partners in a partnership have particular characteristics. Their interests, values and the institutional regime in which they find themselves will influence behaviour in a partnership. Jacobs (1992) and Simon (1990) in (Klijn and Teisman 2003), for instance, argue that differences in values are linked to the need for survival and so, by nature, may present problems when attempting to merge them in a partnership. This presents a challenge in manoeuvring a relationship. But where do these major differences lie and what are the consequences for the partnership?

The table underlines some salient points on PPPs, it underlines the key difference between the sectors that need resolution for the PPP to work. First, the core business of the two sectors is different: the basic interest of the private sector to pursue profits and market share can constitute a tension when faced with the importance given by the public sector to public objectives that weigh social and political priorities. These differences imply that partners will experience and define problems in a different way. Second, partners work according to different criteria: the public sector intervenes at the policy and planning levels (using mid- to long-term criteria), whereas the private sector intervenes at the level of a project (using short- to mid-term criteria). This means that views on time frame, objectives and risk will differ. Third, the institutional contexts in which the public and private sectors find themselves, imply that they have to manage different kinds of expectations (that of the constituency/politicians versus that of the shareholders) and are subject to different incentives when weighing issues and priorities. These incentives, and the organizational settings in which they work, affect the speed with which issues find resolution: public partners are bound by procedures, private by ensuring quick outcomes that are as efficient as possible. This implies a difference in how solutions are perceived and strategies are formulated.

Table 2-2: Where differences between the public, private and third sectors could potentially cause conflicts

	Public actors	Private actors	NGOs/voluntary sector/CBOs	Tensions
Driven by	The principles of hierarchy	The principles of the market	The principle of networks	Conflicting drivers
Core Business	▪ Objectives: (sectoral) public objectives ▪ Continuity: based on political support/conditions	▪ Objectives: realizing profits ▪ Continuity: based on financial conditions	▪ Objectives: motivated by a cause, or desire to fight injustice ▪ Continuity: based on external funding/sweat equity	▪ Results in different problem definitions ▪ Different motivations/ perceptions of risk
Interests	▪ To protect the rights of the general public ▪ Interests weighed and the result of consensus	▪ To create more business ▪ Efficiency of primary importance	▪ To protect the interests of their target groups/ members ▪ Social concerns and equity most important	▪ Result in different perspectives on problems and prioritization of interests
Institutional regime	▪ Affected by the (often changing) political agenda and responsible to the constituency ▪ Function according to mid- to long-term criteria ▪ Subject to more rigid organizational structures and lengthy procedures	▪ Motivated by and responsible to shareholders ▪ Function according to short- to mid-term criteria ▪ Subject to more flexibility in organizational structure and autonomy in decision making	▪ Motivated by and responsible to multiple stakeholders as well as funders, can produce tensions ▪ Function according to short- to mid-term criteria ▪ Subject to more flexibility in organizational structure and autonomy in decision making	▪ Incentives vary when negotiating positions ▪ View of and sensitivity to risks differ ▪ Affects freedom with which decisions are made

Values	• Loyalty • Devoted to a self-defined public cause • Priority to be able to control the process and approach (political/social)	• Competitive • Devoted to consumer preferences • To achieve results that will benefit shareholders	• Personal commitment to a cause • Devoted to the interests of the community and vulnerable groups • To achieve results that benefit stakeholders	• Government faced with conflict in accountability and is reluctant to commit to results • Private sector protective of knowledge and focused on reducing transaction costs • NGOs/CBOs protective of diverse needs and looking for result
Level of intervention	• Intervention at the level of policy and planning	• Intervention at the level of a project	• Intervention at the level of a project/community	• Influences the objectives and priorities of partners • Scale of objectives and measure of success differ
Perception of uncertainty and risk	• Emphasis on managing a wide variety of expectations and risk avoidance	• Emphasis on mobilizing market opportunities and managing risks and innovations	• Emphasis on managing diverse expectations, consistently faced with financial risk, dependant on the commitment of staff and willingness to remain committed	• Defined in political risks (managing expectations) versus market risks (in annual figures) versus financial risks (ensuring continuity)

Strategies	• Search for ways to guarantee substantive influence (primacy of the public sector) • Minimize expectations and the insecurity of implementation costs	• Search for ways to guarantee opportunities to produce and/or to obtain a contract • Minimize political risk and organizational costs as a consequence of public 'viscosity'	• Search for ways to keep their key target groups - who may have quite diverse objectives and priorities – satisfied. • Minimize risk of losing funding	• Confrontation leads to mutual locking up of agreements and partners revert to tried and tested types of cooperation (contracts)
Consequences for partnerships	• Emphasis on a limitation of risks and on agreements that lead to agreed procedures and public sector dominance	• Emphasis on certainty of market share and profit, which leads to an expectant attitude and limiting investment until the moment when the contract is signed	• Emphasis on negotiation for the cause and integration of community interests; emphasis on avoiding possible inequities/abuses caused by private sector/power groups	• If differences are not resolved in the process, the creation of added value through interaction can be put in jeopardy

Adapted from Klijn and Teisman 2003; Pennink 1997

These differences in interests and values lead to key points of negotiations in many partnerships: partners will pursue their interests. The success of the interaction depends on resolving differences, but when conflicts become apparent, partners withdraw and resort to arm's-length relationships governed by contracts (Klijn and Teisman 2003), and characterized by limited trust. These problems reinforce the need for care when designing processes and structures and taking interests that drive the partnership into account. In this research, these issues are taken into account when looking at the interactions between partners.

2.5.1 Partnerships as a process of interaction between organizations

One key dimension of a partnership is the time period or the phasing of the relationship, and the changing relations and activities that are a part of different phases (McQuaid 2000).

Understanding the characteristics of these periods is important for setting the framework of analysis. How can one conceptualize the process of partnership so that it lends itself to analysis? Teisman (2000) provides an interesting comparison of theoretical models that helps to clarify how to conceptualize the process of interaction.

Teisman (2000) presents three conceptual models to describe the chain of activities in decision making in policy processes. He outlines the characteristics of the Phase Model, the Stream Model and the Rounds Model, the development of the last is an attempt to compensate for some of the inconsistencies found in the first two. The Phase Model is common when looking at policy processes: decision making is broken down into distinct phases, from policy formulation to adoption and implementation. Each phase has its own specific characteristics and involves actors in different ways (Mintzberg et al. 1976). The government remains central to guiding the process. As mentioned in previous sections, the complexity of interactions in partnerships and the view on separate arenas puts this approach into question; one rejects the idea of being able to specify clear phases guided by government. In contrast, the Stream Model (Cohen 1972, Kingdon 1984) envisages decision-making as a combination of three streams: problems, policies/solutions and politics/ participants. It is when these three streams coincide that decisions are made. Each stream has its own characteristics, but the model is disassociated from a particular actor. The principles behind

the Stream Model are that there are problems looking for solutions (problems are discussed in the problem stream), there are actors with solutions looking for problems (the stream where solutions are discussed), and there are politicians who are interested in finding problems and solutions they can focus on. This model is hard to apply in this circumstance as it is not an actor-focused approach and does not take interests and perceptions into account. Teisman argues that the Rounds Model helps to do this. The Rounds Model takes actors as the focal point and many actors are involved in the decision-making process. Problems and solutions are complex and the focus is on those relevant to the actors in the process. The Rounds Model is based on an interactive process: polices or solutions are not formulated by the government as the central steering actor but are the result of a series of strategic decisions by multiple actors (Teisman 1998, 2000). In the Rounds Model, the focus is not on, as in the Phase Model, whether policy results match the goals established during policy formation, but more on whether policy responds to the objectives of the actors involved. This involves testing the satisfaction of participants at the time that the effects of policy or partnership can be distinguished.

What is important in the Rounds Model and the reason for its applicability, is the manner in which the phases or 'rounds' are determined. The model recognizes that decisions are made over a period of time, and, in that period of time, there are a number of actors that interact around a theme and make decisions (jointly or separately). There are no prescribed phases such as in the Phase Model; a decision-making round is determined (in retrospect) by charting the incidence of crucial decisions and determining which define the start and finish of a certain period. This approach is crucial for understanding the actors that enter and exit the arena of decision-making and the impact of their decisions on policy and projects. A visual representation of the key elements of the process are given in the model below:

Figure 2-1: Rounds over time in a partnership

The Rounds Model: relationship between interaction, key decision points and structure, actors and content in partnerships
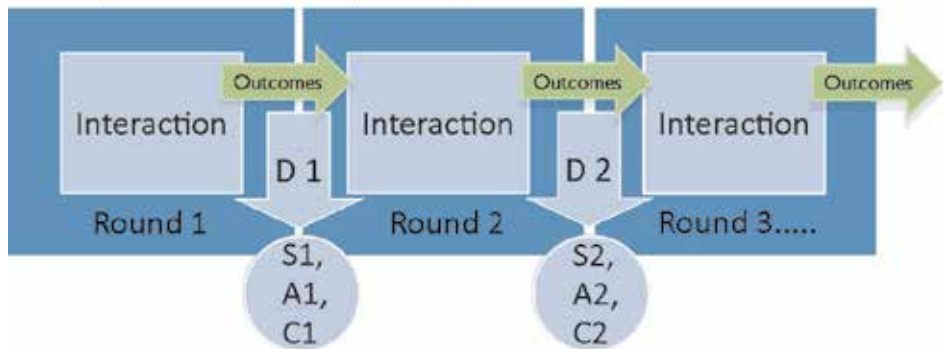
Strategies undertaken during the interaction result in key decisions (D) and changes in structure and stakes (S), actors (A) and content ©.
Adapted by the author from Teisman (2000) and Bult-Spiering (2003).

The figure underlines the fact that in the partnership, the process of interaction results in key decisions being made. These decisions mark the beginning of the next phase or round. The end of the round will potentially result in the setup of a new or different structure, different stakes, and a change in content and in actors (Teisman 2000). This model will be used to look at the interaction between partners in a partnership over time.

It is important to note that, in this research, the PPP is the 'vehicle' used to highlight the interaction and allows the research to focus on complex decision making between core partners and external actors in the network. In effect, these partners and actors are the 'players' in the interaction, using strategies to achieve outcomes.

2.6   Conclusion

This chapter has looked at the trend towards partnership, a phenomenon that has evolved out of the need to deal with problems that cannot be solved through traditional approaches, left to pure market and hierarchy. The complexity of society and of urban regeneration projects has led to interdependence among actors: problems are such that they cannot be solved by one actor alone. Partnerships are regarded as beneficial in these circumstances as they are argued to bring together the unique qualities of the various actors and, in doing so, to bring about positive outcomes.

The chapter looked closely at how partnerships are defined, their characteristics and what they are argued to achieve. In partnerships, actors interact to represent their interests in a relation where skills, risks and returns are shared. Partnerships are thus relations of mutual dependence and, in this way, distinct from other forms, namely simple contractual, arms-length relations. In analysing the theories that underpin partnerships, it is argued that theories of public governance and the network approach provide better foundations for partnerships. They provide a wider view than the purely economic view, and stress that partnerships are formed to deal with 'wicked problems', societal problems that the public sector cannot tackle on its own but that require input from actors from the private and civil sectors for their resolution. These theories explain the complexity of development and the interdependence among actors.

Within networks, a construct generally applied to policy processes, partnerships occur when there is selective activation of a policy arena. Actors organize themselves around an issue and form a temporary strategic alliance to achieve strategic goals. There is a large variety of actors taking part in these arenas, key players form a formal relationship based on a signed agreement, peripheral actors are involved less systematically, potentially entering and exiting arenas at different periods of the partnerships. The role and interests of these actors must be taken into account, as a way of providing a view of the relevance of their involvement in the build-up and outcome of relations. Also crucial to the analysis is coming to an understanding based on a determination of the key decision points in a process, the various rounds of the process and the involvement of the actors in these rounds, as shown in the model above.

Network theory helps to understand the context of uncertainty in which actors interact. Central to how actors experience and deal with uncertainty is their perceptions of the problems, the strategies chosen to deal with these problems, and how games are played and decisions are made in the different institutional settings to which actors are linked. Complexity and uncertainty is also increased by the differences between partners in terms of characteristics, interests, and motivations and the tensions that these can produce. Perception as the lens through which actors view and make sense of the world and that influences how people respond, becomes central to the research, as it acts as an evaluation and the measure, by partners, of problems, strategies and outcomes. If theory argues that one person's problem may be another's solution and vice versa, and it becomes difficult

to come to 'one truth', then the research must depend on perception as the most relevant indication of a given situation.

Finally, in complex urban regeneration PPPs, partners face different types of risk (uncertainties where probabilities are known and calculated), which they calculate in different ways, according to how they perceive them. In researching PPPs, it is essential to understand the perception of risks and how this drives the interaction of the partners. It is also important to analyse how the interaction has resulted in different outcomes.

The next chapter will explore the theories underpinning trust. As has been mentioned, trust is important for interorganizational and horizontal relationships, particularly long-term and interdependent relationships such as PPPs, and is built over time. It is important to chart the change in trust, as a result of the interaction in the PPP. The following chapter will also look at the relation of trust to risk and outcomes. The assumption is that this is relevant for PPPs, where management of risk and creation of efficient and effective outcomes are important. The chapter will take the model introduced here and develop it further to incorporate the concept of trust growth, the factors that contribute to this and its influence on risk and outcomes.

3 Trust

3.1 Introduction

The previous chapter introduced the concept of partnerships in urban regeneration and discussed the fact that, not only are these types of partnerships complex by nature, they also take place in increasingly complex societies. Partners are faced with uncertainties and have different perceptions of the problem and the solution. They are also faced with the uncertainty of dealing with multiple actors from different institutional settings; the partnership game is played out in different arenas. From the perspectives of the partners, this makes the process of coming to terms with defining the problem and solutions much more complex and risky, but partners need each other, they are interdependent and cannot resolve issues without joint investment of resources. The previous chapter also argues that confrontational contracting is no longer effective, transactions have become so complex that no amount of policing and no governance mechanisms are sufficient to cover all contingencies. The arm's-length nature of the principle-agent relationship is being replaced with relations of strong interdependence based on what Bovaird (2004) terms as relational contracting or, in other words, agreements based on trust. It is argued that trust is fundamental as an *"efficient lubricant to economic exchange or the most efficient mechanism for governing transactions"* (Arrow 1974: 23, Misztal 1996: 79), particularly in a situation in which a rational agent would not normally proceed with the transaction. Moore (1994: 819) states that trust is crucial to situations with high risk, that the generation of trust makes agents, *"incompletely protected by law willing to dispense with detailed personal policing of every transaction, and put great trust in exchanges involving large apparent risks"*. Trust is essential in situations of complexity and high risk (see also Furlong 1996).

This chapter looks at why trust is argued to be effective in complex transactions, discusses the definition and nature of trust, looks at how to conceptualize the build-up of trust over time, and discusses the factors that contribute to the creation of trust. It also explores what the literature has to say on the influences of trust on the perception of risk, and on the outcomes of an interaction. The chapter ends with the conceptual model used in the research to study trust build-up, as well as the influence of trust on the perception of risk and outcomes, over time, on the part of the partners.

3.2   The need for trust

Literature from different disciplines cites numerous reasons why trust is important to complex and risky relationships such as partnerships. The conceptualization of trust is prevalent in philosophy, political science, social anthropology, but particularly in economics and sociology (Furlong 1996). Trust has also risen as a key issue in transaction cost economics (Williamson 1993, Furlong 1996), game theory (Dasgupta 1988) and the social aspects (Blau 1967, Luhmann 1988) of the relationship between organizations or people in particular roles or agents in situations of exchange.

It is argued that trust matters in economic development and is crucial to the relationship between economic agents (people and organizations). Even as far back as 1848, John Stuart Mill (Mill 1891: 68-69) stated that trust was a crucial factor to the productivity of and exchange between people. He stated that "*trust can reduce the transaction costs of enforcing honest behaviour*".

In today's globalizing world, scholars now see trust as instrumental to achieving increased competitiveness. Trust is argued to contribute to organizational performance (Earley 1986, Ring and Van de Ven 1994, Sako and Helper 1998) and in doing so to the productiveness and growth of the economy. Trust is also seen as of great importance in the growing number of strategic alliances set up to achieve competitive advantage in a risky market place (Barney and Hansen 1994, Madhok 1995, Das and Teng 1999). The ability to effectively maintain strategic partnerships and alliances among competitors has gained critical importance (Lewicki et al. 1998). Trust is argued to contribute over time to the development of collaborative advantage that comes from strong relationships, which then helps to create that competitive edge over competitors (Bovaird 2004).

Trust is argued to be crucial for cooperative relations (Blau 1964, Ring and Van De Ven 1992, Child 1998, Nooteboom 2002), thus in the setup and execution of strategic alliances and partnerships. It is argued to lessen fears concerning opportunistic behaviour, integrate partners and their interests, reduce the need for formal contracting, enable cooperative behaviour (Luhmann 1988), reduce transaction costs, promote flexible organization forms such as network relations (Miles and Snow 1992) and promote effective responses to crisis.

Trust is also seen as important to social capital, social capital being "*a resource available to individuals that emanates from group interaction*

because of trust, reciprocity and cooperation" (Carpenter et al 2004: 855). Putnam et al (1994) argue that trust creates social capital which then can create economic dynamism and improved government performance. Similar to human and financial capital, social capital is argued to produce material benefits to actors that interact and are connected in a network via social interchange (Bordieu 1986, Coleman 1988, Putman et al 1994). The argument is that social capital grows particularly in communities that have fewer resources in comparison with others and will result in improved economic or political performance and quality of life. The creation of social capital is necessary for the creation of intellectual capital and innovation. Innovation is suggested to be the product of collective work, and problem solving that leads to the generation of new ideas (Nahapiet and Ghosal 1998). This collectiveness and willingness to invest in the creation of ideas is facilitated by the production of trust.

Finally, trust is seen as important in governance. As governments increasingly come to realize that they can no longer resort to hierarchical, vertical forms of governing, they are moving to more horizontal forms of governance (Kickert et al. 1997, Castells 2000, Koppenjan and Klijn 2004). This trend also implies an orientation towards working with multiple stakeholders and an interdependence among all the actors involved. The process of development and cooperation has come to be characterized by complexity and decision making that cannot be coordinated via traditional rational and hierarchical approaches. Theorists argue that trust acts as a coordination mechanism in these cases, lessening the need for formality in decision-making (Kickert and Koppenjan 1997) and reducing the perception of uncertainty in a complex society (Koppenjan and Klijn 2004, Klijn 2005).

3.3 Trust, risk and interdependence

Authors dealing with the sociological and economic conceptualization of trust agree that the existence of risk is essential for the creation of trust (Luhmann 1988, Boon and Holmes 1991, Das and Teng 2001). The suggestion is that trust does not exist except in risky situations; trust would not be needed if decisions could be made in conditions of absolute certainty (Deutsch 1958, Rotter 1980, Coleman 1990, Williamson 1993, Rousseau 1998, Das and Teng 2004). In addition, the existence of risk creates the opportunity for trust, trusting can then lead to partners taking more risk. Furthermore, when risk-taking results in the behaviour or outcomes expected (for instance, the partner delivers as promised), this reinforces the

sense of trust (Coleman 1990, Das and Teng 1998). In effect, this results in a cycle of trust development or a 'trust cycle' (Vangen and Huxham 2000).

Trust's relationship to risk is, however, part of a controversial debate. Williamson (1996), in particular, argues that trust in unnecessary: actors in an interaction assess and decide upon the risk that they can and are willing to take, and act upon this. Trust is simply risk taking and this risk can be managed by means of a contract. Risk-taking is then pure calculus based on which rational actors make decisions (Nooteboom 2002). Please also refer to Section 3.1.1. below.

The question then remains whether all risks can be calculated or policed via contracts? This research argues that as PPPs take place in extreme complexity and in the context of multiple stakeholders, it is impossible to be in possession of full information and to predict the activities of all stakeholders. It is impossible to calculate all risks and contingencies; it would also be a waste of precious resources. Trust has a significant role in reducing the perception of risks, as partners expect positive outcomes to result from the cooperation (Deakin and Wilkinson 1998, Koppenjan and Klijn 2004). They no longer expend precious resources on calculating the probability of negative outcomes. In effect, trust helps partners make the decision to cooperate, and without it, partners would not be willing to make themselves vulnerable and exhibit risk-taking behaviour.

Interdependence, such as is found in long term PPPs, is also argued to be necessary for trust to build between partners (Lewicki et al. 1998, Sheppard and Sherman 1998, Das and Teng 2000). Interdependence implies that the objectives or interests of one partner cannot be achieved without full reliance on the other(s), access to their resources (Koppenjan and Klijn 2004, Edelenbos and Teisman 2008), and increased vulnerability to each other. The contention is also that, over time, with increasing degrees of interdependence, and thus potentially increasing levels of risk (and vulnerability), trust will grow and change (Lewicki and Bunker 1996, Child 1998, Das and Teng 2000)

Transactions are embedded in relationships among agents developed over time. Successful exchange builds trust, which then generates more lasting relationships. The temporal quality, repetitiveness and frequency of the transactions are crucial to the build-up of trust, and the effectiveness of the intervention (Eshuis 2006).

In addition, though risk and interdependence are essential for trust to emerge, the contention is that the nature of the risk and trust change as the nature of interdependence changes and increases. With increasing degrees of interdependence, and thus potentially increasing levels of risk (and vulnerability), trust will grow and change (Lewicki and Bunker 1996, Child 1998, Das and Teng 2000). How and the extent to which this happens will be further developed in later sections of this chapter.

Authors argue that trust is not static but develops over time, building, declining, or resurfacing (Rousseau et al. 1998). Trust can be argued to be part of a process; something that is formed as a result of certain factors or actions that exists under certain conditions, and declines as a result of behaviour which breaks the code of the relationship. This also implies that certain tools exist that can foster trust and maintain it. What are these factors? The literature explores these, but there is a need for further empirical research on the nature of these factors.

The following sections look at the definitions and nature of trust and determine the definition used in this research.

3.4   The theoretical frame for trust: the economic and social view

Over the years, scholars have studied trust from several disciplinary perspectives. Personality theorists focus on the individual, and the propensity to trust, as well as the societal factors that influence that propensity. Social psychologists look at the interpersonal level and focus on trust as a phenomenon in the interaction between individuals or groups of individuals. Economists and sociologists analyse trust at the institutional level (Hosmer 1995). Trust exists in interactions on the personal, organizational, interorganizational and international levels; it is a multilevel phenomenon.

For personality theorists, trust is seen as a belief or a feeling that originates from an individual's personality and is formed during the individual's early years of psychological development (Worchel 1979, Lewicki and Bunker 1996). Social psychologists conceptualize trust as the expectation that one individual has of another in a transaction. Trust is linked to the risk that can arise when acting on such expectations. Context is also taken into account as well as its influence on the creation of trust. Economists and sociologists, on the other hand, view trust as a phenomenon that can develop at the organizational level, can exist within and between institutions, as well as at

the level of the individual acting on behalf of the institutions (Worchel 1979, Lewicki and Bunker 1996).

The disciplinary approach of economists and sociologists are used in this research: the theories on trust that look at trust as part of relations between organizations and at how institutions create incentives to reduce the anxiety and uncertainty inherent to interactions (Goffman 1971, Zucker 1986, Bhattacharya et al. 1998).

The following section will look at two theories: agency theory and social exchange theory and their application to trust. Both are used here because singly they do not fully describe the circumstances under which trust develops. All long-term, interorganizational relationships, even when they are economically driven, have social dimensions.

3.4.1   The economists' point of view:

Economists that take a classical economic view of market transactions do not believe in trust. These economists believe that trust is irrelevant to economic exchange where rational actors buy and sell based on contracts or other safeguards against opportunism.

Economists look at the existence of trust in the context of agency theory, which deals with the structuring of relationships between two rational parties for economic exchange (Whitener et al. 1998). A principal-agent relationship (as mentioned in the previous chapter) involves the contracting of one party (the agent) by another (the principal) to execute tasks set out in a formal agreement. The relationship is impersonal. Williamson (1975) uses the term 'principal' and 'agent' to refer to individuals, groups or firms. Individuals and firms in such relationships attempt to maximize their own utility and to minimize the risk resulting from the association. An agent will work for a principal and is required to bear risk, for which the agent is compensated. Risk increases if factors beyond the control of the agent influence outcomes, and compensation is dependent on these outcomes. Risk for the principal, on the other hand, stems from the potential opportunism or incompetence on the part of the agent and the inability to protect the relationship against these. Risk increases when the principal is in possession of insufficient information on the activities of the agent (there is information asymmetry) or when the goals or incentives set by the principal do not match those of the agent (there is goal incongruence). Risk also increases when the agent is motivated to undertake activities outside of the contractually specified tasks. The focus of agency theory is on the incentives

(monitoring and governance mechanisms) that are used to reduce the risks and the transaction costs of doing business.

Williamson's (1985: 47) discussion on transaction cost economics takes a very negative view of actors, arguing that the agent is not to be trusted and that the risk of opportunism is high. He conceptualizes opportunism as *"self-interest with guile"*, which can include blatant forms of cheating as well as milder transgressions such as misleading a partner or withholding or distorting information (Hill 1990). Principals, therefore, manage agents using contracts and controls; these are termed as substitutes for trust (Hosmer 1995: 5).

As stated above, Williamson (1993) argues that trust blurs the debate. He argues that, as agents are naturally opportunistic, when considering engaging with another agent, they will calculate the potential risk of the exchange. Trust is justified when the benefit expected from being at risk to another is positive, but not otherwise. He sees trust simply as risk taking, which involves calculating the costs and benefits of working together (i.e., are the benefits of working together so great that I am willing to take the risk that my partner may act opportunistically?). This does not involve blind faith in each other. Risk-taking is then pure calculus based on which rational actors make decisions (Nooteboom 2002). Coleman reiterates this: *"Situations involving trust constitute a subclass of those involving risk. They are situations in which the risk one takes depends on the performance of another actor"* (Coleman 1990: 91). Luhmann (1988: 97) suggests that trust *"presupposes a situation of risk"*.

The principal-agent relationship deals with contractual situations. But what about in the context of more complex and long term relationships, situations that are characterized by multiple interests and uncertainties and that are subject to joint decision-making? The previous chapter also questions the application of principal-agent to partnerships of such complexity.

Authors are divided on this (Williamson 1975, Deakin and Wilkinson 1998, Edelenbos and Klijn 2007). Some economists argue that the risk is so great that no amount of governance mechanisms and controls could possibly take all contingencies into account, and this is when trust comes into play (Deakin and Wilkinson 1998). Partners, on the basis of trust, undertake relationships they normally would not. Even though a calculus of the cost and benefits still occurs, there is a willingness to take risks beyond what is considered reasonable (Moore 1994). Other economists still regard trust as insignificant

in such circumstances: even in conditions where asymmetric information and incomplete contracts exist. They argue that the answer lies in a combination of mechanisms: contractual safeguards, vertical integration (Lyons and Metha 1997), or the use of reputation or risk-taking.

Barney and Hanson (1994) criticize the rational, calculative economic approach to trust, where actors in economic exchange seek only to maximize their own self-interest and are inherently untrustworthy or subject to opportunistic behaviour, and can only be controlled if there are sufficient governance mechanisms, i.e. legal and contractual protections, in place (Williamson 1975). The criticism comes from behaviourally oriented organizational scholars, who argue that this construct is empirically incorrect and (socially) inefficient (exchange partners are, in fact, trustworthy), as such a point of view leads to overly expensive and extensive control mechanisms. It is argued that partners can be trusted to act as "*stewards over the resources they have under their control*" (Barney and Hansen 1994: 175).

In addition, the variations that exist in the discussions on trust in different types of relationships imply that there is some tension between acting out of self-interest (agency) and acting out of the interests of a broader collective (community). This difference is important to networks where relations are often argued to be based on trust (Kickert et al., 1997). Communities can reach a shared understanding through interaction and exchange of knowledge, which then binds individuals and firms together. Willingness to trust becomes a condition of membership to the community (Sabel 1993, Rousseau et al. 1998).

This is also evident in the argument on partnerships, where goals and interests are not seen as purely economic, but as having social components as well. In addition, the rational economic point of view assumes an impersonal perspective, with little regard for long-term interaction. The kind of partnerships that are the focus of this research are not one-off, impersonal relations between the seller and the buyer, but more complex, longer-term relationships of substantial interdependence. Partners may come to the relationship interested in maximizing their own interest, but with time the importance of maintaining the relationship may take on equal importance.

3.4.2 How sociologists see trust

Sociologists, on the other hand, look at the social elements of a relationship as it evolves. Social exchange theory as described by Blau (1964) sees trust as developing when an individual or an institution voluntarily provides a

benefit to another. This, in turn, creates an obligation for the other party to reciprocate. Blau argues that as benefits are reciprocated, trust arises and will continue to grow as exchange is continued over time.

Blau distinguishes the types of benefits derived from economic and social exchanges. Whereas economic agents specify the exchange to take place and the benefits to be derived, the benefits in social exchange are not anticipated or negotiated formally, but are purely voluntary. Benefits are personally chosen and not role-prescribed (McAllister 1995: 3). In addition, the very fact that the benefits provided in social exchange are voluntary implies that there is no assurance of their being reciprocated. This brings a level of uncertainty to the relationship: a risk of non-reciprocation (of opportunism). This also implies that relationships are built incrementally: benefits of limited value are exchanged at the outset of the relationship (keeping the risk of opportunism low); they increase in value over time as the relationship continues, benefits are reciprocated and trust is built (Whitener et al. 1998).

Blau attaches values to these benefits and states that social exchange has value for economic exchange and vice versa. He argues, for instance, that in social exchange some benefits can be 'extrinsic' and can have an economic value, such as through the provisions of information and advice. On the other hand, there can be intrinsic benefits, with little economic value, such as social support.

Thinking on social capital has some similarities. Social capital emerges when an agent makes use of a social structure to his or her benefit (Coleman 1990: 305); trust is important for the creation of this social structure. For Coleman (1990: 302) social capital is relational, and is embedded in social structures. Trust is a key element of the relational aspects of social capital (Nahapiet and Ghosal 1998). The social exchange between actors is purely voluntary, though as the structure of that relationship develops over time, it defines rules, norms and obligations of the interchange. Social capital creates expectations and obligations and can be used as basis for decisions and future action (Coleman 1988, 1990). Through exchange, trust is built and actors commit to further exchange based on this trust. With high levels of trust, people are willing to cooperate, then building social capital. In this situation, organizations are able to forgo formal monitoring and contractual relations (Nahapiet and Ghosal 1998).

The two strands of theories look at new relationships and relationships that develop over time. Agency theory and transaction cost theory emphasizes

the self-interest motive and the potential for opportunism, particularly in conditions of information asymmetry. Monitoring is seen as crucial to covering risk and trust as of limited importance, or just a subset of risk (Williamson 1975, Das and Teng 2004). Social exchange emphasizes that if a social bond has been developed as a result of successful exchange and exchange of benefits over time, that there will be a lower perception of risk, a greater propensity to trust, less need to resort to monitoring. What is important is that calculative aspects of the exchange may be pertinent to a new relationship; it is argued to be less pertinent in relationships of longer term. This does not imply that partners stop calculations of costs and benefits at certain points in the relationship, but that this tendency diminishes as times goes on and the relationship evolves. The emphasis on or relevance of calculative aspects and relational elements of trust are different in different phases of the relationship.

3.5   The definition of trust

3.5.1   Trust: dependent or independent variable

Studies on trust have problems defining trust. There are problems with the definition of trust itself, in clarity in the relationship between risk and trust, confusion in the antecedents and outcomes of trust, and in the level of analysis (the individual or the firm) (Mayer et al. 1995, Das and Teng 2004). The literature demonstrates a variety of views on whether trust is the cause of something (independent variable), or the effect of something (dependent variable). In some cases, it is seen as an independent variable. In game theory, high trust is considered to bring about the tendency to cooperate and thereby to achieve economic gain (Axelrod 1984, Miller 1992). Transaction cost economists argue that trust causes a reduction of opportunistic behaviour, thereby reducing the transaction costs of the partnership (Sitkin and Stickel 1996, Klijn et al. 2010). This can be seen in long-term relationships, in which the ability to negotiate and settle conflicts are key; trust is seen as way of mediating responses of partners (Zaheer et al. 1998). These views support the idea that trust is effective in producing successful outcomes.

In addition, trust is also conceptualized as a dependent variable, as the result of certain personality or situational factors (Das and Teng 2004). Trust is viewed as the result of the attributes of another party, i.e. of their competence, openness and reliability (Mishra 1996) or their reputation for trustworthy behaviour in previous interactions (Mayer et al. 1995). Some argue that trust is only possible given the appropriate social context. Social

norms shape behaviour, and the tendency to trust or be opportunistic, as well as their beliefs in the intentions of others (Sitkin and Stickel 1996). Social contexts produce institutions, which in turn promote or restrict trust relations (Fukuyama, 1995). These relations occur at the individual level between partners, or at the interfirm level.

This discussion is valuable when looking at the definition of trust and the operationalization of the trust. This research contends that it is important to look at the factors or the bases of trust as well as what causes trust.

3.5.2   What definitions of trust tell us

Definitions of trust use such terms as '(positive) expectations' or 'perception' of a person, group or organization(s). These definitions also state that the expectations or perception are dependent upon the motives, intentions and behaviour of the other person or organization. In effect, there is a party that does the trusting (the trustor) and the object of trust (the trustee). Hosmer (1995: 390) concludes that "*trust is generally expressed as an optimistic expectation on the part of an individual about the outcome of an event or the behaviour of a person*".

There are some important features of the definitions. First, they make a distinction between individual expectations and behaviour (Zand 1972), behaviour being related to the decision to trust and act on this trust (in situations of vulnerability, implying giving up control). Second, they often, though not always explicitly, refer to the connection between trust and risk. They often use terms such as fear, predictability, uncertainty, likelihood and vulnerability (related to exploitation and opportunism) (Das and Teng 2004).

The argument is that behaviour is **not** trust, it is a result of the decision to trust and act on this trust. This implies that the definitions of trust focus on the expectations/perceptions of an individual or an organization relative to another individual or organization, and this perception relates to how the trustee *might behave* or what the outcome of an activity *might be*.

In addition, the assumption is that trust is based on a set of factors (i.e. information concerning past performance, past experience), which have brought about this perception. This perception will influence the trustor in future activities and behaviour, in others words, there are outcomes related to the decision to trust, which are visible as a result of trust (increased cooperation, greater innovation, increased risk-taking).

The reason that the concept of trust is hard to pin down is because trust is built over time, and will be based on a variety of factors; this implies that perceptions also change as a result of the exchange process or aspects of behaviour of actors in the relationship. Trust is built and maintained through interaction (Eshuis 2006). Whereas many theorists focus purely on the rationalist, calculus-based form of trust, which is argued to be most relevant at the outset of the relationship, a different form of trust is built over time, based on the outcome of the personal relations formed. This theme is repeated over and over again in the literature. The emphasis is on the rational versus the emotional aspects of the trustor.

The definition of trust must reflect certain other dimensions. It must distinguish between two clear aspects: on one hand, the trustee's capacity or competence, on the other, the trustee's integrity or goodwill. Both are necessary notions when discussing partners in economic exchange and partnerships.

Nooteboom (1996: 990) makes an important distinction when it comes to trust. He states that *"trust may concern a partner's ability to perform according to agreements or his intentions to do so"*. This is a crucial distinction, as it links to the discussion above. From the perspective of the trustor, trust will be based on a calculus of a partner's competence, as well as a more personal assessment, which comes out of repeated contact, of the partner's integrity and sense of obligation in a situation.

The other theorists mentioned above support this view. In the terminology used by Ring (1996), 'fragile' is more calculative, whereas 'resilient' is based on a perception of goodwill. McAllister's (1995) framework makes a similar distinction, the calculative aspect of cognition-based trust, and the goodwill and responsibility that are aspects of affect-based trust (see later section on bases of trust).

Barber (1983) contends that trust refers to an individual's sense of 'responsibility' and 'competence'. Responsibility is more related to a sense of moral duty and the trustor's belief in the intentions of the other. Competence refers more to the ability of an individual or a group to do what is expected of them. Creed and Miles (1996) assert that ability and dependability are important components of trust; Mayer et al. (1995) use concepts of 'ability' and 'expertise' to denote competence.

Competence and goodwill are key concepts in trust: competence as *"the expectation of technically competent role performance"* (Barber 1983: 14). 'Goodwill' (term used by Ring and van de Ven, 1992) reflects *"the expectation that some others in our social relationships have moral obligations and responsibility to demonstrate a special concern for other's interests above their own"* (Barber 1983: 14). These notions have led to the definition formulated in this research.

In this research, trust is defined as *the perception of an actor that another actor will refrain from opportunistic behaviour should the opportunity arise and the perception of an actor that another actor will have the ability to perform according to agreements*.

The definition used focuses on perception, and not on the behaviour that is a result of the decision to trust. It presumes a lack of opportunism on the part of the trustee, that the trustee has a sense of moral obligation and takes the trustor's interests into account. It also presumes, in addition to the goodwill or intention to fulfil obligations in the relationships, that partners will also be capable of fulfilling the tasks agreed upon. This definition is argued to be the most relevant for partnerships in which not only intentions are important but also outcomes and performance.

3.6   Trust and outcomes

Again, trust matters in situations that are driven by the need to interact, coordinate and cooperate on a regular basis to achieve objectives, instances where there are *"critical task interdependencies"* (Gargiulo and Benassi 1999: 299). Trust is argued to influence the outcomes of interaction in which there are such interdependencies, such as partnerships.

What lies at the heart of trust is that with trust present, people feel less vulnerable and are more willing to take risks. Mayer et al. (1995) underline the notion that an individual's belief or perception about another party (trust) affects their behaviour in an interaction. Partners will then act on this and take more risk (Barney and Hansen 1994). Here the literature makes a distinction between the willingness to take risk and risk-taking behaviour as an outcome of trust (Mayer et al. 1995, Ross and LaCroix 1996, Colquitt et al. 2007). The willingness to take risk results in risk-taking behaviour, such as more open communication, greater effort, increased cooperation, reduced conflict, better negotiations. Without fear of reprisal, risk-taking can manifest in greater innovation, asking for help, seeking feedback, expressing

concern (Edmondson 2004, Cosner 2009). Risk-taking can also manifest itself in partners making more investment than would be normal, or sharing information that they might not normally share (Klijn et al. 2010). These are different types of behavioural outcomes resulting from trust in the interaction.

Another type of outcome argued to result from trust relates to 'performance' (job, group, team), in this case of the partnership. Performance outcomes might simply relate to positive or negative client and partner satisfaction (as perceived by the community and the partners) with the project or PPP, and whether trust influenced this (Costa et al. 2001, Cosner 2009). Performance outcomes also relate to whether the trust has brought about a reduction in transaction costs and improvement in the performance of the project (measured, for instance, in efficiencies, effectiveness, productivity) (Cosner 2009). The latter is outside of the scope of this research, other than at the perceptual level.

The assumption made here is that the behavioural outcomes resulting from trust will lead to larger partnership performance outcomes. For this to occur, interaction over time is necessary.

Performance
Trust is argued to contribute to performance. There are a number of studies on interpersonal and interorganizational trust and its influence on performance (Madhok 1995, Zaheer et al. 1998, Dirks and Ferrin 2001, Cosner 2009). One notion is that trust affects the way a trustor allocates (human, financial and other) resources when dealing with a partner (Dirks and Ferrin 2002, Colquitt et al. 2007). The trustor is willing to be vulnerable and forego extensive monitoring of the partner. Partners can then refrain from having to divert resources to monitor and control activities, but instead will focus on achieving mutual objectives, thereby improving the focus and effectiveness of activities, and performance. Over time, trust leads to the development of strong exchange relations, which are argued to be linked to improved behaviours on the job (Blau 1967, Colquitt et al. 2007). In addition, the literature argues that the trust built when working together helps to improve collective problem solving and decision making, and will contribute to productivity (Putnam et al. 1993, Cosner 2009). Other authors have looked at the effectiveness of teamwork and links to interorganizational performance. Trust built in teams working together has been found to be linked to task performance, the satisfaction of those working together and to commitment to the relationship (Costa et al. 2001).

One key aspect of performance is transaction costs. Trust is also argued to reduce transaction costs (Williamson 1993, Barney and Hansen 1994, Davis et al. 2000). Following from the argument above, on one hand, trust reduces risk in transactions and cooperative relations, and creates greater predictability. This is also important in situations, such as PPPs, where partners have divergent objectives (Madhok 1995). This occurs when an actor feels confident that the other has good intentions and will refrain from acts of opportunism (Sitkin and Stickel 1996, Klijn et al. 2010). The belief is, in situations of risk, that vulnerabilities will not be exploited and partners will not need to make additional investments in governance mechanisms, such as formal contracting, or hierarchical controls (Ring and Van de Ven 1992, Davis et al. 2000). This will reduce costs, as contracts require fewer details and specifications (Ring and Van de Ven 1992, Hindmoor 1998, see also Sako in Lane and Bachmann 1998, Nooteboom and Jacobs 1998, Klijn et al. 2010). Effectively, trust reduces the costs attributed to opportunism.

There are a number of more specific ways in which trust is claimed to reduce transaction costs and/or to improve performance, each of them outcomes in their own right.

Tendency to cooperate
Trust makes partners predisposed to cooperate (Ring and Van de Ven 1992, McAllister 1995, Dirks and Ferrin 2002, Zand 2008, Cosner 2009). Partners who have the proclivity to cooperate, in fact, demonstrate higher levels of flexibility in relations, leading to better outcomes for the partnership (Madhok 1995). Again, the assumption is that by cooperating, partners improve on decision making and problem solving (Putnam et al. 1993, Cosner 2009). Finally, over time, interactions based on cooperative relations tend to be institutionalized, and take on their own norms and procedures. The development of the relationship and the desire to participate reduces transaction costs (Ring and Van de Ven 1992, Madhok 1995).

Coordination efficiencies
Another argument is that trust improves on the ways that partners coordinate activities, this is particularly the case in joint ventures and PPPs. One of the overall justifications for PPPs is the coordinating efficiencies that come from working together on tasks and being able to plan activities together (horizontal and vertical integration) (Klijn et al. 2010). However, trust is argued to take this further. Trust creates mutual expectations of the outcomes of working together, partners are oriented to each other and this

therefore leads to potential streamlining of working processes (Madhok 1995, Zaheer et al. 1998). Trust acts as a coordinating mechanism by lessening the need for formal decision making (Kickert and Koppenjan 1997).

Exchange of information and sharing of a range of resources

Trust brings about an exchange of information and improves access to the resources embedded in both organizations. One of the fundamental aspects of PPPs is the sharing of and tapping into each other's resources (information, knowledge, investments, various assets) (Madhok 1995, Dirks and Ferrin 2001, Klijn et al. 2010). In situations in which parties feel less vulnerable and know that information will not be used against them, partners tend to be willing to disclose more accurate, relevant and complete data (Tschannen-Moran and Hoy 2000). Partners may also be willing to invest more than expected to ensure the continuation of the cooperation and that the project and partnership remain stable. These investments are often unforeseen and not covered in the contract, but are investments that partners deem necessary to ensure meeting the objectives of the project (Ring and Van de Ven 1992, Creed and Miles 1996, Nooteboom et al. 1997, Nooteboom and Jacobs 1998, Parker and Vaidya 2001, Klijn et al. 2010).

Mutual learning

Another argument is that trust brings about mutual learning via knowledge transfer. In situation such as PPPs, where partners bring to the table different knowledge and skills, trust will facilitate the willingness of partners to transfer the knowledge so learning can occur. Partners can only acquire this knowledge through continued exchange and intensive cooperation (Madhok 1995, Nooteboom and Jacobs 1998, Cosner 2009, Klijn et al. 2010).

Additional costs?

There is a concern in PPPs that working together, negotiating outputs and coming to mutually satisfactory agreements take more time and money than if parties work alone. Added to that, building trust also takes time and investment of resources – *"financial, temporal and managerial"* (Madhok 1995: 122). Trust needs to evolve gradually over time and be nurtured during the interaction. Ultimately, building trust is a slow, lengthy and expensive process (Ouchi 1980, Ring and Van de Ven 1992) potentially adding to the costs of organizing a PPP.

However, in a study of trust in joint ventures, Madhok (1995: 122) argues the contrary: "*. . . JVs can be both a revenue enhancing and a more efficient mode of organizing (Beamish and Banks 1987). In this respect, mutual need for the*

partner's resources makes shared ownership more conducive towards encouraging participation while the presence of commitment curbs the transaction costs arising from opportunism, small numbers bargaining and uncertainty, and also facilitates information sharing. Under these conditions, the additional costs faced in the management of JVs can be contained at a level where benefits are greater than the costs. Development of the relationship over time leads to lower costs of transacting" (see also Jarillo 1988, Ring and Van de Ven 1992).

Negotiations and conflict resolution
Conflicts are based on perception of disagreements, influenced by viewpoints (Simons and Peterson 2000, Cosner 2009). Simons and Peterson (2000) state that in high trust relationships, these disagreements are less likely to results in conflicts. When people trust each other, conflict resolution is made "*easier and more productive*" (Lewicki and Wiethoff 2000: 101). In situations of goal divergence and unforeseen contingencies, such as in PPPs, trust can smooth over conflicts, and partners tend to have the ability to deal with conflict; in fact they are more likely to confront conflict rather than avoiding it. They can disagree with each other intellectually, but there will be less of a tendency to take things personally (Zaheer et al. 1998, Cosner 2009).

Negotiation is a key element of an interaction between partners. There are also costs related to partners reaching 'mutually acceptable agreements' (Zaheer et al. 1998). In situations of limited trust, partners may withhold information, there may be information asymmetries, and negotiations will be positional (Fisher et al. 1983). Literature claims that trust will help in overcoming these issues and will facilitate the process of negotiations (and will reduce costs associated with them). In addition, when partners must deal with unforeseen contingencies, trust helps to develop a common understanding of the issues faced and to resolve these (Zaheer et al. 1998). Partners are able to be more flexible in granting concessions, as, from the social exchange perspective, under situations of trust, the partner will assume concessions will be reciprocated in the future (Blau 1967). The assumption is that in these circumstances, partners who trust each other are able to execute negotiations based on common assumptions and are able to reach agreements more easily (Zaheer et al. 1998). Zaheer et al. (1998) argue that trust helps to achieve 'integrative solutions', solutions that are also mutually beneficial to each of the partners.

Innovation

Trust can lead to innovation among partners. The rationale behind PPPs is that partners enter into the relationship because of their mutual objectives and the complementary knowledge and skills they bring to the relationship. Under conditions of trust, when there is sharing of knowledge and limited uncertainty about opportunistic behaviour, partners will have a tendency to work closely to find the best and most innovative solutions, solutions that they might not have found working alone. (Miles and Snow 1986, Alter and Hage 1993, Lundvall 1993, Zaheer et al. 1998, Parker and Vaidya 2001).

3.7   Trust and risk

Starting in the 18th and 19th centuries, risks were related to predicable events (Beck 1992) and were attributable to human beings, and "*in their conduct, in their liberty, in the relations between them, in the fact of their association, in society*" (Ewald 1993: 226). Risk was linked to situations in which the estimation of the probability of a negative event was assumed to be known. This was in line with the transformation in the perception that society was controllable by rational man (Castel 1991, Reddy 1996).

In the 20th and 21st centuries, but particularly in the last several decades, both lay people and 'experts' alike have begun to use the term 'risk' widely (Lupton 1999: 9). Risk is used to refer to personal circumstances (investments, health, etc.), to societal conditions (economic conditions, terrorism, climate change, etc.) as well as to business (project, corporate governance, political, etc.) in today's vocabulary (Hillson and Murray-Webster 2005). With the advent of globalization and complexity, and the access to information by more elements of society, *"risks have been more globalized, less identifiable, and more serious in their effects, and there less easily manageable and anxiety provoking"* (Lupton 1999: 10). We live in a 'risk society' (Beck and Ritter 1992).

When looking at features of risk in contemporary society, Lupton (1999: 25), draws a series of conclusions on the common elements found on three major perspectives on risk (cultural, risk society and governmentality perspectives). Each of the perspectives see risk as having become a central cultural and political concept by which individuals, social groups and institutions are organized, monitored and regulated.

- Risk has become an increasingly pervasive concept of human existence in Western societies.
- Risk is seen as something that can be managed through human intervention.
- Risk is associated with notions of choice, responsibility and blame.
- Risk is central aspect of human subjectivity.

These conclusions introduce both notions of rationality and subjectivity to the concept of risk.

The rational approach to risk

The technical literature focuses on the rational assessment of risk. In a technical sense, risk is defined as "*the calculated probability of an adverse consequence, such as a danger, harm or loss, arising because of a specific action, or process*" (Allen et al. 2005: 166). This definition sees risk as quantifiable. Adams and Thompson (1995: 285) argue that for those that manage risk, "*quantified risk assessments require that the probabilities associated with particular events be known or be capable of plausible estimation*". This definition also underlines the fact that the risk is a result of an action or process, namely the activity or strategy of another actor or the process of interaction between actors. The assumption, as in projects such as urban regeneration projects or in processes such as PPPs, is that a rational human being is able to identify and quantify the risk being faced as a result of the project and interaction between partners and other actors.

Risk is in contrast to 'uncertainty', a term differentiated from risk to describe a condition in which probabilities cannot be known and calculated (Lupton 1999: 7), and of which the consequences are therefore unsure (Hillson and Murray-Webster 2005). Hillson and Murray-Webster (2005: 5) put this in another way; risk is "*uncertainty that affects one or more objectives . . . and that matters*". There may be uncertainties that have consequences that do not really 'matter', as they do not affect achieving an organization's (or PPP's) objectives. However, when uncertainties influence what an organization (or PPP) sets out to do, then they matter and are risks.

Reflexivity

Another important concept linked to risk is the idea of reflexivity: this refers to active responses that people have to risk in contemporary society (Lupton 1999: 15), and underlines the idea that humans constantly monitor actions of others; this involves the weighing and assessment of the claims of other actors (Giddens 1990). With increasing sensitivity to risk in this complex

world, people are taking a more (re)active role when dealing with risk. People react to their perception of risk.

Cognitive science theorists argue that human action is volitional and rational; when people perceive themselves as vulnerable to a threat that will have serious consequences; they will act on the risk. They act when they believe their actions will be effective and will produce benefits that will outweigh any costs incurred (Lupton 1999: 21).

Risk perception
Perception is an important construct in network theory in which actors are faced with complexity and uncertainties. Actors use their perceptions, the lens through which people views and make sense of the world, to assess problems, create responses and evaluate outcomes (Kickert et al. 1997). Perception is also important in the literature on risk. "*Perception is a key driver of* [risk] *attitude, since this determines how a particular situation is seen, and hence the chosen response, which is considered to be appropriate*" (Hillson and Murray-Webster 2007: 8).

Some authors argue that risk perception is subjective, and that assessment of risk should be left up to the 'experts' (the more rational actors). However, the social constructionist perspective concurs that 'scientific knowledge' is never value free but rather the product of how people see the world (Lupton 1999). Experts are never completely objective and unbiased, but are also affected, as much as the layperson, by values they carry with them and the interaction processes they undergo.

Hillson and Murray-Webster (2005) also introduce the notion that perception and attitude can be influenced, and that this is essential to the understanding and management of responses. This point reinforces the idea that trust can influence the perception of risk (Giddens 1990) and the coping strategies employed by different actors. They also underline that risk perceptions and attitudes exist on a number of different levels: on those of the individual, the group, the corporation and the nation, reinforcing the fact that it is important to understand the perceptions of different actors involved in PPPs. Risk is not static and objective, but defined and refined as a result of the interaction between actors. This also brings time and change of perception into the idea of risk (Lupton: 1999).

What kind of risks are there in complex urban regeneration projects?

There are certain types of risks that are typical to PPPs and urban regeneration projects: political risks, market and demand risks, financial risks, construction risks, and so forth. A simple classification of risks in projects of this sort would be those that are external and those that are internal. External risks are risks that the project team cannot control, these include political risks, economic/market risks related to recessions and real estate crashes, and social-cultural risks. Internal risks are risks that are related to the project and the PPP. In assessing the risk in this research, the focus of risk assessment is on risk perception, risk from the perspective of the actors involved. Taking a rational perspective, the assumption is that the partners involved have the skills to assess risks and have a clear understanding of the risks in the project. In addition, the peripheral actors, while monitoring the actions of the partners, are also regularly assessing the status and severity of the risks.

3.8   Trust building over time

Authors describing the growth of trust and the sources of trust make several interesting distinctions. What comes out of the literature is that the nature of trust is different if, on the one hand, trust building occurs through direct contact between partners (Shapiro 1987, Lane and Bachmann 1998) as opposed to impersonal relations, and, on the other, occurs as a result of recurrent exchange over time versus short-term exchange. Both the proximity and repetitiveness of exchange are essential to the growth of trust, and the strength of trust (Barney and Hansen 1994).

Trust building occurs as part of a gradual process, and during the exchange partners gradually test each other to see if the other party is trustworthy. There is therefore an incremental expansion of trust, and trust conferred also occurs in small steps. This implies a step-wise growth in trust; with repeated positive experience, the relationship between partners is also characterized by a gradual increase in willingness to take risk and to be vulnerable to each other. In time, the stakes are raised (Ring and Van de Ven 1992, Barney and Hansen 1994).

These perspectives on trust building have led to studies on trust as a result of a process (Zucker 1986), a process with distinct stages of trust building (Shapiro et al. 1992, Lewicki and Bunker 1996) (see also Child 1998 and Sako 1998 in Lane and Bachmann 1998), and a process that is characterized by rational, economic (some use the term 'calculative') and social (relational)

dimensions. Authors also argue, in these models of trust, that one form of trust is transformed into another and/or that to reach the next phase of trust one must have successfully achieved the previous stage (Lewicki and Bunker 1996). In addition, the contention is that for the trust building to take place in the context of more social exchanges, there has to be a need for the partners to be interdependent and the experience during the more calculative period has to have been positive. In effect, the result of the stage-wise approach to trust building is a hierarchy of trust: one cannot achieve a higher (or stronger) form of trust without passing through a lower (or weaker) form of trust (Barney and Hanson, 1994; and reference to 'fragile' and 'resilient trust' by Ring, 1996).

3.8.1   The antecedents (or factors) of trust

This chapter has already stated that trust is a result of different factors, and that these factors alter as the trust grows. To better understand these factors (or the antecedents or bases) of trust that will be examined in this research, this section makes a comparison of the views of different authors.

Of note is the fact that they incorporate, in the *typology* of trust, the *bases of the trust or the factors* that contribute to trust build-up. For instance, what is termed 'deterrence-based trust' (a typology of trust) is formed through a process of deterrence. This is a bit confusing, but this research uses the antecedents, as described in the literature, as the key factors of trust build-up or break down.

The authors that focus on the antecedents of trust are listed below in the table.

Table 3-1: Literature that focuses on trust antecedents

	Types/dimensions/components of trust		
Zucker, 1986	Process-based	Characteristics-based	Institutional-based
Barney and Hansen (1994)	Weak form of trust	Semi-strong form of trust	Strong form of trust
Rousseau (1998)	Institution-based / Calculus-based		Relational trust (has two components)
McAllister (1995)	Cognition-based		Affect-based
Lewicki and Bunker (1996)	Calculus-based	Knowledge-based	Identification-based
Sheppard and Tuchinsky (1996)	Deterrence-based	Knowledge-based	Identification-based
Child (1998)	Calculative	Cognitive	Normative

The discussion on elements of the phases takes the model of Lewicki and Bunker (1996) as a starting point, as these authors not only propose a stepwise evolution of trust, but also conclude that trust development also results in a type of trust hierarchy.

Lewicki and Bunker (1996) expand on the framework of Shapiro et al. (1992), who propose that three different types of trust (or trust with three different types of antecedents) exist in professional relations. Lewicki and Bunker further the theory by suggesting that these different types of trust are part of an iterative process and that trust development at one level enables the development of the next level or stronger forms of trust. Lewicki and Bunker also argue that understanding how trust changes and evolves is essential to understanding how professional relations develop.

Lewicki and Bunker (1996), using the theories of Boon and Holmes (1991), state that professional relationships go through phases, and are characterized by exchange of information and processes of evaluation. This element of evaluation is crucial to the development of healthy relationships, as the parties step back and analyse the pros and cons of the relationship. Boon and Holmes argue, in fact, that the dynamics and the nature of trust are different at these different stages and that only at later stages, as partners come to know each other's imperfections, does 'real trust' take place. Their approach underlines the view that trust is not static, but something that will change, mature and become stronger (if not broken).

3.8.2 The first phase: calculus-based trust

Called calculus-based trust by some and deterrence-based trust by others, or trust based on calculus or deterrence. Lewicki and Bunker (1996) and Child (1998) argue that this form of trust is found in new relationships, in which partners are getting to know each other. This period in the relationship is also characterized by limited risk and interdependence. Child (1998) refers to this phase of trust building as the 'formation' stage: in an interaction process, this is an initial period in which parties learn about each other.

Deterrence-based trust is based on the utilitarian assumption that someone can be believed to be trustworthy because there are sufficient sanctions in place to control against breach of trust, and that these outweigh the benefits of opportunistic behaviour (Sheppard and Tuchinsky 1996, Rousseau et al. 1998). Lewicki and Bunker (1996) and Shapiro, Sheppard and Cheraskin (1992: 118) suggest that this form of trust involves ensuring 'consistency of behaviour'. In a new relationship, partners will be intent on making sure that

they do what they said they were going to do because they fear the consequences if they do not. They also know that they are being checked for consistency. In this situation, there is a threat of punishment (for one, the relationship will end) if a partner's behaviour is not consistent with what he or she has indicated will be done. Deterrence-based trust focuses on the availability of sufficient sanctions or controls in conditions of shirking as the basis for one party considering another capable of the appropriate behaviour. In this case, (the threat of) sanctions and controls act as a deterrent to opportunistic behaviour: trust is then based on there being sufficient deterrence and the fact that the deterrence is likely to be applied should trust be violated. The threat of punishment is central to the concept. Deterrence in the market can take the form of courts, in hierarchical situations it can take the form of controls (Sheppard and Tuchinsky 1996).

In a situation where partners are considering entering into a cooperative relationship, the benefits of cooperation have to outweigh the benefits of opportunistic behaviour. As an example, the benefits of cheating in the short term may seem minimal when compared to the benefits to be derived from future exchange over the long term or building greater dependency (Axelrod and Hamilton 1981, Granovetter 1985).

Some authors reject the premises of deterrence-based trust, arguing that trust based on deterrence is not trust at all, that controls such as sanctions are a sign of a lack of trust and a detriment to cooperation (Sitkin and Roth 1993). For example, a detailed contract may be necessary in situations lacking trust and may actually be harmful in the build-up of exchange relationships. Partners do not build an effective and trusting relationship when their exchange is bureaucratic and highly monitored (Macaulay 1963). If sanctions then act as a deterrence to trust, then trust is based on other factors.

Barney and Hanson (1994) concur that trust in the initial phases does not depend on legal or contractual sanctions to control the exchange. They contend that, in the initial phases of the relationship, there is limited vulnerability and, due to limited interdependence, there are few opportunities for partners to act opportunistically. With limited risk and no vulnerabilities, partners can gain benefit from the relationship without concern for shirking or without incurring substantial costs. Barney and Hanson maintain trust at this stage can only be a 'weak' form of trust.

Calculus-based trust (or trust based on calculus) derives from the rational choice approach to interactions in economic exchange. Trust is related to the perception of (and the calculation by) one person that another will act in a manner that is beneficial (Rousseau et al. 1998). Though deterrence still plays a role, calculus-based trust is argued to derive from the availability of sufficient and credible information regarding the intentions and competence of another (Barber 1983). Such information may come from a third party that can provide information on the reputation of a potential partner or from the existence of some professional certification (diploma) (Rousseau, 1998). McAllister (1995) takes a similar view, using the term, 'cognition-based trust' to describe a situation where partners use various amounts of knowledge about each other to assess trustworthiness. The decision to trust is based on knowledge available and 'good reasons' to do so (Lewis and Weigert 1985). Good reasons, which come from external factors or sources, refer to knowledge relating to the success of past interactions, social similarities and the competence and reliability of a partner, as well as evidence of 'trustworthy behaviour' (Butler 1991).

Lewicki and Bunker (1996) and Child (1998) argue that calculus-based trust is based on calculations that weigh the costs and benefits of the relationship to the trustor and the trustee. There is assurance that partners will do as they have promised because the deterrence is greater than the gain from breaking trust, *and* the rewards for maintaining trust are greater than the gains from breaking it. Again, trust is based on the information available to make such a calculation. This is an economic calculation that attaches a value, on the one hand, to the costs of forming, investing in and maintaining the relationship and, on the other, to the cost of ending it (Lewicki and Bunker, 1996: 120) and weighs these against each other.

Lewicki and Bunker (1996: 119) emphasize the differences between deterrence-based trust and calculus-based trust by stating that deterrence-based trust is maintained to the extent that deterrence is 'clear, possible and likely to occur if trust is violated'. Thus, the focus is more on the threat that derives from the punishment than on the promise of reward. They believe that calculus-based trust places emphasis on the partner's assessment of potential outcomes: of positive aspects to be derived from preserving the relationship versus those relative to the cost of severing it.

Rousseau (1998) takes a similar view on calculus-based trust but also argues that 'institutional-based trust' can pave the way for calculus-based trust. Trust is based on institutional factors (including deterrents and reputation;

she also cites legal forms, social networks, and societal norms regarding conflict management and cooperation) and can help to make way for the nascent relations to build in the first place (see also Childs, 1998).

3.8.3 The second phase: knowledge-based trust

The second phase of trust is called knowledge-based trust (Lewicki and Bunker, 1996) and refers to trust based on knowledge of each other. This is similar to cognitive-based trust (Child, 1998) and relational trust (Rousseau et al. 1998). At this point, partners have experienced a certain amount of interaction and, from knowing each other, can predict behaviour. Knowledge-based trust relies on information and not deterrence. Thus, knowledge-based trust involves the sharing of cognitions, including common ways of thinking, which provides the basis for understanding the thinking of the partner and being able to predict his/her actions (Child, 1998). Information, repeated interaction and understanding create predictability, which creates trust. The more behaviour (and therefore predictability) is confirmed through interaction, the more trust is developed. Knowledge-based trust presumes that, as you can predict your partner's behaviour, you can safely make plans, investments or decisions based on your expectations of that behaviour (Sheppard and Tuchinsky, 1996; Lewicki and Bunker, 1996). The speed of decision making is increased; you have confidence in your partner's response. Performance is improved, as actions taken will incorporate your partners' preferences. Trust based on knowledge therefore presumes that you have an understanding of your partners' preferences and can predict their reactions. Such understanding only comes from repeated contact, continued communication and information exchange, in other words, greater interdependence. Knowledge-based trust is a process of building the relationship and testing it (something like a courtship). In addition, on the basis of the interaction, partners come to know and respect each other's capacities.

Trust based on knowledge also presumes an emotional bond (see Rousseau and discussion on relational trust, 1998), which comes from repeated longer-term interactions and the attachments that are formed. A trustor will come to believe in the positive intentions of the trustee as well as the lack of negative intentions (Lewicki et al. 1998). This emotional bond and belief in the good intentions of another will result in greater exchange of information and resources and in a greater amount of faith (Rousseau et al. 1998). With recurrent cycles of exchange and of risk taking, which meet expectations of those involved, partners will be more willing to be dependent on each other and to invest additional resources in the exchange. McAllister (1995)

proposes that this is when 'affect-based trust' exists: emotional bonds develop between individuals or partners (see also Lewis and Weigert 1985). People invest emotionally in the relationship, care about the welfare of their partners, believe in the value of the relationship and that feelings and perceptions are reciprocated. The emotional ties between individuals act as the basis of trust (Rempel et al. 1985). The assumption of rationality inherent to the more calculus-based view of trust is 'relaxed' a bit, the fact is that partners feel more secure, understood and as if they share key assumptions (Child, 1998).

McAllister's view underlines the more social exchange approach to trust. He argues that trust with affect foundations means that partners exchange benefits that are personally chosen and outside of the role-prescribed tasks. They exhibit personally chosen behaviour (not role-prescribed), care and concern (not self-interest) and altruism. This implies that they begin to help others and provide assistance that may not directly be rewarded (McAllister, 1995).

With repeated interaction and the building of (affect-based) trust, the importance of calculus-based (cognition-based) trust diminishes (McAllister, 1995), and with it the use of sanctions. What is also key to knowledge-based trust is that behaviour that is inconsistent with expectations will not necessarily break trust. In this case, behaviour that does not benefit a partner may be 'forgiven', as experience has shown that this behaviour is unusual and may be adequately explained (see below). Partners will tolerate a temporary indiscretion (Lewicki and Bunker, 1996). Exchanges are less likely to be terminated, as is the case in calculus-based trust (Barney and Hansen 1994, Rousseau et al. 1998)

3.8.4   Phase three: identification-based trust

Sheppard and Tuchinsky (1996) and Lewicki and Bunker (1998) call identification-based trust the highest form of trust. Rousseau (1998: 7) contends that 'identity-based trust is relational trust at its broadest'. Trust based on identification requires that partners internalize each other's preferences and that partners see themselves as members of a group, and internalize the goals of the group (Lane and Bachmann 1996). Partners identify with each other's desires and intentions and develop a mutual understanding to the point that partners can act on behalf of each other (Deutsch, 1949 in Lewicki and Bunker 1996). Emotional bonds allow one partner to feel and think as the other would. Partners develop a culture and language that is common and particular to the relationship.

Partners will place themselves in the power of the other, in effect, take greater risk and be susceptible to greater vulnerabilities (Lewicki and Bunker, 1996). Partners feel that other partners will protect their interests fully and that monitoring is not necessary (Sheppard and Tuchinsky 1996).

A sense of common identity will be manifested in shared goals and strategies, common values, a shared legal identity (Coleman 1990). Partners come to share common goals, including common concepts of moral obligation (see Child's view on normative trust). Trustworthy behaviour occurs as a response to and is guided by these sets of principles and is internalized by the exchange partners (Barney and Hansen 1994). The norms and values are developed over time and with much interaction. In a sense, partners reach a shared 'identity' (seeing the relationship as 'we').

Essentially, trust based on a common identity requires great investment, more time and greater interdependence, but the benefits derived are also greater than with the other two phases of trust build-up. If fully dependent partners can act for each other and objectives and identity are fully aligned, the agency problem is allayed (Sheppard and Tuchinsky (1996).

Exchanges are argued to be more resilient (Ring 1996), where mistakes and conflicts are dealt with over time and unmet expectations can be dealt with by actions to rectify a situation in good faith.

3.8.5 Trust breakdown

Trust does not only grow, but can also break down. In fact, trust is easier to destroy than to create (Slovic 2000). As argued above, trust is built slowly (Ouchi 1980, Madhok 1995). Lewicki and Bunker (1996) argue that the breakdown of trust can be immediate and severe after a violation, eliminating all trust. Alternatively, trust can also erode over time, more gradually.

Lewicki and Bunker state that trust violation at the calculus-based trust phase may create a cognitive and emotional reaction, but may also be regarded as fairly inconsequential. The trustor calculates the risk of the actions of the violator to the project, before deciding on a course of action: to continue the relationship, renegotiate or abort.

In the subsequent stages, however, the feeling of loss and anger may be more extreme. In the period when trust is based on knowledge: being able

to predict behaviour and coming to respect capacities, a violation of trust can result in bewilderment, a reaction such as 'I do not know you anymore' (p. 127). The trustor will have to reassess his/her perception of the violator. Additionally, if the violation is by choice (versus, for instance, that the violator has been forced to take a particular action by a boss), then the trustor is more apt to experience trust erosion.

In the final phase of trust growth, trust may be harder to break. A partner may be willing to give the violator the benefit of the doubt when he or she makes a mistake. Once someone has reached the identification level, it is harder to believe that a violation has occurred. On the other hand, as the violation goes against what is now the shared identity of the group, it also goes against the common interests of the group. This will cause a sense of moral violation.

Finally, its influence on trust will depend a great deal on the magnitude of the violation or how many times the violation has occurred. Something large, such as syphoning large sums of money out of the accounts, may require time to identify, accept and prove, but once proven will break trust. On the other hand something smaller, such as a repetitive inability to submit reports on time, will not put trust in such jeopardy. If it is a competence issue, this will most probably effect the competence aspect of trust and not the goodwill dimension.

3.8.6   Completing one stage to get to the next[3]

Lewicki and Bunker (1998) propose that trust develops incrementally as partners move from one stage to the next. They also argue that certain elements are crucial to the evolution that takes place:

First, trust evolves and changes as part of a long-term relationship. If the relationship develops to full maturity, then it moves from a relationship characterized by trust based on calculus, to one characterized by trust based on knowledge, and finally, by trust based on shared identity. Not all relationships develop to the third stage and trust may not develop beyond the first or second stage.

Second, relationship building begins with the development of calculus types of activities. If these activities develop in a manner that confirms the validity of the trust (i.e. the other party is consistent, and deterrence is not

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[3] This section is taken, to a great extent, directly from Lewicki and Bunker (1998: 124)

frequently required), the parties will begin to develop a knowledge of the other's needs, preferences and priorities. This information creates the foundation for a transition to trust based on knowledge and occurs at point J1 in the figure below. Still, partners may not move to the next stage and beyond calculus-based trust if

1. the relationship does not require continued interaction beyond an arm's-length relationship,
2. the interdependence between parties is heavily bounded or regulated,
3. the partners have gathered sufficient information on each other to know that additional information gathering is unnecessary or unproductive, and
4. one or more violations of calculus-based trust has occurred.

Figure 3-1: The trust cycle

J1:   point at which calculus-based trust relationship becomes a knowledge-based trust relationship
J2:   point at which a knowledge-based trust relationship becomes an identification-based trust relationship
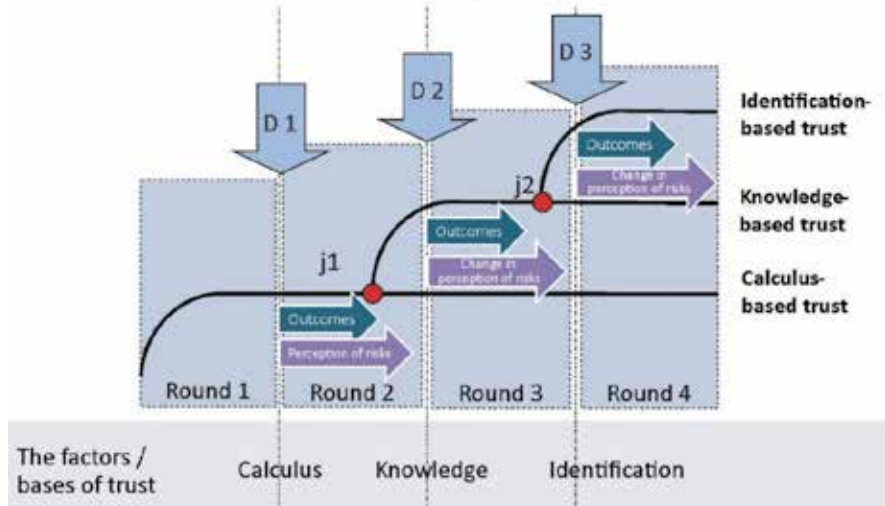
Adapted from Teisman (2000) and Lewicki and Bunker (1996)

Third, for the move from trust based on knowledge to trust based on identity (at J2), partners have to further engage in activities that confirm behavioural predictability to ensure that parties come to identify strongly with other's needs, preferences and priorities, to the point that they see them as their own. Shared identity leads to a search for more information, a deepening of

the relationship, which creates a broader foundation for trust based on knowledge and on a common identity. Lewicki and Bunker (1998) contend that some relationships make it to the second stage, though fewer reach the third stage. This might be for several reasons: for one, there may be no need or desire to continue the relationship or parties have limited energy or resources to invest in continuing.

3.8.7   Conclusion

In conclusion, trust is dynamic: it needs time to grow and is a result of personal or situational factors. The theory calls these factors the 'bases' of trust or the 'antecedents' of trust. The factors that contribute to trust growth will change over time; theory categorizes them as (1) calculative bases of trust, (2) knowledge bases of trust, and (3) identification bases of trust. Trust is assumed to be 'stronger' as time goes on as a result of these factors, and in the face of increasing risk, will be more difficult to break! With time, trust will grow in the form of a trust cycle. The research will use the model above to analyse the growth of trust and the factors of trust in the three cases.

Lewicki and Bunker's model looks at trust as a dependent variable, at trust growth and the factors that contribute to this. It also incorporates the idea of time, for the partners to interact over the rounds of the partnership. However, this research also incorporates trust as an independent variable; it introduces the notion that trust influences the risk and outcomes as perceived by the partners and actors in the PPP. The model assumes that actors will develop perceptions of outcomes and levels of risks at important moments of change, such as at the end of rounds, when the stakes, the actors and the nature of the interaction change.

4 Research Design and Methodology

4.1 Introduction

The purpose of this chapter is to operationalize the analytic framework that came out of the two literature review chapters on PPPs and trust. This chapter will describe the research design and questions, the participants in the research, as well as the approach used to data collection and analysis in the research.

4.2 Research design

The research analyses the interaction between partners and charts the process of trust build-up (or breakdown) between partners over the length of the PPP, in the form of a 'trust cycle'. It assesses whether trust can be linked to positive outcomes and the reduction in the perception of risk on the part of the partners. It also analyses whether partners are willing to take more risk in circumstances when trust is present and outcomes are positive. It explores the limits of trust, in the cases in which trust was not sufficient to offset the perceptions of risk. It analyses the factors that contribute to trust build-up (or breakdown) and concludes on the key factors present in the cases and most prevalent in building strong and resilient trust.

The research takes an exploratory and explanatory approach, combining theories on partnerships and risk and trust with information from a series of case studies. To be able to generalize results this research took care to make the research design valid and verifiable, and reliable.

- Valid and verifiable: that what is concluded on the basis of findings is correct and can be verified by the researcher and by others (Kumar 1999, Yin 2003).
- Reliability: showing that the structuring and execution of the research could be repeated with the same results (Yin 2003).

Construct validity involves establishing the right kind of measures for the concepts being studied. Yin (2003) argues that in a multiple case study strategy, which deals with a contemporary set of events over which the researcher has no control, the validity of measures must rely on multiple sources of evidence, which come together in a triangulation fashion and are

based on propositions to guide the research. The overall design of this research incorporated three case studies, from which analytic generalization could occur and which used embedded qualitative designs: document and archival analysis, semi-structured interviews, observations and a questionnaire to 'quantify' the values of the variables as instruments of analysis[4].

Internal validity involves establishing a causal relationship, i.e. certain conditions or factors lead to other conditions or outcomes, whereby it can be demonstrated that these are not the results of other variables (Yin 2003). In this research, internal validity was dealt with by using theoretical propositions to shape the data collection plan, and by addressing rival explanations. In addition, the research used a causal process tracing approach to trace the links between causes and perceived outcomes, to develop storylines and identify critical moments/turning points in the interaction (George and Bennett 2005, Blatter and Haverland 2012), using multiple sources of data.

External validity involves establishing the domain where the results of the study can be generalized, i.e. can the results of one case study on partnerships be generalized to another? As stated in Yin (2003: 37) this research used 'analytic generalization' comparing theory to the empirical results, and when the results of two or more cases supported the theory were able to claim replication (33). The results were generalized to a broader theory.

Reliability: measures to ensure elimination of bias in the research. Procedures for the design of the research were described in a case study protocol and used during data collection.

The **unit of analysis** was the interaction process between partners and other key actors. The study used the Rounds Model of Teisman (2000), and analysed the perceptions and decisions made in each round.

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[4] **Please note**: The questionnaire and its results were used to clarify and verify the results of interviews and information provided by respondents in each case on their perceptions. The response rate remained low. Though the graphs and table is this chapter provide a 'quantification' of trust levels (looking at the averages of responses), perception of risks, and outcomes, the analysis remains a qualitative assessment of the value of these variables.

In this research, being able to assess whether trust was built over time and if there was evidence of a trust cycle required looking at an interaction of different actors in the framework of a partnership over a period of time. The research chose to look at long-term projects in depth. The research selected projects in different international contexts to see if these contexts made a difference to the build-up of trust in a trust cycle. This was the premise of the research and important for the design of the research: this justifies the choice of case studies as a research methodology.

Care had to be taken to be clear on time boundaries. The start and end date of the project and the partnership were in some cases different. Partners varied across rounds and had different perceptions of the actual timing of the partnership.

Some authors argue that is important to look at the existence of trust at the individual, interpersonal as well as the organizational level, but this research assumed that individual perceptions of issues in the partnership were derived from the perspective of the organization, and that individuals act as representatives of their organizations in making choices. Das and Teng (2001) state that though trust relations occur at the interpersonal level, partners in an alliance are still role bound and trust is based on organizational norms, despite personal feelings. There are arguments to support this: Rousseau (1998) argues that interorganizational trust and interpersonal trust differ because the focal object differs. Therefore, this research presumed that the perception of the partners represented the norms of the organization for which they work.

It is important to note: the research 'positions' the PPP in a broader network of actors. Due to the complexity of urban regeneration partnerships, the research looked primarily at the interaction between contractual partners, but also between actors external to the PPP structure or organization, **as key 'players' in** this interaction. These more 'peripheral' actors were actors that were involved in the project, the interaction and used strategies to produce outcomes (see section 4.5.2 below on participants). The PPP was, in fact, a **'vehicle'** used to highlight this interaction and allowed the research to focus on complex decision making in the network. The PPP is also a vehicle for analysing trust relations, as the research chose to look at trust building in long-term, durable and interdependent relationships.

4.3 Research questions

The main research question of this research is:

Is there evidence of a trust cycle in partnerships and does trust have an influence on risks and outcomes as perceived by the partners?

More specific research questions are as follows:

- What was the nature of the interaction between partners and other actors during the partnership processes, over the rounds, in the three cases?
- What was the nature of outcomes and risk as perceived by the partners and other actors over the rounds of the partnership?
- What were the dynamics of the growth of trust over time as perceived by the partners and other actors over the rounds of the partnership?
- What important factors led to the growth of trust?
- Did trust have an influence on risk and the outcomes achieved, and if so, what kind?

4.4 Approach to data collection

This section provides information on the instruments used and how data was collected.

4.4.1 The instruments

As stated above, the following instruments were used in this research: case study protocol, document and archival analysis, semi-structured interviews, observations, a questionnaire/survey as instruments of analysis. The following sections looks at how each instrument was designed and executed.

Case study protocol and pilot case study

The researcher designed a case study protocol for the case study work and undertook an initial pilot case study. This was done to enhance the validity and reliability of the research. This initial pilot case study protocol focused on a case, Bogusława Street, in Szczecin, Poland where the local government explicitly started to pursue private sector participation in inner city projects in the early 1990s. Very forward thinking and enamoured with the idea of a Public-Private Partnership (new at that time in Poland), and convinced that partnership relations could bring a series of benefits to the city, several local officials passed through different phases of looking for the right partner(s),

finally ending up joining forces with a consortium of an American investment company (ARS) and a local developer, in a joint renovation company.

The case study protocol was tested during the collection of data for the pilot case. Upon completion of the pilot case, adjustments were made and the protocol was used as a guide for the subsequent two cases.

Document and archival analysis

Information on the process of interaction, the role of the partners and other actors, as well as their strategies were important to the research. As a first step, it was important to gather information on the activities and events that took place in the partnership process. It was also of essence to try to pin down the time span of the process and the key decision points and rounds. The major sources of information were documents put together by the key partners as part of the formal partnership, as well as newspapers, other publications and the Internet, to cover the involvement of peripheral parties and to get an initial idea of their strategies and points of view.

Document and archival analysis were essential to identify who the key players were and to verify their involvement over time. The document survey and analysis gave a view of the process, what transpired, what key events took place, and who was involved and when, what issues where faced and what the outcomes were, so that an initial write up of the process could occur, and was ready before the interviews began. This approach was taken to ensure that interviewing time could focus on key questions and the researcher was well informed prior to the start.

Interviews

Interviews were held with project partners and other key peripheral partners. Interviews were held with professionals from each of the partner organizations: i.e. politicians at various levels of government, members of the team on the public side, as well as members of the team on the private side, and from larger actor groups, such as the community. Determining who key individuals were and the precise time of their involvement occurred during the document analysis phase (see above) and during subsequent interviews. Interviews were semi-structured, with a mixture of questions to verify events that took place during the process and the strategies that partners used, and a set of open-ended questions to ascertain the perceptions of trust, the growth of trust, factors of trust, perception of risks and outcomes of the process. Care was taken to ascertain the sequencing of

events and strategies per round, so as to be able to link the growth of trust to strategies, risks and outcomes, as well as a variety of other factors.

Note: interviews were recorded and are available, if necessary.

Questionnaires

As part of the triangulation process, the research verified the information from the interviews through the execution of a short questionnaire (see Annex 1: Example of a questionnaire). The questionnaire asked respondents (contractual partners and peripheral actors) in the case studies to 'quantify' the value of trust and to rate outcomes. The number of respondents was low and did not allow for a true quantitative assessment or the chance to look for hard correlations. The questionnaire used written statements to measure the value of trust 'more rigorously'. Respondents were asked to provide a numerical assessment of the levels of trust in other parties and the change in trust levels over the rounds. Coupled with the information from the interviews, this served to better define the nature of trust and levels of trust at particular time in the interaction. The results of the questionnaire were also used to confirm the oral information on the outcomes mentioned during the interviews. This methodology remains a qualitative way to assess trust and outcomes as variables.

In the different sections of the questionnaire (please refer to further operationalization in section 4.5.4 below), respondents were asked to:

Questions	
Q 1 and 2	Give general background information on the type of institution for which they worked and the nature of their involvement in the partnership. This was done to identify from which sector they came and to determine if they were a key/contractual partner or one of the more peripheral actors.
Q3	Score the different dimensions of trust in the different partners, using a 5-point Likert scale.
Q4	Score their overall levels of trust in each of the partners (scale of 1 to 10, 10 being the highest).
Q5	Indicate if trust grew or fell over time (on a 5-point Likert scale: Increased a great deal, increased, remained the same, decreased, decreased a great deal).
Q6	Score a series of trust-building factors and rate their importance on a 3-point Likert scale.
Q7	Indicate their perception of outcomes, rating eight different outcomes (on a 5-point Likert scale).
Q8	Indicate the change in the level of trust (scale of 1 to 10, 10 being the highest) over time in the various rounds (they could insert a number or draw a line).

4.5 Setting, participants, and case study write up

4.5.1 Setting

The research chose three cases: one in Poland, one in the United States and one in the Netherlands. In selection of the cases, the criteria for choice were the following:

- International perspective. This was done to be able analyse the dynamics of trust in an international perspective and to see if the concept was the same in spite of the context.
- Three projects that started off in situations of high volatility (post-communist and economic transition in the Polish case, and economic and real estate crises in the US and Dutch cases).
- Three long-term, multifunctional urban regeneration partnerships.
- Three projects where partners were extremely interested in executing a PPP and entering into a long-term interdependent relationship.
- Three projects/partnerships that were complete and therefore for which the research could obtain a full description of the process, rounds and outcomes.

In addition, in choosing the cases, the research looked specifically at projects that fit into the typology of 'urban regeneration partnerships' (third point above), namely a 'development partnership', as defined in section 2.4. The projects were selected, as:

- They involved a wide range of stakeholders: though the public and private sector were the key partners, the community and other stakeholders (and their interests) also played a role.
- The projects focused on multiple goals, involved the resolution of complex issues, and were multifaceted. The goal of the partnership was to promote a mix of commercial and non-profit development, for mutual benefit.

The choice to research and analyse three cases was also explicit. For one, more than this number would be too much for in-depth analysis of the process and rounds. In addition, three cases were necessary to make cross-case analyses from which to draw conclusions and to undertake 'analytic generalization' and claim replication (see above on design).

4.5.2 Participants

As stated before, the research identified core partners (the key players) and peripheral actors as important participants. Core partners are those formally

involved in the process, who interact 'on the substance and process of the project' (Klijn and Teisman, 2003: 141); they were bound by a signed agreement. These were the partners for which trust was the most important and in which the most investment was made in the build-up of trust. Peripheral actors are those who may have an interest in the process, are included in the interaction, but often not on a consistent or systematic basis. The research saw peripheral actors as important to the process, as they could exercise influence over decisions (for instance, the community over politicians, and therefore the public partners). Via this influence, the decisions and strategies of the public could influence the outcomes of the partnership and the growth of trust. This required looking at the context and actors in the wider network, and therefore the use of cases studies.

The previous section on instruments describes the approach to identifying the partners and actors to be interviewed. Taking this a bit further, the research made a list of formal project partners, as well as groups or organizations with an interest in the process and/or the ability/capacity to influence the process. Initial results were recorded in a stakeholder analysis and grouped under the heading provided below.

Table 4-1: stakeholder analysis (example of the table)

Actor group	Examples
People (not organized)	People, families
Non-governmental organizations	Can be supportive to communities, providing professional services Tenants associations, associations of house owners, environmental pressure groups or other pressure groups
Community-based organizations	Neighbourhood committees
Private sector	Formal and informal businesses
Local government	Local government departments, councils and political parties represented in the council
Central /regional government	Agencies from national or provincial level, agricultural development agency, inspectorates, environment agencies
Others	Trade unions State-related of parastatal organizations like electricity companies, water supply companies

The information was entered into a table that made note of the actors, their characteristics and interests, as well as the nature, intensity and the time of involvement. This information was used for the introductory sections of the case chapters.

The section below gives some more information of the key aspects of the theory and how this was operationalized.

4.5.3 Structuring the write up of the case studies

The research used the Rounds Model (see section 2.5.1 and Figure 2-1) to structure the description of the interaction among and the strategies used by the key players in the three Public-Private Partnership case studies. The interaction was divided into rounds, the strategies of the players resulted in outcomes. In the description of the interaction, the ends of rounds came when a key decision was made and this caused a change in the content of the project, in the actors (contractual partners and peripheral actors) and in the stakes being faced. The nature of the decision, the changes and outcomes per round were described in each case chapter to highlight the evolution in the project and PPP.

The Rounds Model: relationship between interaction, key decision points and structure, actors and content in partnerships

Strategies undertaken during the interaction result in key decisions (D) and changes in structure and stakes (S), actors (A) and content C.
Adapted by the author from Teisman (2000) and Bult-Spiering (2003).
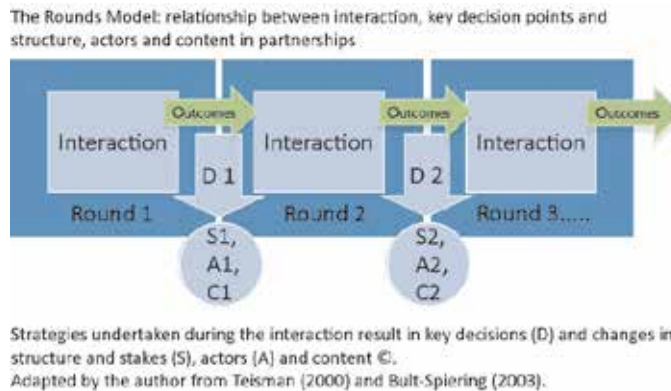
Using triangulation of information (semi-structured interviews, secondary documentation, observation and the questionnaire), it was possible to outline the activities and strategies of the partners (see also timeline at the beginning of each chapter for important moments). Respondents in the research themselves helped to define the ends of the Rounds: they were asked during the interviews to mention key moments of change. This was important to locate activities in time, and to be able to establish the relationship between strategies, outcomes and trust, as well as trust and risk.

In each case study chapter, the description of the interaction was followed by an analysis of the partnership, structured and sequenced to follow the research questions. Each chapter analysed the perception of outcomes, risk, trust in each round, looking closely at the change. This was rounded off with an analysis of the factors leading to trust build-up and breakdown. The results of the questionnaire were used to confirm, from the perception of

the respondents, the information gleaned from the interviews and documents analysis, and to look for frequencies and causal patterns.

The theoretical framework developed in Chapter 3 (Figure 3.1) for the research combined the Rounds Model (Teisman 2000) and the model of Lewicki and Bunker (1996). The figure underlines the importance of an interaction over time, with key points at the end of the Rounds when it is important to ascertain and analyse the perception of outcomes, risk and trust. Again, as the respondents themselves helped to define these moments, and they attached importance to these moments, it was also easier for them to remember key aspects of the interaction at these points in time.

The model demonstrates that there are moments when trust grows (J1 and J2), becomes stronger and is based on a different set of factors. The model attempts to indicate that the shift in trust does not necessarily occur at the end of Rounds but might also occur in the middle of a Round. At the bottom, the model shows, in sequence, the three key bases of trust used in the research (see the next section for further operationalization of the model). These factors of trust may change over time, but may also not be aligned in time to the end of the Rounds.

J1:   point at which calculus-based trust relationship becomes a knowledge-based trust relationship
J2:   point at which a knowledge-based trust relationship becomes an identification-based trust relationship
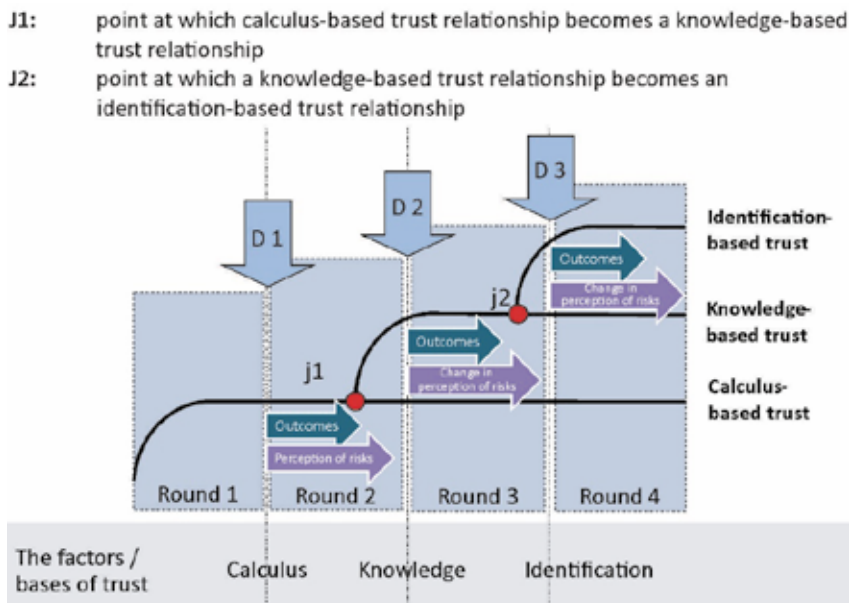
Adapted from Teisman (2000) and Lewicki and Bunker 1996

4.5.4 Theory and operationalization in the questionnaire

Trust defined and operationalized

The definition of trust used here distinguished between two clear aspects: on the one hand, the perception of the trustee's capacity or competence, on the other, the perception of the trustee's integrity or goodwill. Both were necessary notions when discussing partners in economic exchange and partnerships.

Trust was defined as *the perception of an actor that another actor will refrain from opportunistic behaviour should the opportunity arise and the perception of an actor that another actor will have the ability to perform according to agreements*.

This distinction was important when measuring the perception of respondents on the different dimensions of trust. Competence and goodwill are key concepts in trust: competence as 'the expectation of technically competent role performance' (Barber 1983: 14). 'Goodwill' (term used by Ring and Van de Ven, 1992) reflects "*the expectation that some others in our social relationships have moral obligations and responsibility to demonstrate a special concern for other's interests above their own*" (Barber 1983: 14). These notions led to the definition formulated in this research.

In addition, to open-ended questions in the interviews on the nature of trust of respondents in the partners, the research operationalized the theory on the dimensions of trust by asking in the questionnaire if the respondent *perceived that his/her partner*:

Table 4-2: Dimensions of trust

Dimensions of trust
. . . took the interests of the collaboration/project into account when making a decision?
. . . would not have met their obligations if their activities had not been defined in the contract?
. . . was capable of completing the project/their obligations according to agreements made?
. . . committed more (time or personal resources) to the collaboration/project than was specified in the contract?
. . . had, in general, good intentions?
. . . sometimes did not meet their obligations, but we were willing to give them the benefit of the doubt?

The factors that contribute to the build-up of trust, how trust develops over time

This research looked at factors that contribute to the build-up of trust and categorized them. The production of trust is a result of repeated interaction and exchange, and factors will change over time as trust changes and grows.

Trust is dynamic: it needs time to grow and is a result of personal or situational factors. The theory calls these factors the 'bases' of trust or the 'antecedents' of trust. The factors that contribute to trust growth will change over time; theory categorizes them as: (1) calculative bases of trust, (2) knowledge bases of trust, and (3) identification bases of trust. Trust is assumed to get 'stronger' as time goes on as a result of these factors, and in the face of increasing risk, will be more difficult to break! With time, trust will grow in the form of a trust cycle.

Lewicki and Bunker (1996) propose that trust develops incrementally as partners move from one stage to the next. One level of trust in the cycle has to be attained to achieve the next and stronger level of trust.

Calculus-based trust

In the beginning of a relationship, there may be limited information on the expertise and goodwill of a partner. The decision to cooperate may be based on limited knowledge of a partner's reputation (i.e. past track record for meeting commitments), social similarity or professional credentials. Trust (often called calculus-based trust) is limited. Partners will monitor each other's actions and will rely on control mechanisms to govern behaviour. Some argue that, in the beginning of a cooperation, trust will follow from the stability provided by initial contracts.

Knowledge-based trust

As the relationship continues, partners will start to have enough information to understand each other and to come to be able to predict behaviour. Repeated successful exchange will lead to a perception of reliability, and an ability to predict what a partner's interests are and if he/she will act in a trustworthy manner. As trust grows, partners will be willing to take more risk, and will feel assured that others will support them. Trust is then termed as knowledge-based, as it relies on the presence of information about the real expertise and goodwill of the partners, which contributes to the build-up of trust. Many authors argue this is when emotional ties develop: behaviour will not be role prescribed but will be personally motivated by the care and

concern for each other. Attention is given to each other's needs, and help and assistance, not directly rewarded, will be given. Trust levels can be termed as medium to semi strong.

Identification-based trust
Relationships and trust can develop further, though authors argue that very few partnerships grow to be so close. This is when partners grow to have complete empathy with each other and take on each other's goals and values (goal congruence). Partners act as agents for each other. Partners may go so far as to take on a collective identity, move to a location closer to each other, create joint products or services, or commit to shared values. Trust, called identification-based trust, is high.

The table below provides an outline of factors of trust that are argued to contribute to the trust build-up (the trust cycle).

Table 4-3: Frequency interaction, interdependence and factors of trust

	Nature of interaction	Level of risk and interdependence	Basis/factors
Calculus-based trust (rational, economic perspective)	new relations	limited risk and interdependence	▪ Sufficient information on other party's reputation, qualifications and past performance ▪ Penalties stipulated in the contract are sufficient to ensure the compliance of the other party
Knowledge-based trust (rational and emotional, social exchange)	Increasing amount of interaction	Increasing risk and interdependence	▪ Know each other well enough, can predict behaviour ▪ The other party is willing to share information and resources ▪ Have come to know and respect capacities
Identification-based trust	Longer-term interaction	Large amounts of risk and interdependence	▪ Speak the same language ▪ Share the same values and norms

(based on Child 1998 in Lane and Bachmann 1998: 252)

In the semi-structured interviews respondents were asked to identify and name the factors that led to trust build-up. In addition, the research asked respondents to score the relevance of each of these factors for trust build-up (or breakdown) in the partnerships.

Table 4-4: Operationalization of the factors of trust

	Factors of trust
CalBase	I have to have sufficient information on the other party's reputation, qualifications and past performance record.
CalBase	I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party
KnBase	The other party must be willing to share information and resources
KnBase	I must get to know them well enough that I am able to predict their behaviour
KnBase	On the basis of the interaction, I come to know and respect their capacities
IdBase	We must learn to 'speak the same language'
IdBase	We must come to share the same values and norms

Determining outcomes

During the interviews, respondents were asked to define and describe what they felt were the key outcomes of the project and partnership. The questionnaire further measured eight dimensions of outcomes in the partnerships. First, the research simply asked respondents to indicate if they were satisfied with the outcomes of the partnership (measured using a 3-point Likert scale). In addition, as stated in Chapter 2, actors in partnerships will often have different goals and so will perceive outcomes in terms of whether their goals have been achieved. Measuring outcomes of the partnership not only looked at the official goals ('on paper') of the partnership, but also whether the goals of the organizations for which the respondents worked were achieved.

The research also identified benefits argued as outcomes of partnerships and operationalized these in the questionnaire. Respondents were asked to indicate their perceptions on

- if the partnership resulted in key synergies, for instance better ideas and better products, or the decision to make additional investments;
- if the partnership resulted in improved cooperation and coordination between parties and activities; and
- if the partnership resulted in extra time dedicated to decision making or negotiations or in higher transaction costs/unmanageable costs.

Finally, the questionnaire asked respondents to indicate if the partnership contributed to an overall positive outcome for the neighbourhood or area in which the project was being implemented.

The questions used in the questionnaire are provided below:

Table 4-5: Operationalization of outcomes

Outcomes
I am satisfied with the results of the collaboration/project
The goals of my organization were met by the partnership
The partnership led to additional investments than would not have occurred if my organization had worked alone
The collaboration created a number of innovative ideas, concepts and plans
The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city
Working closely together led to improved cooperation between partners
Working closely together led to improved coordination of project elements
Working in partnership led to long processes of decision making and additional costs

Operationalizing risk perceptions

During the interviews and the recounting of the interaction process, respondents were first asked, using open-ended questions, to identify key points in the interaction and then to describe their perception of the risks at these key points. The research coded these responses and used them to execute a frequency assessment of the perception of risks over the rounds of the partnerships.

The research operationalized risks very simply, categorizing risk under the headings of 'external' and 'internal' risks. External risks were those that were *external to the project* (risks that the project team could not control, but that the government might be able to influence), which would be mostly political risks, and economic/market risks related to recessions and real estate crashes, and social-cultural factors. Internal risks were those risks that related to the project and the PPP.

What was important was to ascertain the **perceptions** of the risks at different moments, meaning risk from the perspective of the actors involved. The assumption was that the partners involved would have the skills to assess risks and a clear understanding of the risks in the project. In addition, for peripheral actors, they would take the role of monitoring the actions of the partners, and would be regularly assessing the status and severity of the risks. Of interest was to see if there might also be some variance in the perceptions of risks across countries.

To be able to 'quantify' risk for precisely, risk graphs were constructed using coding and a frequency assessment.

4.6 Data analysis

This section describes the process of and approach to the analysis of data collected.

As the first step of the data analysis, the research coded the information provided in the interviews, using the key variables: outcomes, risks, trust and factors of trust. The quotes made by respondents on each of these variables were ordered by rounds to ascertain when the perception related to each was formed. The research assessed the frequency with which perceptions of respondents coincided and differed.

The research wrote up the final description of the rounds and then analysed (1) the perceptions of outcomes and influences on strategies per round, as portrayed in the interviews. This was done to be able to assess if strategies were influenced by the positive (or negative) perception of outcomes; (2) the perception of risks and influences on strategies per round, as portrayed in the interviews. This was done to be able to assess, under conditions of risk or increasing risk, the coping strategies that partners employed; (3) the perception of trust and trust growth per round, as portrayed in the interviews; and (4) the key factors that led to trust build-up per round, as portrayed in the interviews. This was done to assess whether the factors mentioned in interviews coincided with the factors described in the theory, or if these differed substantially. This was also done to assess if the types of factors changed over time (from more calculative to more knowledge-based and identification-based factors), as partners got to know each other better.

The research analysed the results of the questionnaire. The results were entered in SPSS and coded, SPSS was used to calculate the mean, to cross-tabulate the results and determine the standard deviation. In the write up of the cases, the research used these results to verify and support the results of the interviews.

After coding the respondents' responses concerning types of risks per round, the research executed a frequency analysis of the internal and external risks perceived and produced figures that portrayed the average change in risk perception over the rounds. This approach served to demonstrate change and volatility in risk perception over time.

Respondents indicated in the questionnaire their overall assessment of trust in each partner/actor. In addition, they indicate their overall level of trust per

partner and other key parties over the length of the project, providing a rating of 1 to 10 per round. The researcher entered these results into SPSS and used them to create an average overall trust rating per partner/actor and a figure that portrayed the average change in trust per partner (the trust cycle) over the length of project and partnership. The research used these figures to analyse the dynamics of trust over time.

Of note in the analysis were certain aspects that influenced results:
- When assessing levels of trust, respondents were often shy to rate their own organizations[5]; this often skewed the results.
- Peripheral actors were often unwilling to provide trust ratings, feeling that this was difficult to gauge. In addition, core partners were often unwilling to provide trust ratings for peripheral actors, stating that 'they did not know them well enough' to be able to assess levels of trust. This also affected the results of the analysis. This also implied, in particular related to trust, that the number of respondents were sometime lower than expected. Respondents were ultimately more comfortable scoring levels of trust in the partners with which they had most contact.
- Actors and partners, as assumed in the research design, entered and exited the partnership at different times and in different rounds of the project. This affected the results of the analysis, in particular the trust cycles, when the averages altered depending on the number of people entering or exiting the interaction. For instance, in the Dutch case, one of the partners scored another very highly, but the average rating dipped when they exited the interaction.

These conditions were of particular importance for assessment of variables over time, namely perceptions of risk and trust.

Finally, the research analysed the influence of trust on outcomes, the influence of trust on the perception of risk and the willingness of the partners to take risk. This was done, by first creating a master overview, for each case, of the rounds, perception of outcomes, risks and trust, and factors of trust per round (and per partner/actor). These results were analysed to see if, for instance, when outcomes were positive, what strategies partners employed and whether trust rose. In addition, the research analysed the reverse: when outcomes were negative, what strategies partners employed and if trust levels dipped.

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[5] This was done to ascertain if 'membership' in an organization influenced trust levels.

The same was done for the links between risk and trust. The research assessed if when trust rose, whether the perception of risk lowered. More importantly, in the presence of high and rising risk, if trust continued to grow, or, in conditions of high trust, if partners were willing to take on more risk. One key aspect of interest was the point at which trust had its limits and when it was not sufficient to offset the perception of risk and partners had to put a stop to the relationship.

4.7   Conclusion

This chapter has described the methods used in designing and executing the research. It expanded on the theoretical trust cycle model of Lewicki and Bunker, operationalized factors that lead trust build-up (the antecedents, trust as dependent variable), as well as the outcomes and the changes in the perceptions of risk resulting from that trust (trust as an independent variable); linking these to the rounds of the interaction and the trust cycle.

The next three chapters introduce and analyse the three case studies. The cases are structured in a manner to follow and respond to the research questions; each case then rounds off with conclusions that highlight, per research question, the key points that emerge. The empirical evidence provides the basis for the final chapter that compares and contrasts the results from the cases and, again, draws final conclusions for the research.

Process and key moments, Bogusława Street Project, Szczecin, Poland

First Partnership

Opening game

1991 — 06/90 WB rejects city's proposal

1992 — 10/91 URGN submits proposal

Decision Point 1 — 01/92 URGN and City sign LOI

1993

1994 — 11/93 URGN and City sign contract

Decision Point 2

1995 — Begin 1995 Political crisis

1996 — City decides to pull out of the contract End 1995

Decision Point 3

Second Partnership

City decides to end relations with SPEEPE End 1995

1996 — City decides to do a series of studies on alternative models for renovations 1995

City decides to set up a 2nd ppp 1996

Decision Point 4

1997 — 01/97 Initial proposals from ARS and CivilEng

Decision Point 5

City selects ARS 06/97

City sets up STR/ Contract between ARS and city signed 02/98

1998 — 03/98 ARS buys shares in STR

Decision Point 6 — 04/98 Initial MP prop.

City Council changes, decides to withdraw from the project 11 and 12/98

1999 — 04/99 Final decision to separate

Decision Point 7

City sets up SCR End 99

2000 — 11/99 Parties separate/ ARS buys out shares of STR

2001

Location of the Bogusława Street project

5 The Bogusława Street Partnership, Szczecin, Poland

5.1 Introduction

This chapter focuses on a case in Szczecin, Poland where the local government explicitly began to pursue private sector participation in inner-city projects in the early 1990s. The city's interest was to revitalize focal areas of the city after many years of communist rule, lack of investment and degradation of the real estate. To make this possible, they set about trying to attract foreign private investment to these areas. Over time they became interested in the idea of a Public-Private Partnership (new at that time in Poland), and convinced that partnership relations could bring a series of benefits to projects and to the city. Several local officials passed through different phases of looking for the right partner(s) for a key area of the city, two whole city blocks, facing onto Bogusława Street.

The city government worked with two sets of partners on the Bogusława Street project: the first key partner, Urban Renewal Group Norway (URGN), a Norwegian consortium, partnered with the city from October 1991 to the termination of the contract in November 1995, when the lack of secure funds for the project drove the local government to end the relationship. The second partner was an American investment company, American Retail Systems, Ltd. (ARS), who submitted a proposal in January 1997, signed a contract a year later, and bought shares in the newly established local renovation company, Szczecin Renovation Association, Ltd (STR), in May 1998. When political parties changed in 1999 and the support for the project on the part of the city waned, the American partners bought out the city's shares in the renovation company and the partnership ended in November 1999. STR and the city, in its own renovation company, Szczecin Renovation Centre, Ltd (SRC), continued to work separately on the two blocks of the Bogusława Street project.[6]

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[6] The initial description of the project and the interaction was put together by Z. Becker and A. Bongwa and was used as a basis for the description of the interaction in Section II. Extensive credit goes to Z. Becker who collected, put together and translated all of the documentation for the research. This description was supplemented by information from the archive/document research and the structured interviews with the key actors involved in the project and the partnership.

5.2   Structure of the chapter

The first section looks at the actors involved in the decision-making process, and their interests relative to the partnership and to the project (see Table 5-1 and Table 5-2). These actors were linked to the project in different ways, over different periods. Some had a more central, key role (partners in the partnership), others more peripheral, but are still important to the outcome of the project. Knowing their roles in the project and their interests is important to getting perspective on and background to their perception of the risk and trust in the project. The second section describes the process of project development, the issues faced and the nature of the interaction between partners. The depiction of the project is divided into rounds, each of which ends with a key decision point. These important decision points in time are moments when key changes occur: namely in the actors, nature of interactions, the project content (the programming of the project changes) or stakes in the game. At the end of the description of the interaction between partners, the results of the research are analysed: the perception of outcomes, the perception of the risks per round and the influences of these on strategies, the perception of the trust, and the factors that contributed to these, ending with the perception of the outcomes of the round.

5.3   Actors on the scene[7]

The actors on the scene changed over the different periods of the project. In an attempt to capture these changes, the actors are divided into those that remained involved over the long term and those whose involvement was shorter and in different phases. The table below lists the different actors, gives information on the nature of each, and outlines their primary interests as related to the project.

Table 5-1: Actors and their Interests (1)

Actor	Nature of the actor	Interests
Those actors present in the process over the longer term		
The City of Szczecin		
The city government of Szczecin: the politicians and administrators	The Mayor and Vice Mayor, the City Council and the City Board. Also	Better quality of life for the citizens, a revitalized

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[7] For the sake of anonymity, there is no reference made to the names of respondents in the text.

	departments and sub-departments of the municipality that were dedicated to policy formulation or planning and programming activities related to renovation	centre, attracting investors, staying in power
The Representatives of the City in the Negotiation Team (Both URGN and ARS periods)	Representatives of the City Board, independent consultants, city legal counsel	Negotiating the best deal for the city
The Municipal Renovation Team (set up in 1992, dissolved in 1999)	Special task force set up to coordinate renovation issues, help with communication with the inhabitants of the area Put together project proposals for approval by council	Stimulating the setup and execution of renovation projects, improving communication between the government and inhabitants, help to reduce resistance, coordination of departmental inputs in projects
Tenants of the communal flats occupying substandard flats facing on the back courtyard annexes	Private households, destined to be relocated as part of the project	Better housing and living conditions.
Tenants of the communal flats occupying the prime flats in front buildings	Private households , destined to be relocated as part of the project	Good living conditions and remaining in a key location in the inner city
Private owners of flats	Private households, not immediately threatened by removal	Good living conditions and, a good price for the sale of their flats
Tenant's Association	Organization coordinating interests of the tenants	Improving the living conditions of flats for the tenants
Small Businesses (renting from the city), represented by Secesja	Shop owners in the two blocks who rented their spaces from the city at very low, favourable rate, their rental agreements were signed with a municipal department	Stopping imminent removal, having the opportunity to buy if provided, but not at market rates, having their interests heard
Private (owners) businesses	Private shop owners, with significant security, on the ground floor	Minimizing interruption of business activity during the renovations
Business associations, i.e. Secesja	Private associations, economic activities	Protecting the interests of local businesses and stimulating economic growth

| Local consultants | Local university staff, architects, etc. | Providing services to the project at a fee, building a reputation |
| The media | Local newspapers, Local TV | Making the latest information on the project available, interests varied; there were a variety of agendas stimulated by post-communist ideological perspectives. |

The actors mentioned above were involved consistently, but with different levels of intensity over the length of the project. The City Board and the city representatives in the Negotiating Team were the professionals with whom private partners had the most contact, in both the URGN and ARS partnerships. To a great extent, the composition of these two bodies remained the same; effectively implying a nine-year commitment to the project and a working relationship built around attempting to get the partnership off the ground. The MRT and different groups of tenants were also involved over the same period of time. Though they did not participate in decision making, the tenants lobbied the city (and the MRT) on issues they felt were important and the MRT worked to provide information and support services to the tenants. Their involvement was fundamental to the partnership(s).

The table below shows actors and partners whose involvement was more short-term or sporadic.

Table 5-2: Actors and their interests (2)

Actor	Nature of the actor	Interests
Pre URGN		
World Bank Housing Finance Component (Int'l.)	International donor	Receiving bankable proposals, aiding cities with development issues, with construction and mortgage loans, encouraging private sector involvement
URGN period		
Urban Renewal Group Norway (URGN)	Private investor, Norway's second largest construction company, Veidekke A/S and a Norwegian consulting firm, OPUS Bergen A/S that specialized in housing	Providing development support, revitalizing the city centre, developing a bankable project, 'combining commercial viability with social

	policy and project development.	responsibility',[8] satisfying the priorities of their investors
European Bank for Reconstruction and Development	International donor	Supporting large-scale projects and local governments doing development projects
Polish Ministry for Planning and Physical Construction	National ministry	Funding national housing programmes
Szczecińskie Przedsiębiorstwo Budownictwa Przemysłowego (ESPEBEPE)	a large, domestic construction company	Developing a bankable project, cornering the market for construction in renewal, short-term profit
PBKS	Polish commercial bank with Headquarters in Szczecin	Making a profit, growing
ARS period		
CivilEng	a local consulting company, linked to local banks	Being selected by the city to develop the project, making a profit
American Retail Systems (ARS),	an American Investor, linked to a local contractor	Being selected by the city to develop the project, making a profit
City representatives in the Supervisory Board of STR (two public members)	Renovation company, deputy director was representative of the local government in the partnership	Representing the point of view of the City Council in negotiations with ARS, protecting the interests of the city, maintaining status quo in relations with politicians.
ARS representatives in the Management Board and Supervisory Board of Szczecińskie Towarzystwo Renowacyjne or Szczecin Renovation Association (STR)	Renovation company, ARS represented the private interests in the MB and the SB	Creating a 'new heart in the city', building up a vibrant neighbourhood that would attract investment and would be competitive in a growing market, running an efficient company, minimizing risk, making a profit, pleasing their investors
Assorted banks	Local and national banks	Financing viable projects

Of the private actors, URGN and ARS played the most central roles in two phases of a partnership with the City of Szczecin (CoS). The remainder are mostly potential investors, who played a role for a short time and, for the

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[8] URGN Basic assumption and cashflow analysis, May 1994

most part, left the scene when the project was perceived as being too risky. Still their involvement was important, as their funds were crucial to the viability and feasibility of the project. The actors as part of STR (the partnership company set up for the purpose of executing the project) are mentioned separately as they are regarded as a separate entity, with potentially separate interests.

Besides these actors, various experts, sociologists and research organizations participated by providing opinions that contributed to decisions made in the renewal process. In terms of the partnership, they are considered to have been essential in helping both the public and private partners in forming their opinions, but to have had minimal impact on the outcomes of the project.

The two tables give a snapshot view of the interests of different actor groups. Clearly, the interests of each group are more complex than what is provided in the table and also changed over time. For one, many of the respondents interviewed belonged to more than one group, and 'wore more than one hat'. They were often challenged, when it came to the project, with trying to differentiate between their personal, political and professional interests. In addition, public sector actors were often accountable to different groups and therefore had different and conflicting interests to take into account. For instance, when interviewing respondents, there was often an evident conflict between the desire to promote better quality of life for the citizens and the need to placate political interests within lobby groups with more specific interests.

This complexity of interests implies that it was very difficult to categorize groups, as within one group there might be different interests. One good example is the tenants of the Bogusława project, who at first sight seemed one group, but on second sight had clearly diverging interests and so had to be placed in separate groups. Distinguishing additional groups was not possible or realistic; for instance, within the small merchants, though there were two factions that disagreed on how to approach their concerns, there was one clear overriding concern that held them together.

5.3.1 Conclusion

The interests as portrayed begin to give an idea about what motivated different actors to employ particular strategies during the partnership(s). However, the tables do not give an impression of the change in these interests (or stakes) over time, as well as the intensity and nature of interaction between actors over the length of the project, as a basis for

understanding how actors perceived the levels of risk and trust in the partnerships. The next section portrays these aspects of the partnerships, first in a table and then in a description of the interaction and the unfolding of events.

5.4 The process

5.4.1 Overview of project URGN period: key decisions points, change in actors, stakes and content (URGN)

Before starting with a description of the interaction, the table below provides a snapshot view of the City-URGN partnership and identifies moments when key decisions were made that brought about a change in actors, the stakes or the content of the project. It highlights per round, the key and peripheral actors, the intensity and nature of their interaction, crucial decisions taken, as well the evolution of the stakes.

The URGN partnership period is divided into four decision-making rounds. The first, the Opening Game (1990-1992), is the period when the city of Szczecin explores attracting investors for the project, is approached by URGN and finally decides to go with and begin intensive negotiations with the Norwegian consortium. This round is characterized by regular and intense discussions of the partners on mutual interests and potentially financially, technically and socially acceptable solutions. This round is also characterized by interaction between the local government and the commercial/residential tenants of the flats on the topic of relocation: the interaction is highly acrimonious. The second period (1992-1993) is characterized by the partners working out solutions in detail and is concluded with both parties deciding to sign a contract, which requires URGN to build the project in five years. Interaction with the tenants is intense, as is the continued conflict regarding what is to happen with their premises. The following round (1993-1995) is a period of waiting in expectation (the tenants are also quiet, as they wait) while URGN searches for funding and the project start is delayed. When the EBRD funding finally falls through, the partners take stock and the city decides to sever relations with URGN. During the final period, ESPEBEPE is the only key player interacting with the government: when the contractor is not able to make headway with the project, the city decides to put an end to the relationship, and to consider different models for development of the project, one of which is attracting another partner. **Table 5-3** provides an overview of the four rounds and their key features.

Table 5-3: Rounds and their most striking features

Rounds	Opening Game (June 1990 – January 1992)	Partners negotiate, then sign the contract (January 1992 – November 1993)	Partners prepare the project, and search for funds, which fall through (EBRD) (November 1993 – January 1996)	ESPEBEPE negotiates to continue, city decides to pull out entirely (January 1996 – December 1996)
Actors	The Mayor of Szczecin, the City Council and City Board of Szczecin, the MRT, various city departments, the World Bank, URGN and the tenants of Blocks 21 and 22. Involved: the media	The City Board of Szczecin, the city Negotiations Team, URGN, local consultants, and the tenants Involved: The City Council and MRT, the media	The City Council and the City Board of Szczecin, the city Negotiations Team, URGN and ESPEBEPE (who, at the end are called Ceremi) Involved: and MRT the tenants, the media	The City Council The City Board of Szczecin and ESPEBEPE, Involved: and MRT, the media
Intensity of interaction	Interactions ad hoc, but grows in intensity between the city and URGN as URGN's proposal becomes more of an option	Intense interaction between the city and the URGN, and the city (CB and MRT) and the tenants/media	Regular but less intense interaction between the city and URGN, as URGN searches externally for funding; EBRD and ESPEBEPE become more regular participants. Limited bonding between the city and the private parties. The tenants are less involved; towards the end of the round, the interaction with tenants and media grows in intensity and acrimony	Interaction limited to negotiations between ESPEBEPE and the city, the involvement of tenants, the media and lobby groups within the City Council increases substantially

Nature of Interaction	The public/private parties circle around each other searching for a complementary vision for the area, testing out complementary interests, Serious conflict between the city and the tenants	Deeper discussions, focus getting to know each other, searching for mutual solutions. Conflict continues between the city and the tenants, but they settle into the work of clarifying positions	Focus more on individual concerns (URGN finding concerns (URGN finding finance, and the city: dealing with the rising concerns about delays). Tenants wait, in expectation but revive conflict with the city when there is no action	The city retreats to consider options. Conflicts increase within the city organizations, there is much finger pointing, the tenants/media apply pressure
Crucial Decisions	After a failed attempt to get funding from the World Bank, and kick off discussion with URGN, the city decides to enter into negotiations, to the exclusion of all other offers for the area. The city also decides to begin the process of informing tenants on removal conditions	The City Council approves the details of the project and the two partners decide to sign the contract. Though a major investor has withdrawn, URGN agrees to build the project in five years and to search for further funding	After substantial delays and no funds in sight, the city decides to sever relations with URGN (CEREMI). After some consideration, the city decides to stick with ESPEBEPE	The city decides to end all relations with ESPEBEPE
Stakes	Finding investment for renovation projects in the city (the city)	Manoeuvring to a financially, technically and socially acceptable solution (both partners)	Finding sound funding (URGN) and getting the project off the ground (the city)	Settling the political unrest, dealing with loss of face

The following sections describe the nature of interaction between the parties in the partnership(s) and the strategies employed, beginning with the interaction between the local government of Szczecin, URGN and other local actors. For clarity, the interaction is broken down into the separate rounds. At the completion of the description of each of the rounds, the research highlights the key decisions taken that result in a change in actors, stakes and project content.

5.4.2 Background[9]

As far back as the 1960s, revitalization of the historical areas of the City of Szczecin was seen as an issue by the then communist city government. In 1987, the local government decided to organize an international architectural competition to generate concepts concerning the renovation of the city's central area. The choice of the site was somewhat arbitrary, as the competition was intended to provide a general concept of an approach to be taken on a wider scale in the city. Before the city could put the competition to use, the revolution of 1989 brought a new era to Poland. National level economic reforms, price liberalization and public sector reform, such as the transfer of decentralized functions to the local level of government, began immediately. In 1990, a new democratically elected local government assumed office in Szczecin. With these changes came an influx of international donor agencies offering different facilities and services.

5.4.3 Round 1: The Opening Game (June 1990 – January 1992)

The city decided to write a proposal for funding from a donor agency and focussed its attention on two blocks (21 and 22) located in the 52 historical blocks of Szczecin. The communist legacy had left the area badly in need of upgrading and investment. Armed with the results of an architectural competition from 1987, the City's Chief Architect, supported by the municipal planning office, applied in June 1990 to the World Bank Housing Finance Program (WBHFP)[10] for a loan to finance the renovation of the two street blocks (5.5 ha of land, historical residential and commercial properties in a prime location). Located at the intersection of major roads in the city

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[9] The text refers to the 'city', meaning the city government, including the city council, the local government departments dealing with renovation, the City Board and the City Negotiation Team. In many cases, city government officials sat on a number of these bodies. Where necessary and pertinent, the text refers to these bodies individually.

[10] The WBHFP is a programme that offers construction and mortgage loans to cities with development proposals.

centre, these blocks were considered particularly attractive for business and housing. Renovation efforts were to be carried out block-by-block and the progress of works would be stimulated by the income from the completed sections (i.e. a revolving fund).

The city proposed two distinct aspects to the renovation process:
- Relocating the sitting inhabitants and businesses of the two blocks to other flats and locations. This would be done in phases; the vacated portions would then be ready for renovation. Initially, 50 flats for relocated tenants were to be found in the existing stock, 60 more were to be built over two years. As a start, this number of replacement flats would provide for relocation of the tenants from three buildings in Block 21.
- Renovation and redevelopment of the two blocks, and the subsequent sale or lease of the properties. The construction would entail some demolition, mostly in the interior courtyards, upgrading and redesign of the residential and commercial areas.

The city proposed accessing existing and new replacement housing (RH) by using swaps: (1) tenants could contribute flats to the city as payment for the purchase of land or ground-floor commercial spaces; (2) new residential developments could acquire additional land from the city in exchange for making units in the developments available for relocated tenants. In addition, the city also planned to finance the construction of additional new replacement housing. Resources to kick off the project were to come from sale of a portion of the inner city housing stock as well as the sale of development sites not destined for multifamily housing.[11]

The proposal to the WBHFP was the municipality's first attempt to put together a development and financial model for the area. It contained the general project idea, schedule for the project implementation, the technical requirements, detailed cost estimations, proposed sources of funding, potential problems in implementing the project and technical assistance requirements.

The World Bank rejected the application for a variety of reasons, though it gave the municipality the option to resubmit. For one, the proposal was not in harmony with the usual project cycle and requirements of the World Bank; the Bank did not consider renovation as a priority area at that time. Other

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[11]Those not up to residential code: inappropriate size/dimensions and accessibility.

reasons were that the Bank felt that a risk assessment was missing and that the resale prices for the flats was too high given the market for flats. The proposal came with one 'best alternative'; it did not compare different scenarios, nor did it provide a risk analysis to assess short-, medium- and long-term commercially acceptable returns and market stability. In addition, the Bank indicated that it would encourage proposals in which the municipality partnered with a private partner to apply for a construction loan. The construction loans from the World Bank Housing Finance Program could be allocated to private investors, joint ventures etc. (the 100% foreign companies excluded). The municipality had not, up to that point, seriously investigated this possibility.

While considering the option to resubmit their proposal to the WBHFP, the municipality began to explore options for attracting private investors for the project. The first interested partner came in the form of the Urban Renewal Group Norway (URGN), a Norwegian consortium.[12] URGN, in addition to the backing of its partner members, came to Poland with financial support of the Norwegian government, in the form of the State Guarantee Fund (private respondent). In August 1991, URGN commissioned a local consultant, Eureka Invest, to perform a feasibility study for the two blocks (private respondent) and approached the Mayor of Szczecin, Wladyslaw Lisewski, in October with a project proposal (private respondent). The URGN proposed to rehabilitate the existing buildings and extend the properties through new construction.

The blocks contained, at that point, retail space on the ground floor and approximately 700 flats on the upper floors (the total area of the two blocks amounted to 60,000 m^2 of floor space). As blocks in central Szczecin had few high-end commercial spaces and offices, the project proposed a change in the ratio of residential to commercial space, focusing on bringing in more revenues from commercial space to increase the viability of the project. The project would renovate the existing buildings, provide 275 high-end flats, each approximately 100 m^2, and 30,000 m^2 of commercial space. The schematics proposed a mixture of restaurants, shops and offices. The site was to be serviced with 250 parking places. To the renovation of the existing buildings, new construction would add 750 m^2 of new commercial area and 75 new flats to the two blocks. The project would build 800 new replacement

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[12] URGN was comprised of Norway's second largest construction company, Veidekke A/S (with an annual turnover of US$ 570 Million) and a Norwegian consulting firm, OPUS Bergen A/S that specialized in housing policy and project development.

flats outside the central area to house most of the resident population (URGN, Henry Butcher 1994).

Information on the plans of the city was being reported in the local media; the local newspapers, in particular, were making a lot of noise about the proposed renovation project. The inhabitants of the area became angry to find that serious plans were being made concerning their neighbourhood (and involving their relocation!) without consultation and their participation. There was a growing suspicion on the part of the community of the motives of the municipality (residents accused the municipality of being interested to sell off the inner city to foreigners), and the press fanned the flames (SL, PMY, HVS, newspapers).

In response to public opinion, in October 1991, the Vice Mayor, Piotr Mync, established a special team to formulate a policy and strategy to guide the renovation process. The Municipal Renovation Team (MRT) was set up to develop a comprehensive urban renewal strategy, and to coordinate the activities of the municipal department for planning and architecture, the investment department, the land and geodesy department, the communal housing department and the municipal conservation office – all the departments dealing with renewal in the city. The MRT began to draft a renovation strategy and to organize activities to communicate with the community. A Dutch volunteer from the United Nations Development Programme (UNDP) joined to support the activities of the Municipal Renovation Team. The MRT completed the 'Renovation Strategy for Szczecin Inner City Area' by the end of the year, which was widely discussed by the government and the community in the coming months (Henry Butcher Report 1994: 37).

At the same time, as preparation for the project, the city issued a letter to the merchants leasing spaces in the blocks, stating that leases would not be renewed and that they had three months to vacate the premises. This move created such opposition to the city and to the project that the small merchants mobilized themselves to set up an NGO, the Social and Economic Association Secesja. Secesja was made up of a diverse groups of lawyers, accountants, architects, etc. who began to prepare themselves to fight the city (tenant).

The Vice Mayor began to engage the new MRT in gathering information and consulted often with them on issues the city was facing. The MRT set as its priority involving all parties concerned and proposed providing residents and

businesses with full information. They also prioritized consulting with parties involved in all important decisions during the project design process (for both renovation and new replacement housing), and allowing for individual households and businesses to personally consult with the MRT on the proposed resettlement schemes and other questions (public respondent). They also helped the City Board (CB) with preparation for discussions with URGN.

Initial negotiations between the city and URGN took place. After a period, both parties decided that there were enough complementary interests and mutual benefits to warrant formalizing the relationship further. On 28 January 1992, the City Council approved the preliminary agreement and the city and URGN signed a letter of intent (LoI).

5.4.4 Round 2: Negotiating an acceptable project (January 1992 – November 1993)

The decision to go forward was crucial as it implied that the city decided to forego submitting a follow-up proposal to the World Bank or (for now) working with any other potential partners on development of the site. The stakes and the actors changed as each partner introduced more people into their mutual teams and committed substantially more time, investment and resources to hammering out the details of the project. The partners began negotiations in earnest. The risks began to take on greater importance to both sides.

Change in content

The content of the project began to take form; the partners began the round with the following agreements:

- URGN agreed to construct 932 replacement flats to house relocated inhabitants. The number of flats required was higher than originally planned, as it appeared that families were doubling up in flats in the blocks and the law required allocating each family a flat as part of relocation.
- The city agreed to take the responsibility to relocate the tenants of residential housing in phases, as the RH was completed and as URGN was about to start renovation of portions of the blocks.
- URGN agreed to prepare detailed designs of the properties to be renewed.
- URGN agreed to take on the role of negotiating with the private owners of the residential or commercial premises regarding what they might

have to face during the renovation process and what they might have to contribute if they were to remain; this was necessary, as the city's survey had revealed an unwillingness of private owners to vacate their premises. The position of URGN and the city was, however, that for the project to be a success, the residential owners in particular would have to be vacated; though the retailers could have first right of refusal to return to their renovated premises.

Change in actors

The intense negotiations to come required both sides to put together a working team. The city formed a negotiation team comprised of the Vice Mayor, two members of the City Board, the city's legal counsel and two independent consultants (two public respondents). URGN hired Eureka Invest to act as its representative, mediator and translator in all matters pertaining to the negotiations and development of the project (public and private respondents). URGN commissioned a local architect to work with its Norwegian architects on working out the details of the design. URGN flew the Polish professionals working with the organization to Norway for sessions to work out different aspects of the project (private respondent). URGN arranged visits with the tenants, commercial and residential, to talk through their plans and to gauge support for the venture. URGN came to Szczecin on a monthly basis to discuss the progress of project development and the negotiations (private respondent).

Two main groups of tenants were actively involved in discussions with the city. In addition to Secesja, the Tenants Association for residents of the communal flats maintained a consistent dialogue with the city and the MRT (tenant). The private owners were less vocal, as they felt their positions were more secure.

The interaction

Most of the tenants of communal flats seemed willing to move if the city could ensure them that the replacement housing was of better quality than the conditions in which they currently lived (in cramped quarters and forced to use communal toilets) (Henry Butcher Report 1994). The small merchants were, on the other hand, a different story. They continued to lobby. Secesja was, in fact, able to attract a great deal of attention to their cause and ensured that they were interviewed after every public hearing or TV interview organized concerning the progress of the renovation (tenant).

The volatility of the tenants had an impact. In April 1992, the Vice Mayor commissioned a survey of the opinions of the inhabitants of the blocks relative to renovation and relocation (Henry Butcher Report 1994). Questionnaires were sent out by a sociologist to measure the inhabitants' approval of the undertaking and to define acceptable locations for replacement housing. In addition, in the first year of negotiations and after experiencing the wrath of the tenants, the Norwegian construction giant and 50% shareholder in URGN, Veidekke, began to have second thoughts about investing in the project and discussions began to take place internally in URGN regarding alternative sources of finance. They did not formally withdraw until later (see letter 12/94, next round).

The potential loss of funds was a real concern for URGN. In addition, it was clear from negotiations that the project had substantial social concerns that would have to be resolved to make sure that the project could be a commercial success. Thinking that a donor might see this project as an interesting test case for urban renewal in Central Europe and a pioneering attempt to set up a public private partnership (Henry Butcher report 1994), URGN contacted the European Bank for Reconstruction and Development (EBRD) in late 1993 to explore the possibility of obtaining a loan. EBRD sent a consultant to perform an analysis of the project; URGN funded the execution of the feasibility study (project correspondence, 1994). EBRD indicated that they would come to a final decision by June 1994. URGN also approached the Polish Ministry for Planning and Physical Construction, and the World Bank Housing Finance Program Office in Warsaw to explore the possibility of securing mortgage credit for the residential part of the renewal project.

URGN also set about attracting a local partner to the project and approached a large, domestic construction firm, ESPEBEPE. ESPEBEPE appeared to be a sound, potential partner, large enough to be able to manage a project of this scale, and listed on the stock exchange. In parallel to its negotiations with the city, URGN began negotiating with the Managing Director of ESPEBEPE. The Managing Director seemed to share the same vision as URGN and the city, and in the early fall of 1993, signed a LoI to take over the construction of the RH (private respondent). The construction costs they would bear were to constitute their investment to the project; the RH was to be an in-kind contribution to the project.

The negotiations with the city lasted just more than two years, when both the city and URGN decided that all points and differences had been ironed

out to the satisfaction of both partners, and that they should sign the contract. On 10 November 1993, the City of Szczecin, represented by Mayor Lisewski and Vice Mayor Mync, signed a contract with URGN, represented by Mr G. Gunderson, for the renewal of what, at that point, was called 'the Norwegian Blocks'.

5.4.5 Round 3: Delays during the search for funding (November 1993 – December 1995)

This decision to sign the contract was crucial as the stakes changed for all parties. The time for discussion was now over, the project was a reality, and it was time for action on the ground. The anticipation on the part of the tenants turned into the realization that the project was actually going to take place, and that they would have to prepare for relocation. The pressure on URGN to deliver increased, also particularly as the finance for the project was not yet entirely secured. The content of the project changed as final decisions were made about the programme and the phasing of the project. The actors and the nature of the interaction changed as those negotiating the deal took less of a role, and were replaced by those who would take over the day-to-day management of the execution of the project.

Change in content and in stakes

With the signing of the contract, the final programme agreed upon was:
Existing usage
- 51,000 m^2 flats
- 6,000 m^2 commercial space

After renovation, total
- 26,000 m^2 flats
- 34,000 m^2 commercial space

Of which, first phase
- 10,000 m^2 flats
- 18,000 m^2 commercial space
- 932 replacement flats
- 250 parking places underground
- Pedestrianization of Bogusława Street (Contract URGN - CoS, 1993)

All this was to be financed by URGN and its investors. The project was to last five years with a deadline for completion of 31 December 1998. The renovated buildings were to remain the property of the city and were to be leased to URGN for 18 years, up to 2011. In the meantime, URGN was entitled to sell the renovated spaces, and negotiate the terms of the contracts and sales (Contract CoS – URGN 1993, Henry Butcher 1994).

The renovated properties were to be sold on the market. Whatever the market could not bear, i.e. the properties that remained unsold, would be rented. The contract contained a proviso that right of first refusal should go to the previous tenants of commercial spaces after renovation. However, when accepting bids for commercial properties, URGN would not be forced to sell below market rates (Contract CoS – URGN 1993).

The contract stipulated that the city was to arrange mortgages as security for loans up to 6 million US$ to be taken by URGN to fund replacement housing or buildings to be renovated in future stages. In other words, the city agreed to act as guarantor and to use the land and buildings as collateral. Should URGN default, the city was to have first right of refusal to pay off the loans taken out by URGN, prior to the bank taking possession (Contract CoS – URGN 1993).

The formula for calculating the city's share of revenue from rents and sale of renovated spaces for the 1st phase was as follows: for the first 70% of the m^2, the city could claim 5% in rents or from sales proceeds, from the remaining 30%, 15%. For the entire project, the profit sharing for the CoS was 5% of the total assumed sale income: 1 million US$ (Contract CoS – URGN 1993: para 41, Henry Butcher 1994).

The contract included an addendum, containing a clause stating that both parties *". . . understand and accept that the start and implementation of the contract depends on URGN obtaining a loan from EBRD or additional financing institutions on terms acceptable for URGN"* (Supplementary statement: clause 4). Both parties signed this joint statement.

The interaction

With the signing of the contract, the tenants began to realize that the project would in fact take place, and the efforts of Secesja began to wane. The results of the study commissioned by the city revealed that 85% of the tenants were willing to vacate (Henry Butcher 1994). In December 1993, the MRT opened an information centre and began producing quarterly newsletters to facilitate communications with the tenants of the project blocks.

In August 1994, the consultants working for the EBRD produced a report to assist the EBRD in making a decision on the request for funding. The executive summary of the report outlined the conditions for loan finance and

concluded by "*commending the project and its exponents as a solution with both social and financial merits*" (Henry Butcher 1994: 5).

The report recommended that "*EBRD sanction loan finance in respect of this project subject to satisfactory finance terms and subject to confirmation as to the legal limitations imposed by the agreement vis-à-vis the actual proposal made by URGN . . . . Prior to any drawdown of funds, the EBRD must be satisfied that vacant possession has been obtained at each successive Phase/Stage.[13] The costs and revenues should be re-analysed for each Phase/Stage and, in respect to the retail element a reasonable portion should be pre-sold with deposits clearly held in separate accounts from the development*" (Henry Butcher 1994: 5).

URGN sent an official letter to the CoS on 1 December 1994 summarizing the changes in the project structure and finance, and requesting formal changes to the contract. The letter confirmed information already communicated verbally and, in some cases, in written form to the city. Changes and updates of importance are as follows:

- Confirmation of the fact that Veidekke A/S had decided to sell its shares in URGN in the third quarter of 1994.
- Formal confirmation of the cooperation with ESPEBEPE on the project, as a result of a meeting on 28 October 1994, and in the setup of a joint company, Center Renowacji Miasto Sp z.o.o (CEREMI), registered locally. The date of registration was to be 1 January 1995, 70% of the shares to be owned by URGN and 30% by ESPEBEPE (URGN letter 1994: 3). This alteration in organization structure also implied a change in the contract. All contractual rights and obligations were to be transferred from URGN to CEREMI. The letter also offered the CoS the opportunity to participate as a shareholder in CEREMI.
- Negotiations with EBRD were still underway. URGN and its partners expected a final decision by the Board of the Bank in February or March 1995.
- The changes in partners and investors within URGN and the delays that this caused in the project required adjustments to the timing of construction and in project deadlines. These modifications required the formal approval of the city and changes to the contract.

When the New Year arrived, URGN had been preparing for two years to start construction and had made little progress. ESPEBEPE had only just started

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[13] The project was to have three major stages, each of which was broken down into phases.

foundation works for the new replacement flats. The delays developed into a political crisis within the City Council (Councillors demanded explanations from the Mayor, and there was even a call for a no-confidence vote). The Mayor and Vice Mayor survived the crisis but the City Council imposed a strict time schedule for the project.

The final agreement with the EBRD came in and the Bank agreed to commit 24 million US$ to the project. The contract contained a special clause stipulating that all major decisions concerning the project had to be sanctioned by the Bank. In addition, EBRD made loan finance conditional on CEREMI coming up with a capital share of 1 million PLN (approximately US$ 200,000 at the time).

During a CEREMI shareholders meeting, at which EBRD was present, it became clear that CEREMI could not find the capital injection required by EBRD. ESPEBEPE was not willing to invest further in the project. It became clear from the meeting that ESPEBEPE's reticence stemmed from the fact that its management, the Management Team and the Managing Director, were in complete disagreement on how much to commit to the project. In fact, the local contractor had not taken the RH any further and the construction was at a complete standstill. In May 1995, CEREMI was disbanded (private respondents). By October 1995, it was clear to EBRD that the partners were not going to be able to find the additional capital required and the Bank decided to withdraw its support.

By the end of 1995, still not much progress had been made, the Mayor and the City Council were again faced with another political crisis with tenants, the community and the media insisting on explanations and applying pressure. In January 1996, the city government was in a precarious position, with frustrated tenants, its reputation at risk in the media and a city council sensitive to criticism. Given all the problems encountered by the municipality in its cooperation with URGN, the city decided to withdraw from the contract with URGN and to look for new solutions.

5.4.6   Round 4: Reconnoitring (January 1996 – December 1996)

This decision was a big one. The political pressures had become so great that that the city could no longer justify waiting for the URGN consortium, now CEREMI, to obtain the funding. The stakes, to subdue political unrest now

outweighed the need to find a way to get the project going. It now became necessary for the city to plan an exit strategy to be able to save face.

Change in actors and in content

As URGN withdrew from project, only ESPEBEPE was left behind. Before deciding what to do next, the municipality took a step back, assessed what it had learned, and reconsidered its options. In the face of such opposition and distrust in the community, the City Board of the CoS looked at a variety of scenarios.

- Give up on the project.
- Develop the project with city funding alone.
- Try to set up another Public-Private Partnership to carry out the development.
- Fund the construction of replacement housing and sell the vacant flats to the highest bidder for renovation.

Interaction

The city commissioned a local architecture firm to study the different options. The firm proposed opting for option 4: they suggested the city build the RH, relocate the tenants in phases, and sell the empty buildings off bit by bit to investors.

In the meantime, ESBEPEPE was still interested in cooperating with the municipality. It had already made substantial investment in the project that it did not want to forgo, i.e. investment in materials and labour on the foundation works: This was to be its in-kind contribution to the failed consortium with the Norwegians. ESBEPEPE demonstrated its commitment by producing for the municipality a stock of prefabricated elements stored on site. Although the municipality owned the land for replacement housing, ESPEBEPE had a relatively strong negotiating position. It owned the materials on site; it could claim already having started the work and seemed ready to continue.

Against the suggestion of the local architectural consultant, the city decided to develop the project with local partners. The City Board chose to continue with ESPEBEPE and PBKS, a local bank. This decision was short lived; in the next six months, the local partners had little to show on the ground. The tenants of the blocks had completely lost their patience. The partners seemed to be spending much of their time in meetings but there was no visible construction being done. ESPEBEPE was clearly in too weak a financial

position to continue and withdrew from the project (Głos Szczeciński and Kurier Szczeciński 16 October 1996).

In considering how to progress, the city decided to consider the alternative of setting up its own renovation company. In addition, the city also decided to look at incorporating a newly created Housing Association ('TBS' possible from June 1996) in construction of the RH and in the development of this renovation project, as well as the possibility for attracting another private partner for the project. Officials decided to pursue all three options or some mixture of the three. This was a key turning point of the city, as it realized that there was more than one strategy available, going for a partnership was not the only option. Having different alternatives to fall back on seemed to be a way to deal with the high political stakes at that moment.

5.5 Analysis of URGN partnership

The following sections analyse the interaction between the city, URGN and the tenants. The first section looks at the perception of the respondents of the outcomes of the rounds of the project and traces the links between these perceptions and the strategies chosen. Perceptions of outcomes are also presumed to influence perception of risk and trust levels. The section that follows analyses the perception of risk over the first four rounds, and its influence on strategies. Finally, the last section looks at the levels of trust and the factors that led to the build-up and breakdown of trust.

5.5.1 Perception of outcomes

Perceptions of outcomes per round

Round 1 resulted in an initial flush of enthusiasm on the part of the partners. Public respondents indicated that they were excited by the analysis of the real estate market performed by URGN and by the rosy picture painted in the proposal. The city representatives began to realize that the project had potential, also as a PPP, and that they had found a partner that seemed to share the same ideals and objectives (public respondent).

> It was an important moment when URGN came with the idea to do the project; and then the realization that we could do the project as a PPP. We had a partner with whom we could work . . . and we were optimistic about the calculations of the economic effectiveness of the project. (public sector respondent)

URGN was, on the other hand, also enthusiastic to have found a potentially feasible project and a local government with whom discussions went well. *'When URGN finally chose Szczecin; the project looked like an excellent*

opportunity. . . URGN was enthusiastic to change the character of the area' (private sector respondent MW 241106). Both parties decided to continue the relationship.

Perceptions of the tenants were different, as they were angry (in this new democratic system) at being faced with removal. This led to resistance to the city and to the project.

> In the fall of '91, we [the tenants renting retail space] received the message from the city that we had three months to vacate. Though the scale of the project looked interesting, there was no room in the vision of the city for small shops on the premises. This approach created strong opposition. There was an eruption of emotion at that point and a strong tendency to self-organization: the tendency to try to do something . . . the feeling was 'then came democracy and now they are kicking us out'. (tenant)

By the end of the second round, city representatives felt that the prospects for the project looked extremely sound. Their sense was that after a fruitful period of negotiations, they had signed a well-conceived contract. They had found a partner that not only came up with innovative ideas, but also was willing to share and allow the city to access its skills and resources.

> There were no bad moments during this phase. We spent the negotiations looking for alternatives and solutions and incorporated these into the project. . . . URGN understood what we wanted and persuaded us that the project was realistic . . . [the representative] came up with innovative ideas. For instance, he focused a great deal on parking as a way of stimulating commercial activities and we began to see the economic benefit of parking on the site. (two public sector respondents, similar private sector respondent)

The perception on the private side was that negotiations had taken quite a long time (two years), but that issues had been worked out in negotiations, also to the satisfaction of the city. There was some concern that financing was still uncertain but the private partner was optimistic, looking forward to the opportunity of working with ESPEBEPE and the support that EBRD could provide, and feeling that a sound partnership had been built with the city (public respondents). This feeling of optimism on both sides led to the decision to sign the contract.

For the small merchants, there were mixed feelings. They were satisfied that they had exercised a certain amount of power through lobbying and getting attention in the media. They not only had had success in blocking the city but

also in getting officials to listen to their (constructive) proposals. Still, by the end of the round, there was frustration with the fact that their resistance lost its purpose when the contract was signed and their fate seemed to be sealed.

> We were successful in getting the attention of the media. After public meetings you would always see members of the association involved in the interviews. So when politicians came out to the studio, we always managed to have discussions with the mayor(s) . . . but it was not only protesting and working against them, we also looked for forms of involvement . . . We began to feel that the city was giving way, first from the pressure of the media, second because the city began to see that discussions with us was a good way of channelling ideas; this was confirmed by the vice mayor. . . . The city became open to our ideas; we signed a letter of intent with the city. If we could find an investor, they were open to working with us . . . However, when it became clear that the URGN project would take place, the desire to do something waned. Secesja was dead by the end of 1993. (tenant)

By the end of the third round, however, perceptions of the outcomes were quite negative: the results did not meet the expectations created. For both public and private respondents there was clear disappointment with the fact that there were still no concrete developments on the ground; the realization that the project was not going to happen was slow to come.

> Not much happened after the contract was signed, most of the momentum was during the negotiations. When ESPEBEPE came there was more support for the project, its presence strengthened the argumentation for the project. We thought the company would bring jobs to Szczecin. Then when it appeared that CEREMI had no money, its representatives did not come to the city; they could have had access to funds and contacts. They could have renegotiated the contract, but nothing happened. The city set a deadline and the nothing happened, URGN did not try to save the project. The default on the contract by the private partner was a bad moment. It was a long peaceful agony until the project collapsed. (public respondent)

This perception led to the city's decision to sever relations with URGN and its partners in CEREMI.

In the final round of the URGN period, ESPEBEPE and the Polish Bank PBKS's failed attempt to resurrect the project resulted in minor additional disappointment for the city. The city was already busy considering other options.

When our partner(s) defaulted on the contract it was an instinctive reaction to think of it as a small thing, your focus is more on what will happen with the big problem [the project and the political risks]. I evaluated this with the mayor and we decided to look at this [situation] as a small thing. (public respondent) *. . . When it collapsed, it was pretty mild. We felt that what we had done was a success. There was already an atmosphere of looking for another partner.* (public respondent)

Perceptions of outcomes overall

From the public side, their perspective of the overall outcome of the City-URGN relationship was surprisingly positive.

We (the partnership) *may not have produced any results, but we* (the city) *did not waste time. We learned a great deal. The relationship with URGN contributed to the transformation within local government of how things were done. The project and what we learned contributed to changing the ingrained and traditional approach to renovation.* (public sector respondent)

The URGN period was a test trial for the following period. During the URGN period all possible mistakes were made. The project was a test field for the city and URGN. (public sector respondent)

The overall positive perception clearly led to the city's decision to try again. Public respondents admitted to feeling wiser in their dealings with ARS and to being able to apply the lessons learned. (two public sector respondents)

The reaction from the private side was not so positive . . .

The project failed on commercial terms. CEREMI was too weak, URGN was too weak, and when CEREMI failed the contract with the city was void . . . The project failed because of the commercial failure of ESPEBEPE. URGN did not assess ESPEBEPE well, but there were really no other partners at the time. They were hard to find, though now it would not be problem . . . It was a very quick failure when the Bank foreclosed . . . URGN had vision, to change the city; at the end the city had less vision, all it wanted was to renovate houses. Ultimately, the process was a big failure; the city lost a real chance. (private sector respondent*)*

From the perspective of the tenants . . .

Secesja came with good proposal but also contributed to the breakdown of the project. The prevailing attitude in Secesja was to protect individual interests. People became so tied to the location

that they did not see the opportunity that change would provide . . . [because of the failure of the project] ul. Jagiellonska [street in the project] no longer has a competitive position . . . and to give you an idea of the level of disagreement and resentment that came out of the whole experience, I have only begun to shake hands with some of the people in the past two years. On a personal level, I had friends that had to move and I lost something in my [political] career. Secesja also failed and this has left bad memories. (tenant/city councillor)

Outcomes: analysis of the results of the questionnaire[14]

Perceptions of outcomes were also measured and verified in the questionnaire. The results back up the negative perceptions of the project and the partnership from the interviews. In the questionnaire the respondents were asked to rate the statements made concerning the outcomes of the project and the partnership (see Table below) on a scale of 1 to 5 (1= strongly agree, 5 = strongly disagree). With regard to the results provided below, several respondents felt that as the project never got off the ground, it was inappropriate to rate statements regarding the implementation of the project. This made it difficult to rate the final three statements.

Table 5-4: Respondents' perception of project outcomes, URGN period

	N		Mean
	Valid	Missing	
I am satisfied with the results of the collaboration/project	8	0	4.38
The goals of my organization were met by the partnership	8	0	4.00
The partnership led to additional investments than would not have occurred if my organization had worked alone	8	0	4.13
The collaboration created a number of innovative ideas, concepts and plans	8	0	3.13
The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	4	4	4.00
Working closely together led to improved coordination of project elements	4	4	3.25

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[14] **Please note**: The questionnaire and its results were used to clarify and verify the results of interviews and information provided by respondents on their perceptions. The response rate remained low. Though the graphs and tables in this chapter provide a 'quantification' of trust levels (looking at the averages of responses), perception of risks, and outcomes, the analysis remains a qualitative assessment of the value of these variables.

Working in partnership led to long processes of decision making and additional costs	4	4	2.50
Total			**3.73**

N= 8, respondents: 4 public, 2 private, and 2 tenants

The results in the table confirm the overall disappointment with the outcomes of the URGN period. Most respondents were not satisfied with the results of the collaboration and the project; and they felt that the goals of their organizations were not met through the partnership. One of the private partners did, however, *agree* that *'the goals of my organization were met by the partnership'*. The reason for this was his perception that the project/partnership was on its way to being a success had it not failed on commercial terms (see interview above). This type of reaction was common in the interviews with the public and private partners: satisfaction (with some reservations) with the development of the partnership (relationship) overall, but frustration when the project failed to get off the ground. Four (three public and one private) out of the eight respondents *agreed* with the statement that '*the collaboration created a number of innovative ideas, concepts and plan*s'. The responses in the questionnaire are consistent with the comments during interviews. The other half *disagreed* and *strongly disagreed* with the statement (one public, one private and two tenants). Two respondents (one public and one private) *agreed* that that the '*partnership contributed to improving coordination'*, though both private sector respondents *agreed* and *strongly agreed* that the '*partnership led to long processes of decision making and additional costs'*. This is also consistent with the interviews (see section on risks).

5.5.2 Perception of the risks and influence on strategies

The perception of the risks was limited at the beginning but increased over time. It is interesting to note when the perception of risk got to be so great that (no matter the level of trust) parties were 'forced' to end the relationship. The perceptions of the outcomes of the project already give some indication of the perception of the risk: the analysis of the outcomes indicates that risks became too great at the end of the third round for both partners to continue. The following section takes a closer look at the trends in the perception of the risks during the four rounds of the URGN period.

Figure 5-1: Frequency assessment of types of external risks, Rounds 1-4
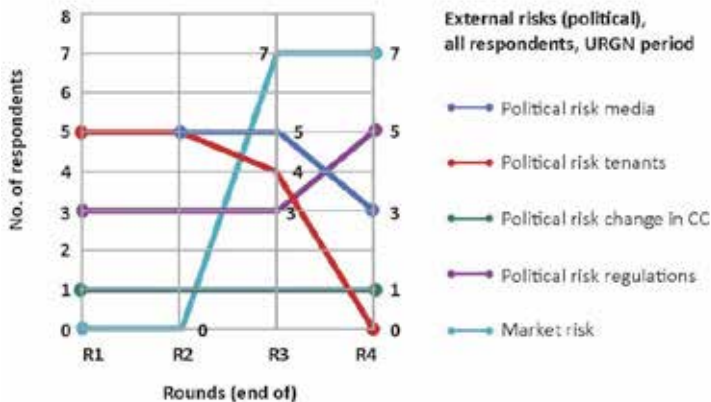
In the first round, the city and URGN perceived few risks, as not much had been negotiated or committed. The partners were busy testing out common grounds for cooperation. What started as limited interdependence, changed as the expectations of the partners started to grow over the rounds. The figures below provide a view of the frequency with which certain external (political and market) risks (Figure 5-1) and internal (project) risks (Figure 5-2) were mentioned by respondents. The results in the figure indicate the moments at which risks were perceived as reflected in the interviews (N =9).

Figure 5-2: Frequency assessment of types of internal (project) risks, Rounds 1-4
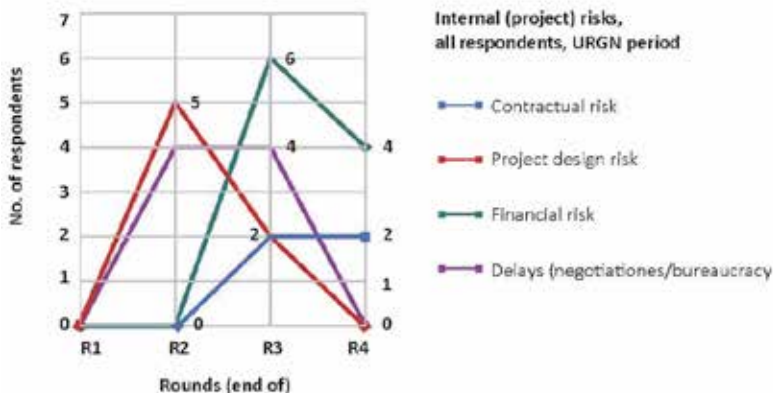
The first figure emphasizes the political risk from the media and tenants in the first two rounds (mentioned by most respondents), risk from insufficient

regulations was more a concern of the public sector; the figure also reflects the perception of market risk which came later, in the third round (most respondents). In the second figure, which refers to project related risks, the perception of risk related to potentially having a contract that did not cover all contingencies came from the public respondents, the perception of the risks related to a faulty project design (creating a feasible and viable project) was more of a private concern. Both private (two over the middle two rounds) and public sector (two over the middle two rounds) mentioned risks of delays (lengthy negotiations, delays in getting the project off the ground). These perceptions of risk are reflected in the information below from the interviews.

The public partners realized from the start that some political risks were present. First, there was the political risk that came with taking on a venture of this sort, particularly with a foreign partner, in a nascent democratic system. The local government, just coming out of a communist regime, was taking steps in uncharted territory: respondents commented that in the unstable political and economic climate that existed at that point, the potential risks to the local government and the careers of the local politicians from the citizens were severe (two public sector respondents). A local partnership with a 'foreigner' was a first step away from the traditional (safe) command and control approach to development (public sector respondent).

> The risk from public opinion at that time was huge. There was apprehension among the inhabitants of the sale or transfer of property to foreigners. As a matter of fact, in a later mayoral election, the candidate used the fear and distrust of foreigners as a public platform. He fanned the flames with slogans. We had just come from an era of 'us and them', the mentality was ingrained . . . also at the time the media was still in the hands of the left. We received adverse press coverage; this coverage was based on the media's ideological beliefs. (public sector respondent)

This perception of risk was offset by the interest of the government to stimulate Western investment in important projects, resulting in its strategy to go for this project.

Though the risk from the opposition of the tenants to the project was growing and became substantial by the end of the round (see Figure 5-1), respondents admit to a 'lag' time in perceiving it as such. The need to develop strategies to deal with the risk took on real importance in the next round (two public respondents, tenant).

In the second round, the political risk to the city from the resistance of the business tenants under rental contracts started to take form. The tenants employed a clear strategy because of their perception of the outcomes of the previous round; they demonstrated at public functions and undertook lobbying. In the early months of 1992, they attempted to set up a referendum to call off the city government and were successful in obtaining 20,000 of the 27,000 signatures required (tenant). This risk to the city was enhanced by the visibility of and the reporting on the project in the media.

Respondents described the strategies employed by the city and URGN as a reaction to their perception of political risk from the tenants and the attacks in the media. The fact that the tenants were organized around the issue of relocation, meant that the city was obliged to see them as a worthy opponent. The city reacted to the risk by organizing public hearings, the survey of public opinion on the project and the setup of the MRT as intermediary. URGN, also aware of the political risk, decided it was good business and went to talk to the tenants.

Public officials admitted that the city had limited experience with managing political risk and that they made mistakes in their choice of strategies. They unanimously admitted to responding too slowly and inappropriately, and to underestimating the power of the tenants and their strategies (following quoted confirmed by multiple sources).

> I feel that at the time we were completely unprepared. We came from different disciplines and were not public managers. We were administrators, not professionals in public relations; these did not exist at the time. We now know that good PR is more effective than meeting with each of the tenants. There was a lack of PR to support the personal meetings (that took place) . . . When we received feedback from the opinion survey, we decided to meet with the tenants of Blocks 21 and 22. The invitation was sent out by mistake to all of the tenants in the city, we almost did not survive the public meeting. We then decided to hire in the sociologist. We lost a lot of time making up for this mistake. It took months to make up. (public sector respondent)

URGN recognized the political risk, but its primary focus was on the 'economic' risks of the project. This was visible in the organization's negotiation strategy on project design (see Figure 5.2), and the focus of discussions on the contract.

> *There were two types of risks. The first was the economic risks:[15] was the project financially viable? The second types of risks were the political/social aspects. Both were amplified by the lack of experience of the city and trying to do such a project so soon after transition. To try to reduce these risks, we spent more time on the contractual and economic aspects than any other aspects. We tried to cover our asses in the contract to minimize future risk.* (private respondent)

The Norwegian funders of the URGN venture felt that the political and social aspects of the project threatened the viability of the project, and insisted that URGN protect itself against this. URGN felt the tension of managing different interests (the city's and the funders) and, in response to the criticism, undertook the strategy to approach EBRD for help, an organization that representatives felt was better able to manage the risk inherent in the project.

> *The commercial advisors to URGN felt that, in the design of the project, we underplayed the economic aspects of the project, and overplayed the social aspects. They felt that URGN was accommodating too great a portion of the social issues in the project. They were very critical. Our big challenge was to take the interest of the funders into account, while keeping minimum support for the project on the part of the city.* (private respondent, Henry Butcher report 1994)

URGN's investors reacted to the political risk by withdrawing early in the project.

> *The project was often attacked in the press. In a meeting with Secesja, the investors got scared; the tenants were doing a lot of shouting. This caused Viedekke and Navimar to pull out . . . also, outside investors saw the political risk as so great that they were not interested in investing in the city.* (private respondent)

There were other types of political risk mentioned, the most relevant to most respondents being the legal and regulatory framework for renovation projects and PPPs. This perception of risk resulted in the strategies on the part of the city, as mentioned before, to focus on the letter of the law in the contract. This excessive concern with the details of the contract implied for the members of the URGN team an overly lengthy negotiation that put the viability of the project at risk (consistent with the responses in Table 5-4 on outcomes and long process of decision making).

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[15] Economic risks are seen here as a combination of project design and financial risks.

The behaviour of the local government (the Negotiation Team) during the process was to push for and negotiate every small point in the contract . . . for URGN, the substantial time (a total of two years in negotiation) and cost of input made in this period constituted a key risk. . . . the City's Negotiating Team was also being fed continuous demands from within the City Council (and their lobby groups), it brought the project closer to collapse. (private respondent, tenant)

The perception of risks grew in the third round. For one, it became clear over time to all parties that there was substantial financial risk in the project, funds for construction were not secured and while URGN searched for investors, partners waited. All financial risk was placed on URGN.

Access to funds was uncertain and the viability of the project was therefore in question . . . There was uncertainty if EBRD would finance the project, and their slow decision-making processes kept the city and URGN waiting and hoping for a long time . . . ESPEBEPE looked like they were a good partner; unfortunately they were financially unstable . . . their failures in a project elsewhere finally brought about their insolvency. (private respondent)

EBRD perceived the political risks (resistance from the tenants) as substantial enough to affect the viability of the project, and EBRD's interest to invest. It went so far as the make the point central in its report. The following is an excerpt taken from the EBRD report; several points outline what the bank distinguished as key risks to the project.

"Point 11: Clearly the delivery of vacant possession of the units is a critical first step in the creation of the development opportunity. This responsibility lies fairly and squarely with the City of Szczecin.
Point 12: In order to establish the feasibility of clearing out the tenants the City has gone through considerable lengths to canvas opinions and have involved the residents from an early stage.
Point 13: Responses to the questionnaires sent out have been encouraging under normal statistical circumstances – approximately 85% – but there has been some limited opposition and there is no margin for error. It is critical that the early phases carry guarantees of vacant possession and generate profits to be carried as a safeguard against failures to deliver later buildings.
Point 14: The legal situation regarding obtaining vacant possession of the units should be investigated further prior to commitment to the development.
Point 15: This should be viewed, perhaps against a lack of participation in the risk by the City and adequate safeguards need to be obtained. We expect it to be possible to obtain these upon confirmation of funding and a fixed timescale for the commencement

and delivery of the replacement housing.
Point 16: Owing to the progressive delivery of vacant possession and
in order to minimize risk, the most profitable sections should be
undertaken first." (Henry Butcher 1994: 3)

These points make reference to a series of risks: those related to the feasibility of obtaining vacant possession of the units, the legal framework related to ensuring vacancy and to the links between viability and the project design/phasing. In addition, reference was made in the report to the insufficient participation by the city in the risk related to the tenants, and the fact that the private tenants would *"be looking for considerable compensation for displacement"* (Henry Butcher 1994*: 102*). The strategy was to suggest sequencing the project in a manner that would create revenues upfront.

The inability of CEREMI to come forward with its financial commitment, linked to the political risk, was substantial enough for EBRD to decide to withdraw from the project. Though the City's perception of the financial risk was great; the perception of political risk was greater and finally led the public team to terminate the partnership (public respondent).

At the end of the third round, the risk to the city became too great, despite the positive nature of the relations (see next section on trust), and the relationship ended. The perception of the outcomes at that moment (nothing concrete on the ground and no funds) was another factor that led the city to sever relations. One public official identified the moment at the end of the round that the city became clear on the nature of the risk related to the function of the contract as a binding document and as the tool for providing incentives for performance.

> *The contract did not help us to make decisions or to set criteria to*
> *make decisions ('. . . if there is no finance in six months, then . . .). We*
> *looked in this case at how to set up the collaboration and not at how*
> *to escape if something went wrong. There were insufficient incentives*
> *to ensure that things were delivered. For instance, the city did not*
> *require bank guarantees to cover risk. In addition, the contract did*
> *not define deliverables (critical moments when they had to have bank*
> *finance). For instance we did not have a commitment from Viedekke*
> *that it would invest in the project or a guarantee from the mother*
> *company. Also, the LoI gave the developers exclusivity. Nowhere did*
> *the contract require the developer to pay for exclusivity to do this*
> *project without competition. In effect we guaranteed them a*
> *monopoly. Internally we did not have the knowledge required to be*

able to do this and we could not hire a lawyer from the outside; we could not afford the rates for such a consultant. In fact, there were no incentives for non-performance at all: i.e. there were no penalty clauses in the contract in the case of withdrawal. The presence of the (secret)[16] clause which stated that the project was dependent on parties being able to secure finance, and that both parties entered 'at own risk' (without assurance of solid finance) now appeared to be an ill-conceived agreement. (public sector respondent)

Respondents indicated that the perception of risk was later translated into a different approach to negotiations with ARS (three public sector respondents).

In the fourth round, the perception of certain risks still remained: the financial risk was still high (now a risk transferred to the city) and the political risk related to a failing project as well. This is evident in the strategies of the city representatives who continued to communicate with the tenants on the status of the project, largely through the MRT.

This was the time as well that there was a growing realization that the market for such a large project was perhaps limited, and the market risk high:

> *There was huge commercial risk. There was absolutely no proof that a retail project would be realistic, would make sense or would repay itself. We had absolutely no track record (to prove this). Our basic assumptions were very optimistic and there was very, very high risk.* (public respondent)

Still most respondents believed the '*project could have worked if we could have just gotten it off the ground . . . we just were not fast enough . . .*' (Multiple respondents). This perception was clearly behind the commitment on both sides to the project. Later, the perception of market risk influenced municipal strategies '. . . *we started to work with other projects broken down into manageable pieces. We gave a chance to smaller local contractors*' (public sector respondent).

In conclusion, the perception of the risk of the project was not too great to keep the city from pursuing other partnership opportunities; they regarded

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[16] One respondent indicated that the clause in the contract indicating that the project was dependent on partners finding secure funds was not made known beyond the inner circle in the partnership, implying that expectations outside of this circle were that funding was secure at the time of signing. The risk of the project seemed minimal, given these expectations, whereas it was, in fact, quite high (public sector respondent).

these as manageable. In fact, the positive trust relations built with URGN, as described in the following section, contributed to the desire to continue the project, again in a partnership.

5.5.3 Perceptions of levels of trust and factors that contributed to these

There is indication from the interviews and the questionnaire that trust was strong enough to give the public and private parties good reason to continue the relationship in the face of the risk mentioned above, before finally giving up. The period between the signing of the contract and the separation was two years, a long time to wait and to trust. Both sides concur that, though trust was eroding, it was not the lack of trust that brought the partnership to an end. Instead, public respondents attribute the breakdown to: (1) the political situation that was too volatile to continue, and (2) the fact that the private partners were no longer committed to the search for funding. Private partners admit to commercial failure being the cause and the results of the interviews and questionnaires seem to support this.

Changes in trust over time

The following section on trust looks first at the results of the assessment of the changes in the levels of trust over the first four rounds; Figure 5-3 shows the results from the questionnaires.

The figure provides a view of the average levels of trust in each of the actors over rounds 1-4. The trust in the CB/NT and in URGN rose to the end of the third round, at which time it dipped. The assumption here is that that trust levels in URGN would have been higher had the private respondents been willing to rate themselves. The trust in the CC fell consistently over time; the trust in the tenants changed little but fell at the end. This is consistent with the information provided in the interviews.

Figure 5-3: Changes in the average levels of trust, URGN period
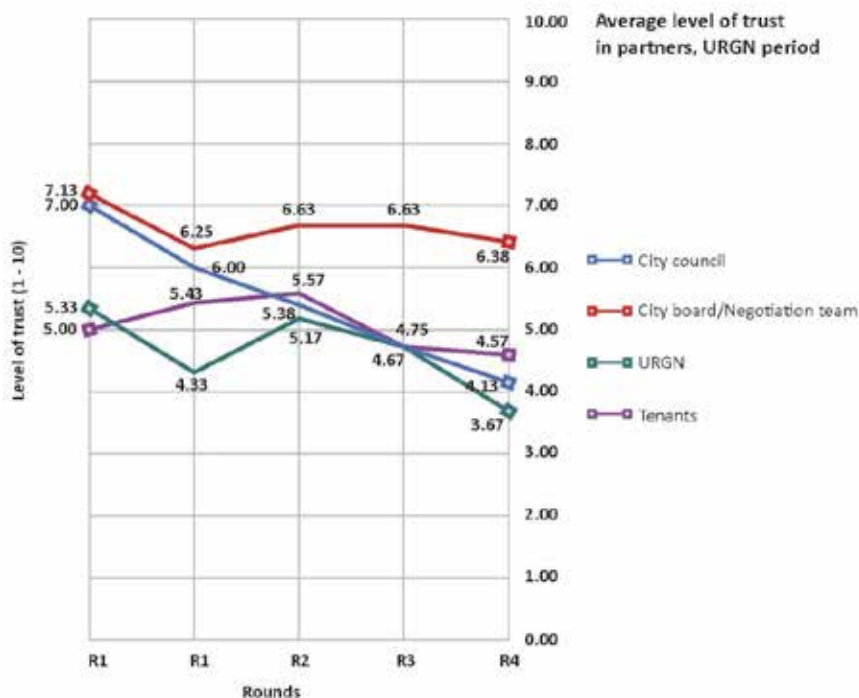
N = 8: 4 public, 2 private and 2 non-profit. **Note:** Both URGN respondents declined to rate the change in trust 'in themselves' over time. One public respondent, in line with her responses in all other areas of the questionnaire, declined to measure the change in trust in the tenants.

Overall ratings

The survey also asked respondents to provide an overall rating of their trust in the main actors, on a scale from 1 to 10, 10 being the highest. Table 5-5 below provides the average rating per actor. Below that, Table 5-6 also provides the average trust ratings, cross tabulated by category of respondent.

Table 5-5: The average levels of trust in the different actors (1 to 10, 10 being the highest), URGN period

Level of Trust in		City Council	City Board / Negotiation Team	URGN	The small merchants	The communal tenants	The private tenants
N	Valid	8	8	7	7	6	5
	Missing	0	0	1	1	2	3
Mean		6.38	7.38	6.71	5.43	5.83	4.40

N=8: 4 public, 2 private and 2 non-profit

Table 5-5 reveals that on average the highest level of trust, during the URGN period, was in the city representatives of the City Board/Negotiation Team (7.38). There was marginally less trust in URGN (6.71), influenced by the marginally lowers numbers from the four public respondents, and the fact that, this time, one private respondent abstained (the expectation being that the average would have been higher had this respondent assessed his organization). The responses pictured in Figure 5-3 and Table 5-5 appear to be somewhat consistent, though slightly lower in the figure above. The small merchants and other tenants were not subject to high levels of trust, but scored moderate ratings, from 4.4 (the private owners) to 5.83 (the communal owners).

Table 5-6: Cross tabulation type of organization and average levels of trust, URGN period

Level of Trust in		City Council	City Board/ Negotiation Team	URGN	The small merchants	The communal tenants	The private tenants
N	Valid	8	8	7	7	6	5
	Missing	0	0	1	1	2	3
Public respondents		7.5	8.75	7.25	6.33	7.33	6.0
Private respondents		4.5	7.5	10.0	2.0	4.5	2.0
Non-profit respondents (Secesja/ tenants)		6.0	4.5	4.0	7.5	4.0	6.0

Public respondents demonstrated high levels of trust in the CC (7.5) and the CB (8.75), but also in URGN (7.25), second only to trust in 'their own kind'. Of note is the high trust built in the communal tenants (7.33). Both private respondents trusted the CB/NT (7.5) most overall, other than the one private respondent's very high trust in his organization (10). For the rest, private respondents demonstrated low to moderate trust in the other actors involved in the project. The tenants also trusted 'their own kind' the most (7.5).

The results indicate that membership in an organization is an important factor when measuring trust. The assumption is also that frequency of interaction between partners, aspects such as getting to know each other, are also factors influencing the trust between the two main partners. The

next section looks more closely at the assessment of the bases for trust as indicated by the respondents.

Factors of trust

Respondents were asked to rate each item from 1 to 3 (1 = very important, 2 = relevant, 3 = not so important). From the URGN period the average results were as follows:

Table 5-7: Factors of trust, URGN respondents

	N		Mean
	Valid	Missing	
I must have sufficient information on the other party's reputation, qualifications and past performance record.	8	0	1.38
I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	8	0	2.00
The other party must be willing to share information and resources	8	0	1.25
I must get to know them well enough that I am able to predict their behaviour	8	0	2.00
On the basis of the interaction, I come to know and respect their capacities	8	0	1.75
We must learn to 'speak the same language'	8	0	1.25
We must come to share the same values and norms	8	0	1.88
Total			**1.60**

N = 8: 4 public, 2 private and 2 non-profit

For the respondents, the statements that rated highest related to *'learning to speak the same language'* (1.25, 75% rated as very important, four public, one private and one tenant) and to the *'willingness to share information and resources'* (1.25, 75% rated as very important, two public, two private and two tenants); the first an interesting response in a partnership where communication with translators was an integral part of and of importance to overcoming cultural disparities; the second interesting considering the difficulties finding funding (see section below for development of this point). The next most important was the other party's reputation, qualifications and past performance record (1.38, three public, two tenants rated very important). Interviews indicated that in the first round, information was provided on the URGN's credentials and they were perceived to be good. Further, there were assurances that the funds would be made available. *'Veidekke came with letters of interest, indicating an interest to make capital investments, [the private consortium] came with proof that built trust. The city verified the materials'* (two public respondents).

Interesting to note that *'penalties in the contract'* were, by most, not given a high rating (50% rated *'relevant'*, one public, one private and two tenants), given the comments in the importance of contractual incentives above.

Factors that contributed to the build-up of trust

This section refers to the interviews and the comments made by the respondents on the factors that contributed to trust build-up in the first four rounds. The information gathered is important in identifying different types of factors, confirming the responses in Table 5-7 above and in determining how these factors might have contributed to the trust cycle over time.

Trust between public sector officials and in the public sector partners over the rounds

The figure and tables above indicate that, in the first round, initial trust in the public sector was quite high. At the outset of the project, according to both public and private respondents, factors that contributed to the build-up of trust were the (mutual) openness and frankness with which issues and the project were discussed, the attempt made to canvas opinions and the respect with which these opinions were treated.

Within the public sector, references were made to the qualities of the CC and the CB/NT. A representative of the MRT perceived the CC was as discussing *'ideas openly, with integrity and without any other major agendas'* (public respondent). Referring to the CB, he also commented:

> At that time, [the Vice Mayor] would drop a lot of things in our laps, and ask for reactions and opinions on certain things. This is how I became involved in many aspects of the project. This is also an example of the type of relationship that the MRT had with him. The MRT had a straight line to [the Vice Mayor], we went directly to him and the City Board with issues that had to be brought before the city council . . . We had trust in him and he in us. He was very much behind what we were doing. [The Vice Mayor] was a leader in those times in getting things done. What this also implied is that we never went behind him with anything, but always went straight to him with problems. There was a code of behaviour that developed out of working together; going behind him would have broken that code. We trusted him with information and what he would do with that information. Nowadays there is so little trust in the political machinery that I never go to the Vice Mayor but lobby directly with the City Council for changes. Staff members are much more aggressive about getting their own way. (public respondent)

Figure 5-3 shows a dip in trust in the public officials and the CB/NT at the end of the round, this stems from the tenants' responses. This dip can be linked to the strategies of the city, namely the move to send out the letter to the tenants indicating the need to vacate. This fall in trust also caused the development of reactive strategies on the part of the small merchants, this can be seen in the following round, during which the tenants continued to organize activities to resist the project and removal from the premises. The tenants indicated:

> *Our trust went down when we got that letter, the approach of the city created real distrust. Probably, now looking back, the city's approach 'out in three months!!' was so confrontational that we could only have one reaction. There could be no mention of trust.* (tenant)

In Round 2, trust grew between the different public players, based on the experience of working together. Factors mentioned by members of the public team were the leadership and level of professionalism:

> *I came to have trust in the city's team. [The Vice Mayor] was a leader and we [the CB/NT] worked well together. I had the feeling that we were really a team. [The Vice Mayor] was very precise and good at 'selling' ideas.* (public respondent)

Another public respondent reinforced the professionalism of the CB.

> *[The Vice Mayor] was very savvy in getting things done, he was always totally prepared before he went to the CC to get approval, essentially he had done enough canvassing beforehand to know what the answer was going to be . . . The relationship and trust developed over time and also resulted in trust among the city officials and the politicians.* (public respondent)

On the private side, trust of the URGN in the city grew as well. Interestingly, a representative of URGN noticed the trust growing between public colleagues and admitted that this influenced his trust in the CB/NT. Private respondents also underlined the straightforwardness of the city representative, the fact that he did not colour information and the fact that he clearly defined the limits of the city.

> *We began to trust [the Vice Mayor] because we saw that he had worked himself into a position of trust with his colleagues, people listened to him (and believed him). Many people were committed to him . . . I trusted [the Vice Mayor] implicitly, he told us his concerns; he was open, he treated us decently and had no hidden agenda. I felt that we really spoke the same language.* (private respondent)

In Round 3, trust began to erode. With regard to the drop in trust in the CC shown in the figure, respondents attributed this to the increase in conflicting interests, hidden agendas and opportunistic behaviour within the council. One councillor stated:

> *I could see that additional demands coming from the CC during negotiations, each time these brought the project closer to collapse . . . I could see that there were other councillors with vested interests to kill the project, this attitude (was transferred) to the CB, the extra demands that would kill the project. Their attitude was: 'They are capitalists; we will just make them pay more' . . . I began to see URGN as a victim.* (councillor)

The minor increase in trust on the part of the tenants in the CB came from the attempt of the CB to canvas their opinions, and looked for joint solutions.

In Round 4, trust in the CB began to dip slightly, more in the CC. Within the public arena, trust within institutions and between institutions (CC/CB) dipped when unexpected elements of the contract were uncovered.

> *. . . the project had been simmering and nothing was happening . . . trust decreased when we found out about the secret article or clause in the contract. The CB should have been upfront with the CC about this and also the reason why they were still working with URGN (while nothing had happened). . .* (public respondent)

Members of the CC perceived that the CB/NT was withholding information, and trust fell.

Factors that contribute to trust in (and within) the URGN team

Within the private sector team, working together and getting to know each other was the basis for building trust. From the beginning of the project, URGN spent time getting to know the key professionals involved in the project. Staff of URGN committed themselves to learning how things were done in Poland, understanding the nature of cultural barriers, developing the best approach to communicating with partners. In effect, they gave priority to 'speaking the same language'. Members of the URGN team also provided support, were open to ideas and displayed key professional qualities.

> *I (Polish architect) went to Norway to help create the project. URGN wanted to know how things were done in Poland – law, design – the concept layout was done in Norway . . . we got loads of technical support from the Norwegians. [The URGN representative] did his job; he fulfilled expectations and had a strong personality. He wanted to get to know us; he was open to someone else's ideas. He gave us a*

> *chance to build trust . . . URGN had a very complicated task to convince the local government. They (the staff) were pioneers. [The URGN representative] was an interesting personality; he was able to lead conferences, he was a very strong person, and he was very convincing.* (private respondent)

Another public respondent also underlined URGN's wisdom in hiring a local representative to intermediate with the local government and to aid in communication.

> *The city's perception of URGN was good. URGN hired Eureka to smooth the way. This made things simpler because they (the city and Eureka) spoke the same language; Eureka was able to explain and mediate. Then [the URGN representative] came every month to confirm the steps that had been taken and the agreements made.* (public respondent)

Trust of the city in URGN grew during negotiations in Round 2, based on the openness with which issues were discussed and resolved, the optimism displayed, the professionalism and the level of fairness or mutual respect demonstrated.

> *[The representative from URGN] was trustworthy. During negotiations, he was open with information. He induced confidence, and did not try to avoid issues. Trust in the group was based on trust in the individual. He never negotiated something for which there was no support by those behind him.* (public respondent)

Another member of the NT concurred.

> *I felt that that there was a high level of trust. [The representative from URGN] was open and solid and dependable. After a point was agreed, he never came back to it. One knew that there would never be an attempt to revisit an issue . . . during negotiations; the partners treated each other fairly. We did not take advantage of each other.* (public respondent)

What is important to note is that through Round 2 and into Round 3, the perception of positive outcomes, the promises of access to solid finance, and belief in the potential success of the common venture contributed to the growth in trust. The perception on the part of the public team of the outcomes of the interactions/strategies up to this point, as well as the expectations built by URGN (i.e. finance, potentials of the project), contributed to the growth in trust in URGN.

Figure 5-3 indicates a fall in trust in URGN in Round 3. This occurred towards the end of the round, when the realization came that the project was not going to go forward. Respondents focused on the perception of the tendency, at this point, of URGN to keep information back concerning the financial status of the project, and therefore the difference between what was being communicated and the reality on the ground (consistent with the responses in Table 5-7). Of note is that public respondents admit that rather than a purposeful attempt to withhold information, URGN tendency was to remain overly optimistic at all times. This served to translate, in the long run, into a perception on the part of the public respondents of (1) an attempt to cover up, or (2) a lack of professionalism. This consistent optimism had created expectations that ultimately could not be met. Public respondents indicated:

> At the beginning there was an idea that there would be no problem with the money, URGN was very optimistic, then there were attempts to find money and it became clear that URGN had a good idea but nothing to back it up . . .there seemed to be decisions but no follow through. The situation was exacerbated when ESPEBEPE finally joined the project, and troubles seemed to have been solved. They also were not upfront when their solvency problems occurred. While it was clear that the project was being delayed due to lack of finance, URGN continued to be (overly) optimistic about the potential sources of finance . . . URGN was not clear, claimed that the project would repay itself in five years, perhaps they were naive or did not have the experience . . . the drop in trust was gradual, it started when ESPEBEPE had problems . . . when it was all over and you looked at the situation, URGN had not invested anything in the site, ESPEBEPE was the only one who really spent money on the construction. (public respondent)

Another public respondent confirmed this perspective:

> After the contract was signed URGN held back information . . . The other partner was less sincere than expected. During the negotiation, they were open with information, or that was our perception, in reality they were holding back. They were also colouring the truth about contacts with the tenants, about the finance. They made promises. The fact that they coloured things became clear when things did not materialize . . . At some point ESPEBEPE also brought unrealistic expectations . . . when I look back, we had the perception that a private partner knew how to calculate risk and to let us know that being burdened with accommodating all families in RH was too risky. It would have been hard to persuade the CC, but I could have. I

just did not want to tell a private partner what to do. (public respondent)

Internally, in CEREMI, trust was also at risk. A private respondent commented on the trust between URGN and ESPEBEPE.

> *The Managing Director (MD) of ESPEBEPE supported the project. But the success of the project ended up being dependent on the MD, as there was a strong difference of opinion between the MD and the Management Team (MT). The MT was more concerned about saving ESPEBEPE. The company did not have deep pockets . . . it focused on turnover only . . . When things went bad, the MT voted against the project . . . At a certain point, we (URGN team) started to doubt ESPEBEPE's viability. This happened gradually as we were finalizing the contract. We found no strategic vision in the Management Team. The Managing Director had vision, but the staff and the Management Team did not . . . Trust between ESPEBEPE and URGN turned out to be limited and weak. It was a contractual relation; trust was sufficient from a commercial point of view. Still with the Managing Director, I had strong trust, out of the relationship that we built.* (private respondent)

In correspondence, the URGN representative stated: '*At a critical stage of the project, during the final preparations for securing EBRD financing, there were clear signs of internal problems in ESPEBEPE. It quickly became clear that the company had no sustainable economic base. A complete change in company leadership was introduced. From this point, the project was doomed. Trust evaporated overnight. Agreements entered into proved not to be worth the paper they were written on*' (correspondence April 2007).

Trust in the tenants

Public and private respondents declined for the most part to comment on trust on the tenants. However, respondents from the tenants discussed the trust they had in each other. One respondent who was a tenant and became a councillor describes the build-up of relations around the issues of relocation and the substantial drop in trust between the tenants towards the latter part of the relationship. He admitted that a divergence in interests/goals and internal bickering among the tenants caused the final breakdown of trust and relations. This is visible in the figure.

> *Post revolution, it was easy to get help and to get people involved. Secesja was made up of lawyers, accountant, all kinds of people. We were not homogenous. One approach was 'Let's attack with bayonets'. The other was more conciliatory: 'Let's carve a voice for ourselves.' Over time, the internal atmosphere was horrible;*

members of Secesja were accusing the leaders of getting things from the city . . . the people who were more conciliatory got more tired of the negative types and stepped out. (tenant)

5.5.4 Conclusion

The information taken from the interviews portrayed the changes in trust levels over the rounds as well as the factors that made trust rise or dip; this portrayal is consistent with the results in Figure 5-3, Table 5-5 and Table 5-7. Respondents described the behaviour and strategies of the players and perceptions of outcomes that contributed to the build-up of trust over time and ultimately to the erosion of trust.

In the following sections, the research looks at the interaction between the city and its new partner, ARS. The following sections look at the nature of this interaction, and the perceptions of the respondents of outcome, risk and trust.

5.6 The process, 2nd period

5.6.1 Overview of project and rounds during the ARS period: key decisions points, change in actors, stakes and content

The following sections continue with a description of the interaction between the City of Szczecin and a new private partner. The table below provides a snapshot view of the City-ARS partnership and identifies moments when key decisions were made that brought about a change in actors, the stakes or the content of the project. It highlights per round, the key and peripheral actors, the intensity and nature of their interaction, crucial decisions made, as well the evolution of the stakes.

5.6.2 End of URGN partnership, start of the ARS partnership

The following period dealt with in the research is the interaction between the City of Szczecin and ARS. This period has also been divided into four rounds. The first round, the Initial Proposal (six months in 1997), involved initial discussions between the city and the developer; the parties discussed interests relative to the project. The interaction was somewhat influenced (sped up) by the fact that ARS (and the city) were using the URGN proposal as a starting point, the contents of the project were familiar to the city, if less so to ARS. The second round (June 1997 – February 1998) was characterized

by intensive negotiations of the project details and the contract, ending with the city's decision to give ARS an ultimatum 'sign or walk'. ARS decided to sign. In the third round, the interaction revolved around managing the project together within the renovation company set up by the city, and working out the details of the project and the relationship. The round ended when the new city council decided to set into motion divorce proceedings, abruptly ending the relationship. The interaction, from that moment (December 1998 – November 1999), was characterized by acrimonious relations that were never to be mended. Table 5-8 below outlines the rounds and their most striking features.

Table 5-8: Rounds and their most striking features

Rounds	Initial proposal by ARS, partners sign Letter of Intent (January 1997 – June 1997)	Initial negotiations, followed by signing of the contract (June 1997 – February 1998)	Partners develop project jointly within STR, ARS scales down project, the city asks for divorce (February 1998 – December 1998)	Partners jointly manage STR, while negotiating the divorce (December 1998 – November 1999)
Actors	The City Council and City Board of Szczecin, ARS Involved: CivilEng, the tenants the MRT, the media, external experts	The City Council and City Board of Szczecin, the city's Negotiation Team, ARS, and their local consultants (lawyer, architect) Involved: the tenants, the media	The (new) City Council and City Board of Szczecin, the city representatives in STR' Supervisory Board, the city representatives on the Board of Directors, ARS managers and staff working in STR, and the private tenants Involved: the media	The (new) City Council and City Board of Szczecin, the new Supervisory Board and Board of Directors, ARS, and the tenants Involved: the media
Intensity of interaction	Intense interaction internally between city, political and administrative officials. Arm's length between the city and potential partners, increasing as ARS and the city discuss relations.	Intense between the city and the ARS. The media remains a consistent participant	Intense interaction between public and private representatives within STR, regular interaction between STR managers and the city in the Supervisory Board. Increasing interaction ARS/STR with the private tenants. The new City Council and City Board Members introduce themselves into the interaction	Intense interaction between public and private representatives within STR, intensified interaction between STR managers and the city representatives on the Supervisory Board. Consistent interaction ARS/STR with the private tenants

Nature of Interaction	Internally, city officials jockey for positions relative to the project. Public and private parties test the waters, and communicate on interests	City and ARS search for commonly acceptable solutions Media still playing a watchdog role	Juggling of interests within the Supervisory Board, working out the rules of the game in the relationship between the public and private partners Growth of conflict between ARS/STR and the private tenants, private tenants dig in their heels. The new city council begins to sniff around the project, with little support	Interaction strained by the difference between the public and private interests, efforts made to work to acceptable agreements. Attempt made to woe the new CC, but to no avail Continued serious conflict between ARS/STR and the private tenants
Crucial Decisions	The city decides to go with ARS, as opposed to going forward with their own renovation company (Plan B)	The city and ARS agree to sign the contract, ARS agrees to join STR and invest 2.5 US$ in the project up front	When the city rejects ARS's Grand Scheme and the private tenants continue to hold out, ARS decides to go for a scaled-down version of the project. This implies calling off many of the retail investors for the site. The new city council decides to drop out of the project	ARS decides to buy out the city's share in STR
Stakes	Getting the project off the ground fairly quickly, in the face of political pressure	Manoeuvring to a financially, technically and socially acceptable solution	Showing action on the ground (the city), ensuring the project is viable (ARS)	Ensuring the project is viable (ARS), showing their teeth (the new city council)

The new partnership spanned a period of just under three years. The interaction moved at a much swifter pace than the previous partnership. The negotiations were completed in one year and the partners set to work to build the project. The nature of the interaction and the issues were different because the partners were actually involved in and working through decisions on implementation. The next section describes the nature of the interaction in greater detail.

5.6.3 Round 5: The Initial Proposal(s) (January 1997 – June 1997)

Change in actors and content

In the last quarter of 1996, the city continued to look for interested partners and began to encourage proposals through informal channels. In January 1997, two consortiums, American Retail Systems (ARS) and CivilEng, submitted bids.[17] ARS proposed certain changes to the URGN project formulation: it offered to set up a joint company with the city, which would renovate Blocks 21 and 22, complete the RHs and, as well, develop a Greenfield site in an adjacent area, named Pazim. Sequencing was such that the renovation would come first, and Pazim second. ARS proposed to invest US$ 2.5 million equity in the project up front (6. 3 ml Zł), in exchange for a 51% share of the ownership in the joint company. It requested that the city match this capital investment with in kind contributions, made up of

- land for the replacement housing and investments made there,
- perpetual usufruct of land and ownership of the buildings to be renovated, and
- perpetual usufruct of the Pazim land.

The amount of the investment to be made by ARS was to depend on values set for the land and buildings contributed to the joint company by the city and the need to keep the shares in proportion (51-49%). The proposal gave some background information on the amount of ARS's own capital and fixed assets (Pomeranian (ARS) proposal, January 1997).

ARS accepted the phasing of the project as set out by URGN, and proposed underground parking: 362 spaces under Block 21; 424 under 22. The ARS

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[17] American Retail System (ARS) an American investment company joined in a consortium with a local developer/builder. CivilEng was a loose partnership between small Polish consulting firms and local/national banks.

consortium appeared to be a strong potential partner and it lobbied aggressively for the project in the media and with the councillors.

CivilEng's proposal was based on the URGN programming, and suggested no major changes. The proposal made an analysis of the market for the sale of communal flats and performed a cash flow up to 1998. CivilEng also suggested the setup of a development company, ownership to be split 30% for the city, 35% for the banks and 35% for the developer. CivilEng provided a preliminary expression of interest from local and national banks (Austrian credit bank, Polish bank and a leasing society) willing to negotiate debt finance for the project should the consortium be awarded the contract, but no direct investment. The developer's approach was simple and straightforward, but its lobby was weak (CivilEng proposal, January 1997).

Interaction

In the assessment of the two proposals for the City Council, dated 25 March 1997, the City Board (CB) analysed the budgetary implications of deciding to go with one of the two proposals (Plan A). The CB also indicated a Plan B, namely the option of continuing without partners and completing the RH and the renovation of the blocks in phases (project documentation).

The CB hired a panel of local experts to assess the proposals further: tax and financial advisors, a local university professor acting as local government consultant, and a real estate broker. In view of the previous experience with a private partner, the City Board argued for taking a careful approach (project correspondence 1997). The reports came out in March and April: the opinions varied on what was considered to be the best proposal, but all suggested that the city continue to pursue the two options. Based on the information given, comments underlined the fact that doing a project of such a scale (using URGN's assumptions and programme) with sitting tenants was risky, and that a phased approach might be better. In addition, the real estate expert argued that the ARS's proposal was more realistic for three reasons: (1) the analysis of current trends in real estate, (2) access to dependable sources of finance, and (3) the proposal was designed to guarantee the commercial success of the project: the better use of the space and increase in the number of offices and commercial spaces would ensure the commercial viability of the project (report real estate expert 1997).

All experts agreed that the city had too little information to make a decision; the city followed up in the end of April 1997 and sent a set of detailed questions to both candidates. The questions revolved around clarifying

information in the proposals and gaining more information on the vision of the potential partners, on cash flow assumptions, sources and structuring of finances, use of presale, share of capital in the joint company, preliminary design, approaches deal with conflict between partners, business planning, and phasing and timing of the project (project documentation 1997).

Communication continued between the city and the potential partners, though the CivilEng proposal quickly became less of an option, as the financing was less stable. Communication with ARS focused on two issues: the scope of renovation proposed by ARS in the start-up phase and the fact that ARS did not wish to invest in the two blocks without being assured of development rights to Pazim. The city did not see the scale of the investment proposed by ARS in Phase 1 as substantial enough and insisted that Phase 1 should include more buildings. In addition, the city was inclined to postpone Pazim until the completion of the first four buildings by ARS, i.e. completion of a certain portion of the project was seen as a condition for obtaining the development rights for the Pazim land. On 10 June 1997, ARS formally concurred with the city's conditions and proposed, as its investors were coming to Szczecin, that, if the city was ready, a Letter of Intent be signed (project correspondence 1997).

The City Board moved quickly to write a motion that presented both proposals to the City Council, but which suggested going with ARS. The motion indicated that though, in the initial round, CivilEng seemed better prepared, ARS had more funds to invest. The motion also reiterated that the City Board was in the process of setting up a renovation company, in which ARS could buy shares (project correspondence 1997).

The motion proposed that the city sign a LoI with ARS, which would define the roles, the split of shares in the renovation company, and the amount of investment by both parties in the renovation of Blocks 21 and 22. Contribution of land for commercial development on Pazim land would *not* be taken into account in the LoI, but ARS would be kept informed if the city were to decide to do something with Pazim (as partner or part of an auction). Successful completion of the first nine buildings would have to occur before the city would be willing to sign a LoI with ARS for Pazim (project correspondence 1997). The City Council approved the motion and decided to accept ARS's offer. The letter of intent was signed on 19 June 1997, during the visit of ARS's shareholders to Szczecin.

5.6.4 Round 6: Negotiating acceptable solutions (June 1997 – February 1998)

With this decision of the city to accept ARS's proposal to sign the LoI and to go forward for now, the stakes became more explicit for both parties: the city tried to get the project going with another partner, in the face of political pressure to perform; ARS made a preliminary agreement to sink money into a risky economy. The actors and the nature of interaction began to change, as teams from both sides were again formed, and time and resources were made available.

Change in content

The LoI was valid for six months; it stated that ARS would draft a contract within one month and that the parties would agree on the contracts within three months. The parties agreed that the agreement was not binding and that all costs related to negotiations and preparation of the project would be borne by the individual parties (LoI). The LoI also indicated that the city would inform ARS should a Request for Proposal be issued on Pazim or allow ARS to bid on the land should the occasion arise. In negotiations, ARS agreed to join the city in the renovation company. The city committed to contribute land and buildings, ARS cash with which to purchase shares in the company.

Change in actors

A limited liability company – The Renovation Society of Szczecin (STR), fully owned by the city – was established on 4 July 1997 with a capital of 3 million PLN (US$ 0.75 million). The activities of the company were specifically limited to the renovation of two blocks and the pedestrianization of the street down the middle of the site, Bogusława Street. The city contributed to STR the ownership rights of the first six buildings in the two blocks (with values set by evaluators hired by the municipality) and the right of perpetual lease of land. The city offered to make a 1.25 million PLN (about US$ 0.31 million at the time) available for STR for the modernization and pedestrianization of Bogusława Street. STR negotiated agreements with TBS to resume and continue the construction of the replacement housing.

For negotiations, the city established a city negotiating team comprised of the Vice Mayor, the city's legal counsel, and a local university professor acting as local consultant for the city (all of whom had also been involved during URGN). On the ARS side, the ARS President was joined by a Polish representative; a private lawyer soon joined the team.

Interaction

Within one month, ARS produced a draft contract; the city insisted on breaking this version down into three separate contracts. Within three months, in September 1997, ARS had drafted contracts (1) between the city and ARS regulating capital contributions, (2) governing the association of ARS and the city in the renovation company STR, and (3) between the city and the new STR.

The two parties continued for months discussing their different positions. Six months later, during a negotiation meeting on 9 December 1997, it appeared that the parties were not in agreement, ARS's counterproposal was, on a majority of points, in conflict with the points of the city and on 11 December 1997, the City Board informed the City Council that negotiations with ARS had been aborted. On 18 December, ARS sent a letter to the Mayor requesting the opportunity to restart negotiations. Within two days, the Vice Mayor reopened negotiations with ARS, with specific instructions to ARS on the concessions the city expected and a detailed series of points to which ARS was expected to respond. The city also asked ARS to provide all the necessary documents confirming its practical and technical experience with renovation, namely

- the concept of renovation, including realistic phasing with time table attached;
- an economic and financial analysis, and proof of sources of finance;
- marketing assumptions; and
- information on partners and staff with qualification and experience (project correspondence, 1997).

In the first week of the New Year, ARS responded with three new draft contracts, with most of the information and concessions required. It held out on points related to the value at which ARS could acquire the completed properties after renovation and on the structure of the Supervisory Board. The financial calculations and a draft concept of renovation were omitted as these were not yet ready. On 17 January, the City Board convened a special meeting to adopt the contracts and indicated to ARS that no further negotiations would be possible. ARS was given two days to accept the offer; if they chose not to, the City Board indicated that they would present Plan B (STR taking on the entire renovation without a partner) at the next City Council meeting (in ten days) for approval. The next morning ARS sent a letter confirming its participation in the partnership, and stating that it would join

STR within seven days of obtaining approval from the Ministry of the Interior (a three-month process). [18]

The decision was made on both sides to enter into a more formal relationship, and to sign the contract. The final City Council approval came on 26 January 1998. The new partners signed the contract on 20 February 1998, in front of the press (Gazetta Wyborcza, Głos Szczeciński, Kurier Szczeciński 21 February 1998). ARS's investment of US$ 2.5 million in the project was immediately deposited in the Polish bank account.

5.6.5 Round 7: Building a project together (February 1998 – December 1998)

The decision resulted in a commitment on both sides to work together in a renovation company; the actors and the interaction were about to change significantly, as were the stakes. A substantial investment was made, and the challenge for ARS was to make the project viable, for the city the challenge was to show some action (finally) on the ground.

Change of Actors

With the contract signed, ARS had to wait for approval from the Ministry of the Interior (MoI) before joining STR, which was at that point staffed with public employees. Quickly, however, the private partner moved to put together its own team, the first move was to hire the private professional who was to act as the President of STR.

The Board of Directors of STR (called the Supervisory Board, SB) was to include three people nominated by ARS and two – including the Chairman – by the city. The city had three representatives sitting on the shareholders' General Assembly, ARS two, with 51% voting power. The Management Board consisted of a President nominated by ARS and a Vice President nominated by the city. Each member of the Management Board could act on behalf of the company within the confines of the tasks allocated to them, but crucial decisions implying a significant outlay of funds required agreement by both (project documentation July 1998).

Interaction

On 20 April 1998, ARS (not yet part of STR) and the public representatives at STR, the President and Vice President, submitted their Master Plan to the City Board. The document was signed by the soon to be installed President

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[18] ARS required approval from the MoI to participate in a Polish renovation company.

of STR and provided a space for a signature by the city. This first design was a grand scheme, which included an interior atrium and required a massive renovation of Block 21. The concept proposed a very high percentage of commercial space, construction of a cinema in the middle of one of the blocks and the delay of the pedestrianization of Bogusława Street to a later phase of the project. This programming and phasing of construction were designed to ensure a secure revenue stream up front from the profitable components of the project, and to offset market risk to the project. The proposed phasing reversed assumptions included in the contracts, which still specified divisions and deadlines inherited from the negotiations with URGN and which were already difficult to meet (project correspondence 1998).

The CB, as opposed to signing the document, responded with criticism and detailed questions, stating that the Master Plan (MP) did not fulfil the obligations of the contract. Not pleased with the proposed changes, coupled with delays and the potential political tensions they implied, the city rejected the alterations (project correspondence 1998). The city indicated that no changes were possible until after the elections. ARS continued to negotiate but was ultimately forced to accept the city's position, and decided to scale down the project. This implied calling off many of the retail investors the organization had tried to attract to the new project.

ARS officially bought shares in and joined STR on 6 May 1998. The capital of the company increased, ARS holding 51% of the shares, investing cash (US$ 2.5 million equity), and the city 49%, investing cash, and the buildings and land as assets (deed of association, project documents).[19]

The work on the first four out of six buildings began in May 1998; there was a delay in the work on the pedestrianization of Bogusława Street and the deadline for the start of construction elapsed. The partners continued to meet and discuss the progress of the project over the next few months. The partners still focused on issues related to how decisions would be made in STR, ironing out positions and responsibilities. STR continued to negotiate with the private tenants, and attempted to establish acceptable prices for the acquisition of the flats. There was resistance from the tenants and these negotiations did not go well. The project suffered from more delays and

19 The capital of the company amounted to 17,750,000 PLN (just over US$ 5 million), divided in the following manner: ARS – 181,050 shares valued at 50 PLN each, total 9,052,500 PLN (51 %), contributed with cash; STR (city) – 173,950 shares valued at 50PLN each, total 8,697.500 PLN (49%), contributed partly in cash, partly in buildings/land.

resulted in conflicts with the city, which wanted to see construction on the ground.

In November 1998, after local elections, a new – more left-wing – political structure took control of the City Council and the members of the City Board coordinating with STR were replaced by new City Councillors. Vice Mayor Mync, long the lead player in setting up the partnerships with URGN and ARS, took leave of the City Board and the Supervisory Board of STR. In preparation for the upcoming Supervisory Board meeting, during which the new members would be present, ARS prepared a programme to sell their ideas to the city representatives. They proposed changes to the contract signed in February 1998 and to the deadlines in the project.

ARS undertook a series of renegotiations and attempts to change the contract, lobbying hard to persuade the new public officials of the benefit of their ideas. While this was happening, STR continued with business as usual on the project. The new City Board made several statements in the press condemning the (commercial) standing and performance of STR (private sector respondent) and then responded to ARS proposals, stating that they saw no need to alter the contracts, and, as they were dissatisfied with the renovations, they proposed to buy out ARS's shares in STR.

The growing conflict between the partners finally led to the city's decision to end the relationship and to set in motion the negotiation of a separation formula. The new City Council decided to consider buying out ARS's shares in STR or all allowing ARS to buy out the city's shares in STR.

5.6.6 Round 8: Negotiating the divorce (December 1998 – November 1999)

This decision put an abrupt end to ARS's expectations of being able to 'do something' in the area, and brought about substantial changes to the project. It implied a substantial scaling down of the scope of work, and a change in the roles of ARS and the city, and in the nature of the interaction.

Interaction

ARS contested the appraisal of land and buildings by valuators employed by the municipality, stating that the prices were too high (given the current market for real estate in Szczecin), and came up with an alternative formula for the appraisal. Finally, the parties agreed on the terms of separation. As part of the terms, the city allocated additional funding (above the sum

already invested) for the pedestrianization of Bogusława Street (project documentation 1998).

In November 1999 ARS bought out the city's interest in STR (the city was persuaded to do this by a consultant), becoming the sole owner of six buildings and plots of land, paid for partly in cash and partly in kind.[20] The deal also required ARS to contribute financially to the completion of the pedestrianization of Bogusława Street.

Parallel to the final divorce negotiations with ARS, the city created another project company – (Plan B: the Renovation Centre of Szczecin – SCR). This 100% city-owned company received, as capital contribution, the balance of land and buildings in the two blocks. SCR took over management of the communal flats and buildings allotted to the company, as well as the design and construction of the new replacement housing for future stages of renovation. An outline of strategy of SCR entailed vacating buildings, putting them up for sale for renovation, using the income from sales to finance replacement housing, and repeating this process using a revolving fund formula.

5.6.7 Further strategies after the separation

The municipality reclaimed the direct supervision and financing of the completion of the pedestrianization of Bogusława Street, which finally opened in the middle of the year 2000. The city put up for sale the contentious Pazim development site on which ARS had originally requested priority. As the area was in principle a greenfield development – without sitting residential and business tenants, and hence free of the political risk that comes with plans to relocate them – it was possible to sell it with relative ease. The developer (a development company quoted on Warsaw Stock Exchange) that won the auction included some elements of the functional programme previously anticipated by ARS in the development, namely the multiplex cinema.

STR completed the renovation of four buildings. Sale of flats in the renovated buildings were a success, offices, on the other hand, were not. Interestingly enough, the lack of accessibility and adequate parking seem to have been the cause. Shops on the ground floor experienced mixed success. After unsuccessfully trying to buy out the private owners in the fifth building, STR

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[20] Surplus new replacement housing procured before the split took place and a number of individual flats acquired from private owners outside of the project.

decided to abandon the idea of renovating this building and to put its own minority share in the building up for sale. The interior of the sixth building was to be cleaned up and the spaces kept in temporary use as cheap accommodation, while development scenarios were developed and tested on the market.

5.7   Analysis of ARS partnership

The following sections analyse the interaction between the city, ARS and the tenants. The first section looks at the perception of the respondents of the outcomes of the second four rounds of the project and traces the links between these perceptions and the strategies chosen. Perceptions of outcomes are also presumed to influence trust levels. The following section analyses the perception of risk over the rounds, and its influence on strategies. Finally, the last section looks at the levels of trust and the factors that led to the build-up and breakdown of trust.

5.7.1   Perception of outcomes

Perception of the outcomes per round

The city representatives' perceptions of the outcomes at the end of Round 5 could be described as 'cautious optimism'. On one hand they were excited at the potential of a partnership with a partner who promised hard cash and with investors that were prepared to come and sign a LoI; on the other hand, their feelings were somewhat tempered by having been burned before (PMY, LD). They felt better prepared to take on and deal with a new partner and to put the lessons learned from the previous partnership to work. This perception was evident in their approach to discussions with ARS: their negotiation style was much 'harder' (public respondent).

> At the beginning, we (the city representatives) really did not know how to negotiate. It was not something we had learned how to do. (With URGN) we only had good faith and the letter of the law. It was important for the city to be able to negotiate well (with potential partners). We had to keep ARS on its toes; it was hard to do. (public respondent)

ARS felt that it was in a situation where it was well placed to be able to do something big (two private respondents), and to put down roots in the city (public respondents). It underlined its interest to '*bring a new centre to Sczczecin*' in communications with the city (two private respondents), stating:

> *The Bogusława Investment Project will create a multiuse area including retail, a cultural-amusement centre, apartments and offices. It will be a world-class project, attracting tourists from Poland and abroad. It will increase the value of property in downtown Szczecin. ARS intends to 'own' the Bogusława project. This will not be a short-term investment.* (project documentation January 1997)

At the end of the sixth round, city representatives had mixed views on the outcomes of the project. On one hand, there was frustration with the nature of negotiations. This frustration resulted in the city deciding to abort negotiations when interests and positions diverged (public respondent). The abruptness with which this was done stemmed from the sensitivity to issues faced in the past, the political atmosphere of the time, and the fact that the city had other options to fall back on (private and public respondent). They were busy exploring these.

> *The negotiations with ARS began to get complicated. The city started to lose patience. City representatives felt that if ARS was going to be too rigid, they could and would go out on their own and do the renovation. The city decided to use STR to renovate, even if the negotiations did not work out. The National Housing Fund was also another option; it opened up new possibilities. [The Vice Mayor] checked to see if [the city] could access these funds.* (public respondent)

On the other hand, there was some satisfaction when ARS finally conceded to the demands of the city. By the end of the round, a contract was signed, the private partner had committed to joining STR and money was in the bank. Some public respondents even went so far as to say that they perceived the partnership with ARS to be a better option than the previous deal with URGN (public respondent).

> *The second stage with ARS was development for real; they came with better calculations, and they had real funds. US$ 2.5 million was laid out at the beginning and this made a difference. We had the idea of setting up a joint company and having the city contribute land and buildings to the company. Once we had approval from the Ministry of the Interior, ARS became a shareholder (in STR). This allowed the partners to pass the initial phase and to get started more quickly . . . it was a real partnership.* (public respondent)

ARS's perception of outcomes was also mixed. The organization was happy to have signed the contract and to be making a quick start. Negotiations had, however, not been easy and the management had been 'manoeuvred into'

joining the partnership with certain aspects in limbo (three private respondents). The company lawyer admitted:

> The city created STR, the land and buildings were the city's in kind contribution. We had to step into the company that they created. The options for ARS were limited at that point . . . for instance, STR was already set up, the Deed of Association was signed before the contract, and it was more difficult to change. We needed to have a chance to influence the process and the outcomes from the beginning. If ARS had been there from the beginning, we could have influenced things more. (private respondent)

These concerns were evident in ARS's continued attempts to make changes to the project design and to the structure and management of the company (see below).

In Round 7, the perceptions of outcome from the public side were that the interaction was not always easy, management styles differed. In addition, certain deadlines had not been met and time was waning. From the city's perspective, the most pressing priority was getting something built and demonstrating that the project was actually going to happen. This was evident in the decision of the city to reject ARS's Grand Scheme proposal out of hand and to insist on the phasing defined in the contract. The SB underlined this perspective consistently in meetings (public respondent). However, public respondents from the SB still had the perception that they were working with a viable venture and on ironing out differences.

> It's true; there were growing pains when ARS introduced a new way of managing STR. The arrival of the President as a manager was not easy. He brought with him a new way of doing things. Still we had a management system that worked, two presidents that countersigned; one public, one private. There were normal problems being solved by the management. (public respondent)

Private partners, on the other hand were frustrated about their inability to persuade the city of their good intentions and the benefits of the Grand Scheme for the city. '*It was clear that the city had vision but that it was different to what ARS wanted. The city's position was already frozen*' (private respondent). The difference in visions also implied for ARS a complete rethinking of the project and the financial returns expected.

Towards the end of the round, with the election of a new City Council, the perception on the part of ARS/STR's staff was that there would be an opportunity to sell their ideas to the new political regime. They undertook

the strategy to mount a campaign to persuade the CC of the benefits of their ideas. This perception was short-lived. Perceptions of outcomes of the final round were extremely negative, from all perspectives. One private respondent describes the intensity of the ARS/STR feelings regarding and reactions to the outcome of this round:

> *After the division of STR/SCR, ARS had a bad reaction. [The President of STR] enclosed himself behind a big fence. It was his reaction to broken possibilities. Every time I see the project, I also get angry. This was not the idea at the beginning. [This anger] was the worst effect of the divorce. The project failed as a concept, it is a broken project.* (private respondent)

This sentiment was common for most respondents. There was widespread disappointment with the turn of events and sudden finish to years of work (public and private respondents).

Perception of the outcomes overall

It is important to note that there were mixed perceptions of the overall outcomes of the project. With reference to the project and partnership overall, one private respondent from ARS put his feelings bluntly:

> *Now the project is just a beautification of a block, not a new economic centre . . . the whole thing was always political. Many people did not want to do this project. No one was really behind the idea . . . I was perhaps naive about being able to overcome the stance of the city. We thought what we were doing was in the best interest of the city. We were not naive about the economic situation, but more about our ability to convince the bureaucracy . . . from my point of view this project was never a partnership. I have had other experiences in Poland where people try anything to get people to invest.* (private respondent)

Another private respondent commented on the feasibility of the venture:

> *It was all too complicated in such a short time. No one could predict the problems and the expectations were too optimistic. . . . The four buildings are a success; not so quickly as intended. I feel that we could have done so much more if we had had a chance.* (private respondent)

On the public side sentiments were mixed, one respondent was somewhat positive:

> *Bogusława is still rolling, paying back revenues, like a turtle. This is not what was expected in the beginning . . . but I feel the project is successful. The city realized its objective, got its investment back and*

gained experience with renovation and partnerships. (public respondent)

Another expressed regret:

The project was better prepared. The risks were lower thanks to the lessons learned (from URGN). The risks were better managed. Still, even though [we] were a stronger partner, we did not manage to make our interests known . . . I feel that the project was realistic. I do not know if it could have worked, but I feel that it could have. From my perspective, this project is an unfinished issue. It was stopped by political issues. ARS decided to scale down the project as a reaction to politics. At that moment, the SB could not get approval (for the grand scheme) . . . There was not enough time to work through issues. It is too bad that this didn't happen at a different point in time . . . (public respondent)

One tenant expressed regret and a sense of failure:

The time to do something big, to pursue the big vision (as opposed to doing the project building by building) is lost. The city lost its chance . . . ARS finally did only six buildings, it did almost nothing. . . It almost seems like the issue was how quickly things occurred. ARS was just too late . . . The project was not a success. People were willing, it was a good location, but still it did not get off the ground. (tenant/city councillor)

Another's reactions were more extreme.

The project was a disaster, a big disappointment. My disappointment had less to do with the project, but more with the fact that local politicians spent the whole time pursuing their own interests. [They spent] four years for private purposes . . . I see what SCR is doing now as very bad . . . It is a joke what they have achieved. They vacated five buildings and have only finished two. I also now see Galaxy (Pazim greenfield development) as a huge threat. W. Polskiego cannot compete on location, accessibility and price. Galaxy took over all of the ideas, the multiplex, etc. (from Bogusława). The project would have livened up the downtown; the Galaxy is now killing the project. There are lots of empty shops for rent in the area. (tenant)

Outcomes: assessment of the results of the questionnaire

Perceptions of outcomes were also measured and verified in the questionnaire. The results back up the negative perceptions of the project and the partnership from the interviews. In the questionnaire the

respondents were asked to rate the statements made concerning the outcomes of the project and the partnership (see Table below) on a scale of 1 to 5 (1 = strongly agree, 5 = strongly disagree).

Table 5-9: Respondents' perception of project outcomes, ARS period

	N		Mean
	Valid	Missing	
I am satisfied with the results of the collaboration/project	10	0	3.60
The goals of my organization were met by the partnership	10	0	3.50
The partnership led to additional investments than would not have occurred if my organization had worked alone	9	1	2.78
The collaboration created a number of innovative ideas, concepts and plans	10	0	2.60
The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	9	1	2.33
Working closely together led to improved cooperation between partners	9	1	3.00
Working closely together led to improved coordination of project elements	9	1	2.89
Working in partnership led to long processes of decision making and additional costs	9	1	2.67
Total			**2.92**

The results in the table above are negative but marginally less than those from the URGN period. The breakdown of responses reveals, for instance, six respondents (60%, two public and four private) that *agreed* with the statement that *the collaboration created a number of innovative ideas, concepts and plans*, five respondents (50%, two public and three private) that *agreed* and one private respondent that *strongly agreed* with the *partnership resulted in the implementation of a project which added to the quality of life of the neighbourhood and city*. Four respondents (one public and three private) *agreed* with the idea that the *partnership contributed to improved cooperation* (statements 6), while three respondents (one public and two private *agreed* with the statement that the *partnership contributed to improved coordination* (statements 7). On a negative note, one private respondent *strongly agreed* that the partnership *led to long processes of decision making and additional costs*. The results vary a great deal overall, but are consistent with the mixed feelings that came out of the interviews. On the whole, the public sector respondents appeared to be less positive (disagreeing with the statements) than the private sector respondents, whose ratings seem to vary more.

5.7.2 Perception of risk and influences on strategies

The interviews and document survey reveal a similar perspective on the risks, but a different emphasis. The risks were at this point well known and very real for the public sector; and the city was more experienced in defining strategies to deal with these risks in its interactions with a potential partner. ARS entered into a project that was already defined (it accepted, to a large extent, the project as defined by URGN), and a project company that was already set up. Making city representatives understand ARS's perspective on the risks or strategies to deal with these was a challenge: therefore the focus of the developer was on risk related to project design (the feasibility and viability of the project, as seen in the figure on internal risk below).

The perceptions of external (political) risks peaked in Rounds 6 and 7. Market risks were the key focus in the Round 5 (three out of four responses were private); this perception rose in Round 6 (five of the seven responses were private). In Round 7, the political risks related to resistance from the tenants and changes in the composition of the council became a priority. With regard to internal (project) risks, the perceptions of risk rose in Round 6, during negotiations, when the stakes for both parties were on the line. When looking at the breakdown of responses in

Figure 5-5, the majority of the responses come from private respondents, who perceived contractual, financial and project design risk as key (100%, 70% and 80% respectively in the first round). There was increased public awareness in the second round.

It is clear from the beginning of Round 5 that risk for the new partner, ARS, stemmed from potential competition in the market from another development (240597). This perception was evident in its strategy to negotiate for two options: (1) the freezing of Pazim, and (2) first right of refusal on the future development of the site.

The perception of the risk was acute for city representatives, largely risks that they had inherited from the previous period. The Vice Mayor wrote a letter to ARS, in which he expressed his pleasure in having the opportunity to work with the organization, but also his concerns concerning the political situation of the moment and the way it limited his powers, '. . . *the history of URGN limits how we (the city) can operate, also with reference to the Pazim land. However, if the partnership is successful, it will open up possibilities for [further] cooperation and investment'* (public respondent, project correspondence 1997). This last portion of the sentence gave the impression

that ARS might in fact get an option on the Pazim land. An ARS representative concurred that this letter gave them some level of assurance of positive outcomes to come, and good reason to continue the relationship (private respondent).

Figure 5-4: Frequency assessment of types of external risks, Rounds 5-8
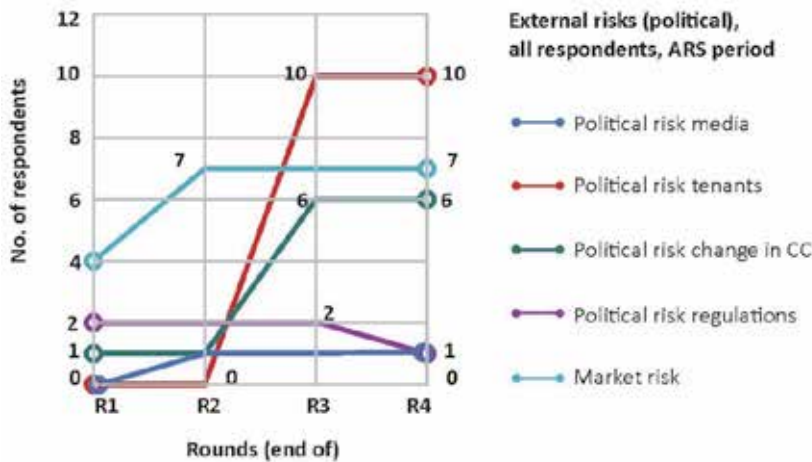
Figure 5-5: Frequency assessment of types of internal (project) risks, Rounds 5-8
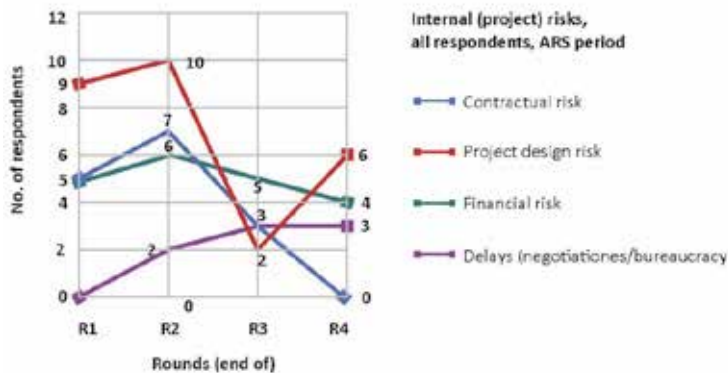
The perception of risk on the part of the city was evident in strategies to prepare for this phase. (1) The city kept its options open, and considered a number of different alternatives. The CC and CB developed a fall-back position, that of opting for going forward on their own, should a newly developed partnership not pan out. (2) The use of experts and the itemized questions to potential candidates demonstrated greater awareness of the

types of information needed to judge potential risks and the potential trustworthiness of candidates. (3) Financial stability was clearly a priority in making a choice of a partner (two public respondents, project correspondence).

The negotiation period during Round 6 made explicit the range of risks perceived by the partners. On the part of the private partners, market/project design/financial risks were a key issue, evident in the continued discussion on the valuation of the properties to be contributed by the city to the project. The value of properties set was to be linked to the value of investment expected from ARS. ARS's position in this discussion was that the values set by the city were too high, forcing the cost of construction up and the end price of the properties above what that market could bear. In fact, the discussion on the amount of financial contribution by ARS to STR was exacerbated by a proposal by the city that ARS should also match, in its contribution, the past investment made by the city in RH. This additional cost to ARS was perceived as adding to the risk (private respondent, project documents 10 and 20 October 1997). The perception of risk was evident in the consistent and constant emphasis by ARS during negotiations on keeping the values down.

The city's negotiation team refused to give credence to ARS's perception of risk, but saw it simply as ARS's attempt to reduce costs (and maximize its own self-interest) (two public respondents). The city insisted on keeping the value levels their expert had set.

The issue of valuation of land was made worse for ARS by the fact that the city would not ensure unencumbered access to the land, an issue URGN's consultant to EBRD insisted should be settled by the city. ARS perceived this risk from the outset (project correspondence).

Project correspondence reveals the debate on whose role it was to settle outstanding tenant issues, the city's or STR's (parties jointly). The discussion revolved around to whom the risk should be allocated. A transcript of a negotiation meeting (Point 3 on the agenda: whose responsibility is it to vacate the buildings?) reads as follows:

> ARS: we suggest that it is the city's responsibility.
> The city: we contend that it is a joint responsibility, even more
> important as STR will be administering the coordination of removals.
> If relocation is preceded by appropriate legal steps, then the risk is
> minimal. Most tenants are expecting to be relocated. They need

*however, by the civil code, to have tenants sign agreements to
relocate. Tenants who refuse to sign such a declaration will be given
formal notice to vacate. Six months have been provided to deal with
possible court cases.* (minutes of meeting 10 October 1997)

The city representative is referring here to the communal tenants; a greater
concern for ARS was the private tenants. The city's position was rigid; ARS
was unable to induce the city to exert influence over the private tenants.

In response to the negotiations on land/building values and the removal of
the tenants, the municipal strategy was to link both issues in the
negotiations, and offer ARS two options: (1) the city would contribute the
land and buildings at a lower value without sitting tenants, or (2) at a higher
value, with sitting tenants. The amount ARS would be asked to compensate
for past expenditure on RH was dependent on which option they felt was
preferable. In choosing which option to go for, ARS had to measure the risk
of accepting the sitting tenants against the cost up front of matching the
higher value of vacated properties. In addition, the city excluded the Pazim
land from the negotiations, and opted for delaying a decision regarding
development in the area. The city perceived such a freezing in development
or exclusivity for one developer as unwise or, potentially, politically sensitive
(public respondent).

The differences in positions and the risks related to these clearly became too
much as some point in the partnership, at the time that the city decided to
abort negotiations. *'There was an official decision to terminate
negotiations . . . Talks were difficult and seemed to be diverging'* (public
respondent). The decision to go forward together and the perception that
risk had been dealt with came largely from the fact that ARS agreed to most
of the concessions required by the city.

With the signing of the contract in Round 7, the expectation on the part of
the city was that the project would move forward. The proposal for the
Grand Scheme by the ARS constituted for the CB changes to the phasing and
delays to the start of construction that would not be saleable to the CC and
the tenants. The city, which badly needed to see action on the ground, saw
delays as a potential source of unacceptable political risk. The CB rejected
the proposal out of hand, stating that it did not meet the stipulations in the
contract (two public respondents). The fact that the city was sensitive to
delays and to political risk was confirmed in interviews with respondents who
indicated that the city appealed to STR to put the scaffoldings up as soon as

possible to show the inhabitants that something was being done (public respondent, two private respondents).

With the rejection of this proposal, ARS's expectations of high return on investment from 'the Grand Scheme' was placed in serious jeopardy, as were the funds that they had already invested (architects, marketing); the financial risk grew. The revenue stream projections were also put into question. The risk was also enhanced by the city insisting that the project start and meet the deadlines set. *'. . . the deadlines were set by the city, and there was not room for negotiations. ARS was forced to accept and meet them'* (private respondent).

In this round, the management structure decided upon during negotiations began to hamper the efficiency of ARS's decision making. From ARS's perspective, there were a number of factors that acted as constraints. For one, there were too many levels of decision making, creating excessive bureaucracy (private respondent). Second, the public representative (the Vice President) sitting on the MB was unable or unwilling to take initiative. The perception of the VP as a constraint was so extreme that the (ARS) President of STR sent formal correspondence to the Chair of SB enumerating his issues and suggesting that the VP was badly delaying the project. Third, decision making was held back by the external influence of the CC and the CB. The Supervisory Board had strict instructions from the City Board on the decisions they could make and had to wait for the CC meetings to be able to get approval for decisions; this bureaucracy caused delays. This created *'risk for ARS, particularly in the face of city pressure to meet deadlines'* (private respondent). The management of ARS pushed for exclusive decision-making power for the President of STR. However, from the city's perspective, the desire of ARS to allow the new President of STR, a professional hired by ARS, free rein and unchecked power was clearly unwise (project documentation July 1997). The city rejected this idea.

Finally, towards the end of Round 7, political risk from the resistance from private tenants began to take form, as the STR President began to take steps to buy them out. The private tenants were organized and holding out for outrageously high sale prices. One public respondent admitted:

> *STR needed 100% ownership to get the project going. [The President]*
> *took over the negotiations with the tenants and ran into problems.*
> *Once they saw the rich developer coming, the tenants upped all of*
> *their prices and asked for prices that [STR] was not willing to pay. In*
> *fact, this is something that [the STR/ARS President] should not have*

been doing himself, but should have left it to the city to complete the
negotiations. The tenants caused delays and rising costs for STR/ARS.
(public respondent)

In Round 8, both public and private respondents mentioned that political risk, after the elections, was insurmountable. This came from two sources, the continued resistance of the private tenants and the apparent lack of support from the new CC.

. . . the problems with ownership and the fact that some people held
out, made the project impossible to execute. The risk was too high for
ARS; they were forced to scale down as a reaction to politics. The new
mayor was xenophobic. (public respondent)

In the final round, ARS began to focus on cutting costs, to make ends meet. The political and financial risks had grown and efficiency measures were necessary.

ARS saw the need to cut costs; . . . they were so focussed on efficiency
measures. There was not enough room for two presidents, and the
accountant could only work part-time. The pressures were too high,
as well as the expectation placed on staff. It was too much to expect
a public partner to participate. Ultimately, the city decided that they
could not do the project in a public and private company, so that they
had to pull out . . . They perceived that it was too risky to do the
project, that they needed too many guarantees. (public respondent)

In retrospect, all respondents now agree with ARS and point to the market and the scale of investment as key risks. Commercially there was not enough guarantee of success. '*The situation was different then. It was an experimental period. If this was normal development, no-one would have invested. But ARS was interested to do something, and willing to take more risk. This was a reason to have some respect*' (public respondent). Given the risk in the market, one public official admitted that the design of the project was perhaps ill conceived: '*It was too big a scheme . . . and the replacement housing was the main burden, the costs were more than that of the renovation*' (public respondent). Private sector respondents also pointed to faulty project design and the risk related to replacement housing (two private respondents).

5.7.3 Perception of levels of trust and the factors that contributed to these

The interviews and project documents refer to a relationship where trust between the public and private sector was difficult to build. Again, the city

was working with a clearly defined project and clear strategies, as well as preconceptions built in its relationship with URGN, and greater impatience in the face of the restrictions that came from the political risks. ARS was faced with the challenge of negotiating its own interests, carving out its own role, and trying to sell its vision to the city. The relationship was more adversarial, the negotiations harder. The sections below look at the overall levels of trust, how these changed and the factors that contributed to these trust levels.

Changes in trust over time

The following section on trust looks first at the results of the assessment of the changes in the levels of trust over the second four rounds; the results from the questionnaires are shown in Figure 5-6 below.

Figure 5-6: Average levels of trust over the four rounds of ARS

N = 11: 6 public and 5 private
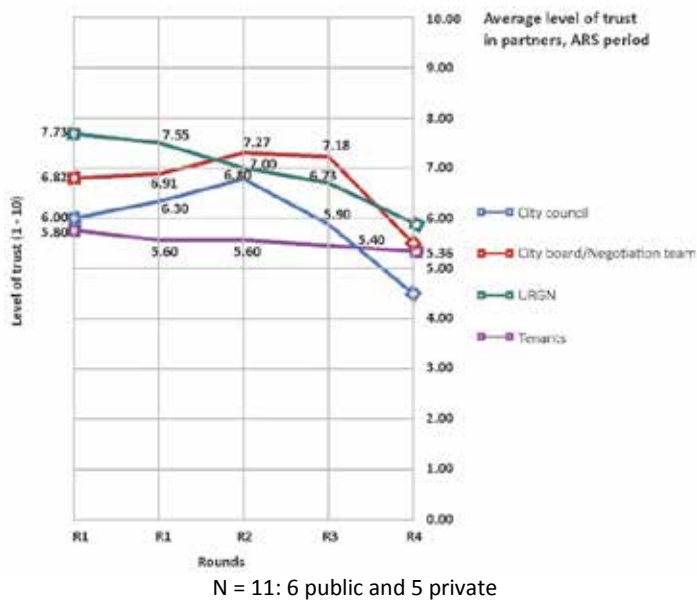
The figure shows a small but steady increase in the average trust in the SB and the CC up until the final round. Trust in ARS, though surprisingly high at the outset (caused by members of the private team), declined steadily over time. Trust in the tenants declined marginally.

Overall ratings

The questionnaire also asked respondents to provide an overall rating of their trust in the main actors, on a scale from 1 to 10, 10 being the highest. Table 5-10 below provides the average rating per actor. Below that, Table

5-11 also provides the average trust ratings, cross tabulated by category of respondent.

Table 5-10: The average levels of trust in the different actors (1to 10, 10 being the highest), ARS period

Level of Trust in		City Council	Supervisory Board	ARS	The small merchants	The communal tenants	The private tenants
N	Valid	9	10	10	8	8	8
	Missing	1	0	0	2	2	2
Mean		6.56	7.10	7.20	5.38	6.50	5.88

N = 10: 5 public and 5 private. NB: One private sector respondent was unwilling to comment on anyone other than the SB and ARS, one public sector employee was unwilling to comment on the tenants.

The results reveal a relatively high average level of trust in the two core partners in the project, but when looking at the table, which splits the results over the public and private respondents, the moderate trust of the city in ARS is offset by the very high trust of ARS staff members in ARS. The reverse is also true, public respondents have a much higher average level of trust in the SB than the private sector respondents, implying a relationship between membership and high levels of trust. In addition, the fact of being a central actor in a partnership is relevant for the measurement of trust, those that are most essential to the interaction and to decision making become the main focus of trust.

Table 5-11: Cross tabulation type of organization and average levels of trust, ARS period

Level of Trust in		City Council	Supervisory Board	ARS	The small merchants	The communal tenants	The private tenants
N	Valid	9	10	10	8	8	8
	Missing	1	0	0	2	2	2
Public respondents		7.6	8.0	4.8	5.25	5.75	6.25
Private respondents		5.25	6.2	9.6	5.5	7.25	5.5

N = 10: 5 public and 5 private

Factors of trust

Respondents were asked to rate each item from 1 to 3 (1 = very important, 2 = relevant, 3 = not so important). For the ARS period, the average results were as follows:

Table 5-12: Factors that build (or break) trust

			N		Mean
			Valid	Missing	
1	CalBase	I have to have sufficient information on the other party's reputation, qualifications and past performance record.	10	0	1.20
2	CalBase	I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	10	0	2.00
3	KnBase	The other party must be willing to share information and resources	10	0	1.70
4	KnBase	I must get to know them well enough that I am able to predict their behaviour	10	0	2.00
5	KnBase	On the basis of the interaction, I come to know and respect their capacities	10	0	1.70
6	IdBase	We must learn to 'speak the same language'	10	0	1.50
7	IdBase	We must come to share the same values and norms	10	0	1.90
		Total			1.71

N = 10: 5 public and 5 private

On average, respondents felt that *the other party's reputation and qualifications* were the most important (1.2). After that, *speaking the same language* appeared to be relevant (1.5). These are somewhat consistent with the results of the assessment of the URGN period, though the first statement was rated higher than the second. In this case, the *sharing of information and resources* was not identified as being important (see factors section below).

Factors that contributed to the build-up of trust

This section refers to the interviews and the comments made by the respondents on the factors that contributed to trust build-up in the second four rounds. The information gathered is important in identifying different types of factors and in determining how these factors might have contributed to the trust cycle over time.

Trust in (and within) ARS

Promise of a sound injection of funds not only helped to reduce the perception of risk, but also built initial trust. However, while optimistic, the city took steps to verify its levels of trust by checking ARS credentials and solvency with Dunn and Bradstreet (public respondent). The importance of this is confirmed in the table above. In Round 6, with regard to ARS, one public official reported a perception of trust based on the level of professionalism demonstrated by ARS and the fact that, true to word, the finances for the project were deposited in the bank. *'. . . the risk analysis was*

competent, not over done . . . having the money up front demonstrated that this was not a quick fix' (public respondent). The trust in ARS was tempered by the results of the Dunn and Bradstreet report, which gave ARS a 'B' rating, stating that the organization had limited capital and assets in Poland (January 1998). The report did not, however, influence the strategy of the city, as it still decided to go forward with ARS (public respondent).

As Figure 5-6 reflects, the drop in trust in ARS was, for the public sector, attributable to first impressions during discussions with the developer and the manner in which ARS dealt with the city during negotiations. ARS's negotiation style was perceived as substantively different to what the city was used to (with URGN). Public respondents admitted to taking a more cautious approach.

> *ARS came with money and a godlike attitude . . . I don't know, the mood was just different, discussions were more chaotic . . . we never knew quite where we stood and how to deal with ARS . . . just when we though points were settled, the [ARS representative] kept coming back to points over again. He also dealt with us (the city's negotiation team) with arrogance; he made some off colour remarks about renovating slums.* (two public respondents)

One member of the NT was never really able to build sound trust. '*It really was a relationship of suspicion, ARS was always very nonchalant, the city could never get past its suspicion'* (public respondent). This respondent argued that this led to the strategy on the part of the city to check all the details on the contract, and keep to the letter of the law (a problem in the eyes of ARS).

As time passed, however, some public respondents argued that trust was being built over time, through working together, even given the problems with alignment of interests.

> *'Trust was growing in phases; . . . the management set-up [was working]. We had two presidents, one private and one public, each of which were required to countersign major decisions . . . we had normal problems that were being solved by the management. The discussions were difficult but consistent. There were clear cut, with no room for misunderstanding. Things were well prepared, there were translations. With ARS, the President did not hide at all. He was completely open and did not hide that they were a commercial enterprise. This was not a problem. There was no courtesy but concrete things happened. It was not like URGN where discussions*

were warm and fuzzy and nothing happened. (public sector respondent)

Trust of the city in STR/ARS began to drop at the end of Round 7 when little was happening on the ground. Again, what was promised was not materializing, and expectations built were not being fulfilled. *'For a long time nothing happened . . . I looked at the contract and saw a discrepancy (between the schedule and actual construction). They were a year behind. I began to wonder, they were also not working on things to prepare for Phase 2'* (public sector respondent).

In the end, the public sector felt differences were too great. Interestingly, ultimately the public sector also saw ARS as inflexible.

> *. . . ARS was much less willing (than URGN) to accept that the public sector had objectives. There are things that the public partner has to comply with. . . . it is no problem if you can negotiate differences. The problem is that they (ARS staff) were not willing to fully understand issues from the public side and to resolve these together.* (public sector respondent)

An example of problems with negotiating differences and aligning interests

The (in)ability over time of the partners to negotiate differences put trust at risk. In Round 7, the positions relative to the management structure provided an almost insurmountable hurdle. The transcripts of SB meetings revealed discussions that dealt directly with the difference in interests, and the mutual perception that both partners were not taking interests into account and not attempting to understand positions.

One particular discussion took place during the SB meeting concerning the perception of the private representatives that the VP (public sector) of STR was intentionally hampering decision making. ARS proposed a change in how decision making was to take place in the MB, but the city felt that the changes did not allow for the checks and balances necessary to protect public interests. ARS argued that its powers should allow the President the opportunity to make decisions without interference. ARS also argued to be allowed to choose staff that had trustworthy qualities. A transcript of the meeting reads as follows:

> *Since becoming president, I have come to rely on [a STR senior public staff member] and though we disagree on many issues, it is a healthy relationship . . . I want to be able to create a team that can effectively realize the goal that has been given to STR. I need to be able to decide who will be able to stand next to me when making*

decisions . . . There is high risk in this enterprise and you have to be in agreement with the person who is managing it. (private sector respondent)

The city representative responded, defining the limits of his trust:

ARS proposes a MP that violates the contract on 30 points. These facts lead to limited trust and we need to find mechanisms to allow for the company to function and operate. I understand that the President wants to be captain in making final decisions, and it is not my role to inform the President what his role is . . . Please do not think that as a representative of the city, I trust in our mutual goodwill and that this is enough for me to entrust the entire control of the project and the management of municipal assets of 10s of millions of Złotys to the hands of someone appointed by the stakeholders without some conditions. Please understand that your actions, such as limiting the power of the VP to spend money, without agreeing such things first with the shareholders, are not building trust. When there is no trust, rules will have to decide. (public sector respondent)

The public representative was indicating that ARS was overstepping certain boundaries, and trying to bulldoze its public partner into a position where public interests were not represented. The public representative, in the absence of 'trust' reverted to 'rules' to govern behaviour. ARS responded:

If we are talking about trust . . . the way the company has been managed so far has not been healthy [reference to conflict between the VP and President] . . . How do we know if the President's intentions are honourable or honest? I do not think it is a priority to stick to points of the contract, but to successfully execute the contract. We need to make sure that the company is led effectively.

Trust in (and within) the city

Private respondents pinpointed certain behaviour on the part of the CB and CC that affected trust. This was evident over time in the drop in trust in the last two rounds. Perceptions were that the city did little to listen to the ideas being put forward by ARS (private respondent) and that the private partner had little opportunity to influence decision making (1) on the structure of the company, and (2) on the content of the project. The fact that the city effectively gave ARS an ultimatum at the end of Round 6, which the organization was obliged to accept, or lose the project, also contributed to the erosion in trust (private respondent).

The city had a 'take it or leave it' attitude . . . the city had already set up STR with their own byelaws. When we joined, there were few

> *options to change it. If ARS had been there from the beginning, the*
> *management could have influenced things more. You need to have a*
> *chance to influence the process and the outcomes when there are*
> *only two shareholders involved.* (private respondent)

From ARS's perspective, the relationship was too rule-bound and too constraining to manoeuvre effectively. It continued to make cuts in costs elsewhere to make the venture more efficient. Overtime, given all of the unanticipated problems and risks in the project, the deadlines set by the city in the contract quickly became impractical. ARS negotiated hard to introduce changes. When these were not forthcoming, ARS complained bitterly of the city's inflexibility (two private sector respondents). '*[The chair of the SB] stuck only to the letter of the contract and did not think about what was best for the project'* (private respondent).

Private partners felt a lack of real support where necessary. This resulted in the feeling on the part of ARS that the venture was never really a partnership.

> *As the negotiations went on, things always seemed to go in the city's*
> *favour . . . they kept adding things to the deal, and requiring more*
> *money. We were promised guarantees on budget allocation and*
> *ways to ease the process . . . The city did not help with [problems*
> *getting the land] even if it was their responsibility. I do not know*
> *what the reason was but I never trusted their intentions . . . This was*
> *always political; no one [from the city] was behind the idea.* (private
> sector respondent)

One private respondent reflects on the differences in expectations and interests as a constraint to the build-up of trust.

> *The whole thing was done with great optimism. ARS felt powerful:*
> *they had lots of money, political power with (their Polish*
> *representative). They did not understand that the city could say no.*
> *ARS thought, like in the Third World, that they could bribe and they*
> *would get what they wanted . . . ARS expected the city to help them*
> *out, but the city had become more revenue oriented, more money*
> *seeking and opportunistic.* (private respondent)

The reaction to broken trust is evident in the actions of ARS. After the division of STR and SCR, the President of STR locked himself behind a wall.

5.8 Overall assessment of the results of the questionnaire

Responses to the questionnaires were merged[21] to derive an overall assessment of the levels of trust and dimensions of that trust, over Rounds 1-8. The sections below provide and analyse the results.[22]

5.8.1 Measuring trust over the length of the project

Table 5-13 below provides a composite view of the average trust rating per actor on a scale of 1 to 10, 10 being the highest. The results portray the average trust of respondents in the actors who participated in all rounds, as well as those, such a URGN and ARS, who participated over a shorter period.

Table 5-13 Average levels of trust in partners, for entire project

N	City Council	CB/NT	URGN	ARS	Small merchants	Communal tenants	Private Tenants
Valid	13	14	7	10	12	11	11
Missing	1	0	1	0	2	3	3
Mean	6.04	6.79	6.71	7.20	5.38	6.23	5.18

N = 14: 6 public, 6 private and 2 non-profit. NB: One URGN respondent abstained from measuring trust in his own organization.

The results indicate the highest average level of trust in the core partners: ARS (7.20), the CB/NT (6.79) and URGN (6.71). The results are not exceedingly high, falling within the 'moderate' trust category for URGN and the CB/NT and the low end of the 'high' category for ARS (reflecting the high

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[21] The respondents who took part in both the URGN and ARS periods (the members of the CB/NT and one respondent from the MRT), and filled in questionnaires for both periods, were treated as one respondent and results were averaged. With regard to the responses concerning URGN and ARS, N = 8 for the URGN period and 10 for the ARS period.

[22] Interviews and responses given in the questionnaires revealed a consistently different position on the part of the respondents on the relevance of measuring trust in those in the inner circle of the partnership versus those peripherally involved. Interviews with representatives of the tenants revealed a willingness to measure trust in city officials, URGN/ARS and their peers, but city officials and private sector respondents were less willing to measure trust in the tenants, seeing them as less important as the object of trust. Those more intimately involved with the tenants in negotiations were more willing to give input on the level of trust in the tenants (i.e. respondents from the MRT). The unwillingness to measure trust in the tenants is evident in the number of missing responses, and in some cases in the responses from the respondents that indicated that they were neutral in their opinions.

For the URGN questionnaire, there were four public respondents, two private and two small merchants. One of the small merchants became a city councillor at the tail end of the URGN period. His responses were made from the perspective of the small merchants. For the ARS period, the number of respondents on the public (five) and private side (five) is more balanced. Two respondents chose to abstain from responding, stating that, in the case of the City Council and the tenants, they did not have enough knowledge to make a judgement (one public and one private respondent). There were, as for the URGN period, a number of missing responses, with regard to the tenants.

trust within STR). It is interesting to note that overall, the average trust in the communal tenants is higher than the trust in the CC. The ratings for the small merchants and the private tenants (5.38 and 5.18) also reflect the problems encountered with these two actors in the project. These moderate ratings perhaps reflect the fact that trust is not constant but it tempered by various factors over the length of the project.

Previous sections have argued a relationship between membership and high levels of trust. Public respondents consistently rate peers higher, private respondents consistently rate their peers higher. However, it is interesting to note that the responses for the URGN period also demonstrate relatively high ratings from non-members (average rating of 7.5 on the part of private respondents for the CB/NT; 7.25 on the part of public respondents for URGN).

In addition to asking respondents to rate the degree of trust in other actors (the focus of trust) in the partnership, the questionnaire measured levels of trust of one party in another using different dimensions of trust to measure trust, and asking respondents to assess each of these items related to the other parties in the partnership on a scale of 1 to 5 (1 = strongly agree to 5 = strongly disagree). The different dimensions used, and as discussed in the theoretical chapters were:

Table 5-14: The dimensions of trust

The other party took the interests of the collaboration/project into account when making a decision
The other party would not have met their obligations if their activities had not been defined in the contract (negative correlation with trust)
The other party was capable of completing the project/their obligations according to agreements made
The other party committed more (time or personal resources) to the collaboration/project than was specified in the contract
The other party had, in general, good intentions
The other party sometimes did not meet their obligations, but we were willing to give them the benefit of the doubt

Table 5-15 shows the average ratings given by the respondents when asked about the different actors involved in the partnership.

Table 5-15: The average ratings of the dimensions of trust in each key actor, over the entire project

		City Council	CB / NT	URGN	ARS	Small merchants	Communal tenants	Private tenants
	Took the interests of the collaboration/project into account when making a decision							
N	Valid	11	12	7	10	12	10	10
	Missing	3	2	1	0	2	4	4
	Mean	2.68	2.25	1.86	2.50	3.54	2.85	3.25
	Would not have met their obligations if their activities had not been defined in the contract ★							
N	Valid	10	12	7	9	10	8	9
	Missing	4	2	1	1	4	6	5
	Mean	2.90	2.83	2.86	3.56	3.45	3.31	3.17
	Was capable of completing the project/ their obligations according to agreements made							
N	Valid	11	13	6	10	10	9	9
	Missing	3	1	2	0	4	5	5
	Mean	2.27	2.12	2.17	2.50	3.00	2.56	2.56
	Committed more (time or personal resources) to the collaboration/project than was specified in the contract							
N	Valid	11	13	7	8	10	9	9
	Missing	3	1	1	2	4	5	5
	Mean	3.41	2.85	3.00	2.25	3.00	3.17	3.22
	Had, in general, good intentions							
N	Valid	11	13	7	10	12	11	11
	Missing	3	1	1	0	2	3	3
	Mean	2.05	1.92	1.71	1.90	2.88	2.45	3.05
	Sometimes did not meet their obligations, but we were willing to give them the benefit of the doubt[23]							
N	Valid	11	13	7	10	10	9	9
	Missing	3	1	1	0	4	5	5
	Mean	2.91	2.88	3.00	2.80	2.75	2.83	2.94
	Total	2.70	2.48	2.43	2.58	3.10	2.86	3.03

N = 14 (1 = Strongly agree, 5 = strongly disagree, in the case of ★, 1 = strongly disagree, 5 = strongly agree)

The totals, as an aggregate of the dimensions of trust, reveal (marginally) higher average levels of trust in the three parties playing a central negotiating role in the partnership, and those contractually bound, namely the city representatives in the CB/NT and URGN/ARS. This is also mirrored in the responses on the individual dimensions of trust; the central partners are for the most part rated higher than the other actors.

URGN scored highest (1.86) on one dimension, namely *took the interests of the collaboration/project into account when making a decision*. This is reflected in the comments made during the interviews, related perception of

[23] **Note:** There is a serious question as to whether the responses to the last question are correct, as 'giving the benefit of the doubt' did not translate well in Polish and caused some confusion. It appeared during some checking that perhaps only one respondent really understood the question.

the private partner's ability, in the first two rounds, to understand the public perspective on development, and to demonstrate respect for public interests during negotiations (four public respondents). Evidence of this dimension can also be seen in the steps taken on the part of URGN to canvas the opinions of the tenants and to work with them to find mutual solutions (private, public respondent, tenant). The result of the CB/NT and ARS are slightly less positive (2.25 and 2.50 respectively), reflecting the perception of both public and private respondents: on one hand, the inflexibility of the CB/NT (two private respondents, one public respondent) and on the other, the inability or unwillingness of ARS to sympathize with the constraints that the public sector faces (two public respondents).

Respondents were clear on one dimension of trust, that partners *had, in general, good intentions*: the city representatives on the City Board/ Negotiation Team (1.71), as well as URGN (1.71) and ARS (1.91) were assessed highest in this regard, the CC slightly lower (2.05) the tenants to a lesser degree (2.88, 2.45, 3.05 respectively). This is consistent with the findings from the interviews, during which respondents underlined the sincerity with which all partners attempted to make this project work (all respondents). The rating for the private tenants (3.50) reflects the perception of ARS respondents in STR of the intentional moves of the private tenants to kill the project (two private respondents, one public respondent).

Of note is the results for ARS (3.54) for the dimension *would not have met obligations had these not been specified in the contract*. This demonstrates the consternation felt by the public partners when ARS proposed a Master Plan that diverged from the contract, as well as the concern they felt in the months that followed that ARS would not meet the deadlines agreed upon (three public respondents).

5.9   Conclusion

This chapter looked at a PPP case in two key phases, the URGN and the ARS phases. The chapter and the analysis of results were structured to respond to the research questions one by one:

- What was the nature of the interaction (strategies) between partners and other actors during the partnership processes, over the rounds, in the three cases?

- What were the dynamics of the growth (or decline) of trust over time as perceived by the partners and other actors over the rounds of the partnership?
- What was the nature of outcomes and risk as perceived by the partners and other actors over the rounds of the partnership?
- What important factors led to the growth of trust?
- Did trust have an influence on risk and the outcomes achieved, and if so what kind?

What type of conclusions can be drawn from the information and analysis provided in this chapter?

5.9.1 General comment on the interaction in both phases of the case study

The 'styles' of strategies used in the two periods of interaction were significantly different, from the start of both phases. The strategies employed by both sectors during the URGN phase (termed 'warm and fuzzy' by one public respondent) contrasted greatly from the strategies used by the city and ARS (more positional and adversarial). In fact, one can conclude that the URGN interaction was both a 'calculative' and a 'relational' interaction (the partners had and took the chance to develop a relationship), whereas ARS's was only calculative.

Also of note is the length of each interaction: the URGN partnership lasted four and a half years, while the ARS partnership, not even a full two years. With the knowledge that trust takes time to build, one would assume that it was difficult to build trust in the ARS relationship, as it was short.

With regard to ARS, the historical aspects of this project influenced the partnership. ARS entered into a relationship with 'a past' and the government brought with it some preconditions. It needed to move quickly and with some urgency. The government knew it had alternatives, and it was less patient with a new partner. The city was looking for an injection of funds, but there is a question as to whether it really needed ARS all that much. Was there the interdependence that one looks for in a partnership and is a condition for trust, or was the city always prepared to walk away if things did not go its way? Was this the right setting for trust?

The manner in which the city dealt with obstacles with ARS was characterized by a 'take it or leave it' attitude. The reaction to each obstacle was to give

ARS an ultimatum. This did not work. Again, one could argue that this was very 'deterrence'-based behaviour on the part of the city and, as theorists argue, not conducive to the building of trust.

This case study is special, as there are two different interactions, and it is possible to compare these interactions taking place in the same context and draw additional conclusions from that comparison.

5.9.2 The dynamics of trust

In both phases, the figures charting levels of trust showed changes in trust over time, a trust cycle, but a dynamic one. They indicated an initial growth in trust, and then the erosion of trust. For both periods, the partners were not able to maintain the initial trust built, and trust did not reach stronger and more resilient levels.

There are some inconsistencies between the figures showing changes in average levels of trust and the overall assessment of trust: the overall average level of trust in all actors was higher than in the trust cycle figures. This seems to indicate that though trust declined over time and was low at a particular point in time, in retrospect, trust levels overall were higher

Of note in this case, and in both phases, was the importance of membership as a determinant of trust. This implies, for instance, that members of the public team indicated higher levels of the trust in their own team than in the private sector partners. Individuals from the same sector, working together negotiating for their own interests, built trust over time. Also, for instance, when looking at the cross tabulations, while the public sector ratings of ARS were quite low, the scores given by the ARS 'people' were extremely high. This leads one to conclude that, though partners may be building trust in each other, members of an organization, when working in a partnership, have a tendency to trust their own kind more. Trust in another sector takes time to build.

In addition, the overall assessments of trust indicated the highest levels of trust in the core partners (the CB/NT: 7.38 and URGN: 6.71; the SB: 7.10 and ARS: 7.2) over the other types of actors. Of interest, however, when looking at the overall assessments of the core partners, is that public respondents gave URGN a relatively high average rating overall (7.25) and ARS somewhat lower (4.8). Private respondents gave an average rating of 7.5 to the core public partner (CB/NT) during the URGN phase, and 6.2 to the SB during the ARS phase. The public sector still demonstrated trust in URGN overall, and

URGN in the public sector. However, in the ARS phase partners were more negative about the other core party. Trust was still present in the URGN phase.

5.9.3 Perception of outcomes

Of note is that, in the end, the partners in the URGN partnership had different perceptions of the outcomes of the partnership. On the one hand, participants from the public sector had the tendency to think of the failure of the project 'as a small thing': they were focused on the big picture, the political risk they were facing, and the different options for the future. They did mention that they learned a lot from URGN, which they would put to use in the future (in fact, they had at their disposal an entire concept and project, wholly worked out).

On the other hand, the project was a commercial failure for URGN and there was no future for it but to exit and leave. The organization realized that it was too weak financially to take on the project. In addition, the perception of private respondents was that they had invested four and a half years of time and money in this project and the relationship, with little return. This loss was more than financial; they also perceived that they had invested more into making the project work than the city.

These differences in perceptions reflect the fact that when times were 'good', goals seemed to be in alignment, but when the project failed, the different interests of each of the parties and the implication of the project failure became apparent. The public partner began to act opportunistically.

In the ARS phase, the initial outcomes were positive, the city chose ARS and the developer had funds. ARS felt confident that it could make a difference in the area. Over time, however, perceptions of outcomes on both sides were negative but, in a way, similar: both sides perceived the relationship was difficult and frustrating, taking too much time. The public sector was concerned that there were delays in delivery; the private sector was chafing over the bureaucracy in decision making. Ultimately, after the divorce and years after completion of the project, perceptions of the respondents were mixed, ranging from serious disappointment on the private side to grudging appreciation on the public side that the project had delivered something of value, however slowly.

5.9.4 Perception of risks

The risks as perceived by the partners again reflect sectoral interests. URGN and ARS both perceived commercial risks (market and demand risks, project design risks, competition from Pazim). Clearly, the difference was that URGN perceived financial risks with which ARS was not faced.

Risk for the public sector revolved more around political risks: the tenants, the media and pressures from the city council. A public sector respondent admitted totally underestimating the importance of these perceived risks for the PPP; in fact, these risks were so great that they became critical for the private sector partners. During the URGN period, the resistance of the tenants caused Veidekke to pull out mid-way; this was also a major cause for concern for the EBRD. The tenants also became a burden for ARS, the risk perception was very prominent towards the end of the relationship. The political risk related to the tenants contributed to the commercial failure of the project.

Of interest is how the coping strategies changed in the two phases, in the first, discussions were reasonable, in the second, coping strategies in both camps were to negotiate hard. When faced with risk, the city continued to look at other options and used tactics such as aborting negotiations.

5.9.5 Factors of trust

In both the URGN and ARS phases, there are discrepancies between the results from the questionnaire and the results of the interviews. The results of the questionnaire indicate the need for more information on reputation and past performance as factors, as well as the ability to 'speak the same language', the latter points to a need to overcome the differences in framing. The results of the questionnaire also underline the willingness to share information and resources as a factor of trust. During the ARS phase, the results of the questionnaire also focused on the need for more information on reputation and past performance as factors, as well as the ability to 'speak the same language', but less on the willingness to share information and resources as a factor of trust.

The interviews, on the other hand, reveal that the respondents from the URGN period focused mostly on the willingness to share information and resources, as well as respect for capacity as factors of trust, both knowledge factors of trust. Interestingly, it was the reverse, it was URGN's withholding

of information and the lack of capacity (they overestimated the probability of gaining funding) that led to the public sector's decline in trust.

Related to the ARS period, respondents focused mostly on negative factors of trust, such as the behaviour of the partners (the city was rule bound and inflexible, ARS was arrogant and unable to understand public interest). They underlined the predictability of this behaviour, also a knowledge factor of trust. In addition, there was reference to the delays on the part of STR (but attributed to ARS) in delivering, not meeting expectations and achieving the outcomes promised, as a negative factor of trust.

Of interest is the fact that for neither phase did the respondents focus, in the results of the questionnaire, on the need for penalties in the contract as a factor of trust. In the quotes above, one public sector respondent refers to ARS as violating the contract on 30 points. There was also substantial reference to the need for the city to use the contract to guide the relationship, in both phases. Again, one can conclude that the contract is a negative factor of trust. Having to resort to it only serves to underline the fragility of the relationship and undermines trust development. This confirms arguments to this effect in the literature (Bovaird 2004).

5.9.6 Influence of trust on perceptions of outcomes and risk

Influence of trust on outcomes

Looking at the figure below, which traces the strategies of the partners, outcomes and trust build-up or breakdown, one can argue that there was a link between trust (build-up or breakdown) and outcomes. When looking at the figure, one sees that something had to happen first to build trust (trust as the dependant variable); the strategies during the interaction of the partners had to achieve an outcome to build trust. There was then a link between trust build-up/breakdown and outcomes, or more precisely between trust build-up and strategies employed which then produce the outcomes. The success of the negotiations brought about trust build-up, the partners continued to interact to make the project work, over time the lack of funds led to the final erosion of trust.

Figure 5-7: Links of trust to outcomes, URGN period

With regard to the ARS period, looking at the sequence of strategies, outcomes and trust, one comes to a similar conclusion. Achieving an initial outcome was important for the initial build-up of trust, subsequent negative outcomes eroded trust. It was then clear that trust or lack thereof had an effect on the coping strategies used; partners used mostly defensive strategies, leading then to negative outcomes. The lack of trust had a negative influence on strategies and outcomes.

Figure 5-8: Links of trust to outcomes, ARS period
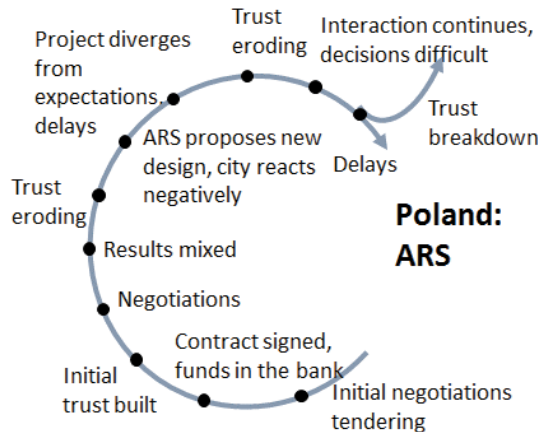
This case study and the sequencing in the figure underline an interest point: both the strategies (the behaviour of the partners) and the outcomes influenced trust, and looking at causal relations in the other way, trust build-up (or breakdown) influenced both behaviours and outcomes. As an

example, the style of negotiation of both partners led to the success in reaching an agreement, and then, trusting in the outcomes, partners continued to work together in the same manner, leading to a well-conceived and detailed project. What one can conclude is that both behaviours and outcomes are a factor of trust and that trust can influence both behaviour and outcomes.

Influence of trust on perception of risk

Looking at the influence of trust on the perception of risk, one can argue that trust was sufficient to offset the perception of risk, particularly political and financial risk, for URGN and the city to continue to take risks up to the end of Round 3. At that point, however, the partners were faced with the limits of trust, and the city decided to sever the relationship. In fact, reaching the limits of trust implied that the city began to act opportunistically, looking for other options. At a certain point, trust was not sufficient to overcome the perception of risk.

The most important trust relationship in this partnership, and the relationship in which most resources were invested, was the trust between URGN and the CB/NT. However, it is important to note that URGN was fully dependent on funding from external partiers, first its investors and then, when this fell through, a combination of EBRD and ESPEBEPE. In turn, the CB/NT was also dependent on URGN to finance the project, and at a point in time, was faced with not being able to wait in the face of the political risk. In the long run, the trust between the two main actors was affected by the activities and requirements of external parties. The perception of risks was just too great to continue the relationship, no matter the trust between the two central actors. This case shows that external parties may be the cause of the perception of risk and exert an important influence on the project, the relationship and on trust.

One has to wonder, however, for the URGN partners, if trust kept the partners together longer than 'was advisable', past a period that was rational. Interviews seem (in retrospect) to indicate this. On commercial terms, waiting two years after the signing of the contract for the funds to come through was perhaps foolish, but one could conclude that the partners were willing to continue to take risks (delays, pressures from the tenants and the media) due to the initial trust built.

This brings one to the conclusion that perhaps trust bordering on blind faith keeps partners together longer than is advisable. Still, there is a point, when

risks become too great, that though trust may still be present, there are limits to the influence of trust on the perception of risk. Partners will revert to rational behaviour, to protecting their own interests, will decide to break relations, and exit the project.

With regard to the ARS period, with the erosion of trust, the perception of risks was high. Relations were adversarial, with the city feeling that ARS was inflexible, pursuing its own interests, and not understanding the risks the city was facing. ARS's perspective was that the city did not understand the risk that ARS was running and the attempt to build a viable project, to cut costs and bring efficiency into decision making. The results show a battle of interests and unfulfilled expectations, and no effective mechanism to negotiate or mediate these interests. In effect, without trust, the interaction was characterized by defensive coping strategies that revolved solely around the discussion and the negotiation of risks. In fact, in this situation, the partners resorted to the letter of the law. This is a circumstance when control replaces trust, in situations of lack of trust. The inability to negotiate differences was seen, at some point, as a key risk and this changed behaviour; trust was not able to influence the perception of risk.

The process and key decision points in the Battery Park City partnership

1969
State sets up BPCA, issues 200 mil. in bonds, BPCA services the site and tries to attract investors

1972
Project stalls out during the crisis

State recommends changes to role of BPCA, BPCA is disbanded

Decision Point: 3

1979

10/02/79
Governor of NY appoints new Director R. Kahan

Summer 79
Kahan commissions work-out team to access scenarios

31/10/79
Cooper and Ecclut complete market assessment / Master Plan for the site

09/79
Kahan begins negotiations with the City of New York

1980

08/11/79
BPCA, State and City sign MoU

Begin 80
Cooper and Eckout produce urban design guidelines

Begin 80
Kahan negotiates with and get bridge finance from the State

06/80
Lefrak starts construction on Gateway

01/07/80
BPCA issues RFP for commercial sites

06/06/80
BPCA, State and City sign settlement agreement amendment to Master Lease

Decision Point 4

1981

11/80
BPCA designates O & Y developer of Commercial Centre

03/81
O & Y American Express sign Letter of Intention for building in WFC

05/80
O & Y reassess designs and commits to 1987 completion of the World Financial Center (WFC)

09/81
O & Y and BPCA sign Master Ground Lease

12/81
O & Y starts construction of the WFC

1982

09/81
BPCA amends O & Y's Master Lease

08/84
O & Y signs Merill Lynch for office building in WFC

10/85
Occupancy buildings 1 and 2 of WFC

Decision Point 5

Maps and location of Battery Park City

Design principles from 1979 Master Plan
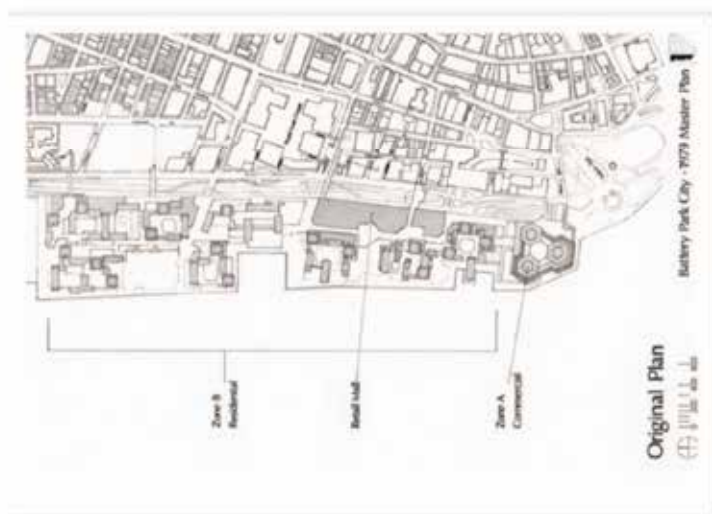
Original Plan

The original plan for Battery Park City (1969)
Source: 1979 Master Plan

6 Battery Park City, New York City, United States

6.1 Introduction

Too many cooks spoil the broth, a battle of interests and serious delays. This was the nature of the interaction in the development of the Battery Park City site from 1958 to 1979. The 92-acre Battery Park City (BPC) project, located on the south-west corner of Manhattan and occupying a key waterfront position, suffered through years of political squabbling and differences, extreme delays and money problems. It is now, however, considered to be one of the most well thought out, well developed and successful projects in New York City (NYC), to a great extent due to the initial partnership between a Canadian developer: Olympia and York (O & Y) and the public entity, the Battery Park City Authority (the BPCA).

A substantial amount of development has occurred on the site since the BPCA-O & Y partnership. All this development has contributed to the overall success and attractiveness of the area. Still, this chapter argues that the project would not have achieved its current success without the 'kick start' provided by the partnership: the BPCA-O & Y partnership built the commercial centre, the flagship project that provided the anchor tenants, and brought in the revenues to make the project viable and to repay the rising debt incurred by the BPCA. This financial success also provided a reduced perception of risk so that other developers felt confident enough to invest in building out the remainder of the site, making the project what it is today.

The area is now populated by 12,543 residents (2013 figures), and offers amenities on the site which attract a great number of visitors every day. The project has added a new, safe neighbourhood to the city and has aided the city government in regaining much of the tax revenue lost with the shift of the higher-income population to the suburbs.

6.2 Structure of the chapter

The following section looks at the actors involved in the decision-making process and their interests relative to the partnership and to the project. These actors were linked to the project in different ways, over different periods. The following section describes the process of project development,

the issues faced and the nature of the interaction between partners. Again, the interaction is divided into rounds, each of which ends with a key decision point.

This chapter first describes the first three rounds: the interaction was dominated by public actors, and no partnership was established. The chapter looks at the events that took place during these rounds as they act as the backdrop and are relevant to the relationship that was established between the BPCA and O & Y in the later rounds. The chapter then goes on to outline the interaction in Rounds 4 to 6 and the nature of the partnership.

At the end of the description of the interaction between partners, both the results of the research are analysed: the perceptions of outcomes, risk and trust per round and how these influenced strategies and the factors that contributed to the build-up or breakdown of trust. This analysis will highlight the factors and perceptions that led to a build-up of trust in the partnership, and will conclude with the major points that come out of the analysis.

6.3 Actors on the scene

The actors on the scene changed over the different periods of the project. Due to the high number of actors that took part in the project over the past 40+ years, this chapter lists only the organizations that were highly involved or connected to the **project**, had the most influence over the **process** and were the most connected to the **partnership**. The table below lists the different actors, gives information on the nature of each, and outlines their primary interests as related to the project.

Table 6-1: Actors and their interests

Actor	Nature of the actor	Interests
Those actors present in the process over the longer term and the period of the 'partnership'		
Public actors		
Port Authority of New York and New Jersey (NY&NJ PA)	Owner and manager of much of the land and property on the waterfront areas around Manhattan, responsible for the management of harbour activities, developer of the World Trade Center Towers	Finding a new function for the derelict docks in the Manhattan Harbour, making better use of waterfront resources, something to complement the WTC
The Governor's Office and the State Legislature	The political, legislative and executive branches of the NY State Government.	To redevelop the site, to respond to the political interests of their constituencies
The New York City Planning Commission (CPC)	NYC public organization with planning and land use authority	Finding a new function for the derelict docks in the Manhattan Harbour, making better use of waterfront resources, generating revenues for the city from ground rent and the increase in taxes
Board of Estimates of NYC (B of E)	Political decision-making body in NYC. All CPC decisions had to go through the B of E. Made up of the Mayor (two votes), the President of the City Council (two votes), the City Comptroller (two votes) and five Borough Presidents (each with a vote). This body no longer exists.	To reflect the political perspectives in decision making on the project, reflect the opinions of the constituencies; complementary to the decisions made by the professionals in the CPC
Battery Park City Authority (BPCA)	A state public benefit corporation, an autonomous organization responsible for the development of the site, which could issue its own bonds	Redevelopment of the site, and in the period after 1979: sufficient revenues to cover the debt service on $200 million in outstanding bonds

Private actors / non-profit		
The Downtown-Lower Manhattan Association (DLMA), headed by David Rockefeller of Chase Manhattan Bank	Private planning organization, powerful in the 1950s and 1960s, founded by David Rockefeller of Chase Manhattan Bank in 1957	Stimulating redevelopment and economic growth of southern Manhattan, developing residential functions to complement the commercial functions in the Wall Street area/World Trade Center, life in the area in the evening hours
Cooper and Eckstut	Planners hired by the BPCA in Round 5	Create clear planning principles for the project
Lefrak and Fisher	Residential developers	Build the first residential tower on the project, at a profit
Olympia and York	Canadian, commercial developers	Build the commercial property that would provide the anchor tenants and would turn the project around, would bring in high profits and settle public debt, would build reputation in the US
Public Arts Advisory Committee	Multidisciplinary committee making decisions on the art to be located in the public spaces (from Round 5)	Create public space in the project that would make Battery Park City 'the place to be'
Battery Park City Parks Corporation	The non-profit organization operating and maintaining the public spaces and events, set up in 1989 (Round 6)	Managing the public spaces efficiently and effectively, adding value to the project site, maintaining customer satisfaction

As stated above, there were many actors with an interest in the development of the area. Clearly, the table does not portray the complexity of the interaction 'surrounding' the project. This complexity was particularly apparent during the first period of the project (Rounds 1-3). Each of the public (state and city level) agencies involved hired their own architects and consultants, and there were lobby groups taking a stand on the development; the media published widely on the design and the progress (or lack thereof) of the project. The context in which the project found itself, particularly in such a large and culturally diverse city as NYC, was highly complex and politically sensitive.

Of note is that, at the outset of the project and well into the partnership, the Wall Street area, where the project was being built, had no residential areas, so the community did not play a role. The community is not listed as a key actor, with a stake in the project and partnership. This implies that the partnership interaction was not influenced by what is typically a strong pressure group with divergent interests.

In the first three rounds, the most important lobby group, representing private interests, was therefore the DLMA. This organization played an important role in communicating private interests and supporting the development of the project.

In effect, the first three rounds were dominated by public agencies, led by strong individuals. Nelson Rockefeller, for instance, was the Governor of the State of NY and was highly and personally involved in the beginning of the process. In Rounds 4-6, as the partnership took off, the number of public actors with a central role diminished to only those with a decision-making role, and the process simplified. The progress made in the project revolved around the two key actors: the Battery Park City Authority and its private partner, Olympia and York.

6.4   The process

6.4.1   Overview of project rounds 1-3: key decisions points, change in actors, stakes and content[24]

Before starting with a description of the interaction, the table below provides a quick view of the key actors in Rounds 1-3, (mostly political figures played

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[24] This chapter makes use of two major sources; first. D. L. A. Gordon's *Battery Park City: Politics and Planning on the New York Waterfront*; second, C. J. Urstadt's *Battery Park City.*

key and decisive roles) and identifies moments when key decisions were made that brought about a change in actors, the stakes or the content of the project. It highlights per round, the key and peripheral actors, the intensity and nature of their interaction, crucial decisions made, as well the evolution of the stakes. This table also includes the political figures at the State and City Government levels and the date of their (re)elections. These dates are significant as they often coincide with when important decisions were made on the public side concerning the project.

As mentioned before, Rounds 1-3 were predominantly characterized by interactions between public parties jockeying for position relative to the development of the site. The private sector was involved in the form of the Downtown Lower-Manhattan Association (the DLMA). Other private actors were the consultants hired by the public bodies.[25] This next section of the chapter describes these interactions, and then briefly outlines the perceptions of outcomes, risk and trust between PUBLIC parties only. There is no in-depth analysis of these perceptions as the Public-Private Partnership was formed in Round 4. The description does, however, give an image of the perceptions of the key public players at the time of the forming of the partnership: understanding these perceptions is essential to sketching the context in which the partnership was formed and to understanding the position of the public sector in the negotiations with Olympia and York (O & Y). Round 4 was the round during which the perceptions of risk and trust became an issue between the public and private sector.

The initial descriptions of Rounds 1-3 in this chapter highlight the political fights and lack of trust in the political arena and the high level of political risk that was present when the public sector began to build a relationship with the private partner.

Both publications provide a clear description of how events unfolded and interactions occurred. My sincere thanks to both for allowing me to use the information provided.

[25] Interestingly, the community was not a key actor, as there were limited residential areas in Lower Manhattan at that time.

Rounds	1	2	3
Round names	Proposals for the Lower Hudson Waterfront: duelling plans (1958-1966)	The City and State negotiate (1966-1969)	Getting started (1969-1972) and stalling out during the market crisis (1972-1979)
Actors	State: 1958, 1962 N. Rockefeller (R) (governor) and the NJ and NY Port Authority, State architects City: 1961 R. Wagner (D) Mayor, 1965 J. Lindsay (R, L) Mayor, the DMA, the DLMA, the CPC; City architects	State: 1966 Governor N. Rockefeller (R), State architects City: Mayor J. Lindsay. The CPC, the DLMA, City architects	State: 1970 (R) Governor Rockefeller re-elected, C. Urstadt, Chairman of BPCA (5 Aug 1968 – 10 Feb 1979), 1973 Governor Rockefeller resigns, successor Wilson 1974 Governor Carey (D) elected, 1978 re-elected; BPCA, State architects City: 1969 Mayor J. Lindsay (L) re-elected, City: 1973 Mayor A. Beame elected; 1977 Mayor Koch (D) elected, DLMA and CPC, City architects
Intensity of interaction	Initial jockeying for position by State and City Government organizations[26], political manoeuvres	Intensification of interaction and negotiations between the City and the State on the content of the project; lobby groups takes sides	Interaction between government organizations restricted to activities and negotiations related to getting the project off the ground
Nature of Interaction	Nelson Rockefeller and the Governor's Office compete with the city (CPC) and the DLMA (headed by D. Rockefeller) to produce the best plan for the area	Showdown between State and City agencies, serious negotiations ensue, principles are agreed, the City and State sign a MoU	Design team set up (city and state architects, with mediator), and team designs plan, BPCA is set up and obtains approvals for the Master Development Plan, The State and City sign the Master Lease; the BPCA secures funding; BPCA demolishes the piers and starts the

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[26] This chapter will refer to 'the State' and 'the City': 'The State' refers to State of NY government organizations in general and 'the City' to City government organizations in general.

	landfill, BPCA searches for and designates the developers The City and BPCA continue to skirmish over aspects of and changes required in the project. Real estate market collapses; NYC has a fiscal crisis, the State requires a review of BPCA solvency. Agency placed under the UDC	Governor Hugh Carey decides to restrict the activities of the BPCA and to place the organization under new management	Complete the infrastructure and attract investment to build out land according to schedule, fairly stable political risk, followed by BPCA failure to attract investments in a bad economic and real estate climate, pressure to repay bonds, extensive political risk
Crucial Decisions	The Governor of the State of NY and Mayor of NYC agree that something should be done with the site, and decide to expend further resources on taking on manpower and working out the details of the project	The City and the State decide to sign a MoU agreeing to the specifics of the project, the State decides to take over the development of the project and the primary risk; both parties decide to expend more resources	
Stakes	Which concept for the area will have the most 'purchase'; who will have the power to develop the area	Commitment of State resources to set up an organization and make public investments in infrastructure	

6.4.2 Background of the project

In the 1950s, the New York City harbour ceased to function as a key harbour. The restructuring of the local economy and the evolution of the city from a strong industrial and manufacturing to a financial, information and service centre left much of the land for the former activities barren and unused. This included all the piers along the edges of Manhattan. The southern tip of Manhattan had real potential as it was also the historical area of Manhattan, the location of Wall Street, and was close to some key tourist sites (Ellis Island, Statue of Liberty), as well as the buildings of government.

In the mid-1960s the harbour area and the southern tip of Manhattan continued to decline: the economic and technological changes were making the historical buildings and the Wall Street area obsolete. Competition was coming from the midtown area where real estate was more attractive, buildings were more suitable to the needs of the major companies, there was better access to transport, and more variety in and choice of service facilities. Many large firms decided to relocate and land values in the area were plummeting.

The City Government and the private sector prominent in the Wall Street area were interested to lure firms back to the area. The Port Authority of New York and New Jersey (PA)[27] decided to invest in the office market and build the World Trade Center (WTC). As construction began, the PA faced the problem of trying to dispose of the excavation materials from the WTC site, and the City saw the opportunity to use the materials for landfill off the southern tip of Manhattan. The City offered up the pier area as a land reclamation site. This land reclamation site was to become the Battery Park City Project.

6.4.3 Round 1: Proposals for the Lower Hudson Waterfront: duelling plan (1958-1966)

In the early 1960s, many agencies were conscious of the need to do something with the derelict waterfront of southern Manhattan and were investigating how to make better use of the resources provided in the area. The prevailing idea was that there should be a greater mix of functions and that the area should be used for homes and offices (Gordon 1997: 3). At the same time, there was much community pressure in the city and political

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[27] The two states (New York and New Jersey) used one agency to coordinate their mutual interests related to harbour activities.

support for a project that would provide additional housing, for a mix of income classes, and other uses (Urstadt and Brown 2005, public sector interview, 2007).

The inception of the Battery Park City Project was characterized by the political jockeying with schemes for the area between different parties from the New York State and City Governments, as well as a series of other interest groups in the area. There were five key groups with interests in the area who developed ideas for the project. They put together project proposals in the years 1963 to 1966.

The first proposal was developed by the New York City Department of Marine and Aviation (the DMA) in April 1963. Opposing the ideas of the DMA were (1) the Port Authority of New York and New Jersey (PA), (2) the Downtown-Lower Manhattan Association[28] (DLMA), a powerful private planning organization headed by David Rockefeller, and (3) the City Planning Commission (CPC) of the City of New York. The final party involved was the Governor of the State of New York, Nelson Rockefeller[29] (brother of David).

As the City owned the piers and the land, and regulated all development in Manhattan, the expectation on the part of the City was that it would guide the redevelopment of the area. The DMA's consultants[30] and architects[31] proposed a complex programme, released on 15 April 1963, mixing six commercial pier slips, eight office buildings, 4,500 dwelling units in 18 high-rise buildings, and a 40-storey hotel. The plan also included a landfill, stretching from Battery Park to Chambers Street, to make more land available for the project. Their plan broached the idea of the landfill for the first time. The plan was still wedded to the idea of keeping marine passenger traffic in the area (Gordon 1997: 8). The plan received little support from other bodies and in the press.

The interests of the DLMA (Gordon 1997: 8) in a site on the southern tip of Manhattan stemmed from the fact that the organization had been involved

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[28] A group organized by David Rockefeller in the early 1960s to work on the revitalization of the Wall Street area. Most real estate people were predicting at that time that business interests would be moving to the more suitable midtown area. The group had been urging for the development of the World Trade Center (Gill, 1990).
[29] A liberal republican.
[30] Ebacsco Management Consultants.
[31] Eggers and Higgins Architects.

in lobbying for the development of the World Trade Center[32] and was interested to have residential uses to complement the commercial development there (eliminating additional commercial and industrial uses would also ensure that there would be no competition to the WTC). The organization commissioned architects[33] to come up with a design, which was released on 21 November 1963.

The growing interests in the area stimulated the City Planning Commission (CPC) of the City of New York to sit up and take notice. In February 1965, under Mayor Robert Wagner, the CPC commissioned a consortium of planning firms[34] to create a comprehensive plan of lower Manhattan. Their plan was delayed by the local elections and swearing in of the new Mayor, John Lindsay.[35]

In the meantime, the New York State Governor, Nelson Rockefeller, concerned about the quality and quantity of middle-income housing, was busy proposing residential developments in the City and around the State, one of which was on the city's waterfront (Gordon 1997). He was also supportive of the Port Authority building the World Trade Center Towers, and their design team's idea to use the excavation materials to create the landfill in lower Manhattan. In late 1965, he requested his long-term architect[36] to produce his own scheme for the redevelopment of the area. The architect's plan entailed a programme of 13,982 housing units, a hotel of 2,200 rooms, two office buildings, recreational areas, shopping centres, light industrial areas and parks (Harrison, 1966: 7 in Gordon 1997). The report that accompanied the plans, titled *Battery Park City, New Housing Space for New York* was the first document that gave a name to the area of the city. The name reflected the planning ideology of the day: to create a 'city within the city'. The Governor's plan was presented at a press conference on 12 May 1966, before the CPC was able to reveal its own ideas for the site. Mayor Lindsay and the Governor's brother had not been forewarned about the proposal. This created friction between the parties involved (Gordon 1997: 14) and the press criticized the Governor for not coordinating efforts with the City.

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[32] The DLMA had done a study of potential development in lower Manhattan (released 14 October 1958) and had proposed that the Port Authority build the WTC (DLMA, 1958 in DG: 8).

[33] Skidmore Owings and Merrill (SOM).

[34] Headed by Conklin and Rossant.

[35] On the republican ticket.

[36] Wallace Harrison (with partner Abromovitz).

The next move made was by the CPC, which came out on 22 June 1996 with its policy document, *The Lower Manhattan Plan*, just a month after the Governor's unveiling of his proposal. The CPC's plan studied the area in a more comprehensive manner, looking at all neighbourhoods in the area, as well as transport and access conditions (Gordon 1997). The proposal also incorporated the idea of landfill and provided for the expansion of financial and residential areas. The plan, again based on the design principles of the time, called for a state-of-the-art 'superblock' layout, a town within a town. The DLMA supported the scheme and the press praised the design (Progressive Architecture 1966: 132).

There were now clear but contrasting interests in developing the site. The City and the State decided to take up negotiations for real and became the two primary players in the faceoff.

6.4.4 Round 2: The City and State negotiate (1966-1968)

This decision was important as the City and State both invested in the idea of doing something with the area (it evolved from an 'idea' into a solid 'plan') and the political figures at both levels made manpower and resources available to take the project further.

Change in actors

The decision to go ahead with the project implied that the number of major actors reduced to two: the City (Mayor's office and the CPC) and the State (the Governor's Office and the State Legislature). The other players also played a role, but took sides, supporting either the City or the State.

Mayor Lindsay set up the Office of Lower Manhattan Development in January of 1968 to implement the Lower Manhattan Plan and to negotiate with the State. The powerful private interest of the DLMA supported the City. David Rockefeller was still smarting from not being consulted by his brother on an area to which he had been committed for ten years (Gordon 1997: 24). The DLMA executed a market study in November 1968 recommending luxury and middle-income housing on the BPC site.

Change in stakes

The stakes intensified as the battle for power and negotiations of interests intensified. The State and City held different powers. New York City, under Mayor Lindsay, owned the land, had regulatory and approval authority over any project proposal, and had come out with the plan that had received the

greatest support to date from action groups and the press. The State authorities, under Nelson Rockefeller, had funds, the legislative authority, and the interest to build such a project (Gordon 1997: 21, Urstadt and Brown 2005: 55). Though the two authorities agreed in principle, they entered into a fight on how the project should be developed and executed. Serious negotiations on Battery Park City began in 1966. During the negotiations, the City remained aggravated about the possibility of the State taking over the redevelopment of the project, to be located on city-owned land (Gordon 1997).

Change in content

For three years, the negotiation revolved around certain issues:
- The returns from the project that would go to the City.
- The spread of residential units over income classes and the proportion to be allocated to the lower income units.
- The design concept and programming of the project.
- Agreements on the role of the City in the implementation of the project (Gordon 1997: 24).

Interaction

After three years of negotiations, the two authorities finally came to an agreement, signing a Memorandum of Understanding on 25 April 1968 (Gordon 1997, Urstadt and Brown 2005: 69). They agreed that the State would develop the Battery Park site, while the city would manage other initiatives on the eastern side of the island (Elliot interview 1992 in Gordon 1997: 25). The State agreed to set up an implementation authority, which would pay ground rent to the city, as well as any profits from the project. There was a final sticking point: the type of housing to be built. The city argued for market housing in the area, arguing that higher-income residents would bring tax revenues for the City and would be more suitable adjacent to the Wall Street area and the World Trade Center; the State preferred more of mix of income classes, mirroring the concerns of the Governor.

6.4.5 Round 3: Getting started and stalling out during a market crisis (1968-1979)

These decisions were important as it appeared that problems and differences had been resolved and responsibilities allocated. The State was free to take the content of the project further, to work on accessing financing for the project, and to set up a team. The City agreed to focus its interests elsewhere and to retain an approval function on the project.

Change in actors and stakes

With the signing of the MoU, the State took over the responsibility for developing the site. The stakes shifted as roles were delegated to the various State parties and tasks were allocated to those working on the setup of the project. As Gordon (1997) mentions: to get the project off the ground the Governor had to *"modify Harrison's plan, set up an implementation organisation, arrange funding and obtain the necessary approvals for building"* (Gordon 1997: 23).

On 31 May 1968, the State established the Battery Park City Authority (BPCA),[37] *"a public benefit corporation, an autonomous organization that could issue its own bonds. The BPCA consisted of three members appointed by the Governor for a term of 6 years"* (Gordon 1997: 29, Urstadt 2005: 70). The BPCA was tasked with the redevelopment ". . . *in cooperation with the city of New York and the private sector of a mixed commercial and residential community, with adequate utilities systems and civic and public facilities such as schools, open public spaces, recreational and cultural facilities necessary for the prosperity and welfare of the people of the city of New York and the state as a whole"* (NYS General Laws 1968, c. 343). Rockefeller selected Charles Urstadt to be the chairman of the BPCA; he was elected to the position on 5 August 1968.

Interaction

Charles Urstadt managed to secure a substantial amount of funding for the start-up of the BPCA. He first obtained two loans totalling $600,000 from the Chase Manhattan Bank and Morgan Guarantee Trust Company. He obtained a $15 million line of credit from the State of NY in July 1969. These funds were used for start-up costs, including the setup of the BPCA office, consultants' fees, and expenditures entailed in keeping the Authority going for three years. The BPCA used only $5 million of the State's line of credit by the end of 1971 (Gordon 1997: 43, Urstadt and Brown 2005, public sector interview 2007).

The BPCA hired architect Philip Johnson to help mediate between the State and City architects and to design a Master Development Plan that would satisfy the interests of both the City and the Governor. The plan produced by the team and released 16 April 1969 received critical and positive coverage in the press (Gordon 1997).

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[37] Initially a corporation called the Battery Park City Corporation Authority (Urstadt 2005: 70).

The 1969 Master Development Plan[38] was based on the planning approaches of the time. It proposed a single building complex, linked via a seven-storey spine that ran the entire length of the site. Functions were located horizontally at different levels of the spine, commercial and retail activities were located at different levels than parking. Seven 'development pods' were located in different areas of the megastructure, the commercial pod was located at the south end of the site, with grand views of the harbour, what Governor Rockefeller called 'the best spot in town' (Interview Douglass 2008, Gordon 1997: 34). The residential pods were to be located along the spine.

This approach employed the stacking of uses to allow for higher density on the site, and layered, horizontal circulation separating pedestrian traffic and vehicular traffic through the use of pedestrian bridges. The layering of uses and the 'raising' of the pedestrians was conceived as a way of dealing with the perceived safety issues in the city at the time (public sector interview 2007, Urstadt and Brown 2005).

It (the proposed design) was huge, in a Corbusian way. It would separate pedestrians from traffic, it would have big plazas. People would live in open spaces and would get (both) the country and the city, and life would be good. At the end of that period, that's how it was planned . . . They envisioned that everything would exist at this (upper) level. Traffic would go beneath. Pedestrians and traffic would never meet. (public sector respondent 2009)

The architects finalized the Master Development Plan in an election year, and the mix of housing was the subject of much discussion by different lobby groups. Mayor Lindsay finally reversed his stand on the housing mix in August 1969 and agreed to support a housing mix of one third low, middle and high income respectively. The CPC and the Board of Estimates (B of E)[39] approved the Master Plan in August 1969 and the Special Battery District Zoning in October 1969. The B of E also approved the Master Lease in October 1969; it was set for a term of 99 years, to start in 1970. The BPCA signed the Master Lease with the City, incorporating the Master Development Plan in

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[38] The term Master Plan is used to represent a different type of document than the typical planning drawings. In this circumstance, the documents for the project included strategic guidelines, quality standards and feasibility studies. Location and use are governed by zoning plans.
[39] See table at the beginning of the chapter describing the role of these two institutions in public decision making in NYC.

November 1969. With these approvals and the signing of the Master Lease, the BPCA turned its attention to executing the landfill, building the infrastructure and attracting private sector investment in the properties proposed for the site (Gordon 1997; Urstadt and Brown 2005).

The economic recession began in the fall of 1969.

Demolition of the piers began in July 1970; fill from the excavation from the World Trade Center was used to start the landfill on the site. The remainder of the site was created with sand dredged from the Lower New York Bay. A complex platform had to be built on the site to straddle the PATH tubes from NJ to the World Trade Center. The landfill was completed in 1976.

The BPCA set out to attract commercial tenants by placing advertisements for office leases from September to December 1970. There was limited response to the organization's initial efforts, supply from alternative sites was creating competition, i.e. the first tower of the World Trade Center was completed and occupied in 1971, absorbing much of the downtown office market, and locations in Midtown and on the Lower East Side were popular. The BPCA then opted for another approach and moved to attract bids from large private developers for the commercial pod; in early 1972, Harry Helmsley was chosen to build the property (Gordon 1997; Urstadt and Brown 2005).

The market for housing looked marginally better, there were State and Federal programmes supporting the construction of low- and middle-income housing; James Felt and Co., the Authority's market analyst, forecast a market for 6,000 luxury rental units in lower Manhattan (Gordon 1997: 43), and that BPC might attract 4,700, if there was little competition in the area (Gordon 1997: 43).[40] In April 1971, the BPCA advertised for bids from residential developers; interviewed 20, and entered into negotiations with three. The Authority signed a Letter of Intent with Lefrak Organization and Fisher Brothers, one of New York's largest residential builders, in 1972 (Gordon 1997; Urstadt and Brown 2005).

In 1972, Urstadt went to bond market, and managed to market and secure $200,000 million in bonds ($45.2 million in serial and $154.8 in term bonds). $58.2 million of the bond issue was set aside for capitalized interest, reserves

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[40] Lower Manhattan had very few residential areas at the time, properties were mainly occupied by the financial and service sectors (source: public sector interview 2007).

and the cost of the bond issue. The remaining funds were for use by the BPCA, covering the costs of repaying the $5 million credit from the State and $45 million for the landfill. The remaining amount, $90 million, did not, however, cover the expenses needed to build the seven-storey spine. These funds were kept in the bank while the BPCA pursued private investment. Urstadt further received approval from New York State to borrow $400 million in mortgage-backed bonds under the Mitchell-Lama housing programme (Gordon 1997: 44).

The development schedule called for the completion and occupancy of 6 million square feet (557,418 m^2) in offices between 1976 and 1979, and the lease of 14,000 apartments between 1975 and 1981. The estimated cash flow from leases necessary to repay the loan ranged from $8 million in 1976 to over $32 million annually by 1980. This schedule required a rapid build out of the project (Gordon 1997: 44).

Progress on the project was minimal. The project faced three major problems. For one, several factors made it difficult for the BPCA to implement the Master Development Plan. The plan comprised very complex regulations and standards; to it were attached 20 pages of detailed performance specifications. The Master Plan and its specifications were part of the Master Lease between the City and the State. The review process was also extensive, requiring submission to and approval by three different bodies. Implementation constraints were exacerbated by that the fact the City and the State continued to skirmish over a number of issues related to the project and relations were deteriorating. The BPCA wanted to eliminate the restrictive and detailed planning and implementation regulations in the Master Lease. The City was critical of the spine and dismayed at Lefrak's residential design. The City had developed new urban design objectives and planning criteria, and was pressuring the State to accommodate these.[41] The spine appeared to be highly risky; BPCA's engineers performed a first cost estimate of the construction of the spine and came to the conclusion that it would be extremely costly, upwards of $240 million. The BPCA would have to complete the spine before any construction by the private sector could take place. Efforts were made to devise ways to build it in phases. Overall, the project faced major delays and constraints (Gordon 1997: 52-53).

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[41] One issue was that the spine created a visual barrier, and the city wanted the design to introduce 'view corridors' to the waterfront.

Additionally, the financial crisis of 1974-1979 brought about a stalling in real estate investment. Both the office and residential markets collapsed, and there was a glut of office space on Wall Street.[42] Other than Lefrak and Helmsley, no developers were interested in investing in the site. There was a dramatic rise in interest rates, and the return on the bond reserve fund was not enough to cover the debt service on the bond of $19.5 million per year (Gordon 1997: 44).

Finally, both New York State and the City faced a fiscal crisis; spending far outstripped revenues and, in addition to the national recession of the 1970s, the underlying structure of the city's economy was changing, manufacturing was moving out. NYC lost 500,000 jobs from 1970 to 1977. The State's fiscal situation was also in trouble, when the Urban Development Corporation (UDC) defaulted on its bond obligation in January 1975, the bond market was "*closed to the state and its agencies*" (Gordon 1997: 55).

In 1974, Nelson Rockefeller resigned and the BPCA lost its most important ally. In January 1975, Hugh Carey took office as the new democratic Governor of NY. He placed severe restrictions on borrowing and expenditures. This included restrictions on the activities of the BPCA.

There was absolutely no income stream from the project, the BPCA had only spent money on the site, and the $200 million bonds were coming due. In 1976, the State Controller called for an audit of the BPCA and its activities. By late 1978, no construction had taken place; the site was referred to derogatorily as 'the beach'. The press remarked on the lack of development and brought attention to the fact that the bonds might not be repaid. Hugh Carey was re-elected in November 1978, and during a recess of the State Senate, his administration replaced Charlie Urstadt as Chairman of the BPCA. Though Urstadt contested his removal, he left the office in early 1979 after the Senate Majority Leader withdrew support.

The State Assembly recommended serious changes to the role of the BPCA as development agency. The offices closed and most of the employees were discharged. These decisions were important: the project came to a halt and its future was unclear (Gordon 1997: 54).

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[42] Up to 30 million f² in 1973.

6.5 Perception of outcomes, risks and levels of trust per round (1-3)

The following three sections reflect on the perceptions of the outcomes, the risk and levels of trust, with a focus on the perceptions of the City and the State, the two main players on the public side. The next section describes the unilateral negative perception of the outcome of the project and the influence of these on strategies.

6.5.1 Perceptions of outcomes

Gordon (1997: 100) reflects on the outcomes of these rounds in his book, in a section called *Political Management.* He remarks first on the inability of the politicians and officials of the State and the City to manage relations and the antagonistic nature of the interaction.

> *"The early years of Battery Park City are almost a textbook example of how to bungle the political start-up of a redevelopment project. In a 'strong mayor' city like New York, good relations with the political administration at City Hall are a high priority for a redevelopment authority. Nelson Rockefeller and John Lindsay shared the same patrician background, party affiliations and activist bent, but unfortunately New York City wasn't big enough to contain their ambitions. They competed over everything from waterfront redevelopment to the US Presidential nomination. Unilateral action by an upper level of government is a redevelopment tactic that rarely works and the Governor's 1966 press conference created both resentment and a resistance along every step of the start-up process."*

The negative nature of the political interaction influenced the perception of outcomes, leaving both sides with a perception that the project was not turning out as desired (or they were not getting what they wanted). The quote underlines the fact that the behaviour on the part of the State led to a strategy on the part of the City: to drag its feet all along the way. Gordon goes farther to describe this strategy.

> *"A waterfront redevelopment agency must manage its relationship with the local government, which typically has ownership or control over most utilities, street access, education, community services, police and fire protection. An intransigent municipal government can delay and frustrate implementation, even if the agency owns its own land and has absolute planning authority. The BPCA had neither ownership nor authority, so the city planners could inflict the 'death of thousand cuts' by red tape and delay. Even though the Governor*

and Mayor eventually signed the agreement in 1969, a
redevelopment project with multiple sites requires a more
cooperative local approvals strategy than the typical private real
estate deal, since the agency must return to the well repeatedly over
the years, rather than simply focusing all its political resources on a
single vote. It took two complete changes of regime in office of the
governor and the mayor to erase the bad relationship between the
City and the State."

Conclusion

At the end of Round 3, a number of factors, including the machinations on both sides, the divergent and conflicting goals, and the resistance and delays, produced an empty beach and significant debt, and the perception of failure. The interaction was also key in creating a perception of high risk; this perception of political risk was strong enough to have the State put an end to the project in Round 3.

6.5.2 Perceptions of risks and influences on interactions

This section tracks the change and growth in the perception of risk in Rounds 1-3. The main risks in these rounds were external, i.e. political: related to State and City conflicts, planning and regulatory risk, from the negative press, and from the market. At the end of Round 3, the perceptions of political risks intensified and to these were added internal risks (related to the project): i.e. the perception of financial risk, as the bonds came due and could not be repaid.

Over Rounds 1 and 2, political risk increased as the interest in the project increased and the project became more important to the State and the City. The perception of risk on both sides stemmed from the conflicts at the political level. The key politicians vied for power and battled with rancour over the project. Their interaction and skirmishes caused a lengthened process of decision making:

> *N. Rockefeller and John Lindsay, competing for their own new towns*
> *in lower Manhattan . . . There is always tension between the Mayor*
> *and Governor because the Mayor is the mayor of this very important*
> *city. But in reality he has very little power when it comes to broader*
> *issues . . . All this is controlled by the Governor out of Albany.* (public
> sector interview 2009)

In Rounds 2 and 3, the perception of risk on the part of the private sector related to the market for real estate increased. Several megaprojects were

built that flooded the market and provided competition (Chase Manhattan and WTC).

> *The WTC certainly depressed the market for 20 years. It put 12 million f² on the market, on an uneconomic basis, which meant that they (the WTC) would take any tenant . . . This really depressed the downtown market.* (public sector interview 2009)

The only two designated developers on the project, Lefrak and Helmsley, perceived the market risk; their coping strategy was to avoid getting the project underway. One respondent remarked that Lefrak spent a lot of time *pushing sand around* (Graham 2009). Gordon also mentions a remark Kahan made: that "*the designation of Helmsley was little more than tying up the site for no significant outlay, while waiting for the market conditions to improve*" (Gordon 1997: 42). This implied that:

> *No one could conceive of development as possible, the old plan was too ambitious. The BPCA had spent chunks of investment on the infrastructure, had spent money getting people in (private sector developers) and nothing had happened, the project had gone bankrupt. The projects were huge; it was a different project at a different time.* (public sector interview 2008)

This quote refers to the growing perception of the part of the private sector of the planning and regulatory risks embedded in the 1969 Master Plan. It also refers to the substantial perceptions of financial risks.

All the perceptions of these risks caused the Governor and the State Legislature to intervene in the activities of the BPCA and ended the tenure of Charles Urstadt.

Conclusion

The unconstructive nature of the interaction and the perception of failure did nothing to reduce the perception of risks. In addition, as is highlighted in the next section, the lack of trust between the parties also did not reduce the perception of risk. On the contrary, the lack of trust made (1) the interaction almost untenable, and (2) the perception of the risk intolerable. There was in particular evidence of the lack of trust between political parties.

6.5.3 Perceptions of trust (or the lack thereof) and the factors that contributed to these

Though the research did not measure the (changes in the) levels of trust in this initial period, respondents made it clear that there was limited trust in

the interaction between the State and the City. This section analyses briefly the lack of trust between parties. It does so by indicating the key dimensions of trust defined in the theory and as mentioned by respondents during interviews. This section also looks at the factors contributing to the breakdown of trust as mentioned by the respondents.

In Round 1 and as the interaction between actors and the stakes increased in Round 2, the trust between the City and the State, and their two key political figures, the Mayor and the Governor, was minimal. One city official commented on the relationship and levels of trust:

> *On New Year's Eve (1966), (Mayor John) Lindsay called me at home and says 'There is a vacancy at the City Planning Commission. I want you to take that seat and make sure those guys (the State agencies and the Governor's office) don't fuck up the city' . . . John's relationship to Nelson's (Rockefeller) got pretty tough; they did not trust each other at times. They did not like each other and it played itself out in a whole lot of ways in the political arena . . . Nelson was jealous of John . . . and John was enough of a patrician to not 'kiss the ring'. Rockefeller hated Lindsay for that, because he did not pay homage to Nelson, as he was expected to behave . . .* (private sector interview 2008)

Respondents indicated that their behaviour during interactions demonstrated that, in making decisions, they were not sure of the intentions of the other, and they did not take each other's interests into account when making a decision. These are key dimensions of (the lack of) trust (private sector interview 2008, public sector interview 2007, public sector interview 2008).

After the setup of the BPCA, the city agency interacting most with the BPCA was the City Planning Commission (CPC). The interaction was perceived as characterized by limited trust and this did not improve over Round 3.

> *The CPC, at this time, hated the BPC project and the stuff that they were putting up. In point of fact, we ended up voting for it, because there was no point in not voting for it. Had we overridden it, we would have just looked stupid. We did not want to create war in the CPC. So the attitude in the CPC was: 'It's a State thing. Let them do it, let them fuck it up'. . . Urstadt was very arrogant; he took all of the authority of the State. He did not talk to anyone in the City, at least in my time. 'I know what is right and I am the sole authority on this.' Maybe he was doing exactly what the governor wanted him to do, I don't know.* (private sector respondent 2008)

From the perspective of the State, the feelings were similar. One respondent commented:

> *"The City agreed that the State could run the entire project without any interference from the City. But, did you ever come to an agreement on something only to wonder, as time went on, whether the other side was truly serious about carrying out the understanding?"* (Urstadt and Brown 2005: 67)

The perception of both was that neither was taking the interests of the other into account when making a decision and neither was willing to invest any more time of resources than necessary to ensure that the relationship would work. Again, these are key dimensions of trust mentioned in the research. One respondent even went so far as to question the capacity of the BPCA to meet its obligations according to the agreement (private sector respondent 2008).

Factors contributing to the lack of trust

Interviews revealed that certain factors, as outlined in the theory, contributed to the lack of and breakdown of trust. Respondents indicated that some of the State and City parties knew each other professionally before Round I, at least by reputation and from the political arena. The interaction, however, turned over time into a turf war, a war ignited by the key political figures in the arena. The parties grew to know each other over the rounds well enough to be able to predict behaviour. The respondents indicated that the expectations were that this behaviour would be negative. The parties were at odds and unwilling to share information and resources. On the basis of the interaction, they were critical of the other's capacities. The parties certainly did not 'speak the same language' or come to share values and norms. These factors contributed to a lack of trust.

> *Tom Galvin[43] thought he could override the city . . . Tom would come in with the staff that he had, asking for something. Stupid, outrageous things. Trying to implement a scheme that everyone knew was torturous and a disaster. But Tom's charge was to build this thing; to design open spaces around concrete walls. He had money to spend, so he spent it on this horrible design . . . The CPC had to approve street mapping and parks. So, (Tom) came with a plan that had no streets. We said, 'Tom, this is not going to work, this is not accessible.' We had a lot of arguments about these things.* (private sector respondent 2008)

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[43] the general manager and assistant to the Chairman of the BPCA

By the end of Round 3, there was no build-up of trust at all and therefore no trust present to minimize the perception of risk. All perception of the factors of trust reinforced the negative aspects and perceptions of the relationship between actors. The interaction and the project reached the point where the perception of outcomes and risk, combined with the lack of trust between parties, required a halt to the interaction. This point was a key decision point, it was a breaking point.

6.6 The process: the second phase of development and the development of the Public-Private Partnership

6.6.1 Overview of project and Rounds 4-6: key decision points, changes in actors, stakes and content[44]

In Rounds 4-6, the BPCA set up a seminal partnership with Canadian developers Olympia and York (O & Y). Though multiple private developers worked on the site over the 1979-1988 period and thereafter, the following part of the chapter deals specifically with the partnership with O & Y, the partnership considered to be the strongest and the most important in getting the project off the ground and, ultimately, bringing about positive outcomes. The table below provides a snapshot view of the partnership and identifies moments when key decisions were made that brought about a change in actors, the stakes or the content of the project. It highlights per round, the key and peripheral actors, the intensity and nature of their interaction, crucial decisions made, as well the evolution of the stakes. Again, the table also highlights the key political figures at the State and City levels, and the dates of their re-election. These dates often coincided with key decisions being made.

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[44] Again, this chapter makes use of two major sources; first. D. L. A. Gordon's *Battery Park City: Politics and Planning on the New York Waterfront*; second, C. J. Urstadt's *Battery Park City.* Both publications provide a clear description of how events unfolded and interactions occurred. My thanks to both for allowing me to use the information provided.

Round Number	4	5	6
Rounds Name	Recharging Battery Park City (1979-1982)	Building Battery Park City (1982-1984)	Battery Park City Evolves (1984-1988)
Actors	The State: Gov Hugh Carey BPCA: R. Kahan, Head of the UDC and Chairman of BPCA (10 Feb 1979 to 1 Jan 1984) with Barry Light as President. Coopers and Eckstut, BPCA Architects Private: Olympia and York, commercial developers, Lefrak, residential developers (interaction at the end of the round) The City: 1981, Mayor Koch (D) re-elected, the Mayor's staff, such as Vice Mayor Bobby Wagner Jr. The CPC and BoE The DLMA	1982 Governor Cuomo (D) elected governor, BPCA: R. Kahan, Head of the UDC and Chairman of BPCA (10 Feb 1979 to 1 Jan 1984) with Barry Light as President. Other key members of the BPCA team. Coopers and Eckstut, BPCA Architects Private: Olympia and York, commercial developers, Lefrak, residential developers, C. Pelli, architect for O & Y The City: Mayor Koch, the CPC and the BoE (all city parties less prominent in this round), very little involvement of the community	1986, Governor Cuomo (D) re-elected, BPCA: Sandy Frucher, President (1 Jan 1984 to 5 Oct 1988). Other key members of the BPCA team. Coopers and Eckstut, BPCA Architects, Olympia and York, developers (less prominent) Other private developers for the residential sites, the school and the Holocaust Museum (more prominent) The City: 1985 Mayor Koch (D) re-elected, the CPC (more prominent with the beginning of the Housing NY Program). The community (increasingly important as the community developed over time in the area)
Intensity of interaction	Intense interaction of the BPCA with the State Legislature, to get the project going, and of the BPCA with the new private partner on the commercial properties, O & Y and the residential developer Lefrak. This interaction was intense and exclusive, in an attempt to	BPCA interacts intensely with O & Y on the commercial spaces and Lefrak on the first residential tower. Overtime, the relationship becomes well established. The BPCA also starts to build out the public	BPCA and O & Y continue to interact though the interaction is now well established. BPCA is increasingly involved with the community, taking their interests into account; there is an interaction with a more diverse range of developers, also developers

	make the project viable	spaces and work with more residential developers. It interacts with the Arts Commission and artists on the public spaces	for the public spaces and educational projects
Nature of Interaction	BPCA negotiates a new deal with the city, MoU signed between the State, City and BPCA. BPCA revamped. Coopers and Eckstut make a new MP, the CPC approves new planning controls. Gateway Plaza begins and completes construction; O & Y commits and signs and begins construction	O & Y designs, finances and builds the first building, WFC is leased, Phase II of residential development, RFP Rector Place. Design and development of and key focus on public spaces	Governor Cuomo asks Frucher to 'give the project soul'. MoU between the City and State to use excess revenues for the Housing NY program. Occupancy of WFC I and II, continued focus on public space. Stuyvesant High and Holocaust Museum built. 1987 stock market crash
Crucial Decisions	The State approves bridge finance, BPCA designates O & Y as the commercial developer and induces Lefrak to build the residential buildings	At the end of the round, Kahan leaves the BPCA after a period of positive growth and stability, the State appoints a new head of BPCA to take over	At the end of the round, Frucher decides to leave after another period of success on the project
Stakes	To minimize the political risk associated with the failure of the project and the loss of $200 million in bonds, to make the project viable	Stakes are less an issue for the BPCA, but intense for O & Y, as the risk is shifted to O & Y. Over the length of the round, the project is viable, and a success in the political arena	Sandy Frucher and the BPCA have to bring the project further after its initial success. The challenge is to take over from the previous regime and make a mark

The following three subsections describe the interaction between the actors above, and the setup of the partnership. The partnership spanned three rounds, though the public actors continued to develop the project for a long period thereafter. The partnership, at its most intense, lasted seven years: the time it took to build and occupy the Commercial Center.

6.6.2   Round 4: Recharging Battery Park City (1979-1982)

At the end of Round 3 and the beginning of Round 4, the project looked to be a complete failure. Political support from both the State and the City was gone. Hugh Carey made some important decisions, deciding to remove C. Urstadt and to disband the BPCA. The stakes were very high but unsure, the content of the project was in question and the actors with key roles and decision-making power changed, almost completely.

Change in actors

In January 1979, the Governor's office transferred the control of the BPCA to the Urban Development Corporation (UDC). On 10 February, Governor Carey named Richard Kahan, a professional with experience in both the public and the private sector, as the new President of both the UDC and the BPCA.

Change in content

David Rockefeller and the DLMA commissioned a consultant to review the BPC Plan and to assess the financial prospects of the project. The DLMA wrote to both Mayor Koch and Governor Carey in April 1979 (right after the dismantling of the BPCA) to lobby for saving the project. The consultant's report suggested modifying the plan, streamlining the approval process to make it more accessible to private developers. It also suggested moving the office properties to mid-site, close to the WTC, and making the necessary investment in infrastructure on the site to create investor confidence (Gordon 1997: 58). The report calculated that, with some bridge financing from the State, the bond could be repaid if the BPCA managed to lease half of its office space and one third of the residential units within a decade. Finally, it reminded the State of the potential of the site (location, waterfront, etc.) and the relative inexpensiveness of the property relative to other locations in NYC (Vollmer 1979 in Gordon 1997: 58).

Richard Kahan also moved quickly to assess the State's options. He assembled a 'work-out' team of lawyers and consultants to assess the (financial and social) consequences of various scenarios (public sector interview 1995, 2007). He interviewed urban design firms to support the

work-out teams and hired the firm of Cooper and Eckstut to do an assessment of the site. In the summer of 1979, he asked the two principles of the urban design firm to examine the problems of the former plan, focusing on the planning, market and design issues (Gordon 1997: 60).

Kahan had the work-out teams look at different options:
- Option A: continue the project as is.
- Option B: continue the project but change the planning approach (risky given the economy).
- Option C: sell the land to the highest bidder, pay back as many of the losses as possible (two public sector interviews, project documentation, and Gordon 1997).

Option A was clearly not an alternative. With regard to Option C, the work out teams discovered that it would cost the State $130 million (in 1979) to "*get out of the bonds immediately*" (Gordon 1997: 60) and it would still be saddled with a 95-acre sandy site that would be hard to sell given the current market (NYS Budget office in Gordon 1997: 60). The sale of the land would also not compensate for the loss made to date on the project.

Re Option B, to get the project (in another form) off the ground, the State would still have to undertake certain crucial tasks, namely producing a new master plan and a new environmental impact statement, obtaining approval from the legislature, getting out of the lease with the city, and setting up financial incentives that would attract the private sector (Gordon 1997 and public sector respondent).

Cooper and Eckstut reported that the market conditions for offices were beginning to improve and that the market for housing was still slow. Funding for social housing had come to a halt (Cooper in Gordon 1997: 60). Their report, released 31 October 1979 and named the 1979 Master Plan, made a variety of suggestions, including moving the commercial activities to the middle of the site, close to the WTC, and starting with commercial development first. The design team also suggested replacing the previous planning approach with a simple mapping of streets and a set of guidelines for each block on the building site. Their concept broke development down into manageable bits and was more flexible (Gordon 1997, two private sector respondents).

Option B seemed increasingly the most viable and attractive. As one public sector respondent commented, '*given how much money had been spent,*

spending more was just a drop in the bucket'. Of particular issue for Kahan was the lease with the city; the conditions of the lease were too restrictive to allow for the flexibility he and his team were looking for. The UDC hired two top appraisal firms to assess the value of the site, under the conditions of the current lease with the city. One consultant valued the site at zero; the other returned a negative evaluation (public sector respondent, Kahan in Gordon 1997: 61).

Interaction

Kahan moved to begin negotiations with the City on the conditions of Option B. He received limited response at first, but with the aid of David Rockefeller of the DLMA began discussions at a high level meeting organized at the Mayor's office in September 1979.[45] The negotiations focused on two issues: financial issues and design issues. They were quick and intense discussions and resulted in a MoU between the City, the State, BPCA and the UDC on 8 November 1979 (BPCA 1979).

It appeared that the City was also generally in line with the proposals of Cooper and Eckstut on the design issues, making negotiations on the design issues straightforward. The principles behind the new plan for the area (See Annex II) were much different to that of the Master Development Plan of 1969. Cooper and Eckstut assessed that there were two fundamental reasons why the previous master plan did not work: (1) its *'excessively rigid large-scale format'*, which prevented the gradual development of the site, and (2) the unduly complicated controls over every detail of the project (Master Plan 1979).

> *The plan had a couple of components, from a planning point of view. One was that they got rid of the mega blocks. By the late '70s, the basic thrust of urban planning was away from the Corbusian dimension, to much more Jane Jacobs: 'Let's create neighbourhoods.' So, it essentially extended the street grid in some former fashion, into BPC. And it moved the Commercial Center, which had been in the south, to the middle of BPC, next to the Trade Center. So, it tried to create a locational synergy. Thirdly, it tried to create an environment that was recognizable to New York developers. So you put the streets in, you put the sidewalks in; you put the light fixtures in. You do all of that and then you invite people to bid on pieces of it. That was a lot*

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[45] Players: City Team: Deputy Mayor for Policy and former Chairman of the CPC, Bobby Wagner Jr., their lawyer, the Budget Director and the Planner, the Deputy Mayor for Economic Development (also tax issues). The State: R. Kahan, their lawyer, Alex Cooper and Stan Eckstut (Gordon 1997: 62).

*easier because New York developers knew how to bid on an Upper
East Side site . . . Cooper and Eckstut looked at all the successful
neighbourhoods in New York and said 'Why was the Upper West Side
very successful? Why is Carl Schulz Park such a nice park? Why do
people like these pieces of New York?' . . . They tried to create
neighbourhoods that were very familiar to New York developers.*
(public sector respondent 2009)

The negotiations resulted in the following agreements (BPCA 1979,
interviews of three public sector respondents):

- The Cooper and Eckstut Master Plan was, in principle, adopted.
- The area would no longer be subject to the detailed planning
  constraints and time-consuming review processes of the former plan
  but to a 'revised policy and programme' that the City and the BPCA
  would develop.
- The State would acquire the land under expropriation by the UDC; this
  would release it from the financial and planning controls imposed by
  the City. The City was to receive $1 for the exchange and all future
  profits and tax equivalents.
- All land was to revert back to the City once the project was complete
  and the debts were paid off (beginning of the next century).
- The State would guarantee the bonds by providing an $8 million loan.
- The City agreed to provide tax incentives for office development for the
  term of ten years.

Ten weeks of negotiation brought to a close the frustrations and political
problems that had been plaguing the relationship. At the end though, the
City essentially relinquished control over the project to the State. It gave up
control over design and approvals, immediate financial returns, and its initial
interest to accommodate social housing in the area. The different parties
signed the MoU on 8 November 1979 (Gordon 1997: 63).

The MoU was incorporated into the Settlement Agreement signed by the
State, the City and the BPCA on 6 June 1980 and in another amendment to
the Master Lease. These were approved by the two key city organizations,
the CPC and the B of E.

The MoU contained only very general planning controls and eliminated any
role for the City in regulating development. The MoU specified basic height
restrictions, the total area of the commercial space and Floor Area Ratio
(FAR) calculations for the commercial component (BPCA 1979). Greater
planning control was later built into the detailed design guidelines developed

by the BPCA for the commercial properties and each neighbourhood (see below).

Standards/responsibilities set for the BPCA for the course of the project were as follows (Gordon 1997, public sector respondent):

- BPCA had the full authority to review and approve the design plans being submitted by the developers, shortening the review process and keeping it out of the city's bureaucracy.
- BPCA had full authority to accept and approve tenders for the development of the plots.
- Developers were limited to a total of two or three plots, preference would be given to different architects, particularly minority firms.
- The land would be leased to the developers on a long-term basis.

The Master Plan contained cost estimates that significantly reduced the amount of public investment necessary. As opposed to the $175 million (dollar value in 1972) needed in the previous plan, Cooper and Eckstut calculated that BPCA would require $53.2 million (dollar value 1979) for circulation, open space and utilities (Gordon 1997: 70).

Kahan negotiated bridge finance from the State to avoid defaulting on the bonds obligations and to cover expenses while the agency got up and running. The State provided the BPCA with a loan of $35.7 million to cover a period of five years (1979-1984); this would provide repayable advances while BPCA looked for investors (Gordon 1997: Appendix A).

The Chief Financial Officer of BPCA described the process and approach:

> We did a quick analysis that suggested that within one to two years, the Authority would run through its interest rate reserve and would not have funds available to pay the down service. So we commissioned two studies: one by Cooper and Eckstut and one by Eastdil (Realty), to independently come up with a plan. One was a physical plan and the other a financial plan for the Authority . . . [what the reports revealed was that] you could either do nothing and, in one year and a half, face the fact the legislature would have to appropriate $200 million to pay off the bonds. Or, two, you could invest 57.6 million dollars. And that money would do two things: it would continue to pay interest on the bonds, but it would also put in some infrastructure and complete some public infrastructure. (public sector respondent 2009)

The State re-established the BPCA and Richard Kahan hired Barry Light to act as President. To keep costs low, he set up the offices in a trailer on the site, and hired a small core staff (Gordon 1997: 63, public sector respondent 2007, public sector respondent 2008). The team worked with consultants to complete key reports and to develop the plan for the site.

So, the first step for the BPCA was to get the residential tower, Lefrak's Gateway Plaza, redesigned, financed and constructed. Construction started in June 1980. Then, as suggested in the 1979 MP, the commercial properties were also a priority to get income coming into the project.

At the beginning of 1980, Kahan commissioned Cooper and Eckstut to produce detailed planning criteria and urban design guidelines for the commercial site; these were to be the basis for BPCA's calculation of the agency's investment in infrastructure and services, and for their assessment of bids by developers for the site (Cooper interview 1986 in Gordon 1997: 78, Master Plan 1979). These guidelines played an important role in the project: they gave developers and architects a precise indication of the level of quality required in the design of buildings.

The Battery Park City Authority began to remarket the area, concentrating on what was felt to be significant advantages to developers (public sector respondent, project documentation).

- A simple, established zoning situation, maximizing the certainties and minimizing the unknowns.
- Commercial guidelines, requiring a high level of quality (incremental costs totalling an additional 10% for the developer) such as, unified, coordinated development of separated parcels, with a total of 600,000 m^2 commercial space, a complementary relationship with the World Trade Center, the accentuation of space for pedestrian and street life, building heights that stepped down to the waterfront, maximum use of the waterfront space for the general public.
- High-quality standards for residential areas, a housing mix focusing on middle- to high-income classes.

BPCA issued a Request for Proposal in July 1980, inviting 30 developers to bid. The RFP contained the ground plan, and the zoning and design/quality guidelines. The requirements for submission were unusual in that they did not ask developers to submit both design and financial plans, as is typical, but asked only for the credentials and track record of the responders, plus

the financial terms proposed for any or all of the seven parcels presented (ULI presentation 1985, BPCA 1990; transcript speech 1986, project documentation 1990). Kahan had introduced a new form of competition for the project: it was a financial competition, not a design competition. The guidelines were very specific on design standards to which bidders had to adhere. This eliminated the need for the Authority to have to assess the relative merits of design and financial proposals (Gordon 1997, Foster 1986, two private sector respondents 2008). The RFP received a dozen responses, Canadian developer Olympia and York Developments (O & Y) was chosen for the commercial space. One respondent recounts the meeting between Kahan of the BPCA and Paul Reichmann, the President of O & Y:

> There was a famous meeting . . . Paul Reichmann asked to see
> Richard Kahan. He sat down with some people: Richard, the team,
> Garry Gallagher. Then he said 'This is my bid.' He took out the BPCA
> annual report and put it on the table. Everyone said, 'What do you
> mean, this is my bid?' So he said, 'Well, your debt service is $14
> million a year. My bid is to build all the buildings. And I will pay your
> ground rent of $14 million a year. So, I will solve your bond problem.
> And I will pledge the assets of my American company to do that.' He
> had previously bought a big NY portfolio[46] . . . He said, 'I will pledge
> that portfolio to secure my obligation to pay 14 million dollars a year
> to pay off your bonds.' That is why he was chosen to do the World
> Financial Center. (public sector respondent 2009, Foster 1986 and
> public sector respondent 1997 similar)

What set O & Y's bid apart was the fact the organization offered a financial solution (Foster 1986: 44, public sector respondent 2009, public sector respondent 2008). O & Y also committed to the construction of the interior court (the Winter Garden) of the Commercial Center (zoned as a public space) and was commissioned to design, build, operate and maintain all exterior public areas over the length of the project and thereafter (unpublished paper 1990, private sector respondent 1994). O & Y also offered to sign a letter of credit that ensured, if there was a delay in construction (they guaranteed the completion of the Commercial Center by 1985) that the organization would still pay the $50 million in ground rent and taxes it was obligated to pay upon completion of the buildings.

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[46] He had acquired the office holdings of the Uris organization in 1976 (Gordon 1997:78 and Foster 1986). He had bought it for 200 million dollars cash and 200 million dollars debt. In the succeeding 4 years it had become worth 2 billion dollars (public sector respondent)

In the deal offered by O & Y, the revenues generated from the commercial ground leases were enough to cover BPCA's annual financial commitments on the bond repayment. The development of the commercial properties and the repayment schedule proposed by O & Y would assure the financial security of the BPCA and the project (Gordon 1997, transcript speeches 1986).

The BPCA designated the developer in September 1980 (Gordon 1997: 78).

6.6.3   Round 5: Building Battery Park City (1980-1984)

Change in stakes

This decision was significant. In effect, the BPCA decided to 'put all its eggs in one basket' by designating *one* developer to take over *all* of the Commercial Center. The stakes changed for the BPCA with this decision. The question remained if O & Y would be able build out the commercial portion of the project, guarantee tenants and revenues, and do this quickly (speed was of the essence given the sensitivity of the State to the inaction after the completion of the landfill).

For O & Y, the decision to do the project also implied that the stakes became significant. O & Y made a commitment (to take on the risk) that eliminated the most important of BPCA's concerns: paying back the debt service on the bonds. The two organizations became highly interdependent.

Change in actors

The actors (and the content of the project) changed as the staff taken on by O & Y came on board and began the process of designing and building the project, in coordination with the BPCA. Reichmann of O & Y began to select personnel to staff the O & Y team in NYC. Many came from Toronto, the home base of the firm. Others were professionals that O & Y had come across in business over the years. Interestingly, he chose a number of people from the public sector, knowing that they would 'speak the same language' as their partners at BPCA.

> *Paul Reichmann was very smart. He staffed his organization with former public officials. Strategy! Because he knew all of the work that he was going to be doing in this country was renewal work and government work, etc. So, everyone from O & Y that I was dealing*

*with (names a number of people).[47] He hired as his staff everyone
from the public sector in Toronto, who knew, when they came in, how
to talk to the public folks. So, it was really smart strategy.* (private
sector respondent 2008)

As O & Y had not come to the bidding procedure with a fixed design, but
chose to focus on the financial aspects of the project, the organization now
had to find the right architect. Soskolne of O & Y invited three architects to
participate in a limited design competition, providing them with the BPCA
guidelines as a basis. O & Y's internal committee of Soskolne, Dennis,
Coombes and the construction chief Keith Roberts discussed their preference
with Paul Reichman and his brother Albert. O & Y selected Cesar Pelli in May
1981 (Gordon 1997: 79, Foster, 1986: 50). One respondent working for the
BPCA stated:

*Reichmann ran a design competition, to design the commercial
centre. He set out with the brief and the design guidelines (produced
by Cooper and Eckstut for BPCA). Half of them (the developers
bidding) completely ignored them (the design guidelines) . . . He
(Reichmann) chose the scheme that most closely followed the design
guidelines. And that is why he picked Pelli. He chose it because it
would be the easiest to get approved, and would not cause any
fights. And Pelli slavishly followed the guidelines.* (private sector
respondent 2008)

Up until that moment, Kahan had been working with a skeleton staff, keeping
costs low. He also began to take on more people and to build a team.

*By the time that the Commercial Center was underway, Richard
started filling in the staff. So by '87 he had full time staff. Richard had
a lease in his hand from O & Y, so he could hire. He could not hire
before he had that. So, he got a full staff by the '80s and they were
good. And they (also) followed the guidelines slavishly.* (private
sector respondent 2008)

Interaction

The interaction between the BPCA and O & Y intensified. The two parties
negotiated the details of the lease, as Pelli worked on completing the design
of the buildings and of the Winter Garden. During the negotiations and

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[47] Ron Sosklone, an architect that had worked in the planning department on the Toronto
Central Area Plan; Michael Dennis, a lawyer with development experience, who had been
the advisor to the Mayor of Toronto, David Crombie, and the Head of the Housing
Commission; Tony Coombes, a planner that had succeeded Soskolne as the chief city planner
in Toronto.

design process, BPCA began to become aware of the Reichmanns' design and development principles. Foster explains the principles that the Reichmanns brought to the partnership.

> *"The principles upon which they built their empire seemed remarkably simple. Paul Reichmann would sum them up . . . 'you build on cost and you borrow on value.' . . . They had, from the beginning, paid close personal attention to maximizing the 'efficiency' of their buildings, squeezing out the greatest possible rentable and usable space. This helped to cut costs, but at the same time, they emphasized quality and service. Thus they could command top rents. These rentals determined the value of the building, and it was this value that they could take to the banker as collateral for loans for further ventures. The greater the gap between the costs of the building and the amount that they could borrow against it, the more funds there were to fund growth. By adding the most value, the Reichmanns established the best collateral and this had the most funds to expand."* (Foster 1986: 36)

O & Y's vision was to reposition the BPC project as a location for the head offices of investment firms. O & Y named the complex of buildings in the commercial centre the World Financial Center (WFC). However, to fill the space, the developer would have to acquire large tenants. As one of the staff mentioned, "*we had make Battery Park 'an address'*" (Foster 1896: 54, Dennis interview 2008). The Reichmanns and their staff began the intensive search for tenants for the 8 million square feet of space. Michael Dennis and Eddie Minskoff (former real estate broker who had been involved in the Uris deal) of O & Y began to acquire and negotiate with the tenants for the buildings. They realized that the older buildings on Wall Street could no longer accommodate the needs of the financial industry, they had too little power, they could not be transformed into the large spaces necessary and they could not cope with fibre optic cables and other technologies necessary. Dennis and Minskoff began to target firms in the area. O & Y offered a novel leasing deal and employed a concept called 'inventory management',[48] which entailed buying buildings from owners that needed a capital gain, and offering to lease them space in the WFC. Dennis and Minskoff offered state-of-the-art and custom-fitted spaces, to buy out leases and to pay for moving costs. O & Y managed to attract and to secure pre-rental agreements from its first anchor tenant, American Express. in March 1982. As soon as this

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[48] Inventory management is a tool employed by private developers. The developer offers to buy the building from their owners and negotiates their relocation to a newer, more suitable location on attractive financial terms. In this case, the offer was made to commercial tenants in the Wall Street area who found the option of moving to the Battery Park area very positive. The old buildings then become part of the developers' new inventory for retrofitting, rental or sale to another tenant (Frucher 1990, 1994).

happened, others followed, wanting to be in close proximity. O & Y also attracted Merrill Lynch, Dow Jones and Oppenheimer, finally leasing all of the space on offer (Gordon 1997, Foster 1986: 52; private sector respondent 1994).

It took one year of negotiations and working sessions for O & Y and the BPCA to negotiate the final details of the deal. Reichmann was true to the guidelines and introduced modification to the plan, based not primarily on improving the aesthetics, but more on enhancing the image and 'leasability' of the commercial properties. He chose a design for the Winter Garden that would make the space a showpiece for the site. It was to become a 130-foot-high crystal palace of vaulted glass that would contain the retail, restaurant and entertainment areas (Foster 1986). This was quality that was greater than expected by the BPCA. One year after BPCA designated O & Y as developer of the commercial portions of the project, in September 1981, BPCA and O & Y signed the Master Ground Lease for the properties. O & Y began construction on the first building three months later, in December 1981; it was possible to make such a quick start due to the accelerated approval process negotiated with the City (Gordon 1997).

The plan placed considerable emphasis on public spaces, following the philosophy that public space was important for building the image of the project and the value of the sites in the eyes of the developers and the city inhabitants. As a principle, the BPCA built public spaces prior to putting sites out to bid. The Authority built the Esplanade adjacent to the Gateway Plaza first, and then moved on to the spaces in front of the WFC and the residential area, Rector Place. Kahan set up a Public Art Advisory Committee to commission artists to work with the BPCA architects on designing the public spaces. The first public space related to the WFC was the large interior Winter Garden (Gordon 1997).

In the meantime, the BPCA began to focus on building more residential sites, again using the guidelines to provide standards to developers when bidding, designing and getting approval from the Authority.

The commercial guidelines were so successful that Richard said to me: 'Other than doing the open space, we've got to do a set of residential guidelines. NY developers left to their own (devices), would be disastrous. You have to make a coherent set of guidelines for the residential neighbourhoods.' Then, we actually started the South neighbourhood . . . So that became very straightforward, developing a set of residential guidelines and open spaces.
(private sector respondent 2008)

In mid-1982, the CFO of BPCA became aware that the financial status of O & Y was less secure than anticipated. A year after the signing of the deal, the CFO went to the offices of O & Y to check on the financial situation and discovered that O & Y was 'overleveraged'. O & Y had borrowed $ 2 billion, using the BPC assets (not yet built) as collateral, and had used these funds to build projects in other cities in the US. At the same time, the banking laws in Canada had changed and O & Y no longer had the unrestricted access to Canadian finance that it once had.

O & Y had signed a lease that committed the organization to building all four buildings in the commercial centre. O & Y had committed to constructing the first building (at least) with its own working capital (they were not therefore subject to the stringent requirements of a construction lender or to the high price of construction loans for risky projects) (transcript speeches 1990). At this point, Reichmann requested 'severing' the lease, meaning 'cutting' the lease into four separate leases and financing each building individually. This was not the agreement that had been made; the contract would only allow him to 'sever' a lease of a building when he completed the building. The CFO of BPCA explained:

> In fact, the year after the deal was signed, I was asked to do some due diligence. The reason I was asked to do this is that, to this day, there are four ground leases that are referred to as the 'severance leases'. In the original deal (O & Y) had pledged their US equity to this project . . . They could sever each lease of the four leases when the building was complete. Or in the case of last two buildings, they could post 250 million dollar guarantees and then could sever leases. The importance of severing the leases is you can have an individual mortgage on each one and they can be financed individually. So you build them, you put American Express in one . . . You put Merrill Lynch in two of them. You sever them, finance against them. You put Oppenheimer in another one and you finance against that. But in the first instance, because Paul Reichmann said 'I guarantee you 14 million', [the lease] had to be un-severable . . . [In addition], after about a year, the lending climate changed . . . All of a sudden, the Reichmanns did not have the unrestricted access to Canadian finance that they had had. It turned out when I did my due diligence, that they had borrowed 2 billion dollars against their US assets. (public sector respondent 2008)

The two parties negotiated for a period, the BPCA held its position; O & Y put up a letter of credit and pledged some of its Canadian assets. O & Y also managed to get the anchor tenants it needed and to arrange the 'pre-sale' of the first building. O & Y signed the final leasehold agreement with American Express for the first building in June 1983, pinning down the details of the

lease a bit more than one year after the agreement was reached. Merrill Lynch also committed to two buildings at that point.

Construction on the buildings began as soon as possible. Foster describes the speed with which O & Y (and BPCA) worked to get the first building up. He describes the process at the point of signing the two first tenants in the Commercial Center:

> "Half of the space still had to be leased. And the project had to be built in record time" (58) ". . . the Reichmanns demanded as much of their staff as they demanded from themselves and that, in particular, meant both quality and speed. (The construction manager) soon learned what 'fast tracking meant', that is literally designing and building as it was being put up. This method – to generate rentals as quickly as possible – put a lot of pressure on people."
> (Foster 1986: 59)

O & Y and BPCA staff worked closely to ensure that the process of construction went smoothly.

It was an approach along the lines of 'wanting to get things done between people'. It worked from the beginning . . . It was almost like fitting two organizations together; it was almost an integrated organization . . .We had enough definition of roles, but we worked these out as we went along. (private sector respondent 2008)

O & Y began to explore a financing strategy for the Commercial Center. The feeling was that for a project of such size and complexity, O & Y needed to explore new financial structures and courses of capital (BPCA 1990). Tower A rose and tenants were secured; in October 1983, after 22 months of internal financing of construction, O & Y refinanced and secured $728 million in short-term loans from Manufacturers Hannover Trust and 21 International Banks (Gordon 1997: 124 and private sector respondent 1994). It was a fairly conventional loan, and included substantial guarantees from O & Y (transcript speech 1990). Tower A was completed in December 1984, and O & Y again restructured the loan to release most of the collateral, other than Tower A, and to extend the financing for another ten years. The refinancing of the buildings was to continue as the project was built out.

At the end of 1983, at a time when construction and the partnership were in full swing, the newly elected Governor Cuomo requested Richard Kahan, Chairman, and Barry Light, President of BPCA to step down; they both resigned on 1 January 1984. Cuomo appointed Sandy Frucher to be the new BPCA President (Gordon 1997: 124).

6.6.4 Round 6: Battery Park City evolves (1984-1988)

The BPC project's financial circumstances were by now stable, and its future secured. The partnership was running smoothly. Still, this decision had a substantial impact on the BPCA, and by association on the partnership. Kahan and Light were leading a successful team at the BPCA and the Governor decided to bring in new leadership, and to change the focus of the project. This constituted a change in actors and in the content. In contrast to the political philosophy of Governor Carey, who saw the project as a 'fiduciary responsibility', Governor Cuomo wanted the project to evolve 'above and beyond economics' (Gordon 1997: 90). Cuomo asked Frucher to 'give the project soul' (public sector respondent 1995, 2008).

Change in stakes

Public and private respondents that worked with Frucher mentioned wondering how the new leadership would influence the project. They mentioned posing question such as: Would Frucher provide good leadership and maintain the positive culture within the BPCA and in the partnership? Would his vision for the project take the project further (public sector respondent 2008, private sector respondent 2008)? For O & Y the question was: Would Frucher understand and protect the interests of the partnership as Kahan had? Would he keep the political risks to a minimum?

From Frucher's point of view, he was new on the scene and the stakes involved ensuring the continued success of the project, keeping up the tempo and putting 'his own stamp on it' (public sector respondent 2008, private sector respondents 2008). This request to 'give the project soul' involved changing the content of the project and adding amenities, making the site more multifunctional and creating the sense of neighbourhood (public sector respondent 2008).

Change in content

There was no substantial change in content: the construction of the Commercial Center continued as usual.

However, as part of the building out of the rest of the project, Frucher decided to focus on the issues of housing for low-income groups, an issue that was important in the project from the outset but that had ultimately not been incorporated into the project. He approached the Governor on the issue and received support from both the Governor and the Mayor. The question was then, should the BPCA build affordable housing on the site or

should the funds be used to create a housing programme in other parts of the city? After Frucher met with key leaders in some of the lesser neighbourhoods, the decision was that Battery Park was to subsidize a large housing programme in the South Bronx and Harlem (Gordon 1997). On 23 May 1985, Mayor Koch and Governor Cuomo signed a MoU to use the excess BPCA revenues for low- and moderate-income housing in the Housing New York Program (Gordon 1997: 124 and public sector respondent 1994 and 2008). The State Legislature reached an agreement in March of 1986 and legislation was passed in August of that year. The project did this for many years; in 2006, the Battery Park City Authority committed an additional $130 million of its revenues to the NYC Housing Trust Fund.

Another issue for Frucher was the growing number of inhabitants in the area. For years, the BPCA had the freedom to build out the property without being 'concerned' with the interests of the community. In fact, the partnership had been built in time with no political risk from the inhabitants, pressure groups or lobbyists. As more inhabitants moved into the area and residential areas filled up, the balance of power began to shift, and the local politicians and the residents of the BPC and adjacent areas gained input into the development of the remainder of the site. They lobbied for community facilities and for other amenities. Frucher spent a substantial amount of time negotiating with the inhabitants and responded to their concerns by building a school and the Holocaust Museum, as well as baseball fields and other public spaces.

Interaction

In fact, concerns over Sandy Frucher's role were laid to rest from the beginning. The BPCA and O & Y staff encountered a professional who protected the interaction that had been built. Though the Commercial Center was not complete, it was being built out at a fast pace. BPCA and O & Y had a well-tested manner of working together and this remained the same.

Frucher took over as President and the BPCA team continued to work with O & Y on ensuring the Commercial Center was completed. The first building was completed and American Express and Merrill Lynch took occupancy of the first two buildings in October 1985 (New York Times 1985).

In 1988, as the partnership was coming to an end, Frucher left the BPCA and went to work for Olympia and York. The Winter Garden opened in October 1988, just after Frucher left the BPCA.

6.6.5 Conclusion

Of note in this interaction, was the intensity of the interaction in Round 5 between BPCA and O & Y, both the leadership and the staff, and how quickly the relationship formed in that round. The speed with which activities took place and the development of the 'rules of the game' in the interaction was due to the pressures on both sides to make things happen in a short amount of time; these pressures also creating substantial interdependence. By Round 6, the parties had developed a tried and true manner of working together, weekly meetings, standard approval processes, and ways of settling differences. Respondents referred positively to how the partners worked together. The analysis in the following section also argues that these responses were the result of the positive perception of the outcomes of the partnership, of the trust that was built between the partners in the time they worked together and that this trust was fundamental in reducing the perception of risk. Rounds 4 to 6 are analysed in the next section.

6.7 Analysis of Rounds 4 to 6 and the partnership with Olympia and York

Introduction

This section describes the perception of the public and private respondents of the outcomes of the project and the partnership. These perceptions are provided for each round, as well as the general perceptions of the outcomes of the project; the research also described how these perceptions influenced the behaviour of the partners. This is followed by an analysis of the perceptions of the risk per round and the influence of these perceptions on the coping strategies of the two partners. Finally, the chapter looks at the trust of the partners in each other, its growth over time (the trust cycle), and links the build-up of trust to the perception of risk as well as to the factors that contributed to the change in trust.

6.7.1 Perception of outcomes and influence on strategies

Perceptions of outcomes Round 4

In the beginning of Round 4, the perception of the public sector officials was that the outcome of the project looked bleak. This changed by the end of Round 4. Public respondents were more (cautiously) optimistic about the Battery Park City project. The perceptions were that the project was underway, and that some of the external and internal risks that had plagued the project at the beginning of the round had been tackled, to a great extent by the BPCA.

Key outcomes of the round were that, for one, Kahan of the BPCA had succeeded in getting support (bridge finance as well as consent to go ahead) from the State Legislature. The real estate market was showing signs of picking up and developers were demonstrating greater interest in the project, evident in the reaction to the RFP for the commercial properties. The BPCA and O & Y had made a deal that appeared to promise to turn the project around (Graham 2009, Cooper 2009, McGregor 2009). A member of the BPCA team reflected on the outcomes of Round 4.

> *BPC suffered the first ten years . . . then things clicked, the market turned around, the plans were better, O and Y came along. But people took advantage of it and the product was good. It was always a good idea. It was just the right time, as is often the case in large-scale development.* (public sector respondent 2008)

The initial positive perceptions were evident in the strategies of both the public and private partners who began immediately, at the outset of Round 5, to make investments, to staff the project and to work (together) at an accelerated pace on the design and getting the necessary approvals and on the construction of the infrastructure, public spaces and the buildings.

By the end of Round 5, both public and private respondents reported highly positive perceptions of the outcomes of the round, of the process in place. A respondent from O & Y mentions:

> *We started with the guidelines (we were the first to use the guidelines) and responded to these. Cesar Pelli created a sense of space; it was about 'a making of place', specially a great NYC place. Or: 'Doing good to make good.' . . . It was also comfortable; the feel of the public spaces. The Winter Garden was not required but Pelli chose to do something with the spaces between the buildings . . . It was a great project.* (private sector interview, 2008)

Public respondents confirmed the perceptions of the private partner and the focus in the interaction on creating 'quality of place' (private sector respondent 2008, public sector respondent 2008). They mentioned creating quality as a key public goal of the project, a criteria embedded in the guidelines. From the start of the interaction, it was clear that there was goal convergence on two fronts: the search for quality and the use of the guidelines to steer this. This perception was clear in the strategies: BPCA was adamant that developers stick to the guidelines, and as mentioned above, O & Y accepted this without resistance. O & Y used the standards set out in the guidelines in their buildings and in the Winter Garden; the quote above underlines the realization on the part of the private sector of the value of

high-quality public spaces in leveraging investments and obtaining tenants (three private sector respondents 2008, public sector respondent 2009).

By the end of Round 5, the project was a financial success for both partners and the revenues coming into the BPCA ensured that the debts on the bonds would be repaid. One public respondent stated:

> By 1984 the BPCA had paid everything back; from the WFC and the Gateway Plaza, we had money coming in. We had positive cash flow, and we had paid the State back with interest. (public sector respondent 2008)

These financial gains produced such investor confidence that developers were eager to invest in the build out of the rest of the project, the additional residential areas, in Round 6.

Conclusion

Respondents emphasized that the interaction resulted in a 'cycle of positive outcomes', step by step the partners worked together on the project, it began to turn around and transformed into a successful project. '*Things just kept getting better*' (public sector respondent 2008). Each partner made a series of moves that were perceived positively: the public sector laid the groundwork, set strong standards and facilitated the public process; the private sector understood the public goals, committed entirely to the public standards and invested in quality, also in the public spaces.

> Talking about a private company acting like a public entity. I do not know how there could be a better example of a PPP. There is a partnership where in some ways, you look at them, they have so many common characteristics; they act in concert even though they are acting independently. And even though these guys are the landlord (he taps a map and indicates the BPCA) and they (indicating O & Y) are paying them (BPCA) rent, (O & Y) acted in ways like the bigger landlord, the master developer here. (public sector respondent 2008)

The nature of the process and relationship resulted in a highly positive perception of the project and the partnership.

> Economically, (the project) was very successful. The return on investment the public sector made was huge. The return came in the form of hard dollars. The project created revenues for housing. It created neighbourhood, it set a standard that other people use. It has helped to do what (Mayor) Lindsay wanted: that is to create a '24/7' neighbourhood. (public sector respondent 2008)

The perceptions are supported in the qualitative results below.

Outcomes: assessment of the results of the questionnaire[49]

Perceptions of outcomes were also measured and verified in the questionnaire. The results back up the positive perceptions of the project and the partnership from the interviews. In the questionnaire the respondents were asked to rate the statements made concerning the outcomes of the project and the partnership (see Table below) on a scale of 1 to 5 (1 = strongly agree, 5 = strongly disagree).

Table 6-2: Respondents perception of outcomes

	Perception of Outcomes			
	N	Missing	Mean	Std. Deviation
1 I am satisfied with the results of the collaboration/project	15	0	1.33	.488
2 The goals of my organization were met by the partnership	15	0	1.47	.516
3 The partnership led to additional investments that would not have occurred if my organization had worked alone	14	1	1.79	.893
4 The collaboration created a number of innovative ideas, concepts and plans	14	1	1.57	.938
5 The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	15	0	1.13	.352
6 Working closely together led to improved cooperation between partners	15	0	1.60	.507
7 Working closely together led to improved coordination of project elements	14	1	1.64	.633
8 Working in partnership led to long processes of decision making and additional costs	15	0	3.13	1.356

Note: for statement 3, four respondents indicated that the statement was 'not applicable'

The results of the questionnaires confirm the overall satisfaction with the outcomes of the project and the partnership, on both the public and private sides. The most striking results and commonly held perceptions are the responses to statements 5, 1 and 2. In particular, 86.7% (13 of the 15) of the

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[49] **Please note**: The questionnaire and its results were used to clarify and verify the results of interviews and information provided by respondents in each case on their perceptions. The response rate remained low. Though the graphs and tables in this chapter provide a 'quantification' of trust levels (looking at the averages of responses), perception of risks, and outcomes, the analysis remains a qualitative assessment of the value of these variables.

respondents *strongly agreed* with the statement that the *partnership resulted in a project that improved the quality of life in the city*; two respondents (one State official and one private) *agreed* with the statement. The respondents were generally *satisfied with the results of the collaboration/project*: 66.7% *strongly agreed* (five State, two City, three private) with the statement, while the remainder *agreed* (three State, one non-profit, one private). When asked if *the goals of my organization were met by the partnership*, (53.3%) seven public sector respondents answered with *strongly agree* and three (46.7%) *agreed*, while only one private sector respondent *strongly agreed*, and three of the private sector respondents *agreed*.

One respondent abstained from answering and four responded that the statement *the partnership led to additional investments than would not have occurred if my organization had worked alone* was *not applicable* (rated it 3); this affected the outcomes. Those closely involved in the project did respond. 46.7% responded with *strongly agree* (five State, one City, and one private) and 20% with *agree* (three State).

With regard to whether *the collaboration created a number of innovative ideas, concepts and plans*, there was some differences in the results: 60% of the respondents *strongly agreed* (six State, three private), while 20% *agreed* (one State, two City), one State official had no opinion and one respondent from the private sector *disagreed*. This negative reaction from the private sector respondent is surprising as it is in direct conflict with the comments made during the interview.

In one case, there was a clear difference in opinion. 46.7% of the respondents *strongly agreed/agreed* with the statement that *working in partnership led to long processes of decision making and additional costs*, while 46.7% *disagreed/strongly disagreed* (the remainder indicated *not applicable*). Interestingly, for those that *strongly agreed/agreed*, one qualified with a comment '*yes, long decision making: but better product for value!*'; others made similar comments. Key decision makers in the project, both private and public partners, and those making decisions on a daily basis, were the respondents that *disagreed/strongly disagreed* with the statement, allowing one to surmise that they had reached an effective system of making decisions in the partnership.

Overall, the responses were extremely positive and consistent with results of the qualitative results. Of note are the responses to statements 4, 6 and 7. In

these responses, the more positive ratings were given by those more involved in the partnership, showing a link between the perception of positive outcomes and taking part in the partnership as 'a member of the inner circle'.

6.7.2 Perception of risk and influence on strategies

This section analyses the perception of risk per round, and the strategies that partners in the interaction used to cope with the perceptions of risk. The focus is on external and internal risks: namely risks external to the project such as political risk (i.e. State Legislature, State and City conflicts, planning and regulatory risk, media) as well as market/demand risks, and internal to the project (contractual, financial, project design, and construction). These are presented in the two frequency assessment figures below.

Figure 6-1: Frequency assessment of types of external (political) risks, Rounds 4-6
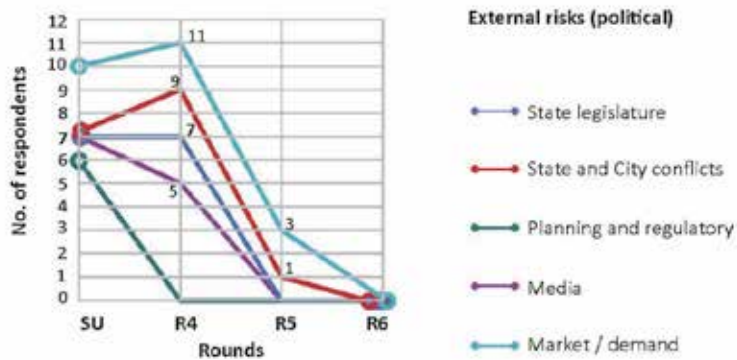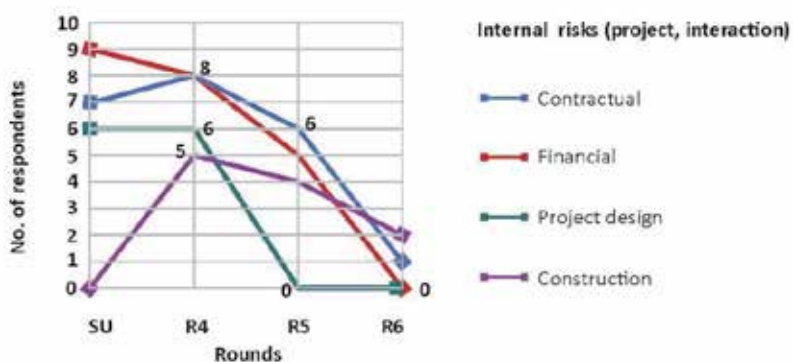

Figure 6-2: Frequency assessment of types of internal (project) risks, Rounds 4-6

Round 4: perception of risks at the beginning of the round

As the frequency assessment of political risk reveals, at the beginning of Round 4, a substantial number of the public and market respondents perceived various types of political risk. This perception of risk was so substantial that it was clearly visible in the strategies employed by the public and private sector; people stayed away from the project, politicians, public officials and developers alike. Respondents confirmed that the perception of risk stemmed from the position of the State Legislature, State and City conflicts revolving around the project, and planning and regulatory hurdles. The perception of market risk was particularly high. The media were also extremely critical of the project.

> *When we got started in '79, the city was almost bankrupt; the UDC had built a lot of housing and had had a lot of problems with the mortgages. Housing projects were bankrupt . . . Prices were up and inflation was huge. No politicians wanted to get involved with Battery Park City except [Governor] Carey; State senators, local assemblymen, anyone who likes to jump on the winning team or a boat, and get a piece of the boat and influence it. No one wanted come near us, even the City . . . People just stayed away. When we started to build and make decisions, we did not have people hanging about asking 'What are you doing, what about my friend? You can't do that and so on.' So, we got a running start. And things happened. We did things that today you could not do. You got many more people hanging over your shoulder asking . . . People were just afraid. People did not want to get saddled with a(nother) failure. They felt 'you are going to build something and no one is going to come'. We did things for a full two years without interference.* (public sector respondent 2008)

Of note, in this quote, is the fact that, in the face of such risk, the staff of the BPCA used this perception of risk to their advantage; in getting the project off the ground again, their coping strategy was to use the lack of interference that accompanied it as an opportunity to move quickly.

In addition to the perceptions of political risk, market parties were sensitive to market risks, and were waiting out the recession and the dip in the real estate market. Kahan of BPCA confirms the investors' perception of market risk in the quote below, in particular stemming from competition from other and better sites.

> *The site was viewed as a site owned by a bankrupt public organization. It was burdened by a lease created by my predecessor. The planning approach was the old planning approach. They had put in the infrastructure first to support the building of a megastructure that could not be broken down into pieces (and phased). The market was bad, and there were better sites elsewhere. The*

market analysis performed by Eastdil Realty revealed that we could not build offices for ten years. But we could only do commercial to bring in the revenues to pay off the bonds. It was a gamble to defy the market. (public sector respondent 2007)

Figure 6-2 confirms that at the beginning of Round 4, public parties (the State, the City and the BPCA) had a perception of the internal risks of the project (in its current form), in particular, as mentioned above, related to an ill-conceived project design and formulation, as well as the financial risk of a bankrupt public institution. The quote above also refers to contractual risk, in the form of the old lease between the City and the State, and governing the activities of the BPCA.

Coping strategies at the beginning of Round 4

The perceptions of high risk at the beginning of the round implied the need to engage coping strategies to deal with these perceptions. The fate of the project was hanging in the balance and the choices were: to give up or to go forward. The decision was to go forward. One public respondent mentioned that when weighing decisions on the project, the political risk of NOT taking the project further would have been greater.

> *The greatest risk was nothing happening. We had evidence that, in the development world, you have to weather pretty bad economies. We got through that (referring to the previous rounds). The risk (now) was that we would fail. That it would be a State failure, State bonds, State institution. But it would be a City failure as well, something of that scale . . . so that was the biggest risk . . . And they (BPCA) were no closer to getting development that they had been before. The risk was that the whole thing would go down the tube and be saddled with the State bond failure.* (private sector respondent 2008)

This perception was essential in determining the strategies employed; this provided the State with the impetus to take the project further.

BCPA employed a 'menu' of strategies to counteract the perceptions of political risk, on the part of public and private parties alike, as well the perceptions of market risk on the part of the private sector; doing this was essential to attracting investment. The Authority also focused on reducing the perception of internal risks related, in this round, mostly to project design and contractual issues with the City. Kahan and his staff spent substantial time during Round 4 working on developing and executing key coping strategies and managed by the end of the round to reduce the perception of risk on the part of the State, the City and the developers.

One strategy involved changing the planning approach and the project design. In the new 1979 Master Plan, Cooper and Eckstut broke the superblock approach down into smaller manageable bits allowing for phased construction (minimizing upfront costs) and entry into the project by a multitude of developers (minimizing the market risk). In addition, the philosophy behind the phasing was to build the most profit-oriented bits of the project first, thus the new Commercial Center, with the goal of reducing the financial risk and the risk to other components over the length of the project (Frucher 1990). In the initial discussions with the City, the BPCA managed to negotiate a simplified development process, giving substantial power to the BPCA to make decisions on development, and eliminating any political risk from a complex city approval process. The new MoU with the City reflected this new simplified approach, reducing contractual risk.

A second strategy involved Kahan persuading the legislature of the State to provide bridge financing for the project and a 'go' decision on his proposed approach. Kahan negotiated practically and was able to influence the State Legislature, reducing the political risk. The CFO of the BPCA remembers:

> *It (the BP Project) was a high risk, lots of leverage money. Here you were looking to create something that people would actually pay money for, because you have to pay the bonds off. That was the objective; to pay the bonds off . . . Then we went to the governor and said:* 'OK, we have two options. We can put up $200 million . . . we can just go the way it is. No one can fault you, you didn't create it. It was just a disaster and in year and half we can do this. Or we can appropriate 50 and some million dollars, which shall extend the amount of time you have to keep the bonds outstanding; and pay for some of the infrastructure, and some of the other work that has to be done.' *When they looked at the two (options) from the financial point of view, some part of that 50 million dollars would have been paid in the 200 anyway. So, for an incremental X million dollars, why don't we see if can make it work?* (public sector respondent 2009)

The BPCA also employed a third set of strategies to change the perceptions of the politicians, the developers and the media of the political and market risk. This strategy used the media and the plan to change the perception of the project.

> *We had to create a 'psychology' around the site. In a* New York Times *article, A. Huxtable wrote that (the design for the WFC) was the best thing since the Rockefeller Center. In effect, we created competition between developers . . . The BPCA had no credibility because it kept holding ground breaking ceremonies and nothing was built after 12 years. We reversed the psychology through the design . . . After that it was easier to get interest in the site. I*

wanted to create frenzy in the market so I invited the big developers in one time to see the new plan. (public sector respondent 2007)

The BPCA architects describe further the coping strategies used to reduce the perceptions of internal and external risks on the part of the developers:

*So we did the plan . . . we had a public opening, and the plan was as high as this room. It showed the streets and the parcels and the trees and parks. We reached the developers before it went public. They looked at it and saw (what we were planning). They talked to Richard and said: '*If you take some of your remaining money and start putting in infrastructure . . . sure! Then we believe this is going to happen.' *So Richard started building streets, starting putting in lights, starting making things credible.* (private sector respondent 2008)

The final coping strategy related to the use of the guidelines. The standards set in the guidelines, to which the private sector had to adhere, coupled with the simplified, internal approval process essentially 'routinized' the project design and the approval process. The political risk related to the approval process was 'internalized' (the BPCA took over a great deal of this) and turned into an internal, project-related risk.

This limited risk in the bidding process. People knew what they were getting into; that was a big part of it. As I said, when a developer bid . . . he looked at the guidelines and did not have to worry about going through a city council or through a zoning change or other approvals that created political risk (1.36.00 countdown). The political risk was essentially gone. His only risk was the market; when the building was built, could he get the tenants in? . . . Developers had to go through the design process, and to design according to the guidelines made by the BPCA. The BPCA helped with getting the permits, this reduced the risk to the developers. The public sector helped with the approval process and worked closely with the city agencies to keep the communication open. It was all about the public sector dealing with the private sector perception of risk. (public sector respondent 2008)

The strategies were crucial in enhancing investors' confidence and laid the foundation for the signing of the initial developers (O & Y and Lefrak). In addition, BPCA's decision to go forward with O & Y changed the perceptions of risk.

Round 5 perception of risks

As the frequency assessment shows, the perception of political risk on the part of most of the respondents began to decline after the end of Round 4 and start-up of Round 5. As a result of the coping strategies, the political risk from the State legislature was eliminated; the conflict with the City no longer existed. The regulatory and approval processes had been dealt with.

As the figure on project risk reveals, O & Y's bid and unique understanding of BPCA's financial situation was essential in reducing the BPCA's (and the State's and the City's by association) perception of financial risk.

> *"Reichmann has gone straight to the heart of the officials' most pressing problem: the threat of default of the bonds. While other developers were still treating the project as a normal development, Paul Reichmann has seen that required solution was not architectural, but financial. He offered an ironclad set of guarantees. If there was a delay in construction, letters of credit ensured that O & Y would still pay the $50 million in ground rent and taxes it would owe if the buildings were finished. He also undertook to build the project much faster than any of the other contestants, in five years."* (Foster 1986: 44-45)

In fact, O & Y was now confronted with most of the risks. Of the risks in the first figure, the perception of market risk remained strong at the outset.

> *"There was big risk; we did not know what would happen in the market. There was huge risk for Paul Reichmann, he had to provide 6 million f^2 with the tenants: he did no marketing, beyond 'personal contacts' . . . It was classic Reichmann."* (Foster 1986: 45)

The project risk was also largely O & Y's.

> *"[Reichmann] had committed his organization to finance, build, and lease the world's largest commercial developments in record time and one of the world's toughest building environments. 'New York' in the words of the O & Y construction supervisor who had worked there all of this life, 'is a snake pit'."* (Foster 1986: 45)

O & Y's coping strategy was to find good tenants for their properties in the WFC and to fast-track the construction so that the buildings could be delivered as quickly as possible.

It took the first year of Round 5 to negotiate the deal and the details of the lease between the BPCA and O & Y. O & Y's coping strategy, even without a formal and binding lease document, was to move forward, expending considerable resources, taking on an architect and key staff. One of the managers from O & Y, when asked about O & Y's perception of risk as the project got under way, stated:

> *First, there was [the risk of] the weakness of the title. BPCA had a land lease. O & Y ended up with a 99-year lease. BPCA had the obligation to return the land and the returns on the land to the City at the end of the bond repayment . . . Second: the risk of double bankruptcy. O & Y borrowed from the bank. BPCA had the bonds due. The head landlord could renounce its obligation on the*

lease at any time. When the lease document was finally settled, it was after one year of negotiations had gone by. They (BPCA) had to change the legislation to settle the lease issue . . . (He then mentioned that O & Y took the risk to start work before the leases were signed). O & Y had been selected; we were getting the design done, bidding the project, getting insurance, and beginning the construction. The agreements with the tenants had been signed. (Then, related to why O & Y felt the risk was manageable without a signed lease) . . . As we negotiated, the market got better. We had a $600 million mortgage. We had made a deal with Amex. The prospects looked good. The risk of quitting was higher, it was too high. (private sector respondent 2008)

As the project got underway, the perception of financial and contractual risk was still present. The perception of construction risk was on the rise. The private respondent mentioned that O & Y's perception of the internal risks and market risk improved towards the end of Round 5. There is evidence of this in both figures.

As Round 5 progressed, a manager from O & Y confirmed that the simplified development process set up by the BPCA reduced O & Y's perception of political (planning and regulatory) risk:

In our work with the BPCA, we had certainty. Planning approval was not at the planning commission level. That was already taken care of; we did not have to wait. We could start immediately. If we did not have to deal with the City, it reduced risk. We could go in and build. Someone had worked everything out already. It was a huge thing. Someone comes to you and says: 'You can start to work now, no delays!' *You cannot believe it! . . . But, part again of the* 'certainty': *we knew that we were not going to be slowed down. When we started construction, things started to go extremely fast, we had the building full within six months . . .* (private sector respondent 2009)

He describes BPCA's strategies from Round 4 and how these positively influenced O & Y's perceptions of risks, giving room to O&Y to work in an accelerated manner.

The best way to reduce risk is: (1) You need to be able to move quickly. You need people that know what they are doing, that have the authority to make decisions. This requires good quality people. (2) There have to be financial rules: we had the tax abatement, the ground rules on the land lease. All this was set out ahead of time. (private sector respondent 2009)

The perception of financial (and contractual) risk on the part of both BPCA and O & Y were still relatively high in Round 5 when the CFO of BPCA sensed a problem and Paul Reichmann admitted to having some financial difficulties.

The CFO mentioned that his perception was that the developer was trying to change the rules of the game, after the deal had been made (Graham 2009).

> *They came to us and said: '*We would like to sever the leases*.' And I said: '*What collateral do I have if you are going to sever the leases? We had the arrangement that you would build (all of) the buildings*.' This was in 1980; the first building was not built. . . And I said: '*What good is collateral on buildings that have not been built?*' . . . (they said): '*It will be just as good.' *And we said: '*No, it will not be just as good.' . . . '*How do we know you are going to pay the 14 million?*' Reichmann said: '*Well, you know, this is my ground; this is my security*.' We said: '*Well, that is not good enough, because we (the State) already own the ground*.' Reichmann answered: '*Well, then my company is, but I have able to get my company's guarantee out from underneath this at some point.' . . . and I went and saw their books. All of a sudden, I saw that the property they had pledged to us, they had borrowed against. So I said: '*Where is the 2 billion dollars*? No one could explain where the 2 billion dollars was. They had taken the 2 billion dollars, and had gone out and done projects in every city in North America, one in Chicago, one in Portland, one in Florida, and one in Boston. They built a whole bunch of buildings. When I asked Paul Reichmann, he said: '*They are going to be done in the next year. I am going to have tenants and I am going put the mortgages on them. Then the money is going to come back; there is the money for you*.' At the end of the day, we never consented to severing any of their leases.* (public sector respondent 2009)

In the end, BPCA's coping strategy was to stands its ground, requiring O & Y to provide letters of credit to sever the leases.

As the figures show, as the project took off in Round 5 and into 6, the perceptions of risks on the part of both of the partners reduced substantially. A public respondent commented on BPCA's reduced perception of financial and market risk:

> *So you then have BPC off and running. At the same time, you have Lefrak (residential developer) going and getting a GFA guarantee on Gateway. All of sudden you have two income streams that were going to pay off the bond. From there, essentially you continue to build out the infrastructure, and sell off the pieces individually, and you are increasingly successful.* (public sector respondent 2009)

Continuing into Round 6, the BPCA's perception of financial risk was low enough that the strategy was to continue to pre-service sites as a way of leveraging private investment. One could conclude that with the excess revenues at its disposal, the BPCA's perception of market risk was also low, even in the face of changes in the market (1982 dip); the perception of

political risk as also low due to the relationship that the BPCA had been building with the community.

> There was a rhythm to what we were doing. This reduced the risks. . . The Battery Park City was willing to make investment in utilities even when there were no tenants; pre-servicing. This was even before we had return on our investment. As the public sector we took the risk to put in the infrastructure . . . We continued to go out and put infrastructure in, to do the pre-servicing even though we knew that we were subject to the market, and that the market was not going to come around for another two years. That was the luxury that the BPCA had, no private developer would have had the resources . . . The north (residential) neighbourhood was entirely per-serviced. It stood prepared for a long time, it needed to be ready. We were able to do this, and it reduced the future risk to developers who could come in and get a permit and hook up.
> (public sector respondent 2008)

Conclusion

When looking at the trends in risk levels, the perceptions of all forms of risk changed as the partnership developed, risks reduced and became minimal by the end of Round 5. In the following sections, it will be interesting to see if the growth in trust did, in fact, influence the perceptions of risk and bring them down to the negligible levels evident in the frequency assessments on external and internal risks.

Assessing the links between risk and trust usually presupposes that the partners have had time to get to know each other, and that trust builds over time (the trust cycle takes place) and influences the perception of risks as the risks grow (and the interdependence between parties grows). This case is different, however. The two parties started up the partnership at the point when the risk was the highest and the project's future most unsure. There was no time to get to know each other and to build trust. So, what level of trust can one expect to find between the two partners?

One can argue that, from the outset, the two partners found themselves in a highly risky, '*do or die*' situation, or more precisely, that the BPCA had one more chance to make the project work. O & Y became party to this by taking on the risk of building all the buildings in the Commercial Center. This was a crucial moment: given the situation, the relationship was characterized by strong interdependence from the start, one can argue that the parties had no choice but to trust each other. Trusting each other was a leap of faith. The existence of these levels of risk was an essential factor in building trust.

The question then remains if there was evidence of a trust cycle, if trust was built over time as a result of a number of different factors. The following section of the chapter argues that trust was high at the beginning and remained high throughout the partnership. Trust between the partners 'matured' even further. BPCA was vulnerable; O & Y had ample opportunities to take advantage of the situation and demonstrate opportunistic behaviour, but did *not*. The build-up of trust very much revolved around the choices both partners made and behaviour exhibited in Round 5, and whether the factors that are the basis of trust were present. The next section charts the build-up of trust, and the factors that contributed to this.

### 6.7.3 The perceptions of levels of trust and the factors that contributed to these

In fact, the interviews and the results of the questionnaires refer to a relationship between the staff of the BPCA and of O & Y as characterized by high levels of trust. Interviews (and the questionnaires confirm this) with the public respondents indicate an almost unbelievably high level of trust in O & Y from the very start of the relationship (see figures and table below). The average levels of trust of O & Y in the BPCA were almost identical and also extremely high. Public respondents mention the reputation of O & Y as being the basis of initial trust (2007, 2008). One public respondent mentioned '*We made the deal on a handshake and Paul Reichmann was notorious for being honourable'* (public sector respondent 2007).

Changes in trust over time

The following section on trust looks first at the results of the assessment of the changes in the levels of trust over the second four rounds; the results from the questionnaires are shown in Figures 6.3 and 6.4 below.

The figure below provides a view of the change in average trust levels for the three parties most directly involved in the partnership: the Battery Park City Authority and its architects Cooper and Eckstut, and Olympia and York, the private partner. To make a comparison in changes in trust levels in the private sector, the figure also provides an indication of the trust levels in the other private developer working on the site at the same time, and also a partner, Lefrak and Fisher, the residential developer.
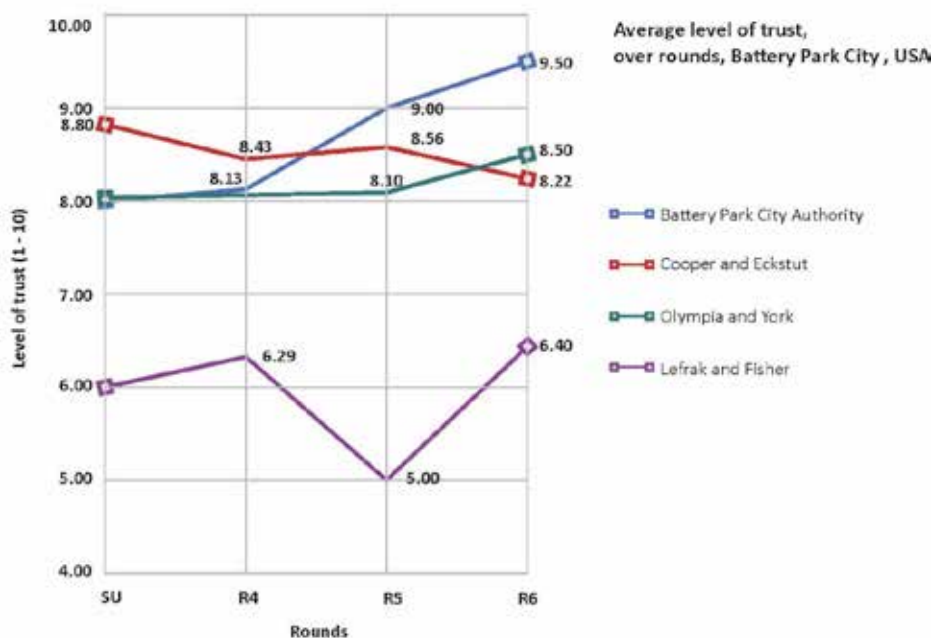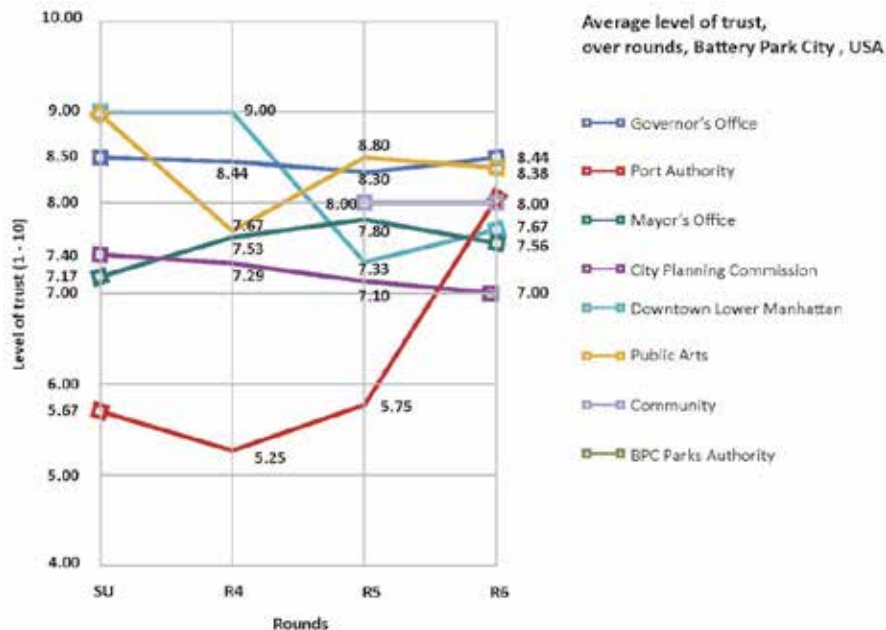
N= 12, 6 State, 2 City, 3 private, 1 non-profit

The figure shows a steady increase in the average trust levels in the Battery Park City Authority over the three rounds (from 8 to 9.5). The average level of trust in O & Y also rose over the rounds (from 8 to 8.5), though less than the trust in its public partner. The average level of trust in Cooper and Eckstut started high (8.8) at the start but dipped slightly to (8.2) at end of Round 6. Generally, these average ratings are high for all of the partners.

Of note is the fact that the private respondents (N = 3 of 4) gave the highest ratings for the BPCA (straight 10s for all rounds). The highest ratings (10s for all rounds) were given to O & Y by two public respondents (of the six that responded).

By comparison, the average trust level in Lefrak was 6 at the start, took a dip to 5 at the end of Round 5, and rose to 6.5 by the end of Round 6.

The figure below shows the change in trust in the key but more peripheral players during the rounds.

Figure 6-4: Average level of trust in important actors, outside the partnership, over the three rounds

Average level of trust, over rounds, Battery Park City, USA

- □——□ Governor's Office
- □——□ Port Authority
- □——□ Mayor's Office
- □——□ City Planning Commission
- □——□ Downtown Lower Manhattan
- □——□ Public Arts
- □——□ Community
- □——□ BPC Parks Authority

N = 12, 6 State, 2 City, 3 private, 1 non-profit

Average trust started relatively high in the Governor's Office (8.5), the BPCA's key contact in the State Government, and remained consistent (8.44). The Battery Park City Parks Corporation was set up as a non-profit organization at the end of Round 4, and average trust in the organization rose quickly to 8.83 from 7.0. The average trust in the Public Arts Advisory Committee fell slightly from 9 to 8.33. The trust in the Mayor's Office started lower and rose over the rounds, ending at 7.56 from 7.17, it fell for the other key city agency, the CPC, to 7.0 from 7.44. For the two rounds that the community played a role, its average score remained stable at 8 (N = 3, for the officials that had most contact with the community).

Overall ratings

The questionnaire also asked respondents to provide an overall rating of their trust in the main actors, on a scale from 1 to 10, 10 being the highest. Table 5-10 below provides the average rating per actor. Below that, Table 6-4 also provides the average trust ratings, cross tabulated by category of respondent.

Table 6-3: The average levels of trust in the different actors (1 to 10, 10 being the highest)

Level of Trust in		Gov. Office	Port Auth.	Mayor's Office	CPC	BPCA	Cooper and Eckstut	DLMA	Lefrak and Fisher	Olympia and York	Public Arts	BPC Parks Auth.
N	Valid	13	12	14	12	14	14	7	11	13	7	8
	Missing	2	3	0	3	1	1	8	4	2	8	7
Mean		8.46	5.17	6.87	7.00	9.21	8.86	8.00	4.73	7.92	8.00	9.75

The results reveal high average levels of trust in the BPCA (9.21) and their architects, Cooper and Eckstut (8.86), but lower average levels of trust in O & Y (7.92). When looking at the table below, which splits the results over the different types of respondents, the BPCA is highly rated by both public (State and City) and private respondents, C & E by State and private respondents, and O & Y by the State respondents, the highest ratings from those respondents most involved in the partnership. Of the more peripheral organization rated, the Governor's Office, the BPCPC and the Public Arts Commission were again rated the highest.

Table 6-4: Cross tabulation of average levels of trust by type of organization

Level of Trust in		Governor's Office	Port Authority	Mayor's Office	City Planning Commission	Battery Park City Authority	Cooper and Eckstut	Downtown Lower Manhattan	Lefrak and Fisher	Olympia and York	Public Arts	BPC Parks Authority
N	Valid	13	12	14	12	14	14	7	11	13	7	8
	Missing	2	3	0	3	1	1	8	4	2	8	7
State respondents		9.25	5.71	7.13	6.71	9.71	9.29	8.00	5.57	8.43	7.25	9.80
City repsondents		6	4	6	8	9	8	8	5	7	8.5	9.5
Private respondents		8.00	4.50	7.25	7.33	8.75	9.50	0.00	3.00	7.33	10.00	10.00
Non-profit respondents		0	0	5	7	8	5	0	2	8	0	0
N State	Valid	8	7	8	7	7	7	5	7	7	4	5
	Missing	0	1	0	1	1	1	3	1	1	4	3
N City	Valid	2	1	2	1	2	2	2	1	2	2	2
	Missing	0	1	0	1	0	0	0	1	0	0	0
N Private	Valid	3	4	4	3	4	4	0	2	3	1	1
	Missing	1	0	0	1	0	0	4	2	1	3	3
N Non-profit	Valid	0	0	1	1	1	1	0	1	1	0	0
	Missing	1	1	0	0	0	0	1	0	0	1	1

The results above are somewhat but not entirely consistent with the results of the analysis of trends in average trust in the partners, as seen in Figure 6-3. There responses related to the BPCA and C & E (and Lefrak) are consistent, but the ratings of trust in O & Y are lower than expected. The differences in the results can be explained by the differences in the response rate in Figure 6-3, Figure 6-4 and in Table 5-10. In the case of the trend analysis, only respondents with a more central role in the partnership felt comfortable providing an assessment of trust over the length of the partnership. In contrast, the response rate in Table 3 was higher, most respondents, even ones with a peripheral role, were willing to provide a single assessment of trust in O & Y.

6.7.4 Different dimensions of trust

The research asked respondents, as a further measure of levels of trust, to rate the degree of trust in all actors, using the different dimensions of trust defined in the theoretical chapter. In the questionnaire, respondents were asked to assess each of the items related to the other parties in the partnership on a scale of 1 to 5 (1 = to 5 = strongly disagree). The table below provides the results.

Table 6-5: The average ratings of the dimensions of trust in each actor

		Gov. Office	Port Auth.	Office of the Mayor	CPC	BPCA	Cooper and Eckstut	DLMA	Lefrak and Fisher	O & Y	Public Arts	BPC Parks Auth.
		Took interests into account when making a decision										
	Valid	15	15	15	14	13	14	13	13	13	13	12
	Missing	0	0	0	1	2	1	2	2	2	2	3
	Mean	1.8	3.2	2.27	2.43	1.54	1.79	2.69	3	1.77	2.08	1.75
	Standard Deviation	0.676	0.676	0.961	0.938	0.519	0.893	0.63	0.913	0.927	0.862	0.866
		Would NOT have met obligations, if their activities had NOT been defined in the contract*										
N	Valid	13	14	13	12	11	12	12	12	12	10	9
	Missing	2	1	2	3	4	3	3	3	3	5	
	Mean	3.15	2.57	2.46	3	3	3	3.25	2.08	3.17	3.1	3.67
	Standard Deviation	1.068	0.756	1.05	0.739	1.265	1.206	0.622	0.9	1.267	0.316	1.118
		Was capable of completing the project/ their obligations according to agreements made										
N	Valid	14	15	15	14	13	14	13	13	13	12	11
	Missing	7	6	6	7	8	7	8	8	8	9	10
	Mean	1.93	2.4	2	2.21	1.46	1.86	2.85	2.31	1.85	2.5	1.91

	Standard Deviation	0.73	0.91	0.655	0.699	0.519	0.535	0.555	0.751	0.801	0.674	0.944
		Committed more (time or personal resources) to the collaboration/project than was specified in the contract										
N	Valid	14	15	15	14	13	13	13	13	13	12	11
	Missing	1	0	0	3	2	2	2	2	2	3	4
	Mean	2.57	3.33	2.87	3	2.38	1.92	2.62	3	2.23	2.58	2.36
	Standard Deviation	0.852	0.617	0.834	0.784	1.044	0.641	0.768	0.707	1.013	0.793	1.286
		Had, in general, good intentions										
N	Valid	14	15	15	14	13	14	13	13	13	12	11
	Missing	1	0	0	1	2	1	2	2	2	3	4
	Mean	1.64	2.8	2.27	2.21	1.54	1.64	2.23	2.62	1.77	2.17	1.82
	Standard Deviation	0.745	1.014	0.961	0.802	0.519	0.633	1.013	0.87	0.832	0.937	0.874
		Sometimes did not meet their obligations, but we were willing to give them the benefit of the doubt[50]										
N	Valid	13	14	14	13	12	13	12	12	12	11	10
	Missing	2	1	1	2	3	2	3	3	3	4	5
	Mean	2.69	2.93	2.79	2.69	2.17	2.38	2.75	2.83	2.5	2.73	2.7
	Standard Deviation	0.63	0.829	0.579	0.48	0.835	0.65	0.622	0.835	0.798	0.786	0.949
	Total	**2.242**	**2.78**	**2.358**	**2.508**	**1.942**	**2.134**	**2.754**	**2.568**	**2.212**	**2.516**	**2.37**

N = 15 (1 strongly agree, 5 strongly disagree, in the case of *1 strongly disagree, 5 strongly agree)

The totals, an aggregate of all of the dimensions of trust, reveal higher levels of trust in three parties: the two key partners, BPCA and O & Y, and Coopers and Eckstut, BPCA's architects. The remainder of the results, per dimension, provide a similar picture. Consistently, these three parties scored the highest of all of the parties. The differences in the scores are negligible. These results are consistent with the other measures of trust.

	BPCA		Coopers and Eckstut		O & Y
1.46	Was capable				
1.54	Took interest/good intentions				
		1.64	Good intentions		

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[50] Note: again there is some question as to whether the responses to the last question are correct. Some of the respondents indicated some confusion with understanding the question.

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		1.79	Took interest	1.77	Took interest/good intentions
		1.86	Was capable	1.85	Was capable

Of the results above, the three parties scored the highest on three dimensions: (1) *took interests into account when making a decision,* (2) *was capable of completing the project/ their obligations according to agreements made*; and (3) *had, in general, good intentions*. As is the table above shows, the BPCA scored consistently higher than the two other parties and highest on the dimension: *was capable of completing the project . . .* The other two parties scored marginally lower, and ratings that are higher related to whether they had *good intentions or took interests into account when making a decision*. This demonstrates a higher level of trust in BPCA when it comes to the competence dimension of trust, and a higher level of trust in the other two parties when it comes to the goodwill dimensions of trust.

The statement *the parties committed more (time or personal resources) to the collaboration/project than was specified in the contract* resulted in lower ratings and differences in the responses, leading on to surmise that respondents had different perceptions of the statement.

Of the parties external to the contractual parties in the partnership, the Governor's Office and the BPC Parks Authority consistently scored the highest.

Basis for trust

Respondents were asked to rate each item from 1 to 3 (1 = very important, 2 = relevant, 3 = not so important). The average results were as follows:

Table 6-6: Factors that built (or broke) trust

			N		Mean	Std. Deviation
			Valid	Missing		
1	CalBase	I have to have sufficient information on the other party's reputation, qualifications and past performance record	15	0	1.57	.756
2	CalBase	I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	15	0	1.86	.770

3	KnBase	The other party must be willing to share information and resources	15	0	1.21	.426
4	KnBase	I must get to know them well enough that I am able to predict their behaviour	15	0	1.36	.497
5	KnBase	On the basis of the interaction, I come to know and respect their capacities	15	0	1.21	.426
6	IdBase	We must learn to 'speak the same language'	15	0	1.57	.514
7	IdBase	We must come to share the same values and norms	15	0	1.71	.611

N = 15 respondents: 8 State, 2 City, 1 non-profit, 4 private

On average, respondents felt that the two statements: *the other party must be willing to share information and resources* (1.21) and *on the basis of the interaction, I come to know and respect their capacities* (1.21) were the most relevant. The statement rated as the next most important was *I must get to know them well enough that I am able to predict their behaviour* (1.36). Another party's reputation or the penalties in the contract were regarded as less important, as well as *learning to speak the same language* or *sharing the same norms and values*.

These results indicate that the respondents from both the public and private sectors found, as the basis for trust, knowledge-based trust (all three indicators – nos. 3-5 – measure this) the most relevant and the first two (measuring calculus-based trust, factors in the first phase of the trust cycle) and the last two (measuring identification-based trust, factors in the third phase of the trust cycle), less relevant. These three bases of trust assume that partners have experienced a certain amount of interaction and, from knowing each other, can predict behaviour. Information, repeated interaction and understanding create predictability, which creates trust. The more behaviour (and therefore predictability) is confirmed through interaction, the more trust is developed. Such understanding only comes from repeated contact, continued communication and information exchange, in other words, greater interdependence.

Factors that contributed to the build-up of trust

To complement the results of the table above, the research charted the factors that contributed to trust build-up over time, as mentioned in interviews with key respondents. Of interest is the fact that the respondents confirmed that the factors as outlined above where present during different phases and served to build-up trust, thus the trust cycle, over time.

BPCA factors of trust internally
Given the highly contentious relationship between public sector players at the beginning of Round 4 (and the complete lack of trust), the BPCA was disbanded and a new team assembled. The results described below reflect the perceptions of this new team, and not those of employees of the BPCA from Round 3.

In this new era, faced with abject failure and high risk, trust among staff of the BPCA was also essential. Interestingly, the trust ratings by public respondents in the BPCA were high from the outset. Again, the situation brought about interdependence between staff members; they had a clear and common goal to make the project work. This interdependence can be argued as an immediate basis for the high levels of trust within the organization. The high average levels of trust internally are evident (9.71, public respondents) in the table above.

Public respondents confirm this. At the outset of Round 4, a skeletal BPCA staff worked together on the site, in a trailer. When asked what factors led to trust build-up, respondents mentioned that, in fact, the pressures they were under (one more chance!!) and the pioneering nature of the working relationship created a clear basis for trust. One public respondent describes the behaviour of the staff and the Board, and the experience of working together in this situation as leading to the build-up of trust among staff. The interaction in the small group was informal and the team shared information and resources; the experience of working together over time allowed the members to come to predict behaviour, as well as to share norms and values: 'creating something that mattered'. This experience was instrumental in binding them together and building 'a team' and all factors essential in the trust cycle (public sector respondent 2008).

The advantage for me was that I was there when (BPCA) was very small; there were only five people . . . What I want to say, size is relevant. You do not have all that many people to deal with . . . We were a core of people . . . the organization grew up around us, we got there first. Initially we worked together

in a trailer . . . we created an informality, a common experience, there were no walls. The Board of Trustees, appointed by the governor, met once a month; four persons setting policy. There was also an informality [with them]. They made decisions promptly (1.44.56). They cared enough to be involved, they showed confidence. They would come to visit even if there was not a meeting. They cared enough to be part of creating something that mattered. (public sector respondent 2008)

Trust internally remained high over the rounds. In Round 6, when Sandy Frucher took over, respondents mentioned wondering if the state of trust would change (public sector respondent 2008). Staff grew to trust him quickly. The public ratings of the BPCA reflect the continued trust in the organization and the leadership of the Authority.

I think Sandy Frucher, at that point, dedicated his life to public service. That was very much part of what he was all about. Everybody easily latched on to him. Sandy was also a very smart guy. He saw to a lot of the political leverage, of financial leverage, and the political via the financial. He made use of this, also on behalf of Governor Cuomo – but all behind that was the strong ethic of public service. (public sector respondent 2008)

The most important factors mentioned by several public respondents were the fact that Frucher was willing to share information and resources and, as mentioned in the quote above, that through the interaction, they grew to respect his capacities. He had a particular 'political savvy' that made it possible 'to get things done' (public sector respondents 2008).

Trust in the BPCA
The trust in the BPCA from external parties was also surprisingly high from the beginning of Round 4, even before O & Y arrived on the scene. The figure above shows that trust grew over time. Several respondents mention that an initial and essential factor, in the early days and over Rounds 4 and 5, was the consistency of the behaviour of the management, which led to the development of a reputation on the part of the BPCA, as a factor of trust build-up. The Chairman and CEO of the BPCA developed a reputation for being somewhat abrasive and hard-nosed, but also straightforward and fair, and most importantly, unwilling to make concessions in negotiations when it came to the guidelines and public standards (private sector respondent 2008, public sector respondent 2008). He remained strong on protecting the public interest. This was difficult to do in the face of the extreme risk.

Richard was an entrepreneur, a doer . . . I mean this thing could have fallen apart if Richard had been a cowering type. Fact is Richard did not cower easily. And he was as smart as those guys. So, nobody could pull one over on him. . . .

When people stepped out of line, he had to go and kick them back in line. Essentially, what he would say to people was: 'You don't like it, tough.' *He said that the first time and word got around in a hurry. Oh, Oh! Somebody (a developer) came in for the Commercial Center; he thought he was pretty hot stuff. BPC had been a failure and his participation would be a sign of it turning around. He came in and said:* 'I am not going to design to the guidelines.' *Richard said:* 'Fine, don't bid.' . . . *The guy could not believe it. And the word got around pretty fast. Oh, and he bid . . .* (private sector respondent 2008)

This respondent also mentioned that as word spread, this reputation became known to the developers bidding on the project. Developers bidding on projects 'tested' him, but he remained consistent. Over time, those interacting with him grew to know and respect his capacities. O & Y was also aware of his reputation (private sector respondent 2009).

The second key factor contributing to trust build-up was the coping strategies that BPCA employed to deal with the external and external risks (see risk section). For one, the development process established added certainty that the conditions set in the bid, the guidelines and the contracts were sufficient to ensure the compliance of the other party. In addition, private respondents mentioned that these coping strategies set up by the BPCA allowed for immediate action by O & Y and established a clear basis for trust. These coping strategies indicated an understanding of private needs and helped to reduce the developer's perception of risk. This built initial trust.

Certainty and clarity were important from the beginning . . . We had certainty and we had coordination. (BPCA) gave us some (way) of being able to link the pieces. (Without it) a developer would have a hard time doing what we did; it was too complex . . . (private sector respondent 2009)

Trust, according a respondent from O & Y, then entered a stage where it was based on greater knowledge of the needs, preferences and priorities of the other party, the second stage of the trust cycle. He mentioned in particular that through the interaction, the partners came to know and respect each other's capacities; they acted in concert, sharing information and resources.

It was an approach along the lines of 'wanting to get things done between people'. It worked from the beginning . . . It was characterized by mutual respect. I was able to go directly to the Head of Planning or to the contractor to deal with things. I was able to act quickly. It was almost like fitting two organizations together; it was almost an integrated organization. We had enough definition of roles, but we worked these out as we went along. We had to make decision every day on the site about (cites numerous issues). (private sector respondent 2009)

Factors of trust of BPCA in O & Y

At the beginning of the relationship, one of the factors in building BPCA's trust in their partner was the information available on O & Y's reputation, qualifications and past performance record. Interestingly enough, most of the developers in the market were from the US and known entities. O & Y was less known at the time, but arrived in town with a mystique built on past projects and a reputation for being honourable.

> *Before working with [developers, in general], you knew so much about them. You knew what they had done. If they did something bad, all competitors were happy (telling everybody). You knew early on what you were dealing with. For instance, the Reichmanns were really hard negotiators and absolutely honourable people. If you had to deal with the Reichmanns, they would almost break their own company to make it work. It was hard to get a deal, but once you had the deal, it did not even have to be written down.* (private sector respondent 2008)

At the beginning of Round 5, after the BPCA and O & Y had reached the initial agreement, there was a year of negotiation between the two parties on the details of the Master Lease. The City was also involved and its position to protect. Foster (1986) recounts the process and the build-up of trust of Kahan and BPCA in Reichmann and O & Y:

> *"There was a year's delay between the 'winning' of the deal and completing the documentation . . . (he then mentions some of the hard negotiations with the City). Richard Kahan's regard for Paul Reichmann increased during the course of the negotiations. Opposition lawyers constantly tried to pick holes in the verbal agreement between them (Kahan and Reichmann). But if Kahan said that something had been agreed, Paul Reichmann went along with it. Later Kahan said:* 'My faith in this project comes from Paul.' . . . 'He was,' *said Kahan,* 'the biggest crapshooter this town has ever seen.'" (Foster 1986: 53-54)

What is of importance in this quote is that in the face of such interdependence between the two partners and the vulnerability of the BPCA, O & Y did not act in an opportunistic manner. And through repeated interaction, the parties got to know and respect each other's qualities. The consistency of repeated behaviour confirmed the initial and strong trust that existed at the beginning. This trust also served to reduce the perception of risk on the part of Kahan (and the BPCA).

In Round 5, the teams of O & Y and BPCA developed a working relationship, and met on a weekly basis to make decisions (Donohoe and Coombes 2008). Through the interaction, partners grew to know each other, and well enough to be able to predict behaviour, a knowledge basis for trust. Indeed, again, O

& Y did not act opportunistically; the behaviour of O & Y exceeded expectations built and that the developer continued to 'deliver'. This was an important factor in trust build-up.

> [Concerning} O & Y, I am sure there was lot of concern initially [within BPCA], when you are putting all of your eggs in one basket. Working with O & Y, trust grew geometrically as we worked with them. The initial effort was to take the design and take it through [the process]. We had approval over the design at certain stages. They had to meet [our requirements]. O & Y always exceeded the design expectations and were always interested in making it better, from a physical point of view. They always wanted it to look better; they were interested to hiring the best architects. They let the Authority design and review people be involved . . . The Winter Garden was originally a little greenhouse at the back end of this building, part of this little plaza out here (pointing to the plan, showing that the WG connected two buildings). O & Y turned it around and made it into what it is, a huge attraction . . . that is huge overhead cost. It is hard to figure out the return on it. But because it is a huge attraction, a place in Battery Park City that people know about. . . . And that was their decision [O & Y's], it was not BPCA's decision. To me, trust was built because they just delivered. Not because you always agreed on things, but because there was a great delivery system . . . there was a rough plan (pointing to the whole development), but it had never been really designed and worked out. The more we worked with them, they had things more worked out; sometimes they were always ahead of us. They just delivered. They did not just talk a good game; they just delivered. (public sector respondent 2008)

This respondent underlined in the first sentence that there was some concern about BPCA's vulnerability when entering into the partnership with O & Y. He referred to interdependence of the two partners (*when you are putting all of your eggs in one basket*), and the worries that the developer might either display opportunistic behaviour or might not meet expectations built. In fact, he then described the contrary, also mentioning that O & Y was willing to design, invest in and build the Winter Garden, a public and non-revenue generating space. This showed an understanding of the public goals and values.

When towards the middle of Round 5, Reichmann admitted he was in financial trouble, the BPCA gave him the benefit of the doubt, and trust did not waver. The figure above shows no dip in average trust levels and of all respondents, the BPCA respondents showed the highest average level of trust, overall. For the management of the BPCA, trust remained strong also in the face of Reichmann's secretive behaviour.

He was very secretive, you could not find out information on [O & Y]. He was not very open. The fact that there was no market . . . it became a real issue, and he almost went bust. Our financial offices would go over once a month to look at the books, at financial conditions. One day, Paul Reichmann said: 'We are in a lot of trouble.' *He asked to renegotiate the lease. This is not typical of US developers.* (public sector respondent 2007)

The respondent refers to the fact that Reichmann made himself vulnerable to the BPCA, admitting that O & Y was in trouble, something atypical of New York developers, who are perceived as opportunistic by nature (and not trustworthy).

Within the context of New York developers, you trusted him more than other developers. He took bigger risks. He generally performed, if he said he was going to perform. However, when the world changed, it did not stop him from coming in and saying: 'I'd like to renegotiate the deal.' *Then, we essentially said no. I am sure that we renegotiated at the edges, but he had to put up collateral for all of those severed leases. He did something very different. It was very dramatic. He said he would do it and then people worked on faith . . . There was certainly the faith to go forward on that pledge (Then referring to whether Reichmann was being opportunistic when he renegotiated the deal). No, he had a problem. But the problem was a problem of his own making, to some extent . . . developers typically over promise government.* (public sector respondent 2009)

BPCA's perception was that O & Y was still acting in good faith. The BPCA still required O & Y to put up letters of credit, which the developer did. And O & Y performed.

And so, when Paul Reichmann suggested that he was going to do something more than other developers, he created higher expectations. And he performed. That was the magic of Paul Reichmann. (public sector respondent 2009)

6.8   Conclusion

This chapter described the interaction between partners and actors in the Battery Park City Project, in New York City. The chapter and the analysis of the results above were structured to respond to the research questions. The conclusions in this section will look at the important points that came out of the chapter.

6.8.1   The interaction

This intense interaction took place over a period of eight years. The partners took on the project in the midst of a highly charged economic and political context. The partners were interdependent from the start, faced with the

pressing need to succeed. They came together, a relatively small team from both sides, focused on a common goal: to get this project off the ground after years of false starts and to build a series of commercial buildings in the 'biggest snake pit in the world'.

This single and common purpose was perhaps a good setting for trust development.

6.8.2   The dynamics of trust

There is strong evidence of high levels of trust and trust cycle in this case. Figure 6-3 in section 6.7.3 of this chapter shows high levels of trust in the main partners in the PPP, trust started high and grew over time, with little disruption. Interestingly, trust was built and existed at different levels of the organizations: between the Chairman of BPCA and the President of O & Y, and between the teams from both parties working on the ground. Trust in non-core parties was somewhat lower, but grew over time. Overall assessments of trust confirm this trend. Overall, these results were higher than in the Polish PPP, reflecting the more positive nature of the interaction in this case.

6.8.3   Perception of outcomes

It is interesting to note the similarities in perception of outcomes on the part of the public and private respondents, though still coloured by sectoral interests. The results of interviews demonstrated a common perception of outcomes, such as the quality of the design and space, success in meeting the goals of the project, and the influx of finances from tenants and subsequent repayment of debts. Public sector respondents, for instance, mentioned their satisfaction with the fact that O & Y was clearly promoting public interests in its design and approach, leading to a project that met public service objectives. In the end, positive outcomes led to greater investor confidence, essential for the long-term return on investment for O & Y, and the long-term success of the project, important for the BPCA. A multiplier effect were the funds channelled into the Housing New York Progam, good for the reputation of O & Y, BPCA and the project. The outcomes satisfied the interests of both parties and were a mix of short- to long-term outcomes. The results of the questionnaire confirmed the responses from the interviews, indicating that respondents were satisfied with the collaboration/project, that the partnership helped to achieve organizational goals, and produced a project that contributed to the quality of life in the area.

In contrast to the Polish case, the perception of outcomes was aligned, perhaps particularly as the interaction was a positive one and trust was high.

6.8.4   Perception of risks

As stated above, the risks that the partners faced were inherited from the past; they faced the political risks of a failed project and the economic crisis of that time, and the perception of this was clear from the interviews.

In this case, the partners' coping strategies were essential. On the public side, coping strategies involved the reprogramming of the project, the development of the guidelines and acquisition of bridge finance, also to be used to leverage private sector investment. On the private side, strategies focused on dealing with market and demand risks, namely the acquisition of tenants for the buildings. Partners did what they do best. Over the length of the project, the perception of certain project risks remained, financial, contractual, construction risks that respondents termed as normal project risks, though the perception of other types of risk declined substantially.

6.8.5   Factors of trust

The results of the questionnaire focus on the three knowledge bases of trust: sharing of information and resources, predictability and respect for capacity.

Though not noted in the results of the questionnaire as relevant, interviews revealed that reputation and past performance were important factors of trust, at least for the public sector. O & Y came to the partnership with a reputation for being honourable, and for delivering what it promised. This was an important starting point for trust build-up.

This case highlights aspects of predictability as being an important factor of trust. Predictability, for instance, came from the coping strategies that the BPCA used to minimize the perceived risks to O & Y prior to the start-up of the partnership. As one O & Y respondent indicated, there was clarity and certainty when they entered into the project (Coombes, 2009), allowing the developer to move quickly and unhampered. Predictability came, also, from consistency in behaviour on the part of both partners (the public sector consistency when dealing with developers, and O & Y being consistent in negotiations and keeping to the quality guidelines). In the long run, predictability came from O & Y's ability to deliver according to expectations (to achieve outcomes); this reinforced the initial trust built.

This case also highlights another factor of trust: the willingness of partners to take risk in the face of a perception of a risky situation or, to make a distinction, the risk taking that is the outcome of this willingness. O & Y was not only willing to take the risk but also *took the risk* to build all of the Commercial Center in conditions of extreme uncertainty; this contributed to trust build-up. Possibly the most notable quote is that of Kahan who referred to Paul being '*the biggest crapshooter in town . . .*' (Foster 1986: 53-54).

The second in line at O & Y confirmed this: '*To demonstrate trust from our side we kept sending tens of millions of dollars of rental income when the whole project was not yet settled*' (willingness to take risk in the face of uncertainty . . .) and on why O & Y took such risk: '*That is what developers do. We take huge risk. We create value, in this case, 30 billion US$. We took a gamble and won*' (private respondent).

6.8.6 Influence of trust on perceptions of outcomes and of risk

Influence on outcomes

Respondents in this case described the interaction as resulting in a '*cycle of positive outcomes*'. Each partner made a series of moves that were perceived by the other partners as positive, and this appears to be reflected in the trust cycle, which also grew over time. One could argue that the perceptions of outcome led to trust build-up, further investment in the project and the interaction, which then led to more positive perceptions of outcomes, and to the growth of trust. The figure below gives a representation of this sequencing of strategies, outcomes, growth of trust, then further strategies. One can argue that trust resulted in strategies that contributed to the outcomes achieved.

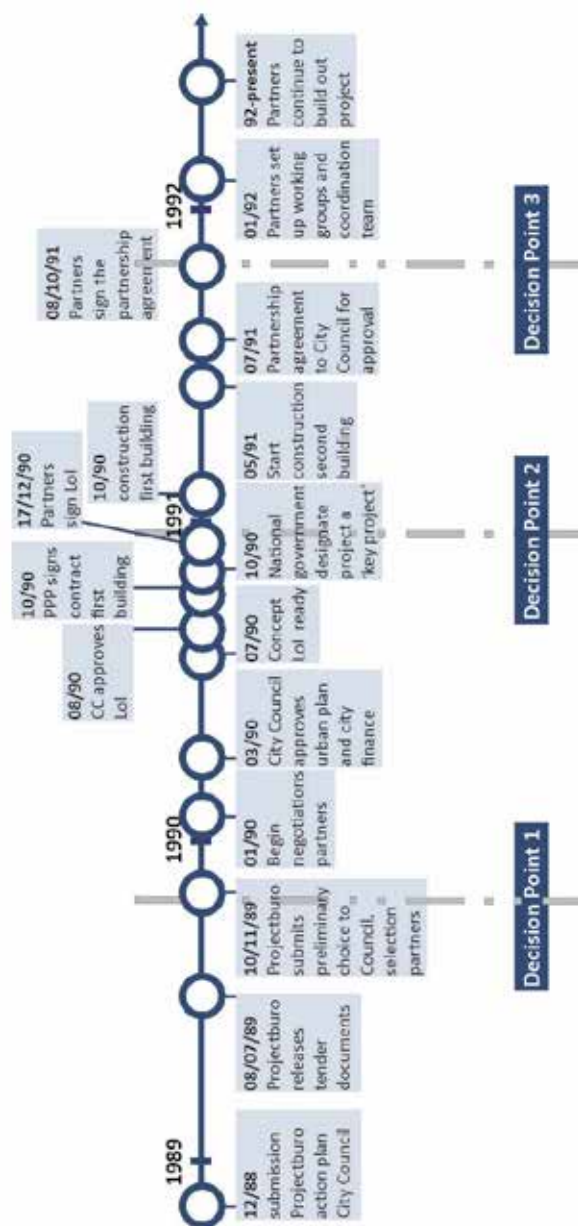**Figure 6-5: Link of trust to outcomes, US Case**
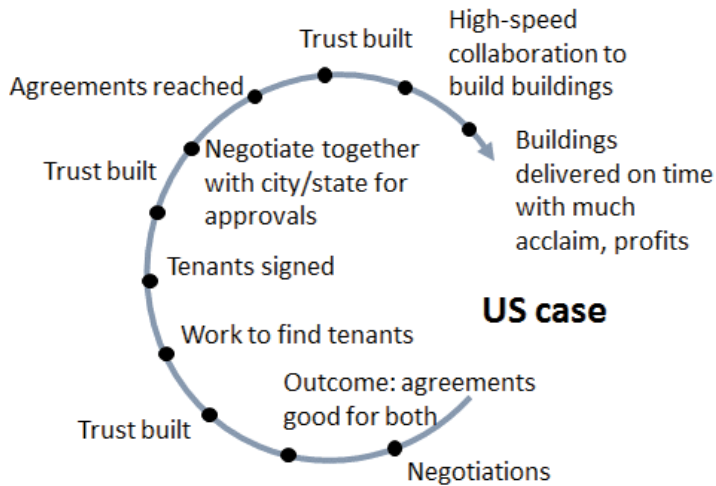
Influence of trust on perception of risk

Trust was high from the outset of the partnership; one can argue that it offset the perception of risk. In this case, the trust appears to have bordered on 'blind faith', the intense belief that the partners could pull off the project in the face of the perception of extremely high risk. The teams of the two organizations knew that the alternative, failure, was not an option. This single purpose or urgency engendered strong trust, and this trust was very strong from the outset.

Of interest in this case is that when partners perceived that risk was high, so were trust levels. This leads one to conclude that trust can continue to grow in the face of the perception of risk, and be sufficient enough for partners to continue to interact. An increase in trust does not automatically cause a reduction in the perception of risk (and rising risk does not automatically cause a reduction in trust).

The process and key decision points in the Brabantse Poort partnership

The process and key decision points in the Brabantse Poort partnership

1989

12/88
submission
Projectburo
action plan
City Council

08/07/89
Projectburo
releases
tender
documents

10/11/89
Projectburo
submits
preliminary
choice to
Council,
selection
partners

Decision Point 1

1990

01/90
Begin
negotiations
partners

03/90
City Council
approves
urban plan
and city
finance

08/90
CC approves
LoI

10/90
PPP signs
contract
first
building

07/90
Concept
LoI ready

10/90
National
government
designate
project a
"key project"

1991

17/12/90
Partners
sign LoI

10/90
construction
first building

05/91
Start
construction
second
building

07/91
Partnership
agreement
to City
Council for
approval

08/10/91
Partners
sign the
partnership
agreement

Decision Point 2

1992

01/92
Partners set
up working
groups and
coordination
team

92-present
Partners
continue to
build out
project

Decision Point 3

■ Location Brabanste Poort

■ Land use plan, Brabanste Poort

Source:
https://www.planviewer.nl/beste mmingsplannen/view/NL.IMRO.026
8.BV14000-ON0

- Shopping Center

- Office Buildings

Source:
http://www.kraaijvanger.nl/nl/pr ojecten/485/dukenburg-brabantse-poort/

7 Brabantse Poort, Nijmegen, the Netherlands

7.1 Introduction

This chapter introduces, describes and analyses the interaction and build-up of the trust relationship between the public and private parties in a partnership in Nijmegen, the Netherlands. This partnership is an example of a relatively 'smooth' partnership with high levels of trust.

The advent of the project took place in the context of an economic crisis. In the mid-1980s, the city of Nijmegen was not a competitive city. Investors did not perceive Nijmegen as interesting and showed no desire to locate or invest in the area. The Council was aware, for instance, that Arnhem, just to the north, was a more attractive city for investment. There was a general sense of urgency that something had to be done. The political parties in the city deliberated on the best approach to improving development of the area. There was interest on the part of the Council, as way to jumpstart economic activities, provide high-quality living, working and recreation, to develop an area called the Brabantse Poort as a Public-Private Partnership.

On 18 July 1989, the city released a tender document to 18 potential candidates and at the end of 1989, The Council and city of Nijmegen released the information that they had decided on a consortium comprised of three private parties, two developers (Heijmans and Hendriks) and the Dutch National Investment Bank (NIB). In March 1990, three months after the start of negotiations, the private partners attracted their first (anchor) tenant. Even prior to the completion of the negotiations on the partnership agreement in October 1991, the partners had landed three large clients and were working together on completing the first portions of the project.

The partners have now been working together in a joint venture, in a limited liability company, for over 25 years and are now completing the build out of the project.

7.2 Structure of the chapter

The first section, as in the last chapters, looks at the actors involved in the decision-making process, and their interests relative to the partnership and to the project (see Table 5-1). The second section describes the interaction

process in detail, again depicted in rounds, each of which ends with a key decision point. This is followed with the analysis section of the chapter, including both the qualitative and results of the questionnaire of the research: the perception of outcomes, the perception of the risks per round and the influences of these on strategies, the perception of the trust, and the factors that contributed to these, ending with a conclusion.

7.3 Actors on the scene

The actors in this project can be categorized in three main groups: government actors (local and national), the private sector (the consortium that partnered with the municipality of Nijmegen) and the community. The table below lists the different actors, gives information on the nature of each, and outlines their primary interests as relates to the project.

Table 7-1: Actors and their Interests (1)

Actor	Nature of the actor	Interests
The National Government of the Netherlands		
Ministry of Finance (MoF) Ministry of Housing, Planning and Environment (VROM) Ministry of Economic Affairs (EZ)	Ministries that set policy at the national level and provide substantial finance to large-scale projects such as this one	▪ MoF: to use subsidies to achieve national policy priorities in terms of housing and work ▪ VROM: to stimulate growth in key areas of the country, and to ensure quality of living and work in these areas ▪ EZ: to improve the economic links of cities in the east of the Netherlands with cities in Germany
The city of Nijmegen		
The Land Agency of the City (Grondbedrijf)	Agency that prepares land policy, buys, manages, services and sells land	▪ To sell the land to the PPP at a price that will (for the most part) cover the costs of servicing the land ▪ To use this uniquely located zone to respond to the shortage in economic activities and housing ▪ To have the land services with infrastructure at the right time for the project to succeed
The City Council, the Council Commissions and the Mayor of Nijmegen (E. M. d'Hondt)	The political bodies of the city, key to getting approvals in the PPP	▪ To compete with other cities in the Netherlands in attracting new functions to the city (offices, commercial and residential) ▪ To generate additional employment in Nijmegen, to improve the

		environment for investment, to improve on the accessibility and quality of the housing in Nijmegen
The Projectbureau	▪ The group within the municipality (under the 'Hard Sector') managing projects for the city, and coordinating project activities with the departments of the city ▪ The body that worked closely with the Land Agency and the city lawyers in the negotiations with the private partner	▪ To negotiate the best deal for the municipality with the private sector ▪ To ensure that the project takes place; and is well planned and executed ▪ To make sure that the tasks of the city are well coordinated (the departments) ▪ To ensure that the Council is well informed and approves of all the activities and decisions taking place
The city government departments: Planning, Transport, etc.	Municipal departments responsible for public works: in both the soft and hard sector	▪ To transform a underutilized portion of land in the city into a vibrant, high-quality multifunctional area ▪ To ensure that the interests of each department was taken into account in ongoing discussion on project development
The Netherlands Railways	The national company managing and operating the railways throughout the Netherlands	▪ To coordinate investment in rail and station services with the City Of Nijmegen ▪ To have to spend as little money as possible on extra services
The consortium (private partner)		
National Investment Bank (NIB)	A public/private investment bank, 49% of stocks owned by the State, 51% in private hands. The biggest investor in the PPP project, with 40% in project finance; playing a intermediary role	▪ To protect its investment by minimizing risks ▪ To get return on its investment ▪ To protect the interests of its shareholders ▪ To bring to the BV its experience with project finance for the real estate market
Heijmans Projectontwikkeling BV	A privately held (at that time) developer, with 25% shares in the BV[51]	▪ To be able to attract clients for their office buildings in the project as quickly as possible, through pre-sale or pre-rental contracts

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[51] The term BV is Dutch for Besloten Venootschap or Limited Liability Company or Private Limited Company.

		▪ To build a project that would enhance the company' reputation on a national level ▪ To make a profit
Hendriks Projectontwikkeling BV	A privately held (at that time) developer, with 25% shares in the BV	
De bouwcombinatie Heijmans – Hendriks Nijmegen V.O.F.	Daughter construction company of the two developers	▪ To get as much business as possible in the construction of the project
Community		
Various groups that took part in the participatory process	Mix of types of community members	▪ To ensure that concerns are met by the project, these varied
The owners in the shopping complex	Various	▪ To ensure that the extension of the shopping centre met their objectives to achieve quality, in the case of relocation, to get the best possible deal

7.4 Conclusion

The parties remained the same over the length of the project. This implies, with the exception of the planned moments for community participation, and the periodic changes in the city council, that there was no change in the composition of the actors. Personnel did change on the public side over the length of the project (in the council and in the BV), but this did not significantly alter the objectives on the public side.

7.5 The process[52]

The table below provides a quick outline of the rounds, the actors, the stakes or the content of the project. It highlights per round, the key and peripheral actors, the intensity and nature of their interaction, crucial decisions made, as well the evolution of the stakes.

The Brabantse Poort partnership is divided into four decision-making rounds. The first, the Orientation and Choice Phase, 1987-1989 (market studies began in 1985), was the period when the city of Nijmegen explored different development options; such as key development objectives, different projects to achieve these objectives as well the possibility of executing a PPP. The Council decided to develop two key areas: the Brabantse Poort and the Spoorzone, and to develop the project as a PPP. A special task force prepared

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[52] See Annex 4 for the schedule of activities in setting up the partnership

and tendered the project (July 1989), finally choosing a consortium of three partners in December 1989. Interaction took place in the period September – October between a working group set up to assess bids and the five private parties shortlisted for second interviews. In Round 2, the public and private parties began negotiations on the project. This round was characterized by regular (weekly) and intense discussions of the partners on mutual interests and objectives as well as the programming and financing of the project. This round ended after one year in the decision on the part of both parties to sign a Letter of Intent (December 1990), and to enter into detailed negotiations that would lead to the signing of a partnership agreement. The regular and intense interaction continued throughout the following round, Round 3, and focused on the detailing of the project and the nailing down of the financial, organizational and legal aspects of the project. The partners signed the partnership agreement eight months later in August 1991. In the implementation round, the partners worked together on the build out of the project, which was in principle completed by 1997. The project, however, continued to expand, taking on new properties. The project is now pretty much complete, and the partnership company will be dissolved in the near future.

Table 7-2: Rounds and their most striking features provides an overview of the four rounds and their key features.

Table 7-2: Rounds and their most striking features

Rounds	The Orientation and the Choice: the city deliberates on its objectives. tenders and chooses a partner, 1987 - December 1989 (prelim. choice 10 Nov)	The Conditions: the city and the partners negotiate on their interests and conditions December 1989 - 17 December 1990	The Details: The city and partners negotiate the details of the project, partnership and the contract December 1990 – 8 October 1991	The Partnership: Execution of the project begins and continues for 24 years. October 1991 to the present
Actors	City departments and the City Council, external consultants (planning and market studies), working group established by the city; wide range of private sector developers	A team from the public sector assembled to handle the negotiations (i.e. a project manager, the City Lawyer, a manager from the land agency, etc.); representatives	The public sector and private sector teams; the City Council and Departments Various consultants taken on to do studies and provides services	The public and private representatives taking part in the BV Various consultants taken on to do studies and provide services

		from each of the private partners; the City Council and Departments		
Intensity of interaction	Regular interaction between public parties of the municipality, interaction with developers tendering	Intense interaction of the representatives of the private consortium and the public sector working group	Intense interaction between the representatives of the public and private partners	Intense interaction public and private staff of the BV
Nature of Interaction	Crucial discussions on the future direction of the city, and the need to compete with other cities in attracting markets to Nijmegen A working group of the municipality puts together the tender and assesses all bids. Interviews take place with shortlisted private parties	The public team and the private partners negotiate the key elements and conditions of the project, and assess the feasibility of the venture.	The public and the private teams work out the details of the project, finalize the partnership agreement	The partners work together on implementation of the project
Crucial Decisions	The Council decides to execute a PPP, tenders and chooses a partner for its priority project	The partners decide that they have settled all the major issues faced in the negotiations and agree to sign the Letter of Intent (this indicates their intent to collaborate)	The partners decide that all details of the project have been worked out. They choose to sign the partnership agreement	The ongoing decisions made as part of the PPP
Stakes	Sense of urgency on the part of the city to improve on the physical, social and economic qualities of the city. Perception of Nijmegen as a uninteresting city. Interest to find the right partner to	High pressure to work out the conditions that are acceptable to both parties, and when faced with differences to find innovative solutions that would satisfy all.	Stakes less urgent, now working out the details, some pressures related to ensuring the revenue stream. The public and private team have to respond to a second client and	To build the project according to schedule and to earn money

	pursue public objectives	The public and private team have to respond to a first client and deliver an office building	deliver an office building	

The following sections describe the setup of the partnership and the interaction between the local government of Nijmegen and the private consortium of three partners. As in the previous two cases, the interaction is broken down into rounds, and each round is completed with the key decisions that resulted in substantial changes, namely in actors, stakes and project contents.

7.5.1 Background

The advent of the project took place in the context of an economic crisis. In the mid-1980s, the city of Nijmegen was not a competitive city. Investors did not perceive Nijmegen as interesting and showed no desire to locate or invest in the area. The Council was aware, for instance, that Arnhem, just to the north, was a more attractive city for investment. There was a general sense of urgency that something had to be done.

In the mid-1980s, the political parties in the city of Nijmegen deliberated on the best approach to improving development of the area. (multiple interviews public and private respondents) There was also a consciousness on the part of the Council of two beneficial trends:

- The ongoing market and real estate recessions were coming to an end. (private sector respondent)
- The National Government of the Netherlands intended to provide monetary support to municipalities located in 'key areas', areas with strategic economic links to the European countries to the east. There was also support for cities engaging in Public-Private Partnerships (Regeerakkoord, 1986).

In 1986, the national government made the following policy statement:

"New forms of Public-Private Partnerships are being established between municipal governments and regionally-located private sector firms, and when necessary, the national government, which focuses on the increase in the volume of investment in, among others, urban renewal." (Regeerakkoord 1986).

7.5.2 Round 1: Orientation and Choice: the city deliberates on the project, tenders and chooses partners (1987 to December 1989)

On 8 May 1988, the City Council of Nijmegen voted to request a special commission of the Municipality Executive (College van Burgemeester en Wethouders) to work out a strategic plan for the city and the surrounding areas. The City Council requested insight into the potential use of as yet unused zones in the city, the types of properties that should be built, priority projects, and the financial, planning and organizational consequences of implementing these projects. The Council also prioritized, and made as one of the conditions for the projects, the use of the PPP model.

On 7 December 1988, the municipality, represented by the Projectburo, presented the *Plan van Aanpak Stedelijke Ontwikkelingszones* (PvA, Action Plan for the City Development Zones) to the City Council. The municipality earmarked two key zones and two projects, the Brabantse Poort and Spoorzone, as the focus of future development. The proposal stated that the plans for the area responded to two major challenges for the city:

- How to utilize these uniquely located zones to respond to the shortage of economic activities and housing.
- How, through the development of these zones, to improve upon the physical quality and the spatial and functional relations in the existing area, while preventing undesirable development and continuing to support the daily functions of the local residents (PvA 1988: 2).[53]

The arguments behind the development of the programme were supported by market research commissioned by the city on the demand for and supply of employment, business and industrial activities, housing and work space in the area. Research conducted revealed:

- A shortage of office space and land for the development of office buildings for the growing office market, implying a distinct pressure on the centre area of Nijmegen for this kind of facility.
- Coupled with the growth in the office market and the existing and growing industrial sector in the city, a substantial growth in the service sector, mostly small and medium sized firms. The service businesses

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[53] Translated word for word

showing the most growth potential were legal counsel, accountants, advertising agencies and computer companies.

- An interest on the part of the large businesses interviewed in locating or relocating to an area where there would be easy access to service businesses. These large firms, in an effort to trim costs, were contracting out a good deal of their services to specialists in the service industry.
- An interest on the part of these smaller service firms in locating to an area close to other service firms. Common practice was to join forces with other service firms to be able to produce a better package of services.
- Unemployment figures of 25% in the office/education categories. Of the women searching for a job, 35% were also in this category.
- A desire on the part of the businesses to be located in an area with integrated housing and retail functions.
- A serious shortage of housing in Nijmegen proper (Toelichting Plan Brabantse Poort, 1989).[54]

The city had, in its preparation of the Plan van Aanpak (PvA), put out feelers to see if there was interest in these two projects. The PvA reported that the projects . . .

> ". . . *were met with* enthusiasm. The construction world is deluging us with requests for more information, or wants to be involved in the developments. Investors and project developers are coming with proposals and are trying to gain exclusive rights." (PvA 1988: 1)

The municipality also included in its initial proposal to the City Council its arguments for executing the Brabantse Poort in the form of a Public-Private Partnership. It underlined the need for a more '*modernized and far reaching*' form of partnership,[55] one that could be structured to respond to the requirements of a large and complicated project such as the Brabantse Poort (PvA 1988: 6). The PvA concluded that the Brabantse Poort was a good candidate for a PPP.

In the document, the city enumerated what preconditions for success would be:

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[54] Literal translation.

[55] The municipality's call for a more 'modernized' form of partnership stems from their study of various PPPs in the Netherlands (Amsterdam, Rotterdam, the Hague, Groningen, Maastricht).

- A broad basis for trust between the participating parties.
- Mutual interests and objectives that are clearly known, recognized and respected by all partners.
- Clarity and certainty related to sources of finance from all parties as well as personnel, with a clear and fair distribution of risk, long-term commitment by knowledgeable personnel.
- A situation in which the cultural differences of the private and public sectors do not become an obstruction to the project, suggesting the need for a coordinated approach via a project organization that handles the project management, for a legal mandate that would give local public representatives sufficient leeway to negotiate, and for a legal structure that would ensure a clear system of satisfying conflicts and, in the long run, the continuity of the project.
- Timely participation of the community in the decision-making process and in all phases of the process (PvA 1988: 8).[56]

The City Council approved the initial proposal at the end of 1988 and the municipality started the process of preparing the tender and looking for a private partner. The Projectburo,[57] under project manager Jean Buskens, was responsible for putting together the tender document and to begin pre-tender discussions with private parties to gauge interest in the project. He worked with the Urban Planning Team to create the planning documentation necessary to demonstrate the city's vision and programming of the project (two public sector respondents).

The Projectburo first attempted to create interest in the market among developers and investors via participation in congresses, mailing of brochures, directed visits, and marketing of the city in general. The Projectburo talked to 60 interested developers (two public sector respondents).

On 18 July 1989, the city released a tender document to 18 potential candidates, which outlined the parameters of the project, the local government goals and objectives, their views concerning the division of tasks and, finally, a questionnaire that was to be filled out by all private parties.

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[56] Literal translation.

[57] At the time of the project, the city was undergoing a reorganization. Projects of this sort were managed by project managers (often planners, chosen for their integrated approach to projects) who had a high level of autonomy to make decisions. These project managers were responsible for coordinating the functions of the activities of municipal departments on complex projects, and in future years on PPPs.

The criteria for selection were based on the ability of the private firms to make substantive suggestions regarding the proposed project and were structured around three main themes (Toelichting Plan Brabantse Poort, 1989), namely

- the qualitative and quantitative visions of the applicants concerning the realization of the programme and the urban design;
- the candidates' access to finance and to potential tenants; and
- the manner in which financial, juridical and contractual aspects of the project were dealt with.

The government supplied, in the document, the following financial and legal parameters for the project:

- The city would only contract with one party. This contract party could be made up of a combination or consortium of parties.
- The contract would require the completion of the project in an agreed upon period, against penalties.
- The city would take care of implementing the large-scale infrastructure (outside of the PPP). The preparation and the supervision of the infrastructure works would be the city's responsibility.
- The municipality would not accept constructing a building without being somewhat certain of its future occupancy (through pre-sale or rental) since adjustments to the programme in mid stages could harm and delay the project in many ways.
- The developer would in principle be allowed to choose between ownership and lease of the land.
- The ground prices at which the municipality proposed to sell land to the developers at the level of prices in mid-1989 were listed as:

364 residences at an average of Nfl. 20,000	7,280,000
20,000 m^2 for office space at Nfl. 175 per m^2 (b.v.o) [58]	3,500,000
3,000 m^2 for shops at Nfl. 750 per m^2	2,250,000
Total	**Nfl. 13,030,000**

- These prices were to be based on the provision of land in a ready state, were exclusive of sales tax and were based on a design with parking on the property (a higher cost to the private parties).

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[58] Square meter calculations are based on gross floor (b.v.o) area calculations.

- In the period between the signing of the contract and the date at which the land would be sold for development, no financial commitment in the form of a down payment would be required from the developers.
- These prices could be readjusted to meet changing land values. The land price would have to be paid at the time of transfer of the land. Delays in the payment in full would result in a late penalty being applied. Certain financial benefits could be arranged in the structure of the sale, for instance an ABC sale construction could be implemented. (This process, in which entity 'A' sells to entity 'B' who then sells to entity 'C', is a process that is subject to reduced taxes for all parties involved.) Backing out of the contract before the start of construction would lead to a non-refundable charge of 10% of the total land purchase price.
- Pulling out at the midway stages during building would lead to a substantial penalty since the city, as well as the other developers of other portions of the Brabantse Poort, would have to be able to depend on the realization of the project (Toelichting Plan Brabantse Poort, 1989).

The city assembled a working group made up of representatives of the different municipal departments (Policy Development, Financial Policy, Projectburo, Economic Development, and Urban Planning) to assess the bids from private parties (Memorandum Gemeente Nijmegen, Selectie Procedure, 10 November 1989). Ten weeks later, 12 proposals were submitted and the municipal working group started the work to assess these. It analysed the differences in the reactions of the applicants, for example, to what extent the applicants addressed the questions (not at all, generally or in great depth), or how tentative or creative the answers were.[59]

At a certain point in the decision-making process, the working group narrowed the choice down to five applicants, which stood out from the rest, all of them consortiums. The documentation of the selection procedure shows a further analysis of the proposals (Memorandum Gemeente Nijmegen, Selectie Procedure, 10 November 1989).

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[59] Some parties demonstrated a preference for breaking the project and the contractual obligations down into phases with a commitment to go forward with the project only if the market permitted. This reduced the risk to them but also reduced the comprehensiveness of the project and virtually eliminated the possibility of having a partnership of the kind foreseen by the city.

Some proposals added aspects or suggested changes, some diverging a great deal from the original ideas. Most of the consortiums used visuals with text to support their bids and to express their vision. Related to the financial, juridical and contractual issues, applicants gave comments on their preference for certain forms of PPPs and the extent of risk sharing to be undertaken by all parties (and at what stage in the process). They also analysed the level of the land prices set by the municipality, and the timing and scheduling proposed. All applicants wanted to involve investors (through pre-sale or pre-rental) right from the start. All five were strong.

With reference to the market orientation/ acquisition possibilities of the applicants, the working group looked at the ideas on and financial analysis of the mix of housing for the area (flats versus attached single family, sale versus rent, social versus market and the pricing of the units). The applicants were also judged on their suggestions concerning the acquisition of tenants. The working group looked for substantive understanding of the market and target groups, and how the parties would approach the acquisition of future tenants (Memorandum Gemeente Nijmegen, Selectie Procedure, 10 November, 1989).

In the end, the assessment was that the
- applicants' spatial visions were different, but all of high quality and feasible;
- financial, juridical and contractual proposals were so similar that the final decision could not be based on these aspects; and
- acquisition strategies and assessment of the market of one consortium was the deciding factor; it was by far the best (Sweens 1996, 2e aanzet Artikel Privatisering).

The Projectburo presented the working group's preliminary choice to the Council for approval on 10 November 1989 (Memorandum Gemeente Nijmegen, Selection Procedure, 10 November 1989). In the same period (7 November 1989), the General Urban Plan was made public and subject to comments by the community. At the end of 1989, The Council and city of Nijmegen released the information that they had decided on a consortium comprised of three private parties, two developers (Heijmans and Hendriks) and the Dutch National Investment Bank (NIB).

7.5.3 Round 2: The conditions: the city and the partners negotiate on their interests and conditions

Change in the stakes

This decision brought about the start in the negotiations between the public and private parties. The stakes changed as each partner put their demands on the table in negotiations held on a weekly basis, each Friday for six months. The goal of these meetings was to come to an agreement on the key elements of the project, the "*planning, economic and financial*" conditions (Letter of Intent 1990: 5) that had to be met, and the overall feasibility of the programme. The goal was also, ultimately, to lay out the outcome of these negotiations in a Letter of Intent (LoI, *Intentieovereekomst* in Dutch) signed by all parties.

The Letter of Intent had a special function: it constituted a commitment to the intent to establish a partnership, but was not contractually binding. The stakes in this round, therefore, related to ensuring that the negotiating parties would be able to iron out all differences, and to establish the 'rules of the game' to such an extent that the parties were willing to sign a document that committed them to negotiating the specifics of the partnership (and to eventually signing the partnership agreement).[60]

One of the municipal lawyers described this in a memorandum to the Local Council.

> *This Letter of Intent is the written declaration made by the different parties of their intent to explore the feasibility of a partnership focused on the development and realization of the central area of the Brabantse Poort.* (Gebbink, Raadvoorstel, 26 June 1990)

Change in actors and in the content of the project

The city assembled a team to negotiate with the private consortium. The team was made up initially of the Head of the Projectburo, Jean Buskens, the Head of the Land Agency, Carel Sweens, and two municipal lawyers (Dorinne Gebbink and Frank Delissen). The Urban Planning Department took part in many of the meetings to discuss the detailed urban plans created for the project and the programming of the project (Memorandum Gemeente Nijmegen, Selection Procedure, 10 November 1989: 2; also three public

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[60] Final negotiation of the terms of the partnership still had to take place. Ironing out differences and coming to terms with conditions became the deciding factors on whether or not the partnership would actually be established.

sector respondents). On the private side, one or two representative of each of the three private partners attended the negotiation meetings, depending on the issues to be discussed. (Heijmans: Van der Hoven and Schuwer; Hendriks: Hendriks and Prikarts; NIB: Breskens and Groen). When needed, parties brought in private consultants to provide services.

Interaction

In general terms, the interaction focused first on pinning down the mutual objectives and interests of the partners. The partners defined these in discussions as (Letter of Intent 1990: 4, Sweens 1996: 6):

- *The General Objective:* the research and determination of the urban, economic, financial and other criteria for the project to be executed as a partnership.
- *For the municipality:* contribution to and an increased role in the regeneration of the central area, thereby serving the financial, employment and housing needs as optimally as possible.
- *For the developers, Heijmans and Hendriks:* through the development of the project, the generation of turnover and profit for themselves and for their daughter construction companies.[61] The project scope was to include the initiation, realization and sale of real estate.
- *For the NIB:* the financing of the partnership and the project with equity as well as debt financing, and ensuring the most optimal yield on the debt financing.

Further, in discussions, the group agreed to focus on the following agenda:
- The commercial concept, the target groups to be reached, the quality of the shops, housing and office spaces.
- The quality of the planning (public spaces and infrastructure) and architecture.
- The guiding principles and objectives to be used in the land use plan, the detailing of the project components in the land use plan, and the phasing of the project in the plan (essential for the approvals).
- Assessment of the needs/process for applying for subsidies from:
  -the Ministry of Finance
  -the Ministry of Housing, Physical Planning and the Environment
  -the Ministry of Transport and Water

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[61] This negotiation point will be discussed later.

- The process by which decisions were to be made, i.e. the partnership in coordination with different departments in the municipality, dealing with public space and major infrastructure.
- The process by which decision were to be made by the municipality with regard to major office and retail projects in other parts of the city.
- The conditions under which the city's Land Agency would deliver/sell the serviced land to the PPP; for instance, whether the quality of the infrastructure might be higher than what is normally required by municipal regulations.
- An estimation of the partnership's/project's expenditures and revenues, as well as the risk profiles of each of the partners, the drafting of a 'business' plan, in which all this would be described.
- Juridical and financial aspects of the PPP (statutes, project organization, partnership agreement) as decided upon by all the partners.
- Setup of a management structure for the PPP that would guarantee the quality of the project (IO 1990: 7).

The team decided on a two-pronged organizational structure: a Policy Group that made all strategic decisions, composed of four representatives, one from each partner; and a Project Team responsible for the management of the project, also composed of four members. All decisions had to be unanimous. The Project Team was seen as flexible; other members of the partner organizations could join as needed. In addition, the team decided to appoint a Project Manager to handle all daily management and coordination. Jean Buskens took on this role (LoI 1990, Sweens 1996).

The team decided that each partner would bear the costs of the negotiations and would share each in 25% of any direct expenditures.

The team also set 7 January 1991 as a deadline for the completion of the negotiations, the activities listed above and for determining the feasibility and viability of the project. This was a key cut-off date, if issues could not be settled the Policy Group would be tasked with deciding whether to go forward with the negotiations (LoI 1990).

The intense weekly negotiations came to a key moment three months later. The partners concluded that all major conditions had been set, and the lawyers finalized the LoI for submission to the City Council and in preparation for the Council Meeting in June 1989. The City Council approved the LoI in June. The partners continued to work on the activities outlined in the LoI for the next few months.

In March 1990, three months after the start of negotiations, the private partners attracted their first (anchor) tenant, TRN (the name of Deloitte and Touche at the time), who was interested in office space in the project area (Sweens 1996, 1e aanzet Artikel Privatiseren, Schuwer, correspondence 22 November 1996, private sector respondent).

In September 1990, the **private partners** set up a Limited Liability Company (called a BV in the Netherlands) called Brabantse Poort Nijmegen BV. At that time, the city had not come to a decision on their choice of partnership form, but the expectation was that the public sector would at one point join the BV.

In October 1990 the BV signed a contract with TRN. The partnership promised to start construction of the office building in January 1991 and agreed to deliver 3000 m^2 of office space to the company in December 1991 (Gebbink, Advice to council on representation of the city in the temporary BV, 10 October 1990, public and private sector respondent).

All parties signed the final LoI document on 17 December 1990.

7.5.4 Round 3: The details: the city and partners negotiate the details of the project, partnership and the contract (December 1990 – 8 October 1991)

The stakes, actors and content of the project

The decision of the Council to approve the LoI provided the support and the impetus for the public and private project group negotiating the project to take the step to focus on the detailing of the project. The activities of this particular round focused on working out the details that would be set out in the final partnership agreement.

The actors, as did the organizational structure, remained the same while the content of the project continued to develop and take form. The stakes were mixed: they rose when the partners obligated themselves to build their first building. They were catapulted into motion and continued to work at high speed, before they were even contractually bound. The LoI did not commit them in any way to the partnership. On the other hand, much of the conditions had been placed on the table and defined, what remained was the detailing of the partnership agreement. Several strategic issues were left on the agenda: (1) the juridical form to be chosen, (2) the share of the risk per

partner, and (3) the final budget for the project (which was dependent on resolving the points worked out in the LoI).

After considering a number of different legal forms for the partnership, the municipality of Nijmegen finally settled on a private company with limited liability (BV). On 20 August 1991, the City Council decided that the city would take part in the BV set up by the private consortium, the Brabantse Poort Nijmegen BV. The city entered into the BV with an initial investment of 300 shares of 1000 guilders (454 euros) apiece.

The partners continued negotiations. The decisions that came out of the negotiations resulted in the following project standards:

- The project must be in accordance with national standards for physical planning, the environment, and transportation. Central government regulations required that the project respond to environmental concerns by focusing on reducing car use in the area, by increasing the use of public transport and the bicycle. The project had high standards regarding sound transmission throughout the area. Sound barriers had to be installed in all residential areas to reduce the noise level to the required 65 dB at building façades.
- The project must conform to the requirements of the land use plan.
- The project must be phased to protect against risk of financial loss and to increase options for plan readjustment and flexibility.
- The land must be issued (sold) to the BV ready for construction (serviced).
- Infrastructure provision must be put up for public bidding. This was based on a EU requirement that all projects with costs in excess of 5 million ECU (Nfl. 11 million) must be made available for bid to all EC firms.
- If a higher than standard level of infrastructure was desired than was required by law, the cost must be borne by the BV.
- Parking was to conform to the standards of 50 m^2 gross coverage and must be built within project property lines at the costs of the BV.
- Developers must rent out 40% of the office buildings before the start of construction. For the rental shopping and housing, acceptable renters must also be found prior to the beginning of construction.
- Parts of the project could be sold to investors and/or the end users. The partnership did not wish to undertake the management of the properties after completion.

- The BV must make additional investments for the renovation of the railway station. After renovation, the property was to be returned to the National Railroad for maintenance and upkeep.
- For areas surrounding the project area, options could be given to private parties outside the BV to develop land according to their own initiatives. Projects by outside firms included: the theme park, the ice rink/convention centre, the hotel and business centre. The ice rink/convention centre was to receive major financial contributions from the municipality, in keeping with Dutch policy to subsidize the cost of tickets to entertainment events. Investors included the local, regional and national government, a bank, and other local investors.
- With respect to the bids for the construction of (parts of) the project, the partnership was to give the first opportunity to the construction company Heijmans-Hendriks Nijmegen VOF to give an open bid.[62] In this bid, the VOF would assure a standard mark-up of 9% for administrative costs, profit and risk.
- National grants: only for those portions of the project that focused on improvements in environmental conditions: 80% for costs related to improvement in bus system, 50% for costs related to bike paths (Sweens, 1992 and Partnership Agreement (PA) 1991).

The lawyers of the parties incorporated the outcome of the negotiation process into the partnership agreement, this were sent to the Council in July 1991 and the contract was signed on 8 October 1991.

7.5.5 Round 4: The partnership: implementation of the project begins and lasts for 24 years (October 1991 to the present)

The change in stakes and content

The implementation phase got underway contractually in October of 1991. Again the change in stakes was mixed. On the one hand construction was underway on two buildings and the partners were already working together. On the other, the partners were now formally obligated and contractually bound to work together to complete building the programme as developed during the two previous rounds, quite an ambitious programme. The content of the project was now set down and agreed upon:

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[62] Daughter construction companies mentioned before. Point negotiated by the private partners.

Table 7-3: Schedule of sale of land/construction Brabantse Poort[63]

Building	Size in m2, gross floor area	Starting construction= sale of land	Land price (Nfl. without VAT)
Phase I			
O-1: Office Bldg.	5000	1 June 1994	875,000
O-2: Office Bldg.	5000	1 June 1992	875,000
A-1: Office Bldg.	2500	1 January 1992	437,500
A-2: Office Bldg.	2500	1 January 1992	437,500
A-3: Office Bldg.*	2500	1 January 1993	437,500
A-4: Office Bldg.	2500	1 January 1993	437,500
C-1 Office Bldg.	2500	1 January 1994	437,500
C-2 Office Bldg.	2500	1 January 1994	437,500
B1 Shops	2650	1 January 1993	987,500
B2 Shops	900	1 January 1997	675,500
			6,038,000
Phase II			
A5 Residential (rental)	15	01 June 1992	180,000
A6 Residential (rental)	18	01 June 1992	216,000
A7 Residential (sale)	44	01 June 1993	880,000
A8 Residential (rental)	18	01 June 1993	261,576
A9 Residential (rental)	15	01 June 1993	180,000
B2 Shops	40	01 January 1997	480,000
B3 Shops	25	01 June 1995	300,000
B4 Shops	25	01 June 1995	300,000
D1 Residential (rental)	54	01 June 1994	784,728
E1 Residential (rental)	9	01 June 1996	108,000
E2 Residential (rental)	9	01 June 1997	108,000
E3 Residential (rental)	15	01 January 1997	282,000
E4 Residential (rental)	15	01 June 1997	282,000
			4,362,304
		Grand Total	10,400,304

Source: (PA 1991, Sweens 1e aanzet Artikel Privatisering, 4 December 1996).

The expectation was that the project would be built out by the late 1990s.

The shares and profits were divided in the BV as follows:

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[63] 1 US$ = 1.877 Nfl., at that time

- NIB (represented by Projectum in the BV):   40%
- Heijmans Project Development BV: 25%
- Hendriks Project Development BV: 25%
- Municipality of Nijmegen: 10%

Initial finance came from two sources, from the partners in line with their proportional share in the BV, and subordinated capital, an additional loan to the BV.

Own capital			Subordinated capital	
Projectum:	Nfl.	1,200,000	Nfl.	300,000
Heijmans	Nfl.	750,000	Nfl.	187,500
Hendriks	Nfl.	750,000	Nfl.	187,500
Municipality	Nfl.	300,000	Nfl.	75,000
Total	Nfl.	3,000,000	Nfl.	750,000

For additional capital, the NIB was prepared to provide a standby roll-over fund of Nfl. 12,5000,000. In the event that more is necessary, the NIB would first be approached to provide finance according to the standard market interest rates.

On the financial side, projections were that the total investment by the BV (at the start of the process) would be Nfl. 112,800,000 excluding the two extra office buildings and Nfl. 146,500,000[64] including the two extra office buildings.

Other than the initial investment of Nfl. 3000,000 and Nfl. 75,000 listed above, the municipality was not liable for any further investment in the shares of the partnership, for any additional loans, for offering any guarantees of finance for the project or for any further risk sharing in the partnership.

In the case of profit over and above a given margin per year, the municipality was to get 60% of the extra. This was to compensate the city for any losses incurred on the sale of land (S0 1991, Sweens 1e aanzet Artikel Privatisering, 4 December 1996).

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[64] The value in euros on 1 June 1994 would have been approximately €51,606,000 and €67,023,750 respectively.

Change in actors

The actors did not change much, most of the professionals involved in the previous round continued to work in the BV. What did change, however, was the fact that the city was now working within the BV, and autonomously from the city apparatus.

The daily affairs of the BV were run by three directors: one representative of the NIB, one from the city of Nijmegen and one from the two developers combined. All decisions were to be made by a unanimous vote, ensuring that the city had an equal voice even though the proportions of the shares were less.

The company's Supervisory Board (SB) was comprised of five members: two from NIB, one from each of the developers and one from the city of Nijmegen. These representatives had an overseeing function and were expected to settle any disputes that could not be settled by the daily managers. Their input was necessary for the acquisition, management and sale of real estate, the bidding of construction, and contracting of architects, advisors and contractors.

Interaction

Interaction began under the auspices of the BV. Interaction took different forms (Prikarts, correspondence contributing to Artikel Privatisering, 25 November 1996).

The partners set up a working or 'building' group to focus on the development of each piece of real estate. These groups were composed of representatives of the partners, architects, contractors, planners and any other advisors needed for the project. Parallel to this a team from the daughter construction company (VOF) of Heijmans and Hendriks worked on the technical and pricing details of the bid for construction. These groups met often to work together.

Upon completion, the VOF subjected its bid to an advisor hired by the Projectum/NIB, to verify that the bid was on target and that the margin did match the 9% agreed on by contract. If the budget produced by this consultant came within a 5% margin of the budget of the partnership, the parties negotiated the terms of the contract. If the difference was greater than 5%, the BV was free to take bids from other contractors (SO 1991).

Once per month, a coordination team, led by the municipal Project Leader, met to coordinate the activities of the BV with the activities of the municipality, such as issues related to urban planning issues, traffic, environment, safety, quality, etc. (Prikarts 1996). Of particular importance was coordinating the implementation of the infrastructure for the project, a task kept as the responsibility of the municipality. As part of the contract, the city departments were expected to have serviced the land in time for the Land Agency to sell it the BV according to the schedule.

The directors of the BV also held their formal meeting once a month. More informal meetings were held in the meantime. During these meetings, those involved in the projects (any of the staff working for the partners) reported to the directors on progress, problems and the financial status of the projects. Directors discussed the market strategy being taken and issues being faced with PR, and rental or sales of properties to investors or clients (Prikarts 1996, private sector respondent).

> *It was very special because you suddenly were sitting at the other side of the table. We took part in management meetings once every two weeks, in Rosmalen, in the office of Heijmans . . . Henny Verstegen was in fact in the management (of the BV) as the representative of the municipality. I took part (as support). All project leaders came as support to their managers in management meetings. We worked together a lot on the work floor in 'building teams'. You were completely focused on an objective. I have seldom been involved in a project that moved so quickly.* (public respondent)

With regard to marketing of the project, staff within the Department of Economic Affairs, the Planning Department and the Projectburo also took an active role in marketing of the project (private respondent, public respondent).

The members of the Supervisory Board met four times a year to discuss the policies and strategies of the BV, and to look at the upcoming programme for the next three months. The directors provided technical and financial progress reports for each quarter. Any difficulties or delays with divestiture of the properties were discussed in the meetings, and any changes to the strategy were approved by the Board members (Prikarts, correspondence contributing to Artikel Privatisering, 25 November 1996, private sector respondent).

Construction of the second building (O-2), located on the roundabout, for client Bovemij had started in May 1991, prior to the signing of the

partnership contract. It continued into the implementation period. One respondent wrote:

It was again impossible planning. Construction had to start while traffic rushed by a couple of metres from the site. Servicing of land was under tremendous pressure. Still with good coordination and cooperation the building was completed, including the required infrastructure. (private respondent, correspondence contributing to Artikel Privatisering, 22 November 1996)

In the years up to 1996, the city tried to attract a client to build the hotel and business centre (a property outside of the PPP), and after months of discussions with what looked to be a good developer, this did not go through. The rights to develop the location were given to the BV. An additional location for an office building (O-3) was added to the BV's list of property developments and changes were made to the design and the infrastructure. In 1995, the properties developed were as follows:

Table 7-4: Properties completed by the BV by 1996

Building	Size in m^2 (except for residences)	Starting construction = sale of Land	Land Price (Nfl. without VAT)	Volume of Investment (Nfl. without VAT)
O-1: Office Bldg.	5,400*	1 December 1990	970,000	12,900,000
O-2: Office Bldg.	6,000*	1 May 1991	1,100,000	12,900,000
A-1: Office Bldg.	3,200*	1 March 1992	600,000	7,800,000
A-2: Office Bldg.	2,300	1 March 1992	430,000	5,900,000
0-3: Office Bldg.*	6,500	1 May 1993	1,700,000	16,300,000
Shops	3,000	1 May 1994	2,500,000	21,300,000
A5/A6	36 residences (rental)	1 May 1994	450,000	3,900,000
A8/A9	36 residences (rental)	November 1994	560,000	5,900,000
Subtotal			8,310,000.00	86,900,000

*Greater number of m^2 than originally programmed, O3 was an additional office building

Source: Heijmans, 1995

It appeared after market research and market sounding that certain properties were not in demand, mostly the housing. There were also certain delays in the schedule. The revised programming of the project below:

Table 7-5: Prognosis coming years property development BV

Building	Size in m² (except for residences)	Starting date	Land price (Nfl. without VAT)	Volume of Investment (Nfl. without VAT)
O-4: Office Bldg.*	7,000	1 January 1998	1,600,000	17,000,000
A-3: Office Bldg.	2,000	1 March 1997	420	5,200,000
A-4: Office Bldg.	3,000	1 April 1997	600	7,500,000
C-1 Office Bldg.	2,000	1 June 1998	410	5,200,000
C-2 Office Bldg.	3,000	1 January 1999	630	7,800,000
A7a/A7b	44 residences (rental)	1 March 1997	1,000,000	8,000,000
Shops West	550	1 January 1999	520	2,500,000
B 2-4	121 residences	1 January 1999	3,600,000	28,000,000
Subtotal			8.780.000	81,200,000

* O-4 additional office building

Source: Heijmans, 1995

The building groups, management of the BV and the Supervisory Board continued to interact and develop the project. From time to time there were changes in personnel.

> *When I joined in 2008, I noticed that I was getting on a moving train (with a group) that already knew what it was doing, together, and (had been) for 15 years. And then something developed, like:* 'We are just going to finish this together.' *That process was built up in the 15 years. This occurred due to the people that were steering the process.* (private respondent) *. . . From the municipality there were really only three key figures involved (names three people). And every time a new person came on stage, he had already been getting assimilated behind the scenes for a year. You got a smooth transition like this.* (2nd private respondent) *These people had broad support from within the municipality. Directors were not appointed to the partnership 'just like that' . . . there was sufficient continuity from people that were present at the basis and when the baton had to be passed on, the people that joined did so in the same spirit.* (private respondent)[65]

7.6   Analysis of the Brabantse Poort Partnership

Introduction

This section (1.6) describes the perception of the public and private respondents of the outcomes of the project and the partnership. These perceptions are provided for each round, as well as the general perceptions

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[65] Note: two respondents during one interview commenting on the same point.

of the outcomes of the project; the research also described how these perceptions influenced the behaviour of the partners. This is followed by an analysis of the perceptions of the risk per round and the influence of these perceptions on the coping strategies of the two partners. Finally, the chapter looks at the trust of the partners in each other, its growth over time (the trust cycle), and links the build-up of trust to the perception of risk as well as the factors that contributed to the change in trust.

7.6.1 Perception of outcomes and influence on strategies

Perception in Round 1: deciding to do a PPP/complex project and choosing a partner (1987-1989)

Public perspective
Interviews revealed a perception on the part of the public sector respondents that, at the end of this round, substantial work had been done by the Projectburo and colleagues on a strategy for the area and to underpin rationale for PPPs. There was growing interest within the Council, and support for the project and the setting up of a PPP (public respondent, public respondent). This support was translated into the commitment of the Council to invest in infrastructure upfront, also to stimulate developers (two public respondents).

> *At the end of the 1980s, we were just coming out of a crisis, so these were exciting times. It was courageous of the government to say:* 'We are going to invest in the area, without knowing if we will be able to find the offices and housing to fill the space.' *. . . and to say:* 'We are going to do this!' (public respondent, second public respondent similar)

The city had undertaken a marketing process that had resulted in substantial reaction (two public respondents). One respondent reported taking 60 calls from developers interested in working on the project (public respondent). This led the city to conclude that there was interest from the market (multiple interviews).

> *Also the moment that we noticed that there was interest in the market . . . so that it appeared that we were right. I can remember that at a given moment, we revealed the name (of the project), that was a nice moment:* 'Now, we have really put this thing on the market.' *And well, there was a reasonable response, as I can remember . . . (the developers) called in pretty quickly . . . that gave us a stimulating idea:* 'We might be able to do this!' *That this was not only on paper.* (public respondent, second public respondent similar)

The working group managing the tendering process interviewed a number of good candidates and there was widespread consensus that there were five

good options, and that a good choice had been made. The team had chosen a good consortium (two public respondents).

Private perspective
The perception of the private sector respondents was a sense of satisfaction that the consortium of Heijmans, Hendriks and NIB had been chosen to execute the project; they had managed to pass through a series of stages in the selection process and had come out ahead of their competitors.

> *We were very interested in the project because it had a good mixture of offices, houses and shops in a good, defined area of the city in which during the years before the office buildings were not developed very well. We were sure that the project would succeed if you were able to find good users and financiers for the office buildings, especially. The houses (apartments) and the shops were not that difficult in that market, but the office buildings were very difficult to sell or to rent (or so we thought).* (private respondent, correspondence referring to that period, 15 December 1995).

The developers and NIB were now going to be involved in a project that could possibly: (1) improve their relationship with the municipality, (2) allow them to get involved in a large, complex project with substantial returns, and for both Heijmans and Hendriks, this meant entering into a type of development in which they had up to that moment not been involved, and (3) improve their reputation in the market and their chances for more work of this sort (multiple interviews, public and private).

Perceptions in Round 2: Negotiating the Letter of Intent (December 1989 to December 1990)

Public and private perspectives
By the end of the round both public and private respondents perceived that they had just managed to get through one year of intense discussions and working tempo (multiple interviews, public and private), with positive outcomes.

Within three months, the members of the Project Group had managed to set the agenda for discussion, to iron out most of the conditions of the relationship, and to reach consensus on the public and private positions in the project. The draft LoI was ready for submission to the Council for the meeting on 26 June 1990.

> *After the tenders we had an LoI in two or three months. We did it quickly but gave full form to quality, and there were other ambitions, to serve objectives such as social safety and traffic safety, improvement of public transport, with a link between the two neighbourhoods, to make more of a heart for*

the two areas. These objectives were completely achieved (in the negotiations up to the LoI) . . . (public respondent)

The project had managed to attract its first client. This was a confirmation for the partnership that there was after all a market for offices in the area. This also resulted in a step up in tempo as construction was to start by the end of the year and before the signing of the LoI (private respondent, public respondent).

Lastly, there was a general commitment on the part of all partners that this project should be done as a PPP. From the perspective of the city, this was approved by the Council. In addition, the private sector also made the participation of the city as a risk-bearing partner a precondition for working together (project correspondence on the round, 1995, private respondent).

Perceptions of Round 3: Negotiating the Partnership Agreement (December 1990 to October 1991)

The perceptions of the respondents of this round was somewhat an extension of the last round, but 'development for real' (two public respondents). The round resulted in a swift (in seven months) completion of detailing and negotiation of the contract; this included studies defined in the LoI, and the budget for all project components. The parties signed the partnership contract within ten months of signing the LoI.

> *The perceptions (of outcomes) flowed (from the LoI) over to the SO. (The next step) was just a working out and a deepening of the LoI . . . there were a few elements. The element of separating servicing and sale of land from the property development. That makes the discussions a bit easier. Ensures that there is a good implementation plan. The agreements related to extra yield on the more profitable bits such as the shops (understanding the benefits from the more profitable bits), from which an important part reverts back to society. These were all (key) elements.* (public respondent)

Respondents working on the contract mentioned the perception that the interaction also led to sufficient detailing of the risks and the phasing of these:

> *The process of making the contracts went well. People just got to work. We managed to dodge the failure factors, let's put it that way. It all went pretty quickly and it went well . . . if you phase things well, and do not go too quickly, make sure that the risks are not too extensive and come too quickly on top of each other; because that is what it is all about. Then the processes go well.* (private respondent)

Contracting a second customer in this period helped to reinforce the positive perception of the outcomes to date. Construction started in May 1991 and

the partnership completed the first building for its first client by the end of year.

During this phase we worked out a lot of studies that were defined in the LoI. The breakdown was defined, but we also worked on the first building. So we had a commitment to start! During this phase we contracted a second customer, so we had a very good starting position for finishing the contract; there was no escape! We were working fine together already and we had our PPP, although it was not written on paper. (correspondence referring to this round, 1995)

Both public and private respondents reported a perception of positive outcomes from the negotiations. On the private side, the developers managed to negotiate a clause in the contract allowing their VOF first building rights and returns that would revert directly to them. On the other hand, the city had managed to negotiate the quality it desired and its own benefits, namely, above a base return on certain properties, 60% of the profits for the city (two public respondents, private respondent, PA 1991).

Some of the respondents did not feel, however, that the negotiations resulted in equal outcomes.

Hey, you would do it differently now, but . . . as a lot of infrastructure was subsidized, and they came along and did a lot of 'cherry picking'. So that was very lucrative for Heijmans. And what remained, that was for Hendriks . . . that is the way I experienced it. (public respondent)

This perception was prevalent for several public respondents who called the city 'naive' in the negotiations, and that these therefore resulted in outcomes that benefitted the private sector more (three public respondents). Some stated that the private sector 'had it easy'.

Round 4: Implementation (October 1991 to the present)

Implementation of the project has lasted for 24 years (at least 14 years longer than planned) and is about to come to an end. This section refers to the perception of outcomes for the round and then concludes with perceptions of the project, process and the PPP overall.

Some respondents indicated that the main quality of this project from the offset was *'getting down to business and doing the work'*, implying that entering into the implementation rounds did not really change much, activities were already underway:

Well, you know, (signing the contract did) not really change things; the strength of the Brabantse Poort was that we just got to work. That is always the success of a project; you just have to begin. (private respondent)

There was also a perception on the part of many respondents that not only was there a market for the project, but that the PPP managed to **stimulate** the market.

> *You have to remember though, that this was built in a period in which things were not going so well in Nijmegen . . . I do not know for what there was market, at that moment, but I said:* 'Guys, we are going to try to create a market' *and we did that. We tried to create a market; the ambition of the plan was to create a market.* (public respondents and others similar)

There was also some indication that the mix of functions made the project popular in the market. '*We made a clear choice to go for a mix: shops, housing, and other services. The project was less vulnerable because of this.*' (public respondent)

Over time, things went pretty much as planned, but the tempo was not quite what was planned, many respondents perceived a slowing of production, and impatience on the part of certain professionals from within the city.

> *Once the SO was signed, it was a promising start. The plan was divided into a number of phases. The start was promising and certainly in the first phase, that went very well. In one of the later phases, I know that it got a bit rough. Let's say, the tempo in which things were being realized. This says something about the market for things and those types of things. I know that there was at that point some tussle between parties over timing. It was about how certain areas were to be filled in and the tempo. And:* 'Hey hurry up a bit.' (public sector respondent, multiple interviews similar)

One respondent referred to the later years of the PPP and mentioned that the delays were also the result of the private sector's interest to deal with the 'easy plots' and avoid the 'difficult plots', leaving these for last. He points the finger at the private partners, as the cause of the delays (public respondent).

Overall

For the most part, respondents report satisfaction with the outcomes of the project overall: with the partnership over time and trust built, and mention that this was in the face of risk and substantial uncertainty.

> *If you see where we started in 1989, almost 24 years back, that we achieved 24 years of partnering, and that it was declared a key project in the Netherlands, I think that we were very much ahead (of the times), in anticipating what would be needed. Partnering, controlled trust, trust, openness, and transparency: we managed for 20 years. We did not know what we were getting into, but we went on a quest together and brought it*

to a success. And I think that this was unique at that time. (private respondent)

The developers managed to book a financial success. Upon completion, which the project is approaching:

> *In any case, the project is for the most part built out, and after the shopping centre, the investors recouped almost all of their investment. Now there is very little money left in the project, only for the last project on the Maas-Waal Canal. This was also financed by the party that purchased it. So there was no financing necessary. There is just a small amount of capital in the partnership. I think that the return on investment (RoI) must be somewhere between 15 and 20%. It was a successful project. We had a few other successful projects, and this is a usual RoI.* (private respondent)

The city within the BV also took its returns (10%), and these were substantial, particularly in the early years. These positive outcomes were offset by the losses that the city took (and agreed to take) on the land servicing and sale allocation to the PPP (outside of the PPP, taken up in the reserves of the Land Agency of the city). In 2011, these amounted to € 6.6 million, approximately US$ 7.4 million (Specifiek Kader voor de Verbonden Partij Brabantse Poort Nijmegen BV, October 2011).

Both the city and the private sector enjoyed long-term benefits: prestige, reputation and confidence for Nijmegen as well as the developers. Respondents mentioned that the project made the developers into national and regional players.

> *On the whole, I think it was a win-win situation, because the result is an attractive project that brought Nijmegen a lot of prestige, and changed the perception of Nijmegen too, brought pride. The self-image of people from Nijmegen was very low and that changed. This began with other projects (describes), but Brabantse Poort contributed decidedly to this. So, the win-win situation was that the project developers were able to get some benefit, the offices are located there, and Nijmegen certainly gained some confidence.* (public respondent)

One respondent mentions the long-term benefits, that development in the south stimulated growth along transport corridors to the north and in the long run stimulated upgrading in the centre of Nijmegen (private respondent).

Respondents also reflected on their perceptions of the benefits of working in partnership. They made note of the fact that the project, owing to its complexity, most likely would not have been possible without the

collaboration. The perception was that the partnership achieved improved coordination and quality.

> I think that the city would never have been able to do this on its own. And I think if you ask one private party to take it on, it also would not have happened. You cannot leave it to one private party. This is because there are aspects of the project that are commercially more interesting than others. I do not think that everything would have been built as it was, in such a coordinated and high-quality manner, also taking into account certain urban planning priorities (taking interests of the municipality into account. With one private party only buying land for building), the public spaces would never have been equipped the way they were. And you would never have gotten the sound barrier financed in this manner. It would have been entirely on the municipal bill. (public respondent)

This respondent recognized that additional investments in the public spaces became part of and occurred in the project due to the partnership. From the private perspective, one private respondent indicated that none of the *commercial clients* (in this case referring to the office buildings that were contracted in the first years of the PPP) would have been brought in had the project been done in a more traditional manner. He went so far as to state that *'if the city had developed the area in the traditional model, where you put plots on the market and sell them to a developer, the project would never have succeeded . . .'* He also agreed that *'this was a form of co-creation, what co-creation had going for it is you put in a lot of energy that has a positive effect on progress and the quality of the product that the partnership is making. (Other models) are fight models; there you commit energy to improve your own personal margins. But this is always at the cost of something.'* (private respondent)

A number of respondents mentioned another outcome of the project and partnership: and that is that the city built a reputation for competence in taking on a complex project in partnership with the private sector. One respondent mentioned that the municipal staff learned a great deal and increased their professionalism in the process.

> The professionalism internally, within the municipal organization, improved. Before this project, we were doing nothing! But also knowing as a city that you can cause these kinds of projects! I think that this was the beginning for the city of Nijmegen to establish a whole other image of the city countrywide. After this, there were all kinds of variations of partnership contracts developed, some more successful than others. (public respondent, similar to two public and private respondents)

There were some widely held reservations on the outcomes, in particular related to the quality of the architecture (the furniture boulevard was mentioned by all) and the sense that the project could have been more ambitious or, as one respondent stated: '*it could have had more teeth*' (public respondent).

> *In fact, I am a bit proud that it succeeded, and that it is there, but about the quality of the products, I am not. No, as architectural quality group, we acted weakly. No daring architecture was developed, while we actually found that this place was unique and that it could easily have happened. But perhaps we were too optimistic, that's possible. Regularly we got the answer:* 'Yes, but you cannot demand that, that is too ambitious. Nijmegen cannot deal with that.' *After the fact, I think that we might have been able to do it.* (public respondent)

Outcomes: assessment of the results of the questionnaire[66]

Perceptions of outcomes were also measured and verified in the questionnaire. With the exception of one respondent (public), the results back up the positive perceptions of the project and the partnership from the interviews. In the questionnaire the respondents were asked to rate the statements made concerning the outcomes of the project and the partnership (see Table below) on a scale of 1 to 5 (1 = strongly agree, 5 = strongly disagree).

Table 7-6: Respondents' perception of outcomes

	Perceptions of Outcomes	N		Mean	Standard Deviation
		Valid	Missing		
1	I am satisfied with the results of the collaboration/project	8	0	1.86	1.07
2	The goals of my organization were met by the partnership	8	0	1.71	0.49
3	The partnership led to additional investments than would not have occurred if my organization had worked alone	8	0	1.71	0.49

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[66] **Please note**: The questionnaire and its results were used to clarify and verify the results of interviews and information provided by respondents in each case on their perceptions. The response rate remained low. Though the graphs and tables in this chapter provide a 'quantification' of trust levels (looking at the averages of responses), perception of risks, and outcomes, the analysis remains a qualitative assessment of the value of these variables.

4	The collaboration created a number of innovative ideas, concepts and plans	5	3	2.00	1.41
5	The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	8	0	1.29	0.49
6	Working closely together led to improved cooperation between partners	8	0	2.00	1.00
7	Working closely together led to improved coordination of project elements	7	1	2.14	1.07
8	Working in partnership led to long processes of decision making and additional costs	8	0	4.29	1.11

Three respondents (one public, two private) abstained from responding to question 4 on innovative ideas. The private respondents were involved in later periods of the project, during the implementation period, when the major conditions had been ironed out. The public respondent felt that it was too long ago to gauge the innovation in the collaboration.

On the whole, the responses were consistent. All seven respondents either *strongly agreed* or *agreed* with statements 2, 3 and 5, indicating that (2) *the goals of their organizations were met,* (3) *the PPP led to additional investments,* and (5) *to a project which added to the quality of life for the city and the neighbourhood* (1.29, rated the most relevant). For the remainder of the statements, the responses were again consistent, except for one public respondent who was not as positive about the outcomes. Six respondents *strongly agreed* or *agreed* with the statements (in the case of statement 8, six respondents either *disagreed* or *strongly disagreed* with the statement that the PPP led to long processes of decision making and additional costs). This single respondent *did not agree* with the statements 1, 4, 6 and 7, and *agreed* with statement 8. So, on the whole, there was satisfaction with the collaboration, working closely together added to cooperation and coordination, and the process did NOT add extra time and additional costs. These results are consistent with the results of the interviews.

7.6.2   Perception of risk and influence on strategies

This section analyses the perception of risk per round, and the strategies that partners in the interaction used to cope with the perceptions of risk. The focus is on external and internal risks: namely risks external to the project such as political risk (i.e. council interference, delays from the Council approvals or department approvals, the community participation process,

and execution of 'segmentatie' policy[67]) as well as market/demand risks, and risks internal to the project (costs, access to finance, project design, size and scope, the balance of public versus private interest). These are presented in the three frequency assessment figures below. The interviews provided results from 12 respondents (seven public, five private).[68]

Starting in Round 2, four (33%) of the 12 respondents mentioned the various political risks as an issue, with possible interference from the Council and possible delays stemming from Council/departmental activities perceived as present in Rounds 2 and 3.

Figure 7-1: Frequency assessment of types of external (political) risks, Rounds 1-4

N = 4 public, 4 private
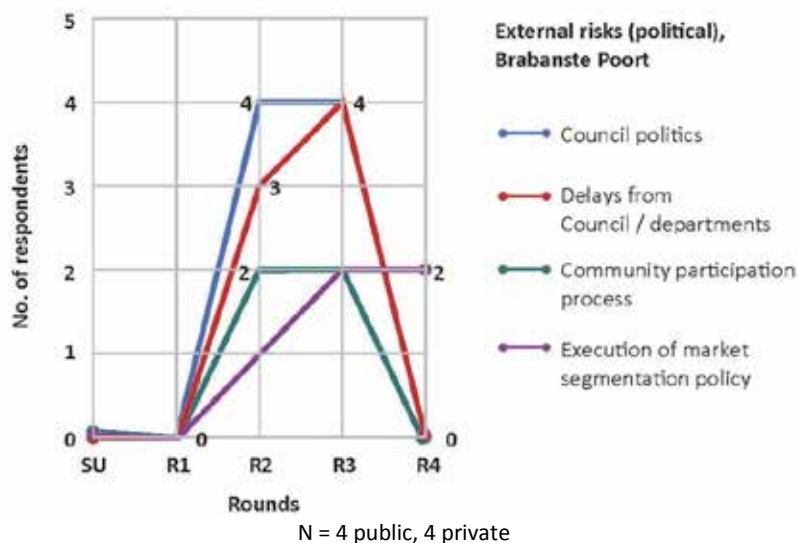
In Round 4, respondents felt that political risks were at a minimum (zero for three of the risks), except for two private sector respondents who were still concerned about the implementation of 'market segmentation' policy by the municipality.

The perceptions of market risks were more substantial (see figure below). Seven of the 12 respondents mentioned these types of risk. In Round 1, the

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[67] 'Market segmentation policy': a policy that ensures protection of the PPP from competition by limiting similar types of development in other areas of the city for a period of years.
[68] The research categorized respondents coming from the NIB as private sector respondents. The NIB was both a public and private entity with 49% of the public shares. As it was a bank, it has been counted as a private entity.

context of the economic crisis was important (seven of 12); some mentioned the tarnished reputation of Nijmegen as a deterrent to investors (four of 12, mostly public). The perception of these risks subsided in subsequent rounds. Competition from other developers was mentioned by some; this was very much dependent on the 'market segmentation' policy of the local government, but also included competition from other cities and surrounding areas.

Figure 7-2: Frequency assessment of types of external (market) risks, Rounds 1-4
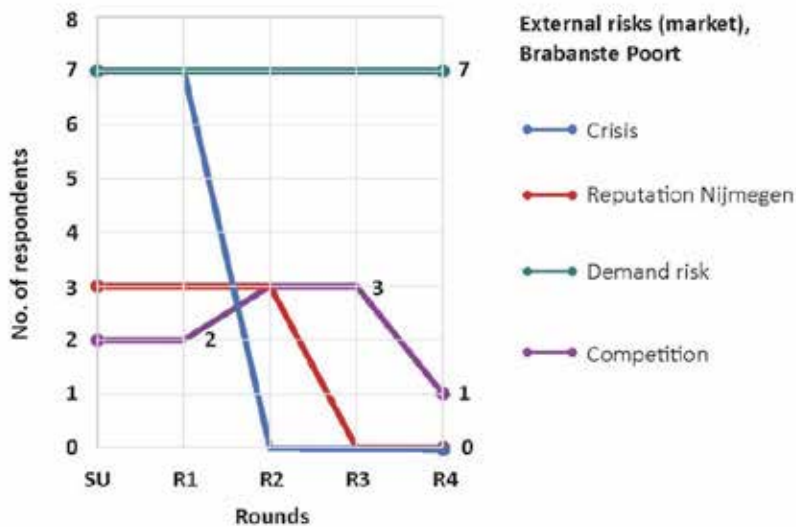
The most substantial and long-lasting risk was demand risk. The perception of this risk was important to many of the players (seven of 12) and continued over the rounds, consistently in the minds of the private sector partners. This makes sense, as the task of the private sector in the PPP was to capture the market.

Figure 7-3: Frequency assessment of types of internal (project) risks, Rounds 1 - 4
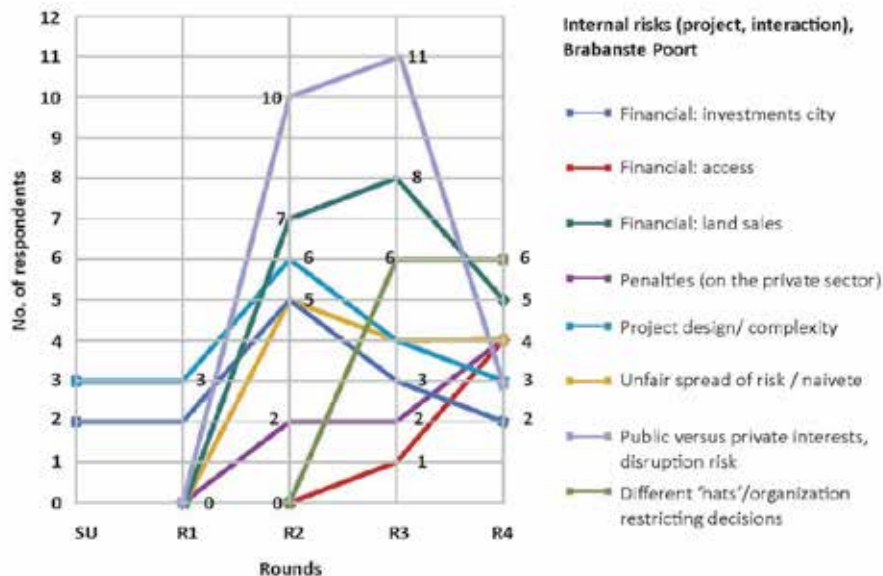
The internal project risks mentioned were also substantial. The risk related to the potential conflict between public and private interests (and therefore the inability to reach a compromise, resulting in a breakdown of negotiations or disruption risk) was cited by 11 of the 12 respondents, both public and private, rising in Round 2 and 3 and falling in Round 4 (three respondents). Of interest is the fact that the perception of conflicting interests then transferred in Round 4 into the perception of the 'pettenprobleem' or hat-problem risk: this is the risk that public officials run when having to make decisions in a privately held company, they have to wear different 'hats': one to protect the public interest, another when making decisions that favour the BV – they play a dual role. This perception of risk refers again to a conflict of interest, but only for the public sector. This risk was widely perceived by the public sector respondents, but not by the private sector respondents, in the implementation phase, when the municipality entered the BV. The perception of risks related to land sales (delays in sale of land to the PPP, and risk of loss of interest incomes) also rose in Rounds 2 and 3 (eight of 12), falling a bit in Round 4. Though the private sector recognized this risk, it was mostly public respondents that mentioned this risk as relevant. Other risks related to the complexity of project design (multifunctional, multi-partner), delays in the implementation of the project (related to changes in the market), and the growth in scale of the project (as components were added on). Most of these rose in Rounds 2 and 3 and fell in Rounds 4. The last risk

mentioned by several public sector respondents is the possible unfair allocation of risk. This is confirmed in the perception of outcomes with a reference by one public respondent to the private sector as 'cherry pickers'.

Round 1: deciding to do the PPP/choosing the partner.

As is clear from the figures, the context in which Nijmegen found itself in the first round was important. As mentioned before, the economy was in recession and there had been a real estate crash, this implied substantial market risk. Also, Nijmegen was an uninteresting destination for large clients. Market studies showed a low occupancy rate and a clear shift in demand for certain types of properties (Kantorenmarktonderzoek June 1993). This implied a need for adaptive reuse of many properties in different parts of the city. The city perceived substantial and potential competition from Arnhem and other cities. All these risks acted as an impetus to create a strategy to do something. One respondent explained the situation at the very beginning as:

> *At the time there was a surplus of empty office space. And then you are going to build more office buildings in the area. And how are you going to deal with the market in 1990? I know that the residential market was very bad because at that time, we collected data on a monthly basis from the real estate agents on how many new residences were being sold. It was pretty dramatic, nothing was being sold. There were months that in the whole of Nijmegen only 13 new buildings were sold or something of that sort. It was not until after the beginning of the construction that the story came of this new fantastic project in the neighbourhood and that fell together with an economic upturn. And then it began to attract, and it began to go slowly. But when we began, and were developing the plan, then there was still a lot of risk. So, you have to say to each other:* 'If we do not sell anything, how are we going to resolve this?' *I think that was pretty clear for everyone that this was a real possibility.* (public sector respondent)

Clearly, this risk that was difficult to manage; the municipality dealt with it by making the acquisition strategies and assessment of the market one of the important criteria in the choice of a private partner during the tendering procedure. In addition, the strategy of the Council was to request very careful research of the market and of the key issues faced in PPPs.

> *There was a type of process that came from the Council. Around questions such as: What are the characteristics of a PPP? How to develop a PPP? What are the risks? And how do you relate (the process of a PPP) to the democratic process? What role will the city have in the BV? What would be your role and what would the limitations to the public role be? All these issues had to be considered within the framework set by the Council.* (public sector respondent)

Round 2: negotiating the Letter of Intent

With the selection of the partners, the negotiations on conditions began. Each party covered the costs of their participation and shared 25% of the out of pockets; this strategy ensured that these risks were shared.

The risks as discussed from the municipal perspective were expressed in an attachment to the proposal to sign the LoI: the legal counsel asked the City Council to take the following key points into account (IO 1990).

- How are public powers and obligations of the municipality formulated in the contract? This should not be restricted too much.
- Do the clauses in the contract ensure the municipal objectives are feasible?
- Conditions should be set with regard to the rights/obligations of the city, if applicable, with respect to the results of public participation processes, or in obtaining approvals/funding from higher authorities. This should be formulated in the form of the city's obligations to make an effort (i.e. not 'the municipality will ensure that approvals are obtained', but 'the municipality will strive to obtain approvals').
- What will be decided concerning future developments in the city? Will development be blocked fully or not, or be restricted in an undesirable manner?
- Have good cost estimation been made and how has the financial risk been spread?
- What form will the collaboration take, i.e. what role will municipal staff take in the partnership?;
- In the case that the public has comments on the form of cooperation chosen, will the choice be well argued, fiscally and legally?
- Have conditions under which changes can be made been taken into account and based on what criteria?
- Have good arrangements been made in case the project does not go ahead?
- Is there a mechanism developed in the case breach of contract by the city on grounds of protecting public interest?

This document provided a summary of risks discussed by partners, but from the perspective of the city. Of note is that in fact many of these points were clearly visible in the initial tender document and had been put on the table in discussions. The risks related mostly to (1) the conditions under which the city could execute public powers and protect public interest in the PPP, (2) the conditions of 'segementatie' policy (one of the negotiation positions of

the private sector), (3) the costs versus returns and the spread of risks, (4) the choice of organizational form, the rationale for this, and the powers/restrictions that this would provide the city, and finally, (5) the conditions under which the city and its partners could withdraw (risk of disruption).

The private sector perceived demand risk as the greatest. The private partners proposed focusing on the office market first to begin bringing in returns, to make the project financially secure and to cover the costs of land servicing and sale. They made as a precondition the participation of the city in the partnership, this to improve coordination and to encourage investor confidence (In Sweens 1996: 1e opzet Artikel Privatisering, Schuwer 1996: correspondence in 1e opzet Artikel Privatisering).They also proposed a high level of quality in the public spaces and design as a strategy to bring clients to the area. In addition, in the negotiations, the private partners asked the municipality to

- curtail major office development in any areas other than the Brabantse Poort. The private parties feared a potential over-saturation of the market for office space and requested that the Brabantse Poort become the primary location for offices in Nijmegen.
- exercise control over the types of land use in adjacent areas and, particularly, limit any industrial development. Experience has shown that a mix of industrial terrains and office space does much to reduce the demand for such office locations from potential tenants (Pennink 1997).

This strategy was key to coping with potential competition, until the project became stable.

> *You prioritize locations, where commercial and office spaces will be. You stick to this policy and don't allow a 'thousand flowers to bloom' because then they will never bloom. Then all you get is half built up areas where no-one wants to locate in the end. You also ensure that the area is completed.* (private respondent)

Discussions between parties did highlight the risk perception of the private sector of sanctions being proposed in the initial tender documents and subsequent negotiations, and the potential interference of the Council.

> *I can remember in the first year, that we were negotiating with the city about the make-up of the LoI and there were some heavy dossiers from the municipality that were for us private parties unacceptable because they gave us a gigantic risk . . . the risk related to the fact that the city wanted to force*

us (to commit to) a certain obligation to complete (against penalties). And we only wanted this if certain risks in this were mitigated. But this had everything to do with the mistrust that came out of the 'red' Council: 'Those big capitalists, you cannot trust them and you have to apply all kinds of sanctions.' (private respondent)

This quote points out the perception of risk on the part of the private partners when dealing with the political (liberal) inclinations of the Council. The private sector negotiated enough to make the deal acceptable to the Council.

One last risk was the risk of information on the project being made public during the initial negotiations. This was a serious risk to the private sector, and one that could have caused other developers to start speculating on land (private sector respondent). This perception of risk was dealt with by the city. *There was all kinds of competition-sensitive financial information that they rather did not want to have appear in the papers. I seem to remember that some of the information was put in a 'side letter'* (public respondent).

Round 3: negotiating the Partnership Agreement

With the signing of the LoI, the partners began negotiating the particulars of the Partnership Agreement. Respondents indicated that the risks perceived were fewer, as many of the points had been ironed out.

There were still perceptions of risk of delays caused by the public partner. This related to the public process and the time it took and to the potential need for different parties and commissions to have a say in the plan.

And then one of the parties (fractie) of the municipal executive says: 'So that's quite a lot of high-rises, isn't it? Honestly, I find this pretty ugly. I want more small attached housing.' . . . *One wants more green, the other wants more bridges and the third want more of this. Another thing is that there is too much asphalt, and whatever. And this is always a problem, I know.* (private respondent)

This seemed, however, to be generally under control. The partners agreed on a strategy to aid in decision making in this phase: the organization set up and the presence of Council members and key managers in the key groups on the project. This aided in shortening communication lines and reducing political risk.

(The plan) went first to the steering group and then to the different forums of the partners, so the board of Heijmans, the management of Hendriks and the municipal executive. If they all agreed then it was presented to the Council. If the Council protested . . .then it would go back to the project

group and it would look to see if it could respond by making changes . . .
there were all kinds of big guys from the city in the project group, and at a
certain moment, they said: 'OK we are going to do this.' *It would be crazy, if*
at a particular moment, the city department that was issuing permits were
to say: 'Well no, we are not going to . . .!' *Within the city there was wide*
support to ensure a sort of 'flow' of things, and the permits also went
quickly. Formally that was not allowed, as everyone has to be treated the
same. But everyone knew in the municipality what was going on and
everyone knew the conditions that had to be met. So the permits were
resolved quickly. (private respondent)

What also remained was project-related risk: a perception of risk on the level
of quality desired (this was heavily negotiated), the cost estimations for
project components (taking this quality into account), the sale price of the
land and the scheduling of land allocation (linked to the schedule of
construction), demand risk and financial risks (where the financing was going
to come from).

All kinds of things had to take place, all kinds of studies and urban plans, and
infrastructure (plans), so also the cost estimates of these . . . I remember that
there were some real fights over this (the cost estimates). Then you got the
well-known situation, namely, the municipality wants quality in the plan.
And the developer wants that as well. Let's be honest, no developer wants to
walk through an unattractive sight and say: 'This is my work.' *But it is a fact*
that developers pay more attention to money than the municipality. . . . Then
you get squabbling over: what is this going to cost? The municipality as well
as the developer, and the bank as well, they all have financial and cost
estimate specialists. So if you have three financial specialists budgeting the
same thing, crazily enough, the results are completely different. And so the
municipality says: 'We are going to make something beautiful, and it will*
*cost 6.5 million.' *The developer says:* 'No, we can make this but it will cost*
*you 16.5 million.' *And the bank (NIB) is in the middle of all this. Try coming*
to an agreement on that! It is not easy. (private respondent)

These discussions on project design, cost estimates for project components
and levels of quality translated into a perception of tension between public
and private interests (public respondent). The coping strategy was to develop
a plan, essentially a set of guidelines that stated levels of quality, and to hire
a consultant to act as a supervisor. As part of the SO, the partners also
created an implementation plan that itemized the scheduled programme
and the cost of all project components (two public respondents, private
respondent).

From the private perspective, some of the demand risk was offset by finding
a second client, Bovenmij. Another strategy offsetting the private sector's

perception of risk was the agreements on the 'market segmentation' policy. The government agreed to a policy of limiting office and industrial development contractually to 1997 (PA 1991 and project correspondence 1995).

Finally, respondents, mostly public, mentioned the perception of the risk on land servicing and allocation. Of note is the fact that the risk was borne by the municipality **outside of the PPP (!)** and involved the costs of servicing the land and ensuring a price that covered the costs of the servicing and management of land. The city assessed, after estimating the cost of the project components, that the Land Agency dealing with land management would take a loss on the sale of land to the PPP. Market prices were not high enough to cover the costs of servicing the land. A consultant reporting during contract negotiations on the extent of the loss indicated that the revenues from land sale would cover less than 50% of the expenditure and that the municipality would have to cover its expenditures from substantial subsidies (national, municipal, and from the reserves of the land agency).

The assessment additionally indicated that these costs would be further influenced by
- increases in interest,
- tempo of the land allocation,
- returns that might be less than expected,
- subsidies under what was budgeted, and
- higher servicing costs than budgeted.

Table 7-7: Expected expenditure and revenues from land in the Brabantse Poort

Expenditures	
Servicing, taxes, costs of departments	54
Corrected for inflation	2
Loss on interest earning from pre financing	26
	82
Revenues	
Land sales	37
Subsidies NG	3
Municipal Fund/Reserve Fund Land Agency	20
Corrected for inflation	23
	82

Source: Letter 'Exploitatie Brabantse Poort, TBV de Raadsvergadering March 1990, Ed Heuts

The coping strategy of the city was to send an application to the national government to put this project on the list of 'key projects'; this would allow the city greater access to a variety of subsidies. In the end the city managed to acquire quite a number of subsidies to offset their upfront investments.

Round 4: implementation

In the implementation round, intervention from the Council was less of a risk. The municipality was now taking part in the BV and was working autonomously. The Council received regular reports on the project, but had limited decision-making power. What was left over, on the part of the respondents, was some perception of risk related to change in political parties and the influence this might have on continuity; in one instance this discontinuity caused a minor riff in the relations with the BV (private sector respondent).

As was indicated in the figures, the perception of risk in this round related to the 'hat-problem', risk perceived by the public respondents. Public representatives on the Board and in shareholder meetings had to ensure the city's interests were represented in the BV, but also the interests of the project and the partnership.

> *For the municipality, there is another substantial risk . . . the council member wants to sit on the board of such a project. If this happens, this can cause an impossible dilemma. Because if he sits on the board . . . this is also dealt with extensively in the law, that the board acts extensively on behalf of the partnership . . . so the council member/board member is part of the BV and formally acts in the interest of the partnership. This is completely contrary to his interest as a member of the Council. In the Council he is responsible to act as he is legally obligated to do (to protect public interest) . . . further you have the risk that decision making does not go well.* (private respondent)

One respondent from the NIB, an organization that was trying to straddle public and private interests, also pointed out that the interests of the bank were also distinctly different, making the negotiations more complicated.

Thought the perception of demand risk was still present, the coping strategy was to phase the project to allow flexibility. Over time, the project developed a tempo and became stable. There was even natural expansion of the project to include more properties (two private respondents).

> *At the beginning of the project, you have a substantial amount of risk, but during the process . . . the risk profile changes. The moment that you develop the first building and have realized it, you get a positive image. This ensures*

that you can realize the project and even more, that you get asked to include the ice rink, the Triavium. Because there was an investor that did not succeed in getting it off the ground, so we were asked to get involved as a shareholder. (private respondent)

A respondent from the NIB confirmed that over the years, the BV faced what he called *'normal risks in every project development'* but that these varied in terms of the source of finance. Fewer risks *'if you have a client, a company that wants to have its own office building. Then you agree from the outset about the price for which are going to put up the building. And you then run not so much risk. But then you have the situation in which the client does not want to buy the building but wants to rent . . . Once you've agreed with the client on the rent, then you have to go to the market to sell to an investor . . .'* (private respondent).

When the city's 'market segmentation' policy lapsed in 1997, one respondent mentioned that having the city in the PPP was one of the strategies to ensure that the city would 'bring' projects to the PPP and not leave it 'out in the cold' *'. . . So the city hands out projects to the different developers: who gets this project and who gets that project . . . and the fact that it will not let its own PPP out in the cold, makes the risk for the private parties a bit less'* (private respondent). He also, however, underlined the fact that the city had to be careful not to demonstrate too much preference for the project.

Towards the end of the project, there were some delays; these came out in the section on outcomes. Housing was not moving as well as expected and there were some rumblings from the shopkeepers. It is clear that this put some pressure on the allocation of land by the city. The crisis in 2008 also influenced the project.

> *The last projects in land development still played a role. The biggest risks related to investments were gone. It was more 'how do we get the last bits of land developed?' But the market had in the meantime completely reversed itself. When I came on board, the office market went down the tubes in 2008, but by then the biggest portion of the office buildings had been sold. I was involved in the development of the housing location; there you also saw a bit of reversal. There we had to make an effort to sell housing to two housing associations. I also was involved in the shopping centre. Now we are busy with the last land position, to find a solution together.* (private respondent)

Conclusion

The respondents focused to a great extent on their perceptions of market risk and of the risks from conflicts between public and private interests. For the city it was important to find a partner with access to the market, this was the deciding factor in its choice of partner. The private partner took this task seriously, focusing on office development first. With regard to the negotiation of interest, the organization strategy chosen was important as well as the short lines of communication to the Council from the project and steering groups. The PA ultimately focused a great deal on how decisions would be made and what would happen if disruption risks would occur.

7.6.3   Perception of levels of trust and the factors that contributed to these

Respondents indicate, on the whole, stable and relatively high levels of trust in each other. Of note is that fact that the outcomes of the survey and the levels of trust given may have been somewhat affected by the cultural aspects of rating in the Netherlands. An '8' is considered a very high score.

Changes in trust over time

The following section on trust looks first at the results of the assessment of the changes in the levels of trust over the four rounds; the results from the questionnaires are shown in the figure below.

The figure below provides a view of the change in average trust levels for the parties involved in the partnership.

Figure 7-4: Changes in average levels of trust over rounds, Brabantse Poort
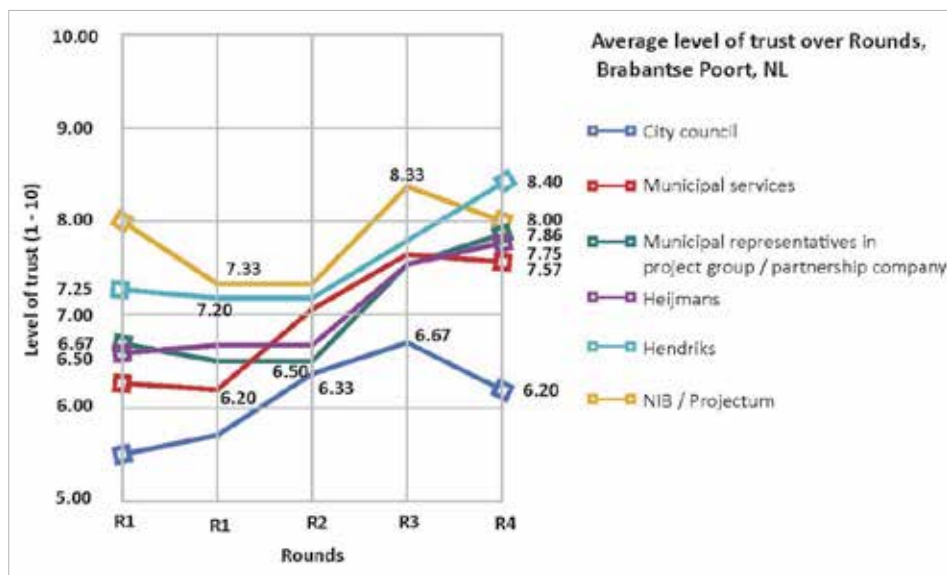
N = 8, 4 public and 4 private

When looking at the figure it is important to note that prior to signing the contract, parties worked in a project group and a steering group, with professionals from the municipal services contributing to work. Councillors took part in the steering group and had close contact with the project. The interaction was quite intense. After the signing of the contract, that city and the three private partners were represented in the BV, and there was a measure of autonomy. Though there was still interaction with the municipal services on the infrastructure, the Council and municipal services were essential parties external to the PPP. Respondents provided their perceptions of trust in these different bodies, taking note of the change after the contract was signed.

Certain respondents had less contact with the Council and the NIB, bringing the response rating down to three of eight and five of eight respectively. For the rest, seven of the eight respondents provided ratings.

Respondents showed either a consistent or an increase in perception of trust in all parties over the rounds of the partnership. The figure does not reflect this as two respondents rated the last round only (the one round in which they were involved) and their responses were marginally lower, bringing the

overall average of the ratings down (please note the NIB and municipal services).

Trust in the three main parties in the BV (the municipal representatives, Heijmans and Hendriks) rose over the rounds, but trust in the Council dropped in the implementation round (one private respondent indicated a drop in trust to 4).

Overall ratings

The survey asked respondents to provide an overall rating of their trust in the partners on a scale of 1 to 10, 10 being the highest. The table below provides the average rating per actor. The table below that provides a cross tabulation of the results, the average trust ratings by category of respondent.

Table 7-8: The average levels of trust in different actors (1 to 10, 10 being the highest)

	Level of trust in	City Council	Munic. services	Munic. rep. in project group	Heijmans	Hendriks	NIB	Munic. in BV	Heijmans in BV	Hendriks in BV	NIB in BV
N	Valid	7	7	6	6	5	5	7	7	5	5
	Missing	1	1	2	2	3	3	1	1	3	3
	Mean	7.00	7.29	8.17	7.50	7.80	7.80	8.14	7.86	8.40	8.00
	StDeviation	1.15	0.95	1.17	1.38	1.10	0.84	1.21	1.35	1.52	0.71

N = 8, 4 public and 4 private respondents[69]

The survey was set up in such a way to assess whether average trust levels were different during the initial periods of negotiation and the period of implementation when the partners worked in the BV. One aspect of interest, for instance, was whether the trust in the municipality changed once it entered the BV and worked autonomously.

The results demonstrate that average trust was greatest in Hendriks in the BV (8.40) and NIB in the BV (8.00) and that this was up a bit from trust during the negotiation rounds. The trust in the municipality during the negotiations stages and during implementation changed minimally, slightly down from 8.17 to 8.14. The average trust levels in Heijmans were slightly lower that the

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[69] Those missing stemmed to a great extent from the fact that the respondent was not involved at that time, or did not want to comment on his/her own organization.

other two private partners, rising a bit in the implementation round. This was caused by one respondent who was less supportive of the motives of the developer, stating *'Trust? Let me say this, I was always on guard'* (public respondent). Another public respondent gave a similar response.

When looking at responses cross tabulated by type of respondent, the expectation was that there would be a correlation between 'membership' and high levels of trust.[70] The table below provides some interesting results: membership did play a role when assessing the City Council and municipal services, public respondents rated a higher average trust in the two bodies than did private respondents. The same was true for the private respondents: the average level of trust was higher in Heijmans and Hendriks than the public respondents' assessment of the developers.

Table 7-9: Cross tabulation type of organization and average levels of trust

N	Level of Trust in	City Council	Munic. services	Munic. rep. in project	Heijm.	Hendr.	NIB	Munic. in BV	Heijm. in BV	Hendr. in BV	NIB in BV
Valid		7	7	6	6	5	5	7	7	5	5
Miss.	Public resp.	1	1	1		1	2	1		1	2
Miss.	Private resp.			1	2	2	1		1	2	1
Mean	Public resp.	8.00	8.00	8.33	7.00	7.33	8.50	8.33	7.25	8.00	8.50
Mean	Private resp.	6.25	6.75	8.00	8.50	8.50	7.33	8.00	8.67	9.00	7.67

Of interest were the ratings of the NIB and of the municipality. Public respondents gave higher ratings than the private to the NIB; this most likely as the NIB was perceived as protecting public interest as well. The municipal representatives in the project group and in the BV were rated almost identically by both types of respondents.

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[70] Refers to 'membership' in a type of group, for instance that public respondents would rate their levels of trust higher in their fellow public professionals, those from the same type of group.

Different dimensions of trust

The research asked respondents to measure the different dimensions of trust. The results are found below, the scale is 1 to 5 (1 = strongly agree to 5 = strongly disagree).

		City Council	Municipal services	Municipal representatives in project group/ partnership company	Heijmans	Hendriks	NIB	Municipality in BV	Heijmans in BV	Hendriks in BV	NIB / Projectum
	Took interests into account when making a decision										
	Valid	6.00	7.00	5.00	6.00	5.00	4.00	6.00	6.00	4.00	5.00
	Missing	2.00	1.00	3.00	2.00	3.00	4.00	2.00	2.00	4.00	3.00
	Mean	2.00	1.71	1.60	1.83	1.20	1.75	1.33	1.33	1.25	1.80
	StdDeviation	0.00	0.49	0.55	1.17	0.45	0.50	0.52	0.52	0.50	1.30
	Would NOT have met obligations, if their activities had NOT been defined in the contract										
N	Valid	5.00	6.00	4.00	3.00	3.00	3.00	5.00	5.00	4.00	5.00
	Missing	3.00	2.00	4.00	5.00	5.00	5.00	3.00	3.00	4.00	3.00
	Mean	3.60	4.17	4.33	3.67	3.67	3.33	4.40	4.00	4.00	2.50
	StdDeviation	0.89	0.41	0.58	1.53	1.53	1.15	0.00	0.00	0.00	1.00
	Was capable of completing the project /their obligations according to agreements made										
N	Valid	6.00	7.00	5.00	5.00	4.00	4.00	6.00	7.00	4.00	5.00
	Missing	2.00	1.00	3.00	3.00	4.00	4.00	2.00	1.00	4.00	3.00
	Mean	2.17	1.86	1.80	2.00	2.00	2.25	1.33	1.29	1.25	1.60
	StdDeviation	0.98	0.38	0.45	1.22	1.41	1.26	0.52	0.49	0.50	0.55
	Committed more (time or personal resources) to the collaboration /project than was specified in the contract										
N	Valid	3.00	6.00	4.00	5.00	4.00	4.00	6.00	6.00	4.00	6.00
	Missing	5.00	2.00	4.00	3.00	4.00	4.00	2.00	2.00	4.00	2.00
	Mean	4.00	2.67	1.50	2.00	2	2.33	2.83	2.00	2.00	3.17
	StdDeviation	0.00	1.03	0.58	1.22	1.41	1.53	1.33	1.10	1.41	1.33
	Had, in general, good intentions										
N	Valid	6.00	7.00	5.00	6.00	4.00	4.00	7.00	7.00	4.00	5.00
	Missing	2.00	1.00	3.00	2.00	4.00	4.00	1.00	1.00	4.00	3.00
	Mean	2.00	1.71	1.60	1.67	1.00	1.75	1.33	1.57	1.25	1.80
	StdDeviation	0.00	0.49	0.55	1.21	0.00	0.50	0.52	0.53	0.50	0.45
	Sometimes did not meet their obligations, but were willing to give tem the benefit of the doubt										
N	Valid	5.00	5.00	4.00	5.00	4.00	4.00	5.00	4.00	4.00	4.00
	Missing	3.00	3.00	4.00	3.00	4.00	4.00	3.00	4.00	4.00	4.00
	Mean	3.20	3.20	4.33	3.75	4.33	3.33	4.40	4.50	4.67	3.75
	StdDeviation	1.10	1.10	0.58	1.26	0.58	1.15	0.55	0.58	0.58	1.26
	Total	2.59	2.53	2.73	2.58	2.44	2.48	2.56	2.54	2.48	2.29

First, it is important to look at the assessment of the second and last statements. The second (*would NOT have met obligations, if their activities had NOT been defined in the contract) refers to whether a party has to be subjected to a contract to ensure that they meet obligations. The reaction was largely negative (so controls were not necessary) but the 'highest' responses were given to the municipality (in the project group (4.33) and within the BV (4.40). The responses to the last question were also negative, quite 'high' for three of the partners in the BV (4.40, 4.50, 4.67 respectively). It became apparent that respondents did not understand that question, but provided some interesting results in any case: there was a negative response to the idea that the parties '*did not meet their obligations*'.

With regard to the remainder of the results, the statement with the next highest rating was: (1) *. . . took interests into account when making a decision*, three of the partners received high ratings (1.33, 1.33 and 1.25 respectively) (3) *. . . was capable of completing the project/ their obligations according to agreements made*, the three partners received similar results (1.33, 1.29, 125 respectively). NIB, interestingly enough, did not score as well related to these two statements.

There was not substantial reaction to (4) *. . . committed more (time or personal resources) to the collaboration/project than was specified in the contract,* expect with regard to the municipality in the project group (1.50).

With regard to statement (5) *. . . had, in general good intentions,* it is clear that the perception was that Hendriks had good intentions throughout the whole project, as did the municipality in the BV. The score given to Heijmans was a bit higher (1.57).

The results are somewhat affected by the response rate, respondents were unwilling to assess their own organizations. Still, they demonstrate a relatively high assessment of the dimensions of trust for three of the partners.

Factors of trust

Respondents were asked to rate a series of statements concerning the basis of trust, giving ratings from 1 to 3 (1 = very important, 2 = relevant, 3 = not so relevant). The results are as follows:

Table 7-10: Factors that build (or break) trust

		N		Mean	Std Deviation
		Valid	Missing		
CalBase	I must have sufficient information on the other party's reputation, qualifications and past performance record.	8	0	2.00	2.17
CalBase	I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	8	0	2.63	0.52
KnBase	The other party must be willing to share information and resources	8	0	1.50	0.53
KnBase	I must get to know them well enough that I am able to predict their behaviour	8	0	1.88	0.64
KnBase	On the basis of the interaction, I come to know and respect their capacities	8	0	1.50	0.53
IdBase	We must learn to 'speak the same language'	8	0	1.75	0.46
IdBase	We must come to share the same values and norms	8	0	1.63	0.74

N = 8, 4 public and 4 private respondents

Respondents indicated that two knowledge-based factors of trust were the most relevant in building trust: (1) *The other party must be willing to share information and resources* (1.50), and (2) *on the basis of the interaction, I come to know and respect their capacities* (1.50). This indicates the priority given to openness and transparency in the relationship and building trust over time by getting to know what a partner is capable of doing. This was confirmed in the interviews. The next most relevant factors were *we must come to share the same values and norms* (1.63) and *we must learn to 'speak the same language'* (1.75), factors of identification-based trust, factors in the third phase of the trust cycle.

Also of note is the fact that five respondents of eight felt that *penalties in a contract* were unimportant, and three relevant. There was little need for contractual monitoring.

Factors that contributed to the build-up of trust

In Round 1, trust build-up stemmed from factors such as (1) the fact that the some of the parties knew each other and had worked together, and (2) the reputation and the experiences that the developers brought with them.

During the tendering procedure, the consortium had several strong points going for them other than the strength of their proposal. First, the NIB (with 49% of their shares owned by the government) had good contacts in both the private and public sector (Pennink 1997). This was strategic for the private developers, creating the perception that the NIB could straddle the public and private interests in the relationships and would be of help. This is the same perception that the city came away with from the tender discussions (private respondent, public respondent).

> It quickly became clear that the city took the combination (of the partners) seriously into account in their selection process, and the intention was to set up a PPP with the city as a full partner . . . That was the first thing, two was that the fact that the Bank was taking part, not only gave trust that this was not only about short-term gains. One had the idea, then, that the Bank might serve public interests more and Heijmans and Hendriks, the two private developers/builders more the real estate interests. Now, that would provide a good balance. These were all arguments that the city gave, in addition to several substantive that were good, to select the combination (of parties). (private respondent)

NIB and Heijmans knew each other and had past experience working with each other.

> Heijmans had a longstanding relationship with the Bank. Hendriks, honestly, we knew less well, it was also a smaller company than Heijmans, naturally, but was recommended by Heijmans to take part in the consortium. The relations are as they are, and that is how we became involved. (private respondent)

Other respondents also mentioned the fact that the two developers had a 'Brabants' approach, this stemmed from the fact that the project was located in the Brabant region of the Netherlands and the developers were locals (multiple interviews, public/private). The NIB was from The Hague.

Another factor was the previous experience of the developers. The developers had solid experience as builders, but limited experience with multifunctional, complex projects (public sector respondent). Heijmans and NIB had experience with a project in Den Bosch, again working in cooperation with government bodies.

> Heijmans had already done Pettelaarpark in Den Bosch and that was often given as an example of how you can create an office area of high quality . . . That was completely finished . . . the urban planners had positive things to say about it in the time, and still do by the way . . . they became beautiful buildings, in a park, with a vision. (public respondent)

This confirms that at the end of the Round 1, initial trust was based on the fact that the public sector had sufficient information on the consortium's reputation, qualifications and past performance record. Within the consortium, the developers and the Bank had worked together and therefore knew the capacities of each other and what to predict in terms of behaviour.

Round 2: negotiating the Letter of Intent

During the initial negotiations, the partners began to gain some experience in the relationship. Public respondents mentioned that they formed the perception from discussions that the developers were not out to pursue only their own interests, and therefore were people with whom they could work (two public sector respondents). Factors of trust related to (1) the rules of the game from the outset to maintain full transparency in discussions, and (2) experience gained from coming out the discussions with win-win solutions or a perception of give and take.

One respondent from the public sector assessed why she perceived initial trust in the developers:

> *This has something to do with they were people that I thought:* 'Well, in the land of developers you have all kinds.' *The ones that were only after fast money; these were not the ones sitting at the table. These were the types of people that understood that you have to build up a long-term relationship with each other because you were beginning a long-term partnership. When you know that of each other, then you deal with each other differently than thinking:* 'I am going to step over you to get rich.' *That would have never worked, I think . . . I always got the impression that on a personal level, in any case, the people with whom I spoke who were on my level, so to speak, that we got to work constructively and got along as people. You know, I understood that they had to earn a living. I had nothing against this just as long as it happened honestly. They also understood that we were there to represent the city and were trying to do good things for the city without having the tax payer pay too much. These were the interests that we told each other at the beginning. (public respondent)*

Both the public and private respondents agreed on their perceptions of the initial interaction as a factor of trust build-up, stating that discussions were characterized by transparency and openness, laying all interests on the table, coupled with no double agendas. One private respondent stated:

> *The project was a challenge, looking at the time that we got started. It is just talking to each other, laying interests on the table, being a listening ear for the different actors; finding out where the different interests lie and dealing with these.* (private respondent)

He referred in particular to the fact that they were working in the face of high market risk, and so quickly had the sense of '*trying to do something together*'. Other respondents confirm this. A public respondent mentioned:

> *It was a completely transparent process (negotiation with private partners). We did not have any hidden agendas. The aim was that we could take steps very quickly. If you want to take steps quickly then you have to put everything on the table. And because of this we achieved results every week. The planning process ran in parallel, so they were busy too. With the LoI, they were busy working out the Master Plan further, the zoning plan and other procedures and the private parties (and I think that this was also desirable), they quickly had trust in us as the government because we showed them that we followed up on what we stood for. That the city was prepared to accept a loss on the land sales. Due to the fact that we made quick progress in the realization of the first property. Because of the fact that the parallel processes were going well, you had trust that we could manage to put together the contract. They were also busy in parallel making their construction drawings. By 1990, we had already built the first building.*
> (public respondent)

This quote points to several factors of trust. For one, the willingness on the part of all parties to share information and resources, a practical need when faced with a high working tempo. This respondent then refers to the ability of the city to deliver. He mentions this process as essential to getting to know one another, to learn about mutual capacities, to be able to predict behaviour and to respect one another.

The private sector confirms the perception of the public respondent. Working together and gaining experience supported the growth of trust. The city worked to speed up the process with the developers to ensure that the first client was brought in. The speed with which activities took place contributed to reducing the perception of risk.

> *(The municipal team) had to completely alter the process of servicing the land. Because, in fact, it could not go normally, the process. They had to do an article 19 ahead of time, for the urban plan and detailed plan. They did that fantastically. Then a tremendous speeding up develops because you are already doing what you are still discussing doing with each other. And another reality develops and a lot of energy. This really contributed to trust . . . actually already working together, but on the project level.* (private respondent)

One public respondent went so far as to state that the parties at the negotiation table began to 'speak the same language' or that they framed their thinking in similar ways '*someone where you get the feeling that they*

frame their thinking in the same way, that they share the same considerations' (public respondent).

Interestingly, trust was tested during this round. It appeared that a public official leaked information about the project to the press. This was a real risk for the developers, mentioned also in the previous section, as it implied the possibility that other developers would jump on buying up land, and the land would be more difficult to acquire at an affordable price. This was a real issue in the uncertain market of the time. This respondent refers to the openness of the discussions to resolve this as contributing to trust.

> *Trust has a lot to do with the fact that you think someone will not cheat you. As soon as the municipality of Nijmegen was able to make clear that the information leak was not a conscious attempt, but a stupidity of a public official, the problem was still there, but the trust was back again. The point is that there were no double agendas; lay everything on the table. I think that is what happened there . . . What is important, and this happened in Brabantse Poort, is that all of the opinions and the tricks and tips come to be on the table. And that there are not hidden agendas or things kept secret, with which you later try to tackle someone. That happens a lot, mind you.* (private respondent)

Round 3: negotiating the Partnership Agreement

Again, for this round, respondents mentioned factors such as sharing information, trying to come to solutions, speaking the same language and therefore the feeling of 'we' as contributing to trust build-up.

> *Why? Accessible, open, no walls, no airs, humour. At one of the sessions, we had to finalize the PA, and it happened easily. It was not difficult anymore (things were settled). My perception was: there are people sitting around a table that want to do this together. I was there to help with the contract situation. I found an atmosphere there of a sort of homogenous determination: 'We are going to do this!' I noticed this. Interests were laid on the table and discussed.* (public respondent)

One public respondent mentioned the process of getting to know each other and being able to predict behaviour as a factor. He mentions this as a continuation of the trust build-up in the previous round.

> *You see that also if you can communicate well and you can make clear that your environment is asking for other things to come to a solution than what you can achieve from the business side. Then you have to grow towards each other . . . If you work together (notes in contrast to working separately), you have to at least be knowledgeable of the working methods of one party as it relates to the other. You have to be knowledgeable but also have understanding. That is not there on the first day. (A private developer) can*

get very angry at some point and say: 'Why is it taking so long?' *And you start explaining that the city works like this and can only work like this. You have to know that of each other, you have to build experience.* (public respondent)

The second and the third clients came fast, even before the signing of the PA. Again, the demonstration of the ability to deliver and the confirmation of expectations built trust:

So for the second time in a relatively short period, we asked the municipality: 'Hey, we are going to do things ahead of time, we can again house a client, will you work with us on this?' *They cooperated with us again. And things began to roll, and in the meantime, there was third client (who is still there by the way) . . . the municipality let us see that it was serious, quick-witted and wanted a good partnership with private parties. Yes, this was the basis of a good partnership. For the time that I was there, it always worked that way.* (private respondent)

Another private respondent emphasizes the capacities of the partners as an important factor, calling them 'professional' (private respondent).

What I can remember, is a feeling that even though there were many problems with each other, that there was a professionalism about things and that this was very much dependent on the people working together, and that they were able to separate out, that this is a business problem that we are having and that this does not influence that we get along . . . What I remember is that Brabantse Poort never derailed. That people kept working together in spite of the fact that there were sometime big disagreements about how something should be dealt with. Trust, as I said, has a lot to do with who is 'sitting at the table' . . . The qualities of a professional are people that put their heads together to think things through. (private respondent)

One important factor that was prevalent in this round was the trust between municipal staff. This was mentioned by all public respondents, except one (who commented to the contrary). In particular, several private sector respondents noted that this trust internally resulted in their public partners being able to move freely and to come to quick decisions, with support. This trust in people making the correct kinds of decisions in the absences of a control mechanism also reduced the perception of risk on the part of the partners.

You had direct relationship with the management and we also had trust from the Council. I always took part in all of the commissions. If one of my projects were being discussed, you were invited to join; the Councillor answered a few questions and then gave me the word. Then I answered as an administrator the questions of the Council Commission. Then, you went with the Commission to the other side of the street to have lunch and you talked a lot about content and what you were doing and the challenges that

you faced. It was the way we worked then . . . It was a very informal exchange of information at that time. (public respondent)

This internal trust, in fact, contributed to the ability of the city's team to move quickly on the projects and on building the properties in Rounds 2 and 3.

Round 4: implementation

The implementation phase was a long period of working on project components and developing a working ethic. One of the systems put in place was checking the construction budgets submitted by the daughter building company of the developers to ensure that the mark-up was not more than agreed and that the service provided the appropriate level of quality required. This entailed using a costing expert hired by the NIB. One private respondent described this as a process of transparency, when one partner gave the 'control' over to another to apply checks and balances. This was a key factor in building trust, that expectations continued to be met and abuses did not occur.

In the process, I experienced that the lead was momentarily given over to two parties (so the private parties relinquished the lead). So, the market parties brought something in, and at that moment, the city and NIB had the lead in the control. So they had the review done and brought this back to the partnership. So you saw 'controlled' trust. One party provided it, transparent and open for review and then the other party took the lead in control. It was then brought back into the PPP, into the group that made the decisions . . . In the management team, affairs were prepared, and decided and controlled for the SB. (private respondent)

He then also reiterated that, over time, the BV built up an organizational culture of professionalism and 'getting things done. He commented on the continuity of leadership, of the knowledge and understanding of the issues in the project.

When you walk in there, then you feel in the meeting right away how things are going. You notice it very quickly. I found it a pleasure; I came into this partnership and into this organization and I noticed that a large number of interests from the past were translated into a positive attitude. So the successes and the less good affairs came back sometimes to the table, with jokes. It was a type of process (that demonstrated) how parties achieve collaboration. If there was a constraint or some kind of point, then (we deal with it rationally, coming to) the right decision together. (private respondent)

He emphasized the desire to take on this culture of trust when coming into the organization, and the need to seek out the rules of engagement:

First you look at how things are going. Then you assess them. At a given moment, you learn the 'rules' of the partnership, what is normal and what is not normal. You do not read this in the documents. If you read the contract, you read the principles and then you know all of the facts. But actually, these are lying on the shelf and you do not work with them. You in fact adopt the rules of the engagement that are present within the parties, and you act accordingly, with your own trust, from the interest of Hendriks, and (for the project). Again, openness, and transparency. And you speak with each other from your own interests and a common interest, and then look where the opportunities for solutions lie. (private respondent)

One could argue that the partnership had reached a period in which the parties learn to *speak the same language* and had come *to share the same values and norms,* on a professional level.

It is interesting to note, on the other hand, that both public and private respondents cited the development of the more personal part of the relationship as a key factor in building trust, also contributing to the development of a common language. Respondents describe an investment on the part of the developers in out-of-office celebratory gatherings and the development of more informal relations. One public respondent called this a '*smart corporate strategy*' (public respondent). There was some concern on the part of many respondents (both public and private) that this would now, in this day and age, be regarded as coming close to corruption.

Again, trust was tested a number of times, but this does not seem to have influenced the results substantially. One private respondent mentioned a moment when a client approached the city and did not want to locate in Brabantse Poort. Agreeing to allow the client to locate in another location would have been an ignorance of the market segmentation policy and a real test of trust. The respondent admits that doing this would have put a '*dent in trust*'.

Ultimately, the municipality accepted the risk that the client (SVB) would walk away and we were successful in persuading the city from the outset that this would not happen. So we, in fact, got the trust that we would talk to the client in such a manner that this would not happen. We went to (Johan) the client and listened to what he wanted; at first he wanted absolutely nothing. In the end, it was a pleasure to work with him, but in the beginning they are brought in contact with someone that is not their primary choice. I think that they also trusted in us that if the SVB would really go that we, in the end, would have agreed to let them locate elsewhere. Because at the moment that you do not allow the client to located in your area, you do not serve any objective by letting him go to Arnhem. I think that the

municipality also had the unspoken trust that we would not let it go so far
that we would not come to an agreement with the SVB and that they would
look elsewhere. Then you must have the trust that the other will actually
serve your interest. And they knew that we would do that. (private
respondent)

There were a few other incidences mentioned, but the respondents indicated
'it is about give and take, and in this instance it was a time of taking (on the
part of the other partner)' (private respondent).

7.7   Conclusion

As in the previous case study chapters, this section looks at the conclusions
one can draw from the case analysis.

7.7.1   Interaction

When looking at this interaction, of note is that the municipality listed as one
of its preconditions for entering into a partnership *'a broad basis of trust*
between participating parties' (PvA 1989). This implies that the city could or
would not have entered into the relationship had some aspects of a trust
relationship NOT been satisfied. There was an inclination to trust.

In fact, the relationship was characterized as a 'first love' relationship. As one
public respondent put it, *'Yes, there was trust, because it was the first*
time . . .' (public respondent). She also mentioned that the city had never
experienced this level of trust prior to this project, and never did again. It was
the first time for all parties. For the city, it was the first time to enter into a
PPP and to take a step away from the traditional 'urban renewal' approach
in the Netherlands of the 1980s (public respondent). The developers and the
bank had taken part in PPPs, but never on such a long-term, multifunctional
project. This project was important to all parties, and there was a strong
interdependence.

Interviews revealed another view on the nature of the trust on the part of
the municipality. One public respondent (others similar) mentioned that the
municipality negotiated with naiveté and trust that bordered on a kind of
'blind faith'. The municipal managers put themselves in a position of
vulnerability when it came to their private partners. This could have provided
the private partners with the opportunity to take advantage and to act
opportunistically, but most respondents did not perceive this to be the case,
though a few mentioned this leading to minor problems in the project.

In contrast, most respondents mentioned that discussions were characterized by high transparency and openness (laying things on the table and taking the interests of the other into account, mentioned by all respondents). Others mentioned that this translated into a sense of mission and common purpose, and trust. Of note is that this type of vulnerability was present in the US case (for different reasons), and in both cases, the private partners chose not to take advantage of the vulnerability, not to act opportunistically.

7.7.2 Dynamics of trust

The trust figures reveal a strong growth in trust over the length of the project and PPP, a trust cycle. The most substantial growth of trust was in the partners at the centre of the partnership, whose interaction was the most intense. The overall assessments of trust and interviews confirm high levels of trust, particularly in the core team.

Of interest is, when looking at the cross tabulation, that there is once again a link between 'membership' and high levels of trust. Similar to the Polish case (but not the US case), respondents gave higher trust scores to those from their own sector. This leads one to conclude that partners tend to trust 'their own people' more in a partnership, maintaining strong links in their organizations. And that perhaps trust in a partner from another sector is often laced with some scepticism.

7.7.3 Perceptions of outcomes

Respondents perceived the outcomes of this project and partnership as positive, also stating that this project could not have been realized without the partnership (both public and private respondents). This is a strong statement on the value of the partnership. Outcomes occurred at key moments, for instance when the partners completed the one year of negotiating the LoI and felt satisfaction with the results, and next when the partners were able to attract the first client (early on) and the second not too long after. Another key outcome was when the partners were able to successfully negotiate all the details of the partnership agreement and implementation plan, then followed by the successful completion of the construction of the initial buildings. The project was now more secure and funds were coming in, and it was becoming an attractive and popular project. Partners concurred, with slight differences, on the nature of the outcomes.

Results of the questionnaire confirm this, also in particular the agreement on the part of the respondents that the project contributed to a high-quality neighbourhood. The partnership also contributed to the financial success of the partners, and the reputation of Nijmegen.

7.7.4 Perceptions of risk

As in the US case, there were certain circumstances at play from the beginning; the perception of risk was high. The economic recession, market conditions and the reputation of Nijmegen made for a highly risky and charged situation. The risks at the outset were external, political and market/demand risk.

What were the coping strategies? To market the project strenuously – both partners did this. The first client came within three months of the start of talks, just two years before the signing of the contract. In fact, negotiations were occurring parallel to getting things done and the first building off the ground. Given the single purpose of responding to the client, the only alternative was to 'just get going'. Prior to having a formal organizational relationship, teams came together (as in the US) to get the job done. This also gave the parties a chance to 'test out' the working relationship and to see if the promises made and expectations built would be met.

The perceived project risks as mentioned by respondents in the interviews reflected again the interests of the parties. Negotiations revolved around project design, levels of quality, cost estimations of project components, exclusivity of the project to reduce potential competition, etc. and the different interests with regard to each. Of concern to the city were investments in infrastructure and the cost of land sale to the PPP, a government task and risk.

This case in particular highlighted a perception of risk on the part of the city that its representatives in the BV were faced with a conflict of interest: in making decisions as members of the BV and as public officials protecting public interest. This came out in this case in particular.

In addition, there was some question as to whether risks were evenly shared among partners, the perception of some of the public respondents were that this was not the case, the public sector having to shoulder more with less of the return. Of importance overall is that the perceptions of risk in the partnership remained relatively strong.

7.7.5   Factors of trust

The results of the questionnaire revealed that the most important factors were (3) *willingness to share information and resources* (in line with the Polish and US cases), (5) *I come to know and respect their capacities* (in line with the US case)*.* These two are knowledge bases of trust.

Interviews, on the other hand, mentioned all the factors that came out of the questionnaire. Looking at the analysis in the previous section, it is, again, interesting to note that factors were mentioned in a particular sequence, over the rounds, and as the relationship developed. In fact, first mentioned were the calculus bases of trust (previous experience and reputation, for the most part), then knowledge bases of trust (openness and transparency, or said in another way, willingness to share information and resources, as well as predictability, and respect for capacities, the professionalism with which partners interacted/their ability to deliver). In the interviews dealing with the implementation of the project, much was said about how partners came to frame things in the same way (*speak the same language*) and how they 'grew towards each other', creating rules of engagement and forming a common organizational culture (*sharing norms and values*). Of all the cases in this research, one could conclude that there was evidence of identification-based trust, and that the factors contributed to creating trust were of a 'higher order', creating a stronger and resilient trust.

The partners mention that this interaction involved working together and through obstacles, negotiating and settling difference, producing outcomes that were satisfactory for both parties. One of the key characteristics is the development of a process that governed how decisions were made. One can argue that this process of overcoming obstacles successfully led to the build-up of trust. This is linked to creating predictability, to building respect for capacity and developing the norms of the relationship.

7.7.6   Influence of trust on perceptions of outcomes and risk

Influence of trust on outcomes

The figure below show the sequencing of strategies – outcomes – trust build-up – strategies. Again, the figure shows that trust building is a result of a strategy, (a behaviour) or an outcome. When trust is built, this will then lead to further strategies on the part of the partners. In this case, again a positive cycle of outcomes.

Figure 7-5: Influence of trust on outcomes. Dutch case
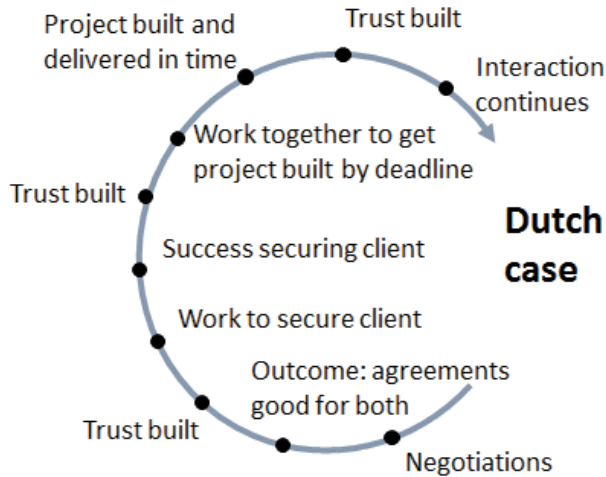
In this case, respondents argued that it was the strength of the interaction, the ways of working and the trust that produced the outcomes of the project.

Influence of trust on risk perceptions

This case demonstrates a circumstance in which the trust built over time aided in reducing the perception of risk, but mostly political risk and certain aspects of market risk. As mentioned above, the city's trust (naiveté or blind faith) influenced the perceptions of risk, to the point that it was willing to make itself even more vulnerable to the private sector.

Of note, though, is that when trust was high, partners still had a strong perception of risk. One risk related to the management and negotiation of interests. Clashes of interests were apparent during negotiations, and partners continued to be aware of the tension, thought they found a way to deal with it. This ended up being more of an issue for the public sector in the Dutch case, as in joining a private company the public party had to find a way of balancing public and private interests in decision making. Trust was sufficient to help manage those interests.

In the implementation phase, the small squabbles that arose related to the execution of their respective roles and their characteristics as public or private agents. This was evident when asking of the private partners: 'Why are you not taking on more of the more social and less profit-oriented bits of the project (the more difficult portions)?' Or, asking the City Council: 'Why

don't you take my interests into account when allocating the land?' These issues did not break trust but tensions were still there.

This case brings up an interesting point. The city was aware that it was 'giving away too much' and that as a result, the risks were not well shared. There was strong risk perception on the part of the city related to the land and infrastructure and the financing of this, and the burden this was to them. There was, also, an awareness on the part of city representatives that the private sector was acting opportunistically, gaining as many concessions as it could get. However, this was 'transparent opportunism'.

There was still high and growing trust between partners, in spite of the perception of the risks. Respondents report that the process of trust growth was dependent on the ability of individual partners to accept the characteristics of other partners ('I understood that the private partners had to be opportunistic, this was their job'). In the partnership, each partner had a role to play and interests to protect and this was understood. One respondent from the Board indicated that the relationship was based on 'tit for tat', one time the private partner made a concession, one time the public sector did. This type of relationship can be likened to social exchange theory, where it is understood that partners trade off making themselves vulnerable to each other.

8 Empirical Conclusions

8.1 The results[71]

This chapter analyses the data per case study and compares these, guided by the research questions.

Is there evidence of a trust cycle in partnerships and did trust have an influence on risks and outcomes as perceived by the partners?

- What was the nature of outcomes and risk as perceived by the partners and other actors over the rounds of the partnership?
- What were the dynamics of the growth of trust over time as perceived by the partners and other actors involved over the rounds of the partnership?
- What important factors led to the growth of trust?
- Did trust have an influence on risk and the outcomes achieved, and if so what kind?

8.2 The trust cycle in the three case studies

Was there evidence of a trust cycle in the three cases, and what where the dynamics of trust? The three figures show the changes in average trust as indicated by the respondents in the three cases (the Polish, the US and the Dutch case, respectively). The figures show, for the Polish case, highly dynamic and variable levels of trust in all parties, over the two periods of the partnership, the Urban Renewal Group Norway (URGN) and American Retail Systems (ARS) phases. This is in contrast to the two other figures, which show less variable, but consistently rising levels of trust in partners. There is evidence of trust cycles in all three cases, though one shows how trust can vary, rising and dipping.

The results in the figures are fairly consistent with the overall assessment of trust from the questionnaire. In the US case, trust in Battery Park City Authority (BPCA) was 9.21 and 7.92 in Olympia and York (O & Y) (slightly lower than in the trust cycle figures). In the Dutch case, the results are very similar. In the figures: Hendriks 8.4, NIB 8.0, City 7.86, Heijmans 7.75, the overall assessment: Hendriks 8.40, NIB 8.00, City 8.14, Heijmans 7.86. Peripheral parties were rated lower.

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[71] Please note that no respondents are cited by name, for reasons of anonymity.

The difference between the results of the trust cycles and of the overall assessments of trust in the Polish case were more of a surprise. In the figure: City Board/Negotiation Team/Supervisory Board (CB/NT/SB) from the city 5.91. URGN 3.67 and ARS 5.36, whereas overall assessments were: CB/NT/SB 6.79, URGN 6.71 and ARS 7.20, external parties lower. It is difficult to explain these differences.

What is interesting to note in the three figures is the dynamics of average trust in the partners central to the partnership (the contractual parties). In both the US and Dutch cases, the highest levels of trust over time were attributed to the main partners (*In the US:* the BPCA and O & Y; *in the Netherlands:* the municipal representatives in the negotiations team and in the partnership company, as well as the three private consortium partners). These were the partners who interacted the most, in whom the most (time) was invested, and whose behaviour and competence were most important for the outcomes. External parties were less the focus of trust and were given lower average ratings.

Figure 8-1: Changes in levels of trust, all rounds, three case studies
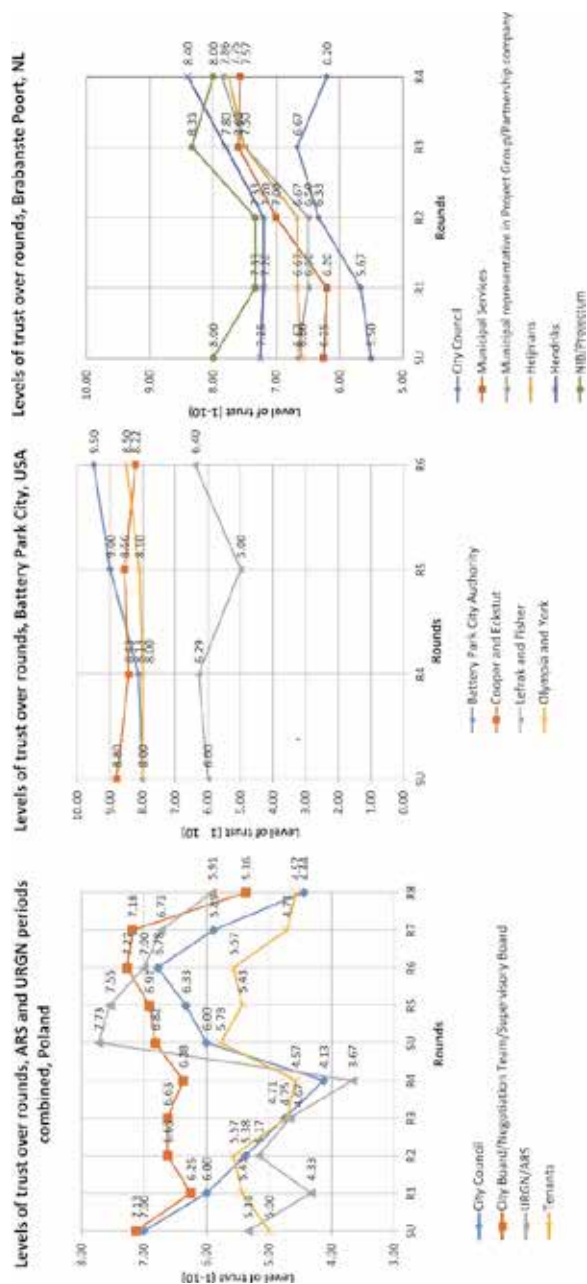
In contrast, in the Polish case, the trust in the private partner was the most volatile, with public respondents indicating extreme changes in perceptions over time (*URGN:* rising in the second round during negotiations, and falling drastically in Round 3 when funds did not appear as promised, *ARS:* starting high during the tendering process and falling as expectations over time were not met). Of note is the fact that the trust in the CB/NT/SB was fairly constant throughout the process (although it dipped substantially at the end), but did not suffer from as much volatility as the others. Outsiders, such as the City Council and the local tenants, were perceived by many respondents as being difficult and obstructing the partnership.

What was the nature of the deterioration in trust in the Polish case?

The figures for both phases show a steep, but gradual decline. However, taking into account the time spent on the two partnerships (four and a half years on URGN versus under two years on ARS), one can conclude that the drop in trust in the ARS period was more abrupt than in the URGN period. As mentioned in the conclusions in the case chapter, the URGN partnership had time to develop 'relational' aspects, ARS had little time to do this.

Looking at the nature of decline in trust in the case study and comparing this to the theory on the breakdown in trust as described by Lewicki and Bunker (1996), the loss of trust in the two phases appears to be in line with the theory.

During the URGN phase, the loss was gradual. In the end, the feeling of loss and anger was extreme (figures show extreme dips in trust levels). After two years of interaction (negotiating) and two years of inaction (nothing concrete on the ground), the city was forced to reassess its perception of URGN. Respondents admitted questioning their original perceptions, at a certain point. The realization that the project was doomed took time, and the city based its decision to stay in the project the last two years on the word of URGN. The city gave URGN the benefit of the doubt. This was true also for URGN. When its intense efforts in the two years after negotiations to find funding were unsuccessful, the organization was disappointed in the attitude of the city. The perceptions of the tenants were also extreme, after the building of expectations. Their scores had a substantial influence on the figures. These types of perceptions, as described in the literature, are characteristic of trust based on *knowledge*.

With regard to ARS, initial trust was based on the developer's reputation and the fact that it came with funds (thereby ensuring the continuity of the project and reducing the perception of risk on the part of the city). ARS's initial trust in the city was based on what seemed to be solid promises of a fruitful project. It eroded from that point on. Looking at the table and taking into account the time in which the drop in trust occurred, the erosion in the ARS phase was quick in comparison to the previous phase. These perceptions are characteristic of trust based on *calculus.*

Trust in ARS dipped, but trust in the city, in the Supervisory Board, dipped even more. From ARS's perspective, the break in trust in the city was severe, characterized by high levels of anger and disappointment. This differs from what Lewicki and Bunker contend: they argue that in the first stage of trust build-up the reaction to a trust violation can be fairly inconsequential. This implies that the expectations that ARS built in a short time were substantial and the violation on the part of the city was perceived as extreme. The breakdown in trust is, perhaps, as Lewicki and Bunker also contend, linked to the nature and magnitude of the perceived violation.

One can conclude that in the URGN phase, trust had reached a more resilient form and was harder to influence. One can also conclude, in the ARS phase, that trust was based on calculus, did not get beyond the initial level, and was less resilient. The experience of working together, though 'unfinished business', did not build trust. In addition, the nature and magnitude of the violation had a real influence on trust breakdown.

The figures demonstrate, on one hand, the dynamics of the trust cycles in the three cases, with one case in which certain factors worked against the build-up of trust. The difference in the factors that contributed to both the build-up and breakdown of trust will be analysed in later sections. On the other hand, the figures show that trust in the central (contractual) partners is often the most important to respondents; this is the party with whom there is interdependence. In effect, a party will prioritize in whom to trust and in whom to invest the time to build trust. And when trust is broken in that central party (URGN and ARS periods), the break in trust is substantial.

As stated in theory, this underlines that interdependence is an important condition for trust. Trust is important when it relates to partners upon which you depend for knowledge and resources.

Dimensions of trust

The table below provides a quick view of the comparison of the assessment of the dimensions of trust in the partners in the three case studies. To simplify the results, the table includes trust in the central partners and the only responses to the dimensions that were perceived as most important. Of note was the fact that the three dimensions that were seen as most important were the same in all cases, leading on to conclude that the respondents in all three contexts had the same notion of trust. The most important were:

- Under the heading of 'goodwill', the table included responses to '*took interest of the collaboration into account when making a decision*' and '*had good intentions*'
- Under the heading of 'capable': the table included responses to '*was capable of completing project/obligations according to agreements made*'.

The table attempts to capture the nuances of the results. What is clear is that respondents in all case studies rated the goodwill of all partners as high (substantial or relatively substantial); the intentions of their partners were not in doubt. In the US and Dutch cases, partners were rated as being capable. In the Polish case, this capacity was put in question during the process of partnering. The ratings were not low, but merely average.

	Goodwill (+)	No goodwill (-)	
Capable (+)	- BPCA - Coopers and Eckstut - O and Y		- very capable, substantial goodwill - substantial goodwill, capable - substantial goodwill, capable
Not capable (-)	- City of Nijmegen - Heijmans - Hendriks - NIB - URGN - City Board/ Negotiations Team - ARS		- very capable, substantial goodwill - very capable, substantial goodwill - very capable, substantial goodwill - capable, relatively substantial goodwill - substantial goodwill, capacity in question - relatively substantial goodwill, capacity in question - relatively substantial goodwill, capacity in question

It is striking that the respondents were able to differentiate key dimensions of trust. This leads one to believe that both dimensions of trust are important, and that trust is a multidimensional concept.

The Dutch case provided some interesting results. The questionnaire asked respondents to rate the dimensions of trust, in two periods: prior to and after joining the private company (BV). The research did not do this in the other cases. What was interesting was the change in the results. In all cases, the average levels of trust, in all three dimensions, improved over time, for all partners. This reflects the results in the trust cycle, and the increase in trust over time.

Finally, contrary to the other cases, the respondents in the Dutch case gave notable responses to dimensions relating to the partners (capacity or intention) to meet their obligations. Respondents provided high scores, reflecting the perception that all the (core) partners were good to their word (would have delivered even without a contract) and able to deliver according to agreements. The ratings of these dimensions of trust reflect the perception of the respondents that the core partners would meet the expectations built (deliver with competence and without controls).

8.3 Influence of trust on outcomes

The results of the trust cycle figures are consistent with the perceptions of the outcomes of the interaction and of the project on the part of the respondents. The interviews revealed dissatisfaction in and regret with regard to the outcomes in the Polish case, and high levels of satisfaction on the part of the respondents in the US and Dutch cases. The table below gives you the respondents' assessment of (different dimensions of) outcomes overall in the three cases.

Table 8-1: Perception outcomes overall in all case studies (1 highest)

Outcomes	Poland	USA	NL
1 -5 (1 highest)		Mean	
I am satisfied with the results of the collaboration/project	3.93	1.33	1.75
The goals of my organization were met by the partnership	3.64	1.47	1.63
The partnership led to additional investments than would not have occurred if my organization had worked alone	3.38	1.79	1.63
The collaboration created a number of innovative ideas, concepts and plans	2.86	1.57	2.00

The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	2.82	1.13	1.25
Working closely together led to improved cooperation between partners	3.13	1.60	1.88
Working closely together led to improved coordination of project elements	3.08	1.64	1.86
Working in partnership led to long processes of decision making and additional costs	2.58	3.13	4.38

For both the US and Dutch cases, interviews with respondents also confirmed the results of the overall assessment of outcomes in the questionnaire, they stated satisfaction with the collaboration as a whole and with the fact that the project contributed to the improvements of the project area. In the Polish case, interviews indicated dissatisfaction with the outcome of the partnership, but an indication that the interaction did, in some cases, result in innovative ideas and that the project made some contribution to improving the area. Respondents agreed that this project and partnership was not given a 'fair chance'.

Is there a connection between perception of outcomes and the changes in trust at different points of the trust cycle? Each case study chapter charted and analysed the strategies of the partners over time, and the outcomes that these produced. The chapters also analysed, per case, whether the perception of outcomes in different rounds influenced the growth of trust. The figures are provided below to allow for comparison.

The figures show the sequencing of the 'strategy-outcome-trust-strategy' process. The four figures show the strategies employed by partners in the partnerships for all three cases, the outcomes produced, and the contribution of this to trust build-up (and the trust cycle) or trust erosion and breakdown. This is followed by strategies as an outcome of trust.

As indicated in the empirical chapters, both the US and Dutch cases show a cycle of strategies and positive outcomes, leading to the build-up of trust (as shown in the trust cycle figures), which then leads to strategies-positive outcomes (a positive cycle). The Polish case, however, as outlined in the case chapter, shows an initial satisfaction with outcomes, and then a series of strategies and outcomes that lead to trust breakdown, and to defensive strategies and less positive outcomes (a negative cycle).

Several important points emerge from the interviews, documents and empirical chapters. First, the strategies used in the initial rounds of the interaction (during negotiations in particular) are essential to the outcomes and to the build-up of trust. Partners must negotiate interests successfully and reach agreements that suit them all. It is their ability to do this that influences the perception of outcomes, trust and the subsequent strategies employed.

Figure 8-2: Links strategies-outcome-and trust build-up, three case studies
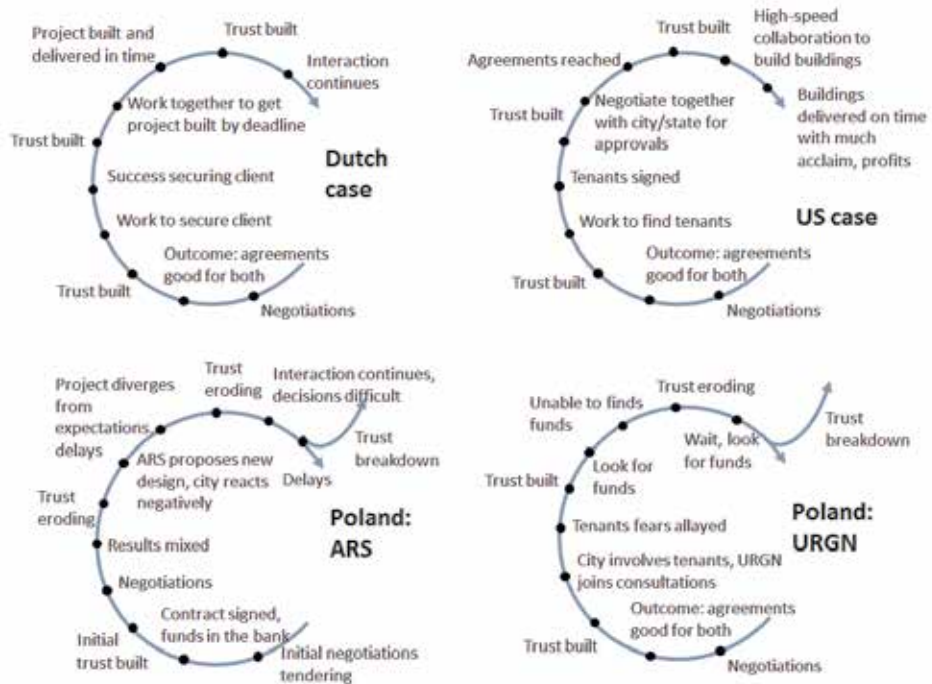
Second, this must then be followed by the partners 'delivering' as promised. Producing the outcome as promised is essential to trust build-up. Trust will then influence the strategies of the partners and the outcomes, and will set in motion the cycle of trust building.

In effect, something must happen (partners undertake a strategy and achieve an outcome) for trust to be built; this then affects behaviour (as an outcome trust), and partners undertake a strategy that then produces an outcome. A cycle of strategies – outcomes – trust – strategies . . .

The Dutch and US cases demonstrate that getting the project off the ground together, under serious pressure (partners are highly interdependent), not only tests the relationship, but when outcomes are positive (partners are able to deliver as expected), this leads to trust build-up. In both cases, in situations of substantial risk, partners worked together to get the buildings built, realizing that this was essential to the outcome of the project. It was this common understanding of the priorities, translated into strategies, that led to the outcomes realized and to trust build-up.

The cases demonstrate that outcomes and trust are not simple mirror images of each other. If this was the case, trust would drop when outcomes are bad, and rise when outcomes are good. In contrast, the cases show that trust can continue to grow, also in the face of undesirable outcomes. All three cases demonstrate that when outcomes are less than desirable and trust is strong, partners give each other the 'benefit of the doubt'. If outcomes continue to deteriorate, trust is put at risk. However, if partners manage to resolve issues and get outcomes back on track, trust is preserved and can continue to grow. One example is the US case, when O & Y's finances were in trouble and the partners had to negotiate and agree on how to resolve this situation. The financial problems put the entire project in jeopardy, but parties were able to resolve the issue and trust continued to build. In the Dutch cases study, some of the negative outcomes during the project came from the City Council, whose members began, over time, to interfere and renege on several agreements. Of note is the fact that trust remained strong between contractual partners, but began to slide in the City Council. This leads one to conclude that when an external party causes negative outcomes, trust built will remain strong between partners that interact often, are interdependent and in whom trust is strong. Finally, in the URGN partnership, though outcomes were not forthcoming, the public sector gave URGN the benefit of the doubt and trust continued to grow. Until a time, when outcomes did not improve and trust reached its limit.

In the Polish case, trust eroded between URGN and the city when partners did not deliver and expectations were not met. One could, in fact, argue that trust was detrimental, causing the partners to stay together longer than was wise. Outcomes appeared positive and trust was growing, but when funds did not appear, trust kept the partners together until waiting eroded trust and led to the trust breakdown. Respondents admitted to being blinded by the trust built, and the positive outcomes of previous rounds.

This leads one to conclude three things. (1) The outcomes achieved at the beginning (the quick wins) are essential, but they must be followed by concrete outputs (the partners delivering what they promised). (2) The initial success sets the positive cycle of trust building-strategies-outcomes in motion. Lack of follow up, on the other hand, will turn this into a negative cycle. (3) In addition, extreme urgency (perception of high risk) is a key driver in an interaction, and when dealt with well by the partners (partners succeed in delivering), can lead to the build-up of strong and resilient trust. Looking at the time taken in the US and Dutch cases, trust was built quickly. Urgency, and outcomes achieved, speed up trust build-up and build strong trust.

Did trust build-up (or breakdown) influence project performance?

There is an indication that trust led to improved performance of the projects. The results of the questionnaire demonstrate that the partners in the US and Dutch cases were satisfied with the collaboration and project, as well with the quality of the neighbourhood. The goals of their organization were met. The results in the US case were rated higher across the board. The interviews confirmed this and revealed that the nature of the interaction and trust contributed to this.

As shown in the figures above, the cycle of strategies and trust build-up in the Dutch and US cases led to more collaborative interaction and cooperation on project execution. Interviews indicate that trust brought certainty into the relationship and helped partners to streamline the coordination of the project. Results of the questionnaire confirm this.

Dutch and US respondents stated that, with trust, problems and conflicts were easier to resolve, negotiations went more smoothly. In the Dutch case, in particular, partners worked together to develop a procedure for making decisions. Coming to an agreement on how decisions would be made built trust, and influenced and facilitated the strategies used in the interaction.

The Dutch case also demonstrates a situation in which additional investment was made that would not have occurred if the partners worked alone. Respondents cited a number of cases, for instance when dealing with the ice skating rink, the housing project the municipality set as a priority, as well as the losses taken by the city in servicing the land. Results of the questionnaire confirm this. The results for the US case were rated lower. Interviews revealed, however, that significant investment was made by O & Y that would

not have been made if the institution had been working alone, for instance in the Winter Garden.

One other way of looking at this last point, is the fact that respondents mention the willingness to take risk and the taking of risk as the outcome of trust as important in both the US and Dutch cases. Respondents in the URGN phase of the Polish case also mention this. With trust built, partners exhibited risk-taking behaviour, which contributed to the outcomes achieved.

In contrast, in the Polish case, there is no evidence that trust led to improved performance. There is some evidence, however, that the erosion of trust led to additional transaction costs, affecting project performance. In the ARS phase, in particular, the lack of trust brought about positional negotiations, partners protecting their own interests, difficult decision making, and delays in project execution. Essentially, the extra time allocated to this was a waste of resources that could have better been allocated to 'getting the job done'.

8.4 Perceptions of risk

The figures below show the respondents' perception of types of risks in each case, and the change in these perceptions over time. The research defined broad categories of risks: those external to the project (political and market), those internal to the project (project design risks, financial risks, contractual risks) as well as risks related to the relationship between partners (risk of opportunism, risks stemming from conflicting interests).

Of the three cases, the Polish case provides the most variable perception of risks on the part of the respondents; the changes in perceptions can be linked to the two different phases of the PPPs. Of note was the minimal perception of market/demand risk on the part of the partners in the URGN period, until after the completion of the negotiations between partners and a period of attempting to find funds for the project (end of Round 3). This is also the moment that the perception of financial risk rose. The perception of demand/market risk dipped in the ARS period, up until the moment when the joint venture began to execute the project. This is also the period in which perceptions of key project risks (finance, design, contractual) increased. The other substantial risk was the risk from the resistance of the tenants, this dipped when both the city and URGN engaged with the tenants at the end of Round 1 and rose again when ARS took on the role of compensation and removal.

Figure 8-3: Change in the perception of risks, all rounds, three cases studies

External and internal risks, all Rounds, Poland

External and internal risks, all Rounds, USA

External and Internal risks, all Rounds, NL
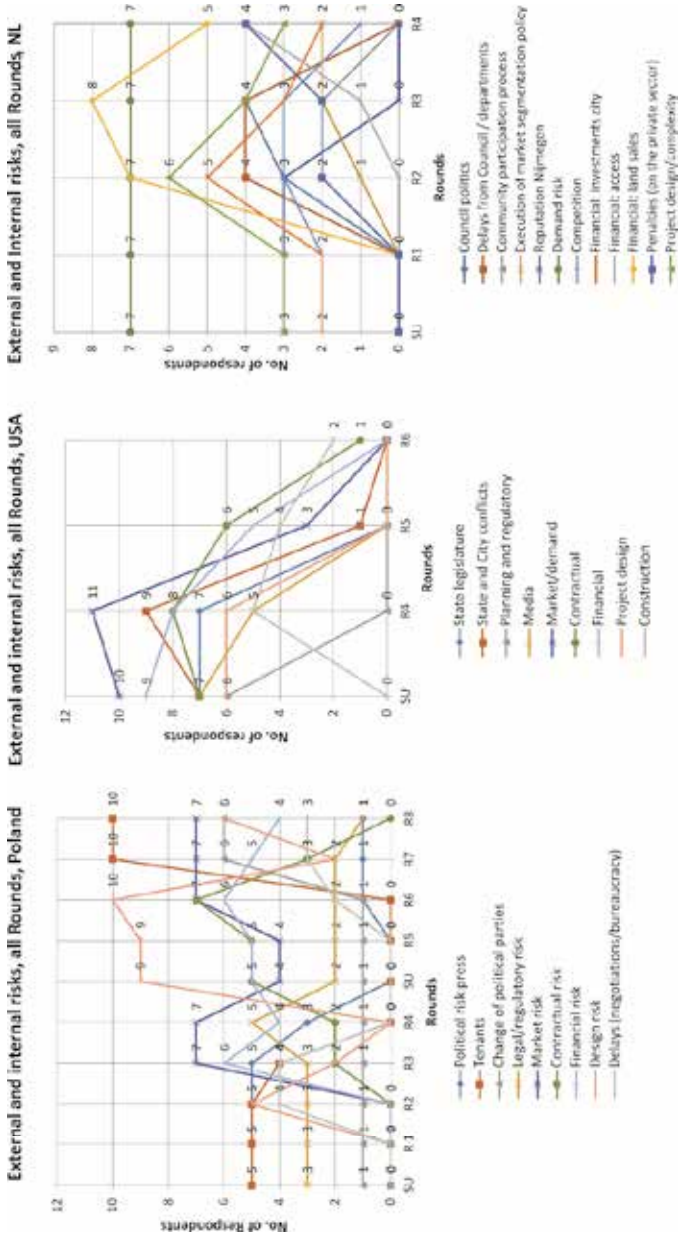
Note: These figures were created using a frequency analysis

Did respondents mention risks of opportunistic behaviour? Interestingly enough, there was no mention of this type of risk in the URGN period, until the period when it was clear that, contrary to what was promised, funds were not available. This is in contrast to the ARS period, when the perception of this was substantial. Both partners cited examples of opportunism: the public sector perception was of ARS negotiating hard for its interests, with limited understanding of public interests; and ARS's perception was of a rigid public sector, giving extreme ultimatums, with no understanding of what the private party was attempting to accomplish.

In the US case, negotiations with the private partner started at the end of a recession and real estate crisis, as well as an initial failed attempt to get the project off the ground. Both the public and private sectors came to the initial negotiation table (SU) with a high perception of risk. The political risks were extremely high (the State Government was not convinced, the State and City were in conflict, the regulations governing the site were prohibitive, the media were critical). Market risk was also still substantial, developers were scared to touch the site. This political and demand/market risks dipped in the following rounds. Perceptions of internal risks (project-related risks: access to finance, contractual, project design) were also high. At the beginning of Round 5, these risks became more 'real' when the public and private partners committed to the project, perceptions of risks rose (note: the project kicked off prior to the signing of the lease agreement!). By the end of Round 5, the fall in the perception of risks is notable. Respondents reported almost negligible perceptions of risks as tenants were secured for the buildings and the project took off (Rounds 5-6).

Possible risks from opportunism on the part of the partners received limited attention in the interviews in the US case; respondents mentioned, in contrast, the perception that both public and private partners were as good as their word and delivered as promised. Respondents did mention one incident of risk of opportunism, when O & Y was asked to report on its financial standing; this was found to be potentially lacking and the developer was asked to provide additional guarantees.

In the Dutch case, the tender procedure (SU – Round 1) in the initial round also took place in the middle of a recession and real estate crisis. Respondents were clear on the perception of market/demand risks from the beginning; in fact, this was a key message of private respondents during initial discussions. It is interesting, however, that few respondents

mentioned other risks, except for a reference by several to the complexity of the project, and the perception of the public sector of the need for substantial financial public investment in infrastructure.

Of note in this project is the rise in the perception of risk at the end of Round 1 and several types of risk in the following rounds. The 'consciousness' of the range of risks began in all seriousness when negotiations began between partners; risks were 'put on the table'. The perceptions of market/demand risks remained substantial for both public and private respondents over the rounds, and perceptions of financial risk. The most substantial risks to the public sector, in particular, were falling returns from land sales, against increasing costs in infrastructure; these became more substantial over the rounds of the project. These finances were on public budget, outside of the PPP, and the public members of the team became increasingly aware of these. The perception of other risks decreased over time, as the project was implemented.

Respondents in this case cited perceptions of risk arising from the interaction between partners and their behaviour. For one they mentioned risks related to conflicts of interest between parties and the perception of an unfair spread of the risks among partners. One major conflict of interest stemmed from the pressure on the public parties to assume 'two hats': namely the difficulty of acting in the interest of the partnership (in the limited liability company) and in public interest at the same time. These risks were mentioned predominantly by (and by all of) the public respondents.

8.5 The influence of trust on the perception of risk

As mentioned above, Williamson (1993, 1996), from an economic perspective, argues that trust is simply risk taking; it simply involves calculating the costs and benefits of working together. This implies that risk and trust are in fact the same concept, variables that are mirror images of each other (Granovetter 1985, Coleman 1990, Furlong 1996). If this is so, looking at the results, one would then expect that in situations of high risk trust would go down (would be hard to hold on to). And that in situations of high trust, perceptions of risk would go down (risk was being managed by contract). But do the results of the research provide evidence that risk and trust are different variables? In the cases, when the risks were high, did trust remain high? In other words, when the context remained complex, volatile and uncertain, did trust continue to grow? Or the reverse: when trust was

high and growing, did partners still perceive risk as high, but were willing to continue the relationship, taking more risks?

What the risk figures reflect is that all three PPPs were instigated in the middle of a recession (in Poland, the post-communism shock treatment and transition to a market system, in the US and Dutch cases economic and real estate crises). Both the Polish and US cases started in a highly politically charged context. Figure 4 confirms that in these two cases, respondents perceived substantial political risk at the outset of the project, in the Dutch case this was less evident.

Comparing the trust cycle figures with the risk figures per case, one can conclude the following. For the US case, the figure shows that as trust levels grew, the perception of risk fell. However, of note is that at the start up, this case was characterized by exceedingly high levels of risk, but also surprisingly high levels of trust. Partners trusted in the face of very high risk. In the face of this high risk, the partners interacted intensively to cope with this risk, and trust continued to grow; trust was also effective in reducing the perception of risk. As well, the one incident that challenged trust in the US case did nothing to jeopardize the growth of trust. In this case, one can conclude that trust and risk are different variables: in a highly charged and risky environment, trust was high and grew!

In the Dutch case, though the perception of many risks diminished, those that remained (market, financial, conflict of interest) did nothing to diminish the levels of trust. Respondents reported a number of key obstacles that the partners were able to overcome and resolve (without reverting to the letter of the law). Interaction was intense between central partners to discuss and deal with these risks. Respondents also indicated that they never reverted to the contract; this remained on the shelf at all times. Therefore, though risks were present, trust continued to grow, also demonstrating that trust and risk are different variables.

In the Polish case, initial trust also grew in the face of high risk. There were, however, limits to trust; in the end, it was not sufficient to offset the risk. Over time, the financial risks and the political risks from the tenants were perceived as so substantial that no level of trust was sufficient to maintain the URGN relationship. In interviews, public respondents cited having more of a problem with the competence dimension of trust (in URGN) than the goodwill dimension of trust. During the ARS period, both parties were highly

conscious of the risks of the project. Trust was not sufficient to compensate for the inability to negotiate these risks and to come to terms with the perceptions of opportunistic behaviour. This case demonstrates the limits of the influence of trust on the perception of risk, and that trust is hard to build when certain factors are not present. When certain factors are not in place, trust does not have the chance to become more resilient. When trust is low or lost, as in the ARS case, partners expended precious resources on protecting their interests, at the expense of the partnership.

Risk-taking behaviour

What was evident from the interviews, however, was that in all three cases the partners were willing to take risks in heavily uncertain and charged circumstances.

Figure 8.2 on outcomes portrays the continued commitment of the partners to take risks (their strategies). This risk taking also, in turn, contributed to trust build-up.

Both URGN and ARS displayed risk-taking behaviour in taking on such a project in an uncertain economic environment, and with volatile tenants. The local government also demonstrated the willingness to take risk in attempting to do the project. Risk-taking behaviour was evident without the existence of trust, at the outset of both the URGN and ARS cases. Interviews revealed that URGN continued to demonstrate willingness to take increasing amounts of risk as trust rose in Round 2 (the tenants began to accept the project and URGN). Over time, however, both ARS and the city demonstrated strong risk-adverse behaviour and positional negotiations; this is concurrent with trust falling slowly in all partners.

In the US, the case is characterized by strong risk-taking behaviour on the part of both partners. The public authority took an extreme amount of risk to try to get this complex project off the ground in the face of past failures and political risk (SU). O & Y entered upon the scene, and faced with a failed project, huge political risk and US$ 200 million in debt, agreed to take on the financial risk of the BPCA and the construction of the Commercial Center: they also promised to secure the necessary revenues to make the buildings profitable and to pay back the public debt hanging over the BPCA. This behaviour continued in the rounds of the project and led to trust build-up.

In the Dutch case, there is also evidence of strong risk-taking behaviour on the part of the partners. Similar to the US case, project design and construction started after the signing of the Letter of Intent, but prior to the signing of the partnership agreement/the setup of the joint venture. In fact, by the end of Round 1, there was strong mutual dependence: partners realizing that 'they were in this together' and a willingness to forge ahead without legal backing. Respondents from the Dutch case reveal that the situation was similar; one example cited was the decision of the private sector to take over the construction of a non-profitable housing project, trust in the public partner (and support for public interest) was sufficient for the private party to take this risk. In effect, willingness to take additional risk also led to positive outcomes for the projects and to trust build-up.

In effect, there is evidence of a 'risk-taking cycle': when risk is taken, and outcomes are good, trust is built, which leads to more risk taking. Willingness to take risk is, in fact, a factor that contributes to trust build-up.

When looking at the strategies in Figure 8.2, the risk taking in both the US and Dutch cases was characterized by a 'jointness'. Respondents mention that partners showed a willingness to take risks together. O & Y joined BPCA in difficult negotiations with the city; the partners in Nijmegen supported each other in decision making when approached by potential clients. In the Polish case, URGN also perceived this as its role, supporting the city in discussions with the tenants, but this role never crystallized in the execution of the project; interaction slowed to a halt. With ARS, the partnership was characterized more by the public sector attempting shift as much risk to the developer as possible; this was met with resistance and limited 'jointness'.

Finally, when looking at the risk figures, of note is the fact that after the initial round in the US and Dutch cases, political risk was of limited relevance, the focus was more on project-related risks. This is due to the fact that the public partner in both cases dealt with the political risk prior to getting involved in the partnership, leaving room for the partners to focus on the detailing and execution of the project. There were no political risks hanging over the project, leaving room for the partners to act quickly together to deliver. This is in contrast to the Polish case, where although the local government partner made great efforts to deal with the political risks stemming from the tenants and the press, this was not wholly successful.

This difference is important in looking at the links between risk and trust build-up. With no political diversions, partners were free to focus on project risks, to get to know each other and to get the work done. The interaction was intense and much was invested in making the project work, together. Trust was given the chance to build.

The partners in all cases used organizational structures to protect themselves from political interference. In principle, all PPPs were set up to allow for autonomous decision making. Both the Polish and Dutch cases were set up as joint ventures, 'autonomous' development companies; the BPCA, with which O & Y contracted, was an autonomous public authority. Unfortunately, the Polish joint venture was less able to prevent political interference from the Local Council, tenants and press. In fact, the consistent need for the public representatives to return to the Council for approval had a severe effect on the dynamics of decision making. The risks related to this were a serious impediment to trust build-up.

In conclusion, political risk, when not managed, is a severe impediment to trust build-up; on the other hand, elements of 'jointness' (we are in this together!!), willingness to take risks and, if possible, to take risks together, are key to building stronger forms of trust. Building trust in a trust cycle is more evident when working together to deal with project-related risks (and getting the job done).

8.6   Factors contributing to trust build-up

The key factors of trust from the theory on trust are provided in the table below. The table provides the responses from the questionnaire related to each factor, for each of the three cases.

	Key trust factors for each round of the trust cycle	Poland		USA	NL
	1-3 (1 highest)	**URGN**	**ARS**		
		Mean			
CalBase	I must have sufficient information on the other party's reputation, qualifications and past performance record	1.38	1.20	1.57	2
CalBase	I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	2	2.00	1.86	2.63
KnBase	The other party must be willing to share information and resources	1.25	1.70	1.21	1.5

KnBase	I must get to know them well enough that I am able to predict their behaviour	2	2.00	1.36	1.88
KnBase	On the basis of the interaction, I come to know and respect their capacities	1.75	1.70	1.21	1.5
IdBase	We must learn to 'speak the same language'	1.25	1.50	1.57	1.75
IdBase	We must come to share the same values and norms	1.88	1.90	1.71	1.63

The table shows some consistency: in all cases, *the willingness of the other party to share information and resources* was considered relevant (Polish case URGN period only). This factor (knowledge basis for trust) relates to the transparency and openness of the partners and the willingness of the partners to make themselves vulnerable to each other. Furthermore, the US and Dutch cases were consistent in their rating of the importance of *coming to know and respect capacities*. For the rest, the responses in the Polish case differ from the other two cases. It is interesting that there is consistency in the responses for both the URGN and ARS periods. Respondents perceived the importance of *having information on the other party's reputation, qualifications and past performance*, as well as that the partners *had to learn to speak the same language*. The first is a more calculative basis of trust, the second a more identification basis of trust. The second relates more to the ability to frame concepts and ideas in a similar way, over time.

What factors came out of the interviews? Do they confirm the results of the questionnaire and the factors found in the theory?

8.6.1 Calculative bases of trust

Reputation, qualifications and past performance: this factor was mentioned in all three cases as being important for initial trust build-up. As mentioned before, it was clearly of more importance for the local government in Poland, simply because it was dealing with foreign developers and investors.

Of interest is that this factor relates, in these cases, to the reputation, qualifications and past performance of the **private sector partner**! Only in the Dutch case did a respondent mention that past performance of the public sector in projects could influence the interest of the private sector to work in a city and with a local government (and initial trust). In all cases, the public partner verified the financial standing of the private partner as well as the past performance on projects. In the Netherlands, the local government team went so far as to visit past projects.

In the US case in particular, the public respondents mentioned O & Y's reputation for being honourable as a factor of trust. O & Y's reputation for being trustworthy was a key factor of initial trust. The results of the questionnaire confirm that this.

Sufficient penalties in contract to ensure compliance: the existence of the letter of the law was only of importance in the Polish case, but as a negative factor of trust. This negative influence of this deterrence factor of trust is mentioned in the theory and the results confirm that focus on penalties only serve to undermine trust. In both the URGN and ARS periods, private respondents mentioned the tendency of the CB/NT to stick rigidly (1) to regulations during the URGN period and (2) to the contract in the ARS period, to the detriment of the project. This did not build the trust of the private partners in the public sector, and demonstrated the limits of trust (the public sector's fear of opportunistic behaviour and lack of understanding of the interests and needs of the partner showed it had minimal trust).

Again, public respondents mentioned the weakness of the contract during the URGN period, in stipulating deliverables and deadlines, and mentioned that the original contract was a mistake on their part. This demonstrates that contractual aspects were an important factor, but mostly as a document to handle cases of conflict or disruption risk. In situations when trust is breaking down, a contract has to take the place of trust and has to be used to govern relations that are disintegrating.

The perception of the CB/NT related to ARS was that the private partner would not comply without some kind of control. This was also the case when the partners worked together in the renovation company STR. Interestingly enough, the terms of the contract seemed to be a condition for trust build-up, but acted as a deterrent as well. This confirms the theory on the use of deterrents to build trust (Macaulay 1963, Sitkin and Roth 1993). This underlines that there have to be other factors present to build trust, besides penalties in a contract.

In the other two cases, the penalties in the contract took on less importance. The partners in both the US and Dutch cases had the projects and partnership well underway prior to having a binding contract. The lawyers in both cases did mention the importance of certain clauses, penalties and incentives, but in fact, in both cases, the perception was that the existence of contracts was

not a necessary factor of trust. In fact, one could argue that working successfully without a contract was a more important factor of building trust.

8.6.2 Knowledge bases of trust: trust that is built during the interaction and as partners get to know each other

Willingness to share info and resources: In all cases, this factor of trust was very important; this came out of the results of the questionnaire. The theory presumes that partners interacting are open and upfront with information and by making (confidential) information available make themselves vulnerable to each other. Partners also make resources (financial, human, etc.) available to ensure a partnership gets underway, thereby allowing the other partner to share in and benefit from the investment. In social exchange theory, the sharing is voluntary, and when the benefit is returned and no opportunism occurs, trust is built.

In the Polish case, it was URGN's attitude and openness that built trust, and the organizations' willingness to invest and share resources in the project. Internally, URGN staff also mentioned this aspect, commenting on the investment in their professional development. Both URGN and the CB/NT were upfront and clear about their intentions and objectives. Perhaps the tendency of ARS to change tact and to make the city wonder if the organization was withholding information is a clear negative factor of trust.

This was the case in the other two projects. In the Dutch case, the private sector, in fact, set openness and transparency in the negotiations as the rule of the game, as is said in the Netherlands 'putting everything on the table'. In both the US and Dutch cases, the urgency at the beginning and the very fact of having to work on the first buildings at an accelerated speed, left little time for holding back. One public respondent mentioned this, stating, that everything had to go on the table, there was no other choice. This was an important factor of trust.

Knowing your partner well enough to predict behaviour: This is an interesting factor as it presupposes that by getting to know someone, and through the interaction and the repetition of (positive) behaviour, a partner can come to predict behaviour, and trusting in that behaviour, can make decisions with confidence. In fact, this can also be a negative factor of trust, if the repeated behaviour is negative. It can lead a partner to anticipate

negative behaviour, and as this is reinforced, to have to invest additional resources to offset the opportunism displayed.

In all three cases, by working together closely, the partners got to know each other and developed expectations related to each other. These remained positive expectations in two of the cases and partners were able to continue to predict positive behaviour. However, in the Polish case, after initial expectations were built in the URGN period, when funds did not appear public respondents began to question their assessment of URGN, how well they knew the organization and were able to predict its behaviour. One can conclude for the URGN period that it is at this level of trust and related to this factor of trust that trust eroded and reached its limits. Trust never got beyond this level.

Related to ARS and the local government as partners, this factor was also a negative factor of trust. Public respondents cited the chaotic and constant change of tact on the part of ARS as leading to a breakdown of trust. As they got to know ARS, members of the CB/NT had difficulties in being able to predict behaviour at all. In the long run, the unpredictability of the partners became what was predicable. In the case of ARS, staff came to be able to predict the behaviour of the city as they got to know the various officials; it was the consistency of the city in pushing ARS into unacceptable negotiation positions that negatively influenced trust. This reinforcement of behaviour led to an adversarial relationship. Initial trust was also eroded at this point.

Respondents in the US case mentioned this factor in a number of different ways. For one, the very fact that O & Y never took advantage of the vulnerable position in which the BPCA found itself was important. Over time, the behaviour of O & Y reinforced the original reputation of the organization and its leader of being entirely honourable. The ability to be able to predict behaviour provided assurances when making decisions. In addition, public and private respondents mention the consistency of behaviour of the BPCA as a key factor of trust. The developers, including O & Y, were clear on where they stood with the BPCA.

In the Dutch case, getting things done together created predictability.

One respondent (US case) mentioned an interesting set of factors that link this factor to the next. He mentioned that interaction created predictability, but with positive expectations also reinforced built respect. This would then

lead to expectations of consistent, predictable and competent behaviour of the partner, and with this reinforced, this would underline the predictability and respect. This respondent perceived this as present in the relationship between the BPCA and O & Y.

On the basis of interaction, I come to know and respect capacities: Though there was some initial respect for the partners' capacities in the Polish case, this factor was not prevalent over the longer term. Clearly, the ways both the URGN and the ARS relationships with the local government ended, meant that none of the partners ever got the chance to have this factor of trust be of relevance.

In the other two cases, however, partners came to respect each other's capacities and it was an important factor of trust. For one, in both the US and the Dutch case, the partners were thrown together and came to respect and understand the roles that each had to play. In both cases, partners delivered under serious pressure. In the Dutch case, private respondents expressed particular respect for their public counterparts, and their ability to deliver under difficult and intense circumstances. Perhaps this was a change in the typical perception of the public sector!

Respondents from both cases mention the importance of having 'good people' to do the job in both sectors. This points to the need for a particular skill set. In both cases, it was a private respondent that mentioned public performance. Staff of O & Y mentioned the importance of having 'good people'. In the Dutch case, one private respondent underlined the professionalism of the entire group, public and private, and the fact that the project 'never derailed' because of the skill set that the group had. He went so far as to point out that not every municipality has professionals of that sort.

8.6.3 Identification bases of trust: when partners get to know each other so well that they begin to identify with each other.

Must learn to speak the same language: This refers to the need for partners to come to terms with the 'framing' of ideas used in the interaction. In fact, it is clear that, though rated as important, this was not a factor of trust present in Poland, and a point of frustration for the respondents in the case. Whereas the ability to frame interests and priorities in a similar way and negotiate these using a common language were important factors

mentioned in both the US and Dutch cases, the relationship in Poland never reached that level.

As is mentioned in the theory, relationships that reach this level of trust are often characterized by personal relations between partners, and a common language built out of years of working together. In both the US and Dutch cases, relations between partners were longstanding and became personal. A respondent in the Dutch case mentions the joking and the teasing of partners related to past mistakes as part of the working culture, a use of common phraseology.

Shared norms and values: this is seen a factor of trust that is the basis of the strongest form of trust. This presupposes that partners have interacted so intensely that they have gotten to know and assimilate the norms and values of the other partners.

Achieving the assimilation of a partner's norms and values is difficult, particularly when partners are from public and private organizations. This presumes that partners integrate norms and values into working methods and that they become a pervasive part of the culture of the PPP. This may be a key factor of trust, but in a Public-Private Partnership, how far should partners go? One has to ask, is it, for instance, a good thing to have the public sector take on a profit-making motive as one of its core values? Or is the public partner driven by other values that are specifically important to retain?

On the surface, there is some indication of this factor in the fact that respondents in the Dutch and US cases worked with the perception of a 'common vision or purpose' or a strong sense of 'we' (we are in this together!). However, respondents in the Dutch case, in particular, indicated that one of the key challenges in the interaction over time was negotiating interests; the interests stemmed from strongly held norms and values . . . that were different.

The Dutch case does provide the most evidence of shared norms and values, but one could argue that these were shared norms and values built as a result of the interaction, so norms and values of the partnership itself. For instance, each sector came to the partnership with its own norms related to how decisions were made; in the partnership, partners had to work out new norms for decision making that worked for both parties. Decisions were

embedded in the organizational structure and in the process. Respondents saw this approach to decision making in the interaction as an important factors of trust. Again, in contrast to the other cases, the Dutch partners had a longer period to develop shared norms and values.

8.7 Possible other factors of trust?

8.7.1 Coping strategies

Trust growth in the cases was also related to the ability of partners do deal with risks and to overcome a series of 'normal' project-related obstacles. The strategies used to deal with these are, in fact, factors of trust. The cases revealed that these coping strategies had an influence on trust levels. Trust also influenced the strategies used. There were marked differences in the manner in which parties in a high-trust relationship dealt with the perception of risk in comparison to when the trust levels were falling and in question.

One could categorize the risks/obstacles from the cases as:
1. External and internal risks: these were the risks mentioned in the cases that partners had to deal with to get the project off the ground.
2. Perception of conflicting interests: these related to the fact that partners often had interests that did not coincide, what they chose to do with these interests is evident in the strategies or behaviour exhibited (see point below).
3. The behaviour of the other party: this could be positive or negative behaviour. In this case, the focus is on negative behaviour, which might range from opportunism, arrogance and rigidity to withholding information (whether opportunistically or not).
4. The fact that partners sometimes made a mistake, may it be due to lack of experience or a simple miscalculation.
5. A positive obstacle, such as the need to speed up the project, which tested the relationship.
6. A combination of the factors above that converged to make the relationship impossible.

The table below categorizes the types of risk and obstacles and the reactions found in the three cases.

Type of obstacle	Reaction (demonstrates limits of trust)
External (political, market) and internal project risks	- Partners interacted to discuss and negotiate on risk, invested resources to deal with risks (US and NL) - In some cases, partners (who were not always responsible for risk) invested extra resources to help mitigate risks (Poland/URGN, US, NL)
Perception of conflicting interests	- Positional negotiations, other machinations (Poland: ARS/CB/NT) - Lay interests on table, listen, find solutions (US/NL)
(Negative) behaviour (Risk of) opportunistic behaviour - Arrogance, etc. - Rigidity, inflexibility in negotiations - Lack of experience, professionalism - Withholding information	- Rigidity, checking all details (Poland, ARS and CB/NT) - Wariness (Poland, ARS and CB/NT) - Positional negotiations (Poland, ARS and CB/NT) - Use of extra resources to check on performance (Poland, ARS and CB/NT) - Wariness, checking (Poland, ARS and CB/NT)
Simple mistakes due to lack of experience or miscalculation: i.e. URGN or public official in Nijmegen	(Try to) deal with it (NL and Poland/URGN) - Forgive (NL) or abort relationship (Poland/URGN)
The need to speed up the project to counteract risk, upheaval	- Wholehearted commitment to making the project work, all parties work in accelerated manner, bringing resources together (US and NL) - Both parties continue to negotiate in an adversarial manner (Poland, ARS and CB/NT)
Combination of factors that make a relationship difficult: partners revert to opportunistic behaviour	Abort relationship (Poland)

The types of reactions found in the cases range from the typical professional or management strategies necessary to execute a project (interact, negotiate, find solutions) to commitment and investment of time and resources that are over and above the call of duty (URGN's time with the tenants, training Polish staff, etc., NL and the US). In the US and Dutch cases there is strong evidence of the willingness to take more risk to deal with obstacles; both cases are characterized by strong trust. They also involve more positional or wary reactions that provide an indication that trust is being tested (both the city and ARS in Poland).

In fact, in each situation, partners made a decision on how to act, and this influenced the interaction, trust and outcomes.

8.7.2   Management strategies

The previous section focused on ´coping´ strategies related to obstacles and risks. The focus was more on negative aspects of the relationship. However, many of the strategies that emerged were, in fact, management strategies. All three cases highlighted that partners used management strategies and that these were, in fact, factors of trust. These management strategies can be organized in the following categories:

1. **Openness/willingness to share information/ideas:** this factor was used and tested in the research, and has proven to be one of the most relevant factors for trust build-up. However, it is also an aspect of management, and can be unpacked further. In the cases, respondents referred to behavioural characteristics of the partners such as optimism/a vision of the future, open communication, being upfront or fully transparent regarding intentions/objectives, and sharing of reliable information in a timely manner.
2. **Skill set:** respondents also mentioned skills such as leadership, communication skills, project development and management skills, ´getting things done´, and other interpersonal skills to deal with partners.
3. **Care and concern/willingness to share power:** respondents also mentioned key attributes and strategies such as the tendency to consult and canvas opinions, to listen to ideas, to take ideas into account when making decisions, to spend time on exchanging views, and to share or transfer skills.

The fact that these aspects emerged from the interviews underlines the fact that there are a series of complex factors that lead to trust build-up. There is a body of work looking at management strategies as factors of trust (Edelenbos and Klijn 2009, Steijn et al. 2011); however, it is important to explore further the links of management strategies to trust.

The following chapter provides the final conclusions and areas of future research.

9 Conclusions and further research

9.1 Conclusions

This research resulted in some key findings. Empirically, the research was able to demonstrate that in all cases there was evidence of a trust cycle: in two cases, trust building over time, and in one case, trust dynamic, growing and declining, then growing and declining again. In two cases, there was also evidence that strategies employed and outcomes achieved contributed to trust, and trust, in turn, contributed to the performance of the projects and the PPP. On the other hand, the research also was able to identify, in the Polish case, those strategies employed and outcomes achieved, as well as key factors that led to the deterioration of trust, and ultimately to outcomes that were less than desired. The deterioration of trust was slow, but once gone, it was gone. Trust can be good in mediating an interaction, in paving the way for cooperation and increasing the amount of investments. Trust breakdown, on the other hand, can hamper an interaction substantially, and cause defensive behaviour.

The results of the analysis show that trust was consistently higher among partners that interacted frequently and intensely and were essential for the realization of a project (all cases studies). This shows that when interaction is frequent, and partners are dependent on each other for outcomes, building trust is important. If built, trust is highest in these types of partners. Partners will, in fact, expend additional resources to ensure that relationships are maintained. Trust has a focus.

The research revealed that in 'high-trust' situations, partners reverted to strategies that are more effective in coping with risks and in bringing about outcomes that benefit the partnership. Partners are also more willing to take greater risk, for instance to increase the interaction and to invest additional resources to ensure that obstacles are overcome. In contrast, in the case of low or declining trust, partners reverted to negative coping strategies, opportunistic behaviour, and the investment of resources to protect themselves against the opportunism of the other partner (less in getting the job done).

Of note in all three cases (URGN phase in Poland), was that trust was perceived by some of the respondents as approaching 'blind faith'. One could

argue that blind faith in not rational, and therefore not advisable, as it keeps partners in a relationship too long, past the point that is wise. This was true in Poland. However, the research also revealed that this type of trust was necessary to deal with the urgency being faced by the partners. The risks being faced (post-communist transitions, economic recessions), were so substantial that this type of trust (a leap of faith) was needed to take on the risks (the case in both the Dutch and US cases). One can argue that had the partners not met expectations in their interactions, over the longer term, trust would have declined and the disappointment would have been severe.

The cases demonstrate that outcomes and trust are not simple mirror images of each other (trust rising when positive outcomes are achieved, and falling when outcomes are negative). In other words, trust remained strong in the face of negative outcomes. When trust is strong, partners give each other the 'benefit of the doubt'; this occurred in all case studies. Partners must then resolve the issue, and outcomes have to improve for trust to be maintained over the longer term. The Polish case showed how trust deteriorates if outcomes do not improve.

Trust *does* have its limits. The research revealed that there are circumstance when risks are perceived as so extensive, particularly risks external to the project (political risks), that partners revert to opportunistic behaviour and exit the relationship. This was a rational decision, but broke the moral code and caused a break in trust. This was the case in the URGN and the ARS phases of the Polish case.

The analysis of urban regeneration partnerships positioned the interaction between the core partners in a complex network, also implying a process of complex decision making. In fact, one could argue that decision making between partners was never really 'free and autonomous', no matter the autonomy of the organization (example all cases). Decisions were often hampered by the City Council (Poland and the Netherlands, at a certain point) or the community (Poland and the US). The cases demonstrated how important it is to engage the community and to build the trust of external parties, and how potentially damaging political risk, if not managed well, can be to a partnership.

The research also argues, contrary to Williamson's contention, that risk and trust are not simple mirror images of each other. The cases reveal that even in situations of high risk, it is possible to build trust, or that trust will remain

strong even in conditions of high risk. In fact, partners are willing to take more risk and the act of engaging in more risk taking appears to be a key factor of trust.

Using a deductive approach, the research was also able to demonstrate that trust building is dependent on certain key factors. Factors taken from theory were present and cited by respondents. Some factors appeared to be more relevant than others: cases revealed higher results for the knowledge basis of trust: the sharing of information and resources, in particular, but also predictability and respect for capacity. The research also revealed the factors that contributed to the decline in trust, such as the withholding of information or predictability (getting to know your partner and being able to predict *negative* behaviour). This brings one to conclude that while these factors are key to trust build-up, the opposite or negative form of these factors (partners withhold information, for instance), leads to the erosion of trust.

With regard to factors, it is interesting to note that the Dutch case is the one case that can be characterized by identification bases of trust; this came out of a long-term relationship with interaction over a 25-year (plus) period, confirming that is takes time and intense interaction to build and maintain trust. Though trust was high in the US case, these factors were less present, perhaps because the relationship was less lengthy.

On the other hand, in the Polish case, the analysis of factors confirmed that knowledge-based factors in the Polish case were more negative factors of trust, i.e. that the predictability from getting to know each other (and expecting the worst), had a negative influence on trust. In the Polish partnership, partners never had the time to 'repair' trust and to reach the level of trust in which they took on a common identity.

Taking a more inductive approach, the research also revealed other factors of trust not taken up in this research. For one, the willingness to take risk (or more precisely, risk-taking behaviour as an outcome of trust) was a key factor of trust in all cases. The partners (in the US, the Netherlands, but also in Poland) demonstrated their willingness by taking risks in the face of substantial risks (recession, market insecurity, etc.), and this was key to trust build-up. This was an important finding that confirmed discussions currently ongoing in the literature (Barney and Hansen 1994, Madhok 1995).

In addition, *the outcomes* of the interaction between partners are also factors contributing to trust build-up or breakdown. The concrete results of the interaction or the product that a partner has delivered may build trust, as may the behaviour (or strategies) of a partner.

This finding underlines the fact that trust building is an 'iterative' and cyclical process; this is true for trust but also for the perceptions of risk and outcomes. Strategies that result in positive outcomes result in trust build-up. As trust builds, so does the willingness to take risk. Willingness to take risk (the actual taking of risk) is a factor of trust. When there is deterioration in the outcomes over a longer period and the perception is negative, trust declines. As trust declines, so does the willingness to take risk. Trust building is not a linear process, but is affected by additional factors, such as risk taking and outcomes.

This research also discovered relevant factors that certain authors have already started to explore (Steijn et al. 2011). For one, the cases revealed that the type of organization set up for the execution of the partnership influences trust (the organizational setup also influences how decisions are made). The cases revealed that a 'truly' autonomous organizational structure that provides partners with the opportunity to focus on project build out, without political interference, is crucial to trust build-up. This implies dealing with and limiting the risks from the City Council, community or the press, namely political risk.

The cases also revealed the relevance of certain management strategies as important for trust build-up (Klijn et al. 1995, Steijn et al. 2011). Many of these could be categorized under *I come to know and respect their capacities*. However, there is a need to unpack this factor. In the Polish and Dutch cases, for instance, respondents mentioned what is termed here as 'care and concern' as well as willingness to share power as key factors. Both of these can be broken down further into more specific management strategies. One respondent in the Dutch case underlined that fact that establishing the rules of the game on how decisions are made was a key factor of trust, also a management strategy. Respondents in other cases cited certain skill sets (visioning, communication skills) as factors of building trust. This implies that managers can consciously develop skill sets with which to build trust.

Finally, it is clear that trust is a complex phenomenon. The research argued that trust has a role in facilitating an interaction process and is essential in

long-term, interdependent relationships. The research attempted to categorize factors and to link them to phases in the trust cycle. Explaining how trust is built is, however, more complex and related to more factors than this research was able to identify and analyse. One of the gaps in the study related to achieving greater clarity on the range of factors that lead to trust build-up; this points to the need for further research.

Trust takes time to build, however the initial strategies used by the partners are essential to build initial trust, and the success in building trust at the outset is essential for the remainder of the working relationship. Without getting through this initial step and meeting expectations, stronger levels of trust cannot be achieved. In addition, it is clear that when risks are high and outcome are less than desirable, trust can continue to build, but trust has to be strong enough to withstand the test. Lastly, it is difficult to achieve trust levels based on identification (shared norms and values, speaking the same language). PPPs rarely reach that level and that strength of trust.

Final word on the contribution of this research
This research has contributed to the development of empirical evidence on the growth of trust in partnerships through the in-depth analysis of a series of case studies. In addition, it has taken a step to further the theory on trust, *but also* the theory on the relations between trust, risk and outcomes. Where there have been limits to the concept of trust, this research has been able to deepen and expand on the existing literature and study of trust.

To date, there has been no research of this kind on trust, risk and outcomes *in Public-Private Partnerships*. Most of the research into interorganizational trust has focused on trust in private joint ventures and strategic alliances (Ring and Van de Ven 1992, Barney and Hansen 1994, Madhok 1995, Zaheer et al. 1998, Bovaird 2004) and not on the relations between the public and private sector. Considering the substantial move in many countries to use Public-Private Partnerships as a way to achieve key objectives in development, and the **lack** of trust that often exists between partners at the outset of the interaction, this research takes a closer look at the concept of trust, its dimensions and the key factors of trust development. This research has implications for practice.

A key value of this research is that it provides an in-depth analysis of trust over time, and has been able to chart the dynamics of trust in a trust cycle, again, over time. Little research has looked deeply into trust growth or

decline over time; thus this research contributes to the body of research on trust and on PPPs.

The current literature on trust covers an extensive debate on the nature of trust and its antecedents (Barney and Hansen 1994, McAllister 1995, Lewicki and Bunker 1996, Rousseau et al. 1998) and on whether trust is a dependant or independent variable. Based on a scan of the literature, this research set up a conceptual framework to test this. It expanded on the theoretical trust cycle model of Lewicki and Bunker, analysed in detail the factors (the antecedents) that led to trust build-up as well as the outcomes resulting from that trust, linking these to the phases of the trust cycle. The theory and the model used were operationalized and tested in this research.

Finally, the objective of this research was to gain insight into trust in three cases in an international context and to be able to add value to the concept of trust. This research looked at three different cases in three different countries and contexts, and chose in its design to take an in-depth look at trust over time. The research applied the theoretical model in different contexts and the empirical evidence was able to demonstrate that trust was important in all three partnerships, in spite of the context.

9.2   Further research

The research has shown that further research is necessary in the area of factors that contribute to trust build-up. It is clear that a complex set of factors contributes to the growth or decline of trust. It would be interesting to explore further aspects of management strategies and organizational forms and their links to trust build-up in PPPs, to isolate further the causal relations.

Looking at the links between trust and risk, it would be of value to look at the different levels of trust and their influences on perceptions of different types of risk. For instance, what levels of trust (weak, medium or strong) have an influence on different types of risk, over time? This research looked briefly at this, but was unable to comment conclusively.

In addition, there is a body of literature on the influence of trust on outcomes, but little on Public-Private Partnerships. It would be of value to look more closely at the nature of trust build-up in PPPs and its influence on the outcomes of the interaction.

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List of interviews per case

Interviews Bogusława Project, Szczecin Poland

URGN period

1. Mr. Piotr Mync, Vice Mayor, Szczecin municipality, member of the City Board, interviewed 24 January 2007
2. Ms. Hanna Sokulska, Director of legal counsel bureau, Szczecin municipality, member of the negotiation team, interviewed 20 November 2006
3. Prof. Leon Dorozik, Professor University of Szczecin, consultant, member of the public team, interviewed 16 January 2007 and 19 January 2007
4. Mr. Zbigniew Becker, Assistant to Mayor, member of the public team, interviewed 23 October 2006 and various in January 2007
5. Mr. Hans v.d. Sanden, UNDP consultant, member of the public team, interviewed 16 November 2006 and 21 January 2007
6. Mr. Gert A Gundersen, URGN founder and representative, interviewed 24 January 2007
7. Mr. Marek Wroblewki, member of the URGN team in Poland, interviewed 24 November 2006 and 26 January 2007
8. Mr. Sylvester Lechiski, tenant, member of Secesja, interviewed 18 and 19 January 2007
9. Mr. Henry Pitlik, tenant, Board of Secesja, interviewed 2 February 2007

ARS period

1. Mr. Piotr Mync, Vice Mayor, Szczecin municipality, member of the City Board, interviewed 24 January 2007
2. Ms. Hanna Sokulska, Director of legal counsel bureau, Szczecin municipality, member of the negotiation team, interviewed 10 November 2006
3. Mr. Piotr Lewandowksi, City Councillor, interviewed January 2007
4. Prof. Leon Dorozik, Professor University of Szczecin, consultant, member of Board of STR interviewed 16 January 2007 and 19 January 2007
5. Mr. Hans v.d. Sanden, member of the public team, interviewed 16 November 2006 and 21 January 2007
6. Mr. Zbigniew Becker, VP and Technical Director at STR, member of the public team, interviewed 23 October 2006 and various in January 2007
7. Mr. Stuart Gross, President of STR from ARS, interviewed 15 December 2006

8. Mr. Henry McGovern, President of ARS, interviewed May 2005 and 20 January 2007
9. Mr. Andrzej Luzcewski, member of the private team, interviewed January 2007
10. Mr. Zbigniew Paszkowski, architect working for ARS, interviewed 16 January 2007
11. Mr. Pawel Misztal, member of the private team, legal counsel, interviewed 23 January 2007
12. Mr. Izolda Zurdzinska, member of the private team, translator, interviewed 28 January 2007
13. Mr. Sylverster Lechiski, tenant, City Councillor, interviewed 18 and 19 January 2007

Interviews Battery Park City project, New York City

Public

1. Ms. Amanda Burden, phone interview, 19 August 1994
2. Mr. Charles J. Urstadt, Urstadt Biddle and Properties, Chairman of BPCA 5 August, 1968 to 5 January 1979, interviewed 22 August 2007, 11 January 2008
3. Mr. Richard Kahan: Urban Land Assembly. Chairman of BPCA, 5 January 1979 – 1 January 1984. Interviewed 11 August 1995, 14 August 2007, and 4 January 2008
4. Mr. Paul Dickstein, interviewed 23 August 2007
5. Mr. Barry Light: former President /CEO BPCA under R. Kahan, 1980-1984, interviewed 11 January 2009
6. Mr. Larry Graham, Executive Vice President Brookfield, former CFO BPCA under R. Kahan, interviewed 5 January 2009
7. Mr. Bill Donohoe: Senior Vice President BPCA 1981-1986, interviewed 3 January 2008, 8 January 2010
8. Mr. Carl Weisbrod, Trinity Wall Street, Executive Director CPC 1980-1987, interviewed 2 January 2008
9. Mr. Tom Koszlowski, BPCA, interviewed 9 and 12 August 1994, 19 December 2008
10. Mr. John Spires, Exec. VP in charge of Construction, Design and Engineering BPCA 1983-1989, interviewed 13 January 2009
11. Mr. Meyer (Sandy) Frucher: President/CEO of BPCA 1984-1988, interviewed 10 August 1994, 20 and 21 August 2007, 7 January 2008
12. Mr Robert Serpico, CFO BPCA 1986-2008, interviewed 9 and 12 August 1994, and 8 January 2008
13. Ms. Sandy Altman, BPCA general counsel, interviewed 8 January 2008
14. Ms. Sydney Druckman, Director Special Projects BPCA, interviewed 8 January 2008
15. Ms. Lois Mazzetelli, SOM, worked at the CPC, interviewed 13 August 2008, 8 January 2009

Private

1. Mr. Bob Douglass, Mill Bank Tweed Hadley, Under Rockefeller and member of DLMA, interviewed 14 August 2008
2. Mr. Alex Cooper, former principle of Cooper and Eckstut, interviewed 3 January 2008
3. Mr. David McGregor, Managing Director, Robertson Cooper and Partners, member of the Cooper and Eckstut team, interviewed August 1994, 2 January 2008

4. Mr. Michael Dennis, Azure Development, Exec. VP Olympia and York 1980-1987, interviewed 10 January 2008
5. Mr. Tony Coombes, Senior Olympia and York, interviewed 19 August 2008, 9 October 2009, 8 January 2010
6. Mr. John Zucotti, Brookfield, interviewed 8 January 2008
7. Ms. Tessa Huxley, Exec. Dir. Battery Parks Conservancy, interviewed 9 January 2008, 2 August 2009

Interviews Brabantse Poort project, Nijmegen, the Netherlands

Public

1. Carel Sweens, City of Nijmegen, (former) Chef Onroerend Goed, interviewed 22 July 2012
2. Dorine Gebbink, City of Nijmegen, (former) Secretary Project Bureau, Urban Development and Housing, interviewed 27 March 2013
3. Dick Keijzer, City of Nijmegen, (former) Head Department of Urban Planning, interviewed 17 April 2013
4. Kees de Ruwe, City of Nijmegen, (former) Head General Affairs and Planning of the Department of Urban development, interviewed 15 May 2013
5. Constance Boogers, City of Nijmegen, formerly planner with the city, currently Head of Development, IT department, interviewed 8 July 2013
6. Jean Buskens, City of Nijmegen, (former) Municipal Project Leader, Brabantse Poort, interviewed 23 August 2013
7. Paul Goedknegt, City of Nijmegen, Planner, interviewed 29 August 2013

Private

1. Stefan Schuwer, (former) Project Leader, Brabantse Poort BV, Heijmans Projectum, interviewed 16 May 2013
2. Leo Groen, (former) Legal counsel on the project, NIB, interviewed 22 July 2013
3. Jan de Vroe, (former) member of the Board of the partnership company, representative from NIB, interviewed 31 October 2013
4. Lamber Hendriks, General Director, Hendriks Construction and Development, interviewed 3 November 2013
5. Johan Bombach, Director Project Development, Hendriks Construction and Development, interviewed 3 November 2013

Key documents per case

Bogusława Street documents

- Henry Butcher & Co. Report (on behalf of EBRD), Urban Regeneration City Blocks 21 and 22, Szczecin, Poland, August 1994
- Contract between City of Szczecin and URGN on the renovation of Blocks 21 and 22, 10 November 1993
- Annex to the contract between City of Szczecin and URGN on the renovation of Blocks 21 and 22, 20 April 1995
- Two preliminary proposal for the renovation of Blocks 21 and 22 (CivilEng and ARS), January 1997
- Correspondence between ARS and the City of Szczecin: in the period of January 1997 – November 1999
- Minutes of meetings between ARS and the City of Szczecin: in the period of January 1997 – November 1999
- Gazetta Wyborcza (Electoral Gazette), 10 October 1996, 23 December 1997, 21 February 1998
- Głos Szczeciński (Voice of Szczecin), 18 July 1996, 10 October 1996, 16 October 1996, 21 February 1998
- Kurier Szczeciński (Courier of Szczecin), 10 October 1996, 16 October 1996, 23 May 1997, 29 December 1997, 21 February 1998

Please note: The research accessed and analysed close to 100 project documents. The most important documents, also referred to in the case study text, are listed here. Should it be necessary, the full list of documents can be made available.

BPCA documents:

- Bond Issue for Battery Park City Authority, 1986. Special Obligation Revenue Bonds, 1 August
- Bond Issue for Battery Park City Authority, 1972. Moral Obligation Bonds, 1 May 1
- Battery Park City Draft Summary Report and 1979 Master Plan, Alexander Cooper Associates, October 1979 (complete)
- Battery Park City Authority, 1979. *Memorandum of Understanding between the NYS, NYC, UDC and BPCA*, 8 November
- Gill, B. 1990. 'The Sky Line: Battery Park City' in *The New Yorker*, 20 August 20
- NYS General Laws, 1968. ch. 343

- *Progressive Architecture*, 1996. 'Back to the Waterfront: Chaos or Control?', 47:8, pp. 128 -139
- Transcript of Urban Land Institute Presentation, 1985. World Financial Center, 22 May 22
- Transcript of speech by Sandy Frucher, 1990. BPCA and O & Y History, 3 July 3
- Transcript ASREC presentation by Sandy Frucher, 1986. Public-Private Partnership, 11 June
- Frucher, S., 1990. Unpublished paper: Public-Private Partnership: the key to development. American Bar Association.
- *New York Times*, 1985. 'At last, Shearson makes it move', 19 October

A list of additional documents is available upon request.

Brabantse Poort government documents

- Gebbink, Advice to council on representation of the city in the temporary BV, 4 October 1990
- *Intentieovereenkomst*, December 1990
- *Kantorenmarktonderzoek,* Nijmegen, June 1993
- Memorandum Gemeente Nijmegen, Selectie Procedure, 10 November 1989
- *Plan van Aanpak Stedelijke Ontwikkelingszone*, Gemeente Nijmegen Raadsbijeenkomst, December 1988
- *Rechtsvorm Project Brabantse*, VB Belastingadviseurs, December 1990
- Regeerakkoord, 1986
- *Samenwerkingsovereenkomst*, Centrumgebied van Brabantse Poort te Nijmegen, October 1991
- *Stem en Winstverdelings-overeenkomst*, January 1992
- Sweens (1996) 1e aanzet Artikel Privatiseren (notes for the development of an article)
- Sweens (1996), 2e aanzet Artikel Privatiseren (notes for the development of an article)
- The Ministry of Housing and Physical Planning (1981). *The Main Characteristics of the Land Use Policy in the Netherland*, The Hague
- The Ministry of Housing, Physical Planning and the Environment (1987). *The Rules of Physical Planning 1986*, The Hague
- *Toelichting Plan Brabantse Poort*, Gemeente Nijmegen, July 1989
- *Uitwerking Aanpak Stedelijke Ontwikkelingszone's*, Gemeente Nijmegen, Dienst Ondersteuning en Coordinatie Project Bureau, April 1989

- Prikarts, correspondence contributing to Artikel Privatisering, 25 November 1996
- Schuwer, correspondence contributing to Artikel Privatisering, 22 November 1996
- Specifiek Kader voor de Verbonden Partij Brabantse Poort Nijmegen BV, Gemeente Nijmegen, 13 October 2011

A list of additional documents is available upon request.

Annexes

Annex 1: Example of a questionnaire

The Battery Park City project: survey on risk and trust in Public-Private Partnerships

This questionnaire is being administered as part of a research at the Erasmus University Rotterdam, in the Netherlands, on elements of risk and trust in the setup and execution of Public-Private Partnerships in large inner-city projects. This questionnaire focuses on the Battery Park City project and your perceptions of the level and nature of trust between the parties involved. You will be asked to respond to questions on the trust between parties, the basis of trust and the factors that contribute to the build-up/breakdown of trust. The questionnaire also asks you to give your assessment of the outcomes of the project.

We very much appreciate the effort you are making to fill in the questionnaire and respond to our questions. We value your contribution to the outcome of the research. Should you have more questions, please feel free to contact:

Ms. C. Pennink, MA, RA: email: pennink@ihs.nl

Please provide us with some background information, by filling in the following information. Please note that all responses will be treated as confidential.

Name:

For which organization do you/did you work during your involvement in the Battery Park City project?

What type of organization is/was it?
☐ Federal government
☐ State government
☐ Local government
☐ Private firm

☐ Non-profit organization
☐ Voluntary organization
☐ Other, please describe

_____

Please briefly describe your position within the organization:

_____

Please briefly describe the role you play(ed) in the Battery Park City project, and the timing of your involvement

_____

_____

_____

Next, please turn to the next page and either tick (√) or fill in (■) the appropriate box

Question 1: Which of the following best describes your role in the project?
- ☐ I have been following/followed the project from a distance (have been keeping up to date with the project)
- ☐ At certain times during the project, I was asked to contribute/contributed my thoughts to the project
- ☐ I have been participating/participated actively in the project
- ☐ I am/was part of the management of the project

Question 2: the nature of the partnership
Could you answer the following questions concerning the nature of the partnership?

There were organizational strategies employed to manage and regulate the cooperation between the public and private sectors	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree
Financial risks were divided and shared between the public and private partners	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree
There was coordination of activities between the public and private parties	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree

Any comments:
_____
_____
_____
_____
_____

Interviews and document survey have revealed a complex project with a long time frame, many phases and many key professionals. It is clear that when responding to this questionnaire you will not be able to provide feedback on the entire length of the project. To facilitate your responses, we have made two questionnaires: one covering the periods from 1958 to 1979, the second, from 1979 to 1994, and ask you to fill in the one that deals with the time of your involvement. **This questionnaire covers the four phases from 1979 to 1994.** The phasing is defined in the table below.

Proposals for the Lower Hudson Waterfront	The City and State Negotiate	Getting started	Stalling out: the market crisis	Recharging Battery Park City	Building Battery Park City	Battery Park City Evolves	Bridging a market dip, development with the community
1958 – 1956	1966 - 1969	1969 – 1972	1972 – 1979	1979 – 1982	1982 – 1984	1984 – 1988	1988 – 1994
Heads of BPCA			C. Urstadt (5 Aug 1968 – 10 Feb 1979)	R. Kahan (10 Feb 1979 to 1 Jan 1984) with Barry Light		Sandy Frucher (1 Jan 1984 – 5 Oct 1988)	David Emil (5 Oct 1988 – 1994)
Political regimes							
1958, 1962 N. Rockefeller (R) (re-elected governor 1961 R. Wagner (D) re-elected mayor 1965 J. Lindsay (R, L) elected mayor	1966 NR (R) re-elected	1969 J. Lindsay (L) re-elected 1970 NR (R) re-elected governor	1973 NR resigns, successor Wilson 1973 A. Beame elected mayor 1974 Carey (D) elected governor, '78 re-elected 1977 Koch (D) elected mayor	1981, Koch (D) re-elected	1982 Cuomo (D) elected governor	1985 Koch (D) re-elected 1986, Cuomo (D) re-elected	1989 Dinkins (D) elected mayor 1990 Cuomo (D) re-elected 1993 Giuliani (R) elected mayor 1994 Pataki (R) elected governor

Key events							
Different city and state agencies release alternative plans. Nelson Rockefeller competes with the city (CPC) and the DLMA (headed by D. Rockefeller) for the best plan	Showdown between state and city agencies, negotiations ensue, principles agreed, the city and state sign a MoU, design team set up (city and state architects, with mediator), team designs plan, BPCA is set up, approvals obtained: Master Development Plan, execution of the Master Lease	Demolition of piers, landfill started, PATH tubes laid, Search for and designation of developers Securing funding for BPCA Continued negotiations with the city over changes required in the programme	Continued skirmish between city and the BPCA over aspects of project. The residential developers redesign, conflicts with BPCA architects. Real estate market collapses; NYC has a fiscal crisis, review of BPCA solvency. Agency placed under the UDC. The DLMA intervenes with the city and state to support the BPCA.	New MP, BPCA negotiates a new deal with the city, MoU signed State, city and BPCA. BPCA revamped. New Planning controls. Gateway Plaza begins and completes construction; O & Y commits, signs and begins construction.	O & Y builds, WFC leased, Phase II of residential development, RFP Rector Place. Design and development of and key focus on public spaces	Cuomo asks Frucher to 'give the project soul'. MoU city and state to use excess revenues for the Housing NY program. Occupancy of WFC I and II, Continued focus on public space. Stuyvesant High and Holocaust Museum built. 1987 stock market crash,	Real estate slump 1989, recession and slide in city's financial situation, funds diverted to city budget. Focus on the North Neighbourhood, and large infrastructure development, period of waiting for market upswing. Set up of Battery Park City Parks Corporation

Question 3: Measuring the trust in Phases 5 - 8

The table **on the next 2 pages** gives you statements regarding the relationship between partners in the project and asks you to determine your level of trust in the other parties during the time you worked together. Each of these statements begins with *'the other party . . .'*

Actor / Element of trust	The State of New York: the Governor's Office	The NJ and NY Port Authority	The City of New York: the Mayor's Office	The City of New York: City Planning Commission	Battery Park City Authority	BPCA Architects Cooper and Eckstut
. . . took the interests of the collaboration/project into account when making a decision	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
. . . would *not* have met their obligations, if their activities had *not* been defined in the contract/regulations	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
. . . was capable of completing the project/their obligations according to agreements made	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree

... committed more time or personal resources to the collaboration/p roject than was specified in the contract	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
... had, in general, good intentions	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
... sometimes *did not* meet their obligations, but we were willing to give them the benefit of the doubt	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree

Question 3 continued: Measuring the trust in Phases 5 -8

Please continue to fill in the table as on the previous page. Each of these statements begins with '**the other party . . . Please skip over any party you do not think is relevant!!**

Actor / Element of trust	The Downtown Lower Manhattan Association	Lefrak and Fisher, residential developers	Olympia and York, commercial developers	Public Arts Advisory Committee	Battery Park City Parks Corporation	Other ___
. . . took the interests of the collaboration/projec t into account when making a decision	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
. . . would *not* have met their obligations, if their activities had *not* been defined in the contract/regulations	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
. . . was capable of completing the project/their obligations according to agreements made	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree
. . . committed more time or personal resources to the collaboration/projec t than was specified in the contract	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree	☐ Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree

	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly dis agree ☐
. . . had, in general, good intentions						
. . . sometimes *did not* meet their obligations, but we were willing to give them the benefit of the doubt	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐	Strongly Agree ☐ Agree ☐ Does not apply ☐ Disagree ☐ Strongly disagree ☐

Question 4: Level of trust in other parties in the partnership

The table below asks you to indicate your level of trust in the other parties involved in the project. Please do so by giving a rating of 1 to 10 (10 is the highest rating that can be given).

This table refers to the actors involved in the project from 1979 to 1994

Actor	The State of New York: the Governor's Office	The NJ and NY Port Authority	The City of New York: the Mayor's Office	The City of New York: City Planning Commission	Battery Park City Authority	BPCA Architects Cooper and Eckstut	Comments
Your level of trust in the parties listed, Rating 1 to 10							
Actor	The Downtown Lower Manhattan Association	Olympia and York, commercial developers	Lefrak and Fisher, residential developers	Public Arts Advisory Committee	Battery Park City Parks Corporation	Other_____	Comments
Your level of trust in the parties listed, Rating 1 to 10							

Question 5: Changes in trust in the other parties in the partnership

With regard to the answers you gave on the previous table, the research is interested in how your trust in other parties has changed over time. Please indicate below how your level of trust in each of the parties mentioned has changed/changed over the time of your involvement with the project/collaboration.

Actor	The State of New York: the Governor's Office	The NJ and NY Port Authority	The City of New York: the Mayor's Office	The City of New York: City Planning Commission	Battery Park City Authority	BPCA Architects Cooper and Eckstut
Change in the level of trust in the parties listed	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal

Actor	The Downtown Lower Manhattan Association	Olympia and York, commercial developers	Lefrak and Fisher, residential developers	Public Arts Advisory Committee	Battery Park City Parks Corporation	Other _____
Change in the level of trust in the parties listed	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal	☐ Increased a great deal ☐ Increased ☐ Remained the same ☐ Decreased ☐ Decreased a great deal

Question 6: The basis for trust

This portion of the questionnaire looks at what, in your opinion, is an important basis for trust. When do you feel that you can trust another party? Please read the statements below and indicate your point of view.

Basis	Please indicate	Comments
I have to have sufficient information on the other party's reputation, qualifications and past performance record	☐ Very important ☐ Relevant ☐ Not so important	
I have to be confident that the penalties stipulated in the contract are sufficient to ensure the compliance of the other party	☐ Very important ☐ Relevant ☐ Not so important	
The other party must be willing to share information and resources	☐ Very important ☐ Relevant ☐ Not so important	
I must get to know them well enough that I am able to predict their behaviour	☐ Very important ☐ Relevant ☐ Not so important	
On the basis of the interaction, I come to know and respect their capacities	☐ Very important ☐ Relevant ☐ Not so important	
We must learn to 'speak the same language'	☐ Very important ☐ Relevant ☐ Not so important	
We must come to share the same values and norms	☐ Very important ☐ Relevant ☐ Not so important	

Question 7: the outcomes

Please indicate in the following table your perception of the outcomes of the partnership

Outcomes	Please tick one	Comments
I am satisfied with the results of the collaboration/project	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
The goals of my organization were met by the partnership	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
The partnership led to additional investments than would not have occurred if my organization had worked alone	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
The collaboration created a number of innovative ideas, concepts and plans	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
The partnership resulted in the implementation of a project that added to the quality of life of the neighbourhood and city	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
Working closely together led to improved cooperation between partners	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
Working closely together led to improved coordination of project elements	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	
Working in partnership led to long processes of decision making and additional costs	☐ Strongly Agree ☐ Agree ☐ No opinion ☐ Disagree ☐ Strongly disagree	

Question 8: Change in trust levels over time

Here we ask you to tell us how much the level of trust in different partners in the project changed **over the phases of your involvement.** The figures below show four phases (taken from the phasing at the beginning of the questionnaire). We ask you to measure the level of trust per phase. **In each column, please indicate, by placing a tick mark, your level of trust. The first figure provides an example.** Each figure deals with a different partner. *Note: please skip the actors you feel are not relevant for you.*

Example

Change in your level of trust in
_____*(name of organisation)*_____

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10	√			
	9				√
High	8			√	
	7		√		
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

These figures focus on the parties involved from 1979 to 1994

Change in your level of trust in
the State of New York: the Governor's Office

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
The NY and NJ Port Authority

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
the City of New York: the Mayor's Office

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
the City of New York: the City Planning Commission

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
the Battery Park City Authority

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
BPCA Architects: Cooper and Eckstut

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
the Downtown Lower Manhattan Association

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
Olympia and York, commercial developers

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
Lefrak and Fisher, residential developers

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
Public Arts Advisory Committee

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
Battery Park City Parks Corporation

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Change in your level of trust in
Other, _____

Periods / Level of trust		Recharging Battery Park City	Building Battery Park City	Battery Park City evolves	Bridging a market dip, community presence
		'79 – '82	'82 – '84	'84 – '88	'88 – '94
Very high	10				
	9				
High	8				
	7				
Moderate	6				
	5				
Low	4				
	3				
Very low	2				
	1				

Thank you very much for your time, input and patience.
Carley Pennink

Annex 2: The Battery Park City 1969 and 1979 Programmes

1969

- 600,000 m^2 of commercial space at the base of the site
- Seven large residential complexes, 14,000 housing units and a mixture of subsidized and market spaces
- 27,000 m^2 of shopping centre on the eastern edge of the site
- Circulation system that called for the separation of pedestrian traffic from vehicular traffic through the use of pedestrian bridges
- Most uses stacked for higher density on the site, extensive layered parking facilities, public spaces on multiple levels, upper decks for parking spaces

1979

The revised Master Plan of 1979 was developed to reflect the elements that were most desirable in New York City. These elements were represented in eight basic principles:

- Principle 1: Battery Park should not be a new town within a city but should be part of Manhattan
- Principle 2: The layout and orientation of Battery Park City should be an extension of Lower Manhattan's streets and blocks
- Principle 3: Battery Park City should focus on the development of its waterfront and maximize the open spaces for use by tenants and the rest of the public
- Principle 4: The design of the site should take on a sympathetic, understandable form
- Principle 5: Circulation at Battery Park City should re-emphasize the ground level.
- Principle 6: Battery Park City should reproduce what is best about NYC neighbourhoods
- Principle 7: Relocate the new Commercial Centre to the focal point of the site (the centre) and develop it first
- Principle 8: Land use and development controls should be flexible enough to allow for adjustments to future market requirements

General:

- Block size: standard 200 by 400 ft, block dimensions suited the size of smaller brownstones, large buildings and could be developed by small and large developers alike
- Four major streets: two (north-south) with major residential, shopping, community facilities and entertainment and two (east-west) either side of the Commercial Centre (just continuation of streets either side WTC, for easier vehicular circulation). All other streets private and dead end
- In those areas that are very busy (conflict of pedestrian and vehicular traffic), pedestrian walkways were allowed. This would occur by the WFC where the volume of pedestrians is so great and West Street borders the site
- Parking only provided on a project by project basis and in very limited quantities
- 70% of total site allocated to open spaces
  a. 19.25%: streets
  b. 30.25%: public open spaces, i.e. parks, esplanades, playgrounds
  c. 20.5%: private open spaces, i.e. buildings, courtyards and resident parks

Specific

- 6 million ft^2 office space in four buildings
- 280,000 ft^2 commercial and retail space, various public spaces
- 3,912 residential units, mixture of market rental and sale (condominium), approximately 50-50, phase I (southern area)
- 7,500 residential units, phase II (northern area of the site)

Annex 3: Bond Issue 1972: Powers of the Battery Park City Authority:

- A Public Benefit Corporation of the State of New York with powers to enable it to finance, construct and operate a planned city community project; legally formed as 'a body corporate and politic', with a board of three members appointed by the governor of the state and an executive staff of five (Chairman, Treasurer, Architect/Engineer, Property Manager and General Council).
- External consultants to the Authority included: financial, bond, lease, accountants, engineering and real estate (marketing).
- The BPCA had the right to issue bonds not exceeding US$ 300 million, the bonds were exempt from federal, state and local income taxes.
- The Authority was expected to obtain its revenues principally from the sublease of parcels in the project area to developers; the conditions of the sublease were that the developers undertake the construction of the commercial and residential structures at their own expense.
- Expenditures of the BPCA were: the debt service on the bonds, administrative and maintenance expenses, rent payable for the lease of land. Operation and management of the project and subleases were crucial to the Authority's capacity to cover these expenditures.
- Feasibility studies were required to demonstrate the viability of the project (attached as part of the bond issue).
- Low- and middle-income residential portions of the project to be subsidized by a number of federal, state and municipal programmes.
- Construction and maintenance obligations included the relocation of existing tenants, demolition of the existing structures, construction of public and private services and utilities; all utilities were to be completed in 11 years.
- In the first five years, the BPCA was to have contracted with developers to begin construction of improvements, at least 1,000 residential units should be in construction.

List of key responsibilities:

- To borrow money and issue negotiable bonds, notes and other obligations, to provide for the rights of the holders thereof.
- To acquire, lease, hold, mortgage and dispose of real property and personal property for its corporate use.
- To construct, improve, enlarge, operate and maintain the 'Project'.

- To make by-laws for the management and regulations of its affairs and for the regulation of the project (subject to the agreement of the bond holders).
- To make contracts and execute all necessary or convenient instruments, including leases and subleases.
- To accept grants, loans and 'contributions' from the Federal, State and city government or any other agency thereof.
- To fix, establish, and collect rates, rentals, fees and other charges for the use of the project (subject to agreement of the bondholders).

Existence of the Authority to continue until terminated by law (the length of the Project) but not so long as bonds, notes and other obligations are outstanding, unless adequate provisions have been made for payment.

Profile Carley Pennink

CDS 2.0 Toolkit
2016-2017, in the Netherlands and Uganda, Project Coordinator / key author
Production of set of guidelines and tools to guide local government in the development and execution of city development strategies, with testing in the field, interactive website.

Town Planning for Green and Smart Cities In Armenia
2015-2016 in Armenia and the Netherlands, as Team Leader
Led development of capacity-building programme that focused on training of government staff in strategic approaches to green and smart cities. Development based on needs assessment within the university and in local government, training of staff in key concepts, and in interactive adult learning approaches, as well as partnering on development of short training courses and Master's level courses. Staff travelled to the Netherlands to discuss implementation issues with practitioners and to develop case material.

Smart Cities in India
2015, India and the Netherlands
Assessment of capacity needs in India, development of Smart Cities Course sandwich course for the Indian market: focus on strategic approaches to issues faced in the Indian context.

Good governance in emerging democracies: decentralization and public participation in development planning
2014, in Tbilisi Georgia, Team Leader
- Training needs assessment: assessment of the capacity gaps in local government in Georgia related to good governance and participation in strategic planning, development of training strategy,
- Development and execution of a five-day course on good governance and participation in city development strategy processes (case study Tbilisi),
- Training of IPR staff in adult learning and adult training, support to the IPR in developing two three-day courses on the same topic,
- Guidance in the development of a marketing and communication strategy, keynote speech at seminar to disseminate output of the project.

Training material development on City Development Strategies

2014, in the Netherlands and Romania, Team Leader
Led group of trainers in the development of a training manual and materials
City Development Strategies. Output: generic materials to guide local
governments in the execution of a CDS process.

Are PPPs REALLY pro-poor and gender sensitive?
2013, in the Netherlands and Kampala, Uganda, course manager and principle
trainer
Led group of local government officials from East Africa through a PPP
business planning exercise, and during each step, an assessment of the pro-
poor and gender-sensitive criteria used to make decisions on the nature and
structure of the PPP.

Capacity building of the staff of Yerevan City Council and Municipality
2010 -2011, two phases in Yerevan, Armenia
Capacity needs assessment of local government in Yerevan. Development of
capacity building strategy and programme for staff on urban management,
good governance, and on management of urban infrastructure and services
and PPPs.

City Development Strategy, Tbilisi, Georgia
2010-2011, in Tbilisi, Georgia, Project Leader
Led a team of consultants and trainers during the execution of the city profile,
the development of the city development strategy and public meetings in the
city of Tbilisi. Provision of facilitation and capacity-building services based on
needs assessed during execution of activities.

Master Class in Integrated Action Planning in favela upgrading in São Paulo
2010, São Paulo, Brazil, Trainer
Request from SEHAB, the municipal social housing secretariat of São Paulo,
for on-the-job training for staff. Focus on approaches that achieved
implementation and integration with other service providers. Work on
integrated and Participatory Action Planning for Cabuçu de Cima Water Basin

Capacity Building for Environmental Management Auditing
2010, in the Netherlands, for the government of Indonesia, Capacity Building
specialist
Execution of training of trainers for a group of Indonesian government
professionals working with environmental auditing, aid in the establishment
of training priorities, and development of a training strategy and programmes.

Tbilisi Agglomeration Development Agency (TADA) Study of Metropolitan Agencies in Europe
2010, in the Netherlands, Project Leader
Led team that provided support to TADA, the new Tbilisi metropolitan agency. Staff travelled to Europe to study the issues faced by studied European Metropolitan Agencies, and to assess the applicability of lessons learned to their own situation.

Shelter Branch Land and Housing Policy Papers. Strategy Paper and Programme Document
2009-2010, the Netherlands and Kenya, Team Leader, Programme document Production Land and Housing Policy and Programme documents for the Shelter Branch of UN-Habitat. Production of two policy papers, one for the Housing Policy Section, another for the Land, Tenure and Property Administration Section of the Shelter Branch, followed by the creation of n overall strategy and programme document.

Infrastructure Development through Public-Private Partnerships in Indonesia.
2007-2008, in the Netherlands and Indonesia, Team Leader
Special request to facilitate three regional governments in Indonesia on production of PPP business plans and execution of works. Assessments of needs, training and follow-up TA services in the development and execution of PPP transactions; for three regional projects.

Training for Asian Development Bank staff in Stakeholder Management in Public-Private Partnerships
2007, in Manila, Philippines, Training design expert, trainer
Support to the ADB in thinking through issues faced in stakeholder management during execution of PPPs. Needs assessment, course development and training delivery. Follo- up feedback on ADB PPP Position Paper.

Strategic Spatial Planning in Kosovo Project, under the UN-Habitat Urban Management and Planning Programme
2002-2006, in the Netherlands and Kosovo, Institutional expert/advisor/trainer
- Proposal for and execution of institutional development plan,
- Follow-up support on setting strategies for staff development,

- Capacity-building needs assessment, design and execution of capacity-building programmes, on-the-job training during development of Kosovo-wide strategic plan,
- Consensus building, facilitation of public meetings,
- Coordination of activities with inter-ministerial groups and civil society.

Participatory Mapping Awassa /City Development Strategies
2003-2004, in Awassa, Ethiopia, Team Leader, consultant
Mapping of participatory processes, capacity gap assessment, stakeholder consultations, training and support to partners (COs, GOs and NGOs) in the development of a City Development Strategy.

Decentralization and Local Government in Africa Programme
2002-2003, Netherlands and Sub-Saharan Africa, Capacity building specialist, decentralization expert
Capacity-building strategy and programme design, content design, material development (module 1: overview of Decentralization in SSA), design, execution base module on decentralization.

Urban Management Advisory Services
2001, in Addis Ababa, Ethiopia, Institutional/capacity building advisor, trainer
Support, advice and capacity building on new approaches to planning, participation in planning, new roles for planning department, advisory work on organizational change.

Professional Urban Management in Poland
2002-2007, the Netherlands and Poland, Institutional and management expert, capacity-building expert
- Advisor, setup/staffing of the centre, on-the-job training of staff,
- Business plans and management plans,
- Assessment of capacity-building needs of local government organizations,
- Developing training strategies and guidance in training provision.

Decentralization and Local Empowerment
2002, Philippines and the Netherlands, capacity-building specialist
Training needs assessment, training strategy and programme development, training of trainers.

Building Capacity for Decentralization in Romania
2003-2006, Romania (three municipalities), Project Leader

- Capacity building of local governments; support to institutional strategies to execute organizational change,
- Training in public sector reforms and performance measurement in public services,
- TA in execution of programmes in local governments in Romania, TA in set up of partnerships,
- Facilitation of consensus-building activities.

Romanian Public Administration Development
1999-2001, Romania (country wide), Project Leader capacity-building component
- Capacity-building support to the eight National and Regional Training Centres,
- Creation of internal institutional development plans and training strategies,
- Development of national policy for training in Romania and strategy to guide implementation of institutional change,
- Needs assessment within local governments,
- Training strategy and programme development,
- Guidance in the execution of training services.

Institutional Development and Training for Urban Management, Romania 1997-2000, RomMatra 96/05
1998-2000, Romania (country wide) and the Netherlands, Institutional development specialist, manager PPP component
- Support to development of staff capacity, advisor in institutional development activities (policy and strategies). Execution of training of trainers, programme design, as well as support to local government capacity development in PPPs.

Continuous Training Systems for Public-Private Partnerships in Local Economic Development RO/98/83549/
1999-2001, City of Cluj Napoca, Romania, Team Leader and Consultant
- Support in development of Local Economic Development strategy for City of Cluj Napoca, Romania,
- Strategy to determine investment priorities for local government and guidelines for attracting private sector participation,
- Facilitation stakeholder consensus building,
- Capacity building of local government staff.

Strengthening the Capacity for Urban Development, Belarus
1998, in Minsk, Belarus, Training Specialist
Development capacity in Strategic Planning with local training counterpart.
Support in development of strategy to build staff capacity.

Egypt Research and Training Project in support of the Housing, Building and Planning Research Centre (HBPRC) in Cairo
1998, in Egypt as consultant and training expert
Execution of training of trainers, work with counterpart staff on training methods development, follow-up advisory services in curriculum development.

Internal IHS capacity-building activities
1994 - present
- Urban Management
- Action and Strategic Planning
- City Development Strategies
- Green and Smart Cities
- Urban Governance, Policy and Planning
- Leveraging Public and Private Opportunities in City Regeneration
- Management of Public-Private Partnerships
- Public and Private Finance of Urban Development
- Capacity Building and Human Resource Development,
- Inner City Development in Transitional Economies (ICDTE)

Publications and presentations

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Pennink, C., S. Welsh and N. Browne (eds.). *IHS Thesis Series (2007-2014),* yearly publication of Master's Theses, Master in Urban Management and Development (Rotterdam: IHS Publication).

Racoviceanu, S., C. Pennink, S. Welsh and N. Browne (eds.). *Building Operational Capacity for Decentralized Government in Romania* (2005), Publication developed as part of the Dutch Government sponsored project Building Operational Capacity for Decentralized Government in Romania (Bucharest).

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Pennink, C. B. (2004). 'Partnerships for Better Cities: Measuring Costs and Benefits in a Multi-Actor Approach'. Chapter 7 in: *Management si Guvernanta Urbana* (Urban Management and Governance) (UNDP Moldova).

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Co-editor (2002), *IHS Urban Forum*, IHS Scientific Journal Series (Rotterdam).

Davidson, F. and C. Pennink (2001). 'From Fire-Fighting to Fire Lighting: International Experience in Capacity Building, and Its Relevance for Ethiopia'. In: F. Davidson and C. Pennink (eds.). *National Seminar on Urban/Municipal Capacity Building* (Addis Ababa, Ethiopia: IHS/ GTZ/UDSS).

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Pennink C. B. and M. Vrabete (2001). *A Project from Cluj Napoca: Continuous Training Systems for Public Private Partnerships in Local Economic Development*. Paper for dissemination seminar, 16-17 March 2001.

Pennink C. B. (2001). *Strategies for Local Economic Development in Cluj-Napoca's Inner City, Ideas for Today and Tomorrow: How to Get Such a Process Going and Keep It Going*. Presentation at seminar 'Continuous Training Systems for Public Private Partnerships in Local Economic Development', 16-17 March 2001.

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Pennink, C. B. (1997). *Factors and Issues in Urban Management.* Paper, presented in Hanoi, Vietnam.

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