Governance

3.1 INTRODUCTION

In this chapter, a review is presented of several approaches to the concept of (port) governance. This is needed to choose sensitizing concepts, that conduct the empirical research of which the outcomes are presented in Chapter 9.

In section 3.2, definitions and the changes in approaches (consequent to changes in governance itself) are discussed, ending with the concepts currently most used. Section 3.3 pays attention to the mechanisms that make the governance networks 'tick' – mechanisms that partly shape and sometimes determine the possibilities that governance can achieve. Section 3.4 deals with the topics of governance in port studies. Special attention is given to the most important change in port governance: the retreat of public responsibility. This chapter concludes with section 3.5, which shows how these observations and assessment proposals fit within the research model as presented in Chapter 1.

3.2 GOVERNANCE: DEFINITIONS, APPROACHES, AND MAIN THEMES

3.2.1 A short history of the study of governance

Society as a community of actors with different needs, interests, and occupations needs to be regulated to prevent disorder (a societal perspective), uneven distribution of resources and imperfect competition (an economic perspective), inequality and social unrest (a societal and moral perspective). Governance as a method of steering forces within this community of actors is the instrument that humankind has been practicing from ancient times (Plato's *The State*) via the Middle Ages with monarchs and republics, up to modern times. The way in which governance is perceived and executed has transformed over time. The study of governance, as a theme for providing a framework to describe, analyze, and explain how transactions in society are performed, has changed as well, but the basic concept of governance as a "process by which we collectively solve our problems and meet our society's needs" (Osborne & Gaebler, 1993, p. 24) has remained the same. However, the applicability of this theme has and has had different perspectives. Osborne and Gaebler (1993) use it to study how government as the instrument of public governance has changed in the US. The term governance is often restricted to governments' actions (Brooks, 2007), but other scholars see it as more than a governing government; rather, it must be interpreted much more broadly. For Williamson (1979, pp. 234–235), it is about transactions, wherever is happening, as long as it is aimed at the exchange of resources: "….for each abstract description of transaction, identify the most economical governance structure, where by governance structure I refer to the institutional framework within which the integrity of the transaction is decided. Markets and hierarchies are two of the main alternatives." Other scholars also define governance as broader than just governments' actions, stating that it is about business, civil society, and governmental actors. However, they do not focus only on the transactions based on markets and hierarchies as Williamson emphasizes, but choose another approach because for them modern society is much more complex. Klijn and Koppenjan (2016, p. 11) see networks as "more or less stable patterns of social relations between mutually dependent actors, which cluster around a policy problem, a policy programme, and/or a set of resources which emerge, are sustained, and are changed through a series of interactions." The above remarks show in these brief statements precisely in what way the study of governance has changed in the 20th century. The three mechanisms mentioned above have been the focus of scholars' attention in their discussions on steering instruments: hierarchies, markets, and networks. Before the relevant theme – governance in port regions – is addressed, a short review is now presented of the development and approaches of the governance concept.

Hierarchies: bureaucracies

In the early 20th century, public administration favored a separation between politics and administration in the belief that administration (bureaucracy), holding "impartial" knowledge (Bevir, 2012, p. 57), could act as a check on politics with its own politically driven interests. Governance was strongly associated with government. Bureaucracy was professional, an independent controller (Bevir, 2012). Bureaucracies were seen as superior and immune to day-to-day hypes of politics and a stable factor in the turbulent environments for companies as well as public entities like governments. A most famous example is the BBC hit series "Yes Minister" in the early 1980s, where the minister in fact was controlled by the representative of the bureaucracy: the permanent secretary. In the 1960s and 1970s, this view began to erode: bureaucrats were not impartial experts but self-interested actors with their careers and networks. It was also a reaction to the ever-growing public bureaucratic sector. The influence of the state worried politicians, business, and scholars, and change was at hand.

Markets: New Public Management

The idea that government is not impartial, and not cost-effective, in fact not even the most professional entity to deliver services because of its attitude, was the trigger to approach governance from another perspective. Another kind of orientation, in terms of goalsetting, cost orientation, efficiency, and driven by tasks, derived from managerial practices, entered the governance theme and progressed to what became known as New Public Management (NPM). This approach was especially promoted by Osborne and Gaebler who wanted to change the way US government delivered it services and advocated that managerial principles should be applied to government's governance. Under the flag of an entrepreneurial spirit, they proposed 10 principles including competition, customers, earning instead of spending, and decentralization of authority. For them, it was all about less government (rowing), more governance (steering). This gave rise to an almost religious belief in markets and hierarchies as a panacea for the former unwanted development of bureaucracy and gave rise to this new approach to public governance, which would ultimately lead to, what some would call, a "hollowing out of the state" (Rhodes, 1997, p. 17). However, this almost rejecting attitude towards public entities is not completely what Osborne and Gaebler proclaimed: "many people who believe government should simply be 'run like a business', may assume that this is what we mean. It is not" (Osborne & Gaebler, 1993, p. 20), because: "Government and business are fundamentally different institutions" (p. 20). "Business is driven by profit, governments by delivering services" (p. 20). In fact, Osborne and Gaebler are more nuanced than many politicians apparently thought when they danced around the "golden calf of privatizations of former public institutions," especially when governments privatized, an activity that resulted in a private monopoly so that "cost and the inefficiency grow worse" (p. 47). What Osborne and Gaebler proclaimed was that the distinction is not "public versus private" but "monopoly versus competition" (p. 79). It is competition that creates organizations that flourish. This leads to the benefits as efficiency, flexibility and innovation.

Public management is about the way in which the available resources are used as effectively as possible to achieve state (public) policy goals. The adoption of market thinking (competition), management tools (give the officials the freedom to manage), and goalsetting (i.e. NPM) was especially prevalent in the Anglophone countries in the neo-liberal times of Reagan and Thatcher. In the 1980s and 1990s, in The Netherlands, this became the main driver of a retreating government under the prime ministers Ruud Lubbers and (surprisingly for a labor politician) Wim Kok (and his UK labor counterpart Tony Blair with his New Labour). This led to a situation whereby policymaking and service delivery, which was outsourced to third parties (private and voluntary), became separated. The state, however, is still accountable: the state is the principal; the contractor is the agent. Performance management systems for monitoring price, quality, and customer satisfaction became the norm in the public management arena. This performance management is needed to be able to monitor and evaluate the performance of the contractors' activities. This has led to budget-driven programs that often lay too much emphasis on financial performances.

Networks: network governance

NPM did not completely replace existing bureaucratic structures (Bevir, 2012, p. 66). In fact, these are still the dominant form, partly because NPM implementation required new forms of bureaucracy and new sets of rules. These new market-related policy instruments often did not replace the bureaucratic ones, but supplemented them. Thanks to the increasing influence of other actors besides businesses and public entities, such as non-governmental organizations, public interest groups, and individual, sometimes influential actors, the world became more complex. State activities performed by public and private actors became entangled in networks consisting of public, private, and voluntary organizations.

This gave rise to a second reform: public–private partnership (from the late 1990s),[7] where managing networks and governance meet to produce policies and services. This also meant a fundamental change in the basic principle of how governance is 'adjustable'. Hierarchies are based on authority, the leading principle in markets is price; for networks, trust is the 'oil that makes the machine run.' It is about relationships: "Because Public Private Partnerships involve closer relationships among actors than do contracts, PPPs typically rely on a high level of trust" (Bevir, 2012, p. 68). This creates a more challenging task for public managers to steer activities. Network management is required to influence the organizations in the network.

To summarize this brief overview of how the theme of governance evolved, Table 3.1 recapitulates the main characteristics of the three mechanisms: hierarchies, markets, and networks. Thorelli thinks that networks are more an in-between form as a result of defining networks mainly from the relationship aspect: a network is a structure consisting of "two or more organizations involved in long-term relationships" (Thorelli, 1986, p. 37). That would mean that a distinction could be made between hierarchies, networks, and markets, where networks take a stand in-between as a kind of mix, but, from the more historical perspective of how in time organization was studied, the typology remains as discussed above.

7 This is not to say that before the late 1990s there was no public–private partnership. As seen in Chapter 8 regarding the development of the port city of Rotterdam, in the 1950s there were omnipresent forms of public–private partnerships.

Table 3.1 A typology of organizational structure

	Hierarchies	Markets	Networks
Governance	Authority	Price	Trust
Basis of relations among members	Employment	Contracts and property rights	Exchange of resources
Degree of dependence among members	Dependent	Independent	Interdependent
Means of conflict resolution and coordination	Rules and commands	Haggling	Diplomacy
Culture	Subordination	Competition	Reciprocity
Accountability	Clear and strong: punishing	Self-inflicting: the market corrects	Diffuse: hard to pinpoint responsibilities

Source: adapted from Bevir (2012), last row added by author

The next section addresses how the academic world has studied governance as a theme to explore how communities organize themselves.

3.2.2 Interpretations of governance

The use of the term, governance, has for many years been a source of miscommunication, misunderstanding, and confusion, as it depends on how one looks at reality – the reality of how policymaking and implementation of these policies (or decisions) exist. Many disciplines such as political science, law, public administration, economics, but also geography, sociology, and other disciplines, have been paying attention to the subject, leading to various views of 'their own' and interpretations of the subject. This is also partly due to the fact that governance, as a phenomenon in itself, has been changing so much in the last decades as society was looking for new arrangements for organizing governing structures and redistributing power to new institutions (Van Kersbergen & Van Waarden, 2004; Rhodes, 2007). To illustrate this variety of approaches and different focuses on topics in the research on governance, Van Kersbergen and Van Waarden (2004) distinguish nine different approaches or focuses of attention in the study of governance. In their classification, two perspectives are relevant for this thesis: "Governance without governance as self-organization: based on negotiations, informal understanding and trust"; and "network governance" (p. 150). The latter addresses the role of public actors, but Van Kersbergen and Van Waarden underestimate the influence and presence of public organizations in the creation and existence of these networks, and therefore they should be considered as organizational bodies that play a role.

If we reflect on the brief overview of the history of studying governance as presented in section 3.2.1, which emphasized the fundamental other interpretations of how to organize societies by taking bureaucracies, markets, or networks as the leading principle, and if we observe how the academic world approaches this field of research, we see the central themes of hierarchies, markets, and networks as described in 3.2.1 reflected in Van Kersbergen and Van Waarden's (2004) nine approaches. This thesis takes the network concept as a basis for governance, because this approach reflects the interplay within the port cluster. Important elements of this network approach are trust, exchange and reciprocity, as they are representing the nature of the relations within the network. For this thesis, the port and port city is regarded as a cluster with its relationships within.

3.2.3 Actors, processes, and institutions: interaction in policy networks

A cluster might be considered as an articulation of a network of private organizations, although government exerts a substantial influence on this network (Porter, 1990a), or, as already stated, the private network governance organization. What governance approaches usually have in common is that the regulation of rules that govern conduct and property rights is a central theme (Brooks, 2007). For this thesis, the characteristics of network governance, but also aspects of the cluster, provide the analytical framework for studying the aspects of governance in port–port city relationships. These aspects are:

- Self-organization based on trust, negotiations, and informal understanding;
- Networks of public and private organizations;
- The linkages between actors (including government).

In summary, this means that the study of governance in terms of governance in and by a network is a study that pays attention to:

- Actors (who is involved in what kind of relations?);
- The interaction between the actors (what kinds of relations exist and what are their purposes?);
- The institutions (what shapes the way in which these relations are articulated?).

For this study, this means that the actors involved are the selected port firms with their interactions. The third aspect mentioned above, institutions, is of interest because the institutions are particularly influenced by the various political-economic contexts of the three port cities under study. However, as these themes are also distinguished by Klijn and Koppenjan (2016, p. 33) as the main themes of research on network governance, there is an important remark to be made on institutions.

Klijn and Koppenjan (2016, p. 37) consider “institutions” more as processes “than institutional features of networks”, whereas this study approaches institutions more from a perspective to which Klijn and Koppenjan pay less attention. This thesis emphasizes the need to look at institutions as “a set of rules or norms that guide behavior” (Klijn & Koppenjan, 2016, p. 37). This explains the inclusion here of the socio-political context, because that context is an influential factor in institutions' behavior.

However, before governance and port cities are addressed, the meaning of governance is further elaborated. Klijn and Koppenjan (2016) identify four meanings of the term governance:

1. Good governance or corporate governance: a properly functioning public administration;
2. Governance as NPM: the role of the government is to steer; the implementation and the delivery of services should be left to other organizations or separate public agencies;
3. Governance as multi-level governance: the focus is on how public actors on various governmental levels interact (vertical relationships);
4. Governance as network governance: here “…the focus is on the complex interaction process in a network of public, private and societal actors, including individuals, organizations and groups of organizations” (Klijn & Koppenjan, 2016, p. 6) (horizontal relationships).

For Klijn and Koppenjan (p. 6), the element of the interrelationship between actors pursuing the fulfillment of their goals is crucial for the concept of governance. As their research on the literature on the topic of governance and governance networks shows, the terms governance and governance networks are highly interchangeable (p. 8).

Rhodes is strong representative of the policy networks paradigm. Although his observations are derived from the UK situation and he focuses on the role of national (central) government, his concepts are worth mentioning, as the concepts that he uses are valid for the Continental situation as well, as he himself also remarks (Rhodes, 2007). For Rhodes, a network is a system in which exchanges take place. It is characterized by interdependence between organizations for resources to achieve their goals. In this network, there used to be a dominant coalition that “employs strategies within known rules of the game to regulate the process of exchange” (Rhodes, 2007, p. 1245). The network leads to patterns of governance that “…arise as the contingent products of diverse actions and political struggles informed by the beliefs of agents as they arise in the context of traditions” (p. 1252). For Rhodes, this context of traditions is rooted in shared values and norms “which holds the complex set of relationships together; trust is essential for cooperative behavior and, therefore, the existence of the network” (p. 1246). Rhodes questions the role of the state. For him, there is no unitary state in Britain with a strong executive. The state has a role that has declined as there are new forms and instruments of governance (Rhodes, 1997, 2007).

As governance is executed with and through networks, he also makes these terms interchangeable and further on speaks of network governance (Rhodes, 2007, p. 1246). The elements, interaction and flow of resources, are also key concepts for interfirm coordination, or network governance as Jones, Hesterly, and Borgatti (1997, p. 914) define it: “network governance involves a select, persistent, and structured set of autonomous firms (as well as non-profit agencies) engaged in creating products and services based on implicit and open-ended contracts to adapt to environmental contingencies and to coordinate and safeguard exchanges.” In this definition, the term, persistent, which refers to the repeated working together of the network members, is an interesting one. This would imply that a mechanism should be at hand to enhance that. Jones et al. contend that the network structure will take care of that, in what can be seen as a dynamic process. I think this is not only an autonomous and self-enforcing mechanism, but should be fostered by some kind of meta-governance as the interests of network partners might change consequent to environmental contingencies, which they also mention in their definition – for example, global companies taking over a network firm and therefore changing the firm’s goals and interests with the result that these no longer align with the interests of the network itself.

Within the framework of this thesis, Rhodes’ toolkit is valid for the Continental port city study as well. The devolution of port governance is an example of the hollowing out of the state. The significant changes that have taken place as a result of the dynamics in the port environment, and therefore in the port city cluster, have had an effect on the nature of the dilemmas with which the port city community is confronted. The fact that there is increasing autonomy from the state, but that one can also apply that to a public entity such as a municipality, means that the networks resist central guidance, as Rhodes perceived in the observations that he made regarding the UK (Rhodes, 1996, p. 667).

Van Kersbergen and Van Waarden (2004) note that these changes in governance in terms of power shifts to other levels and organizations had an effect on the responsibilities and governance instruments, thereby leading to problems of governability, accountability, and legitimacy: "…traditional institutions of checks and balances on power and accountability could become obsolete, or at the very least less effective" (p. 155). Klijn and Koppenjan (2012) and Klijn (2008) present three types of governance networks that have been central in the research: policy networks, service delivery and implementation, and managing networks.

3.3 COORDINATION MECHANISMS OF NETWORKS

So, governance can be seen as dealing with networks. Networks are formal or informal groups of actors gathered around a common interest and for that reason establish relationships with one another. This interest may be an assignment, a problem, an opportunity, and so on – a common goal that can be handled better by the group to be able to succeed (the group is needed), to perform better than without the other members. Networks are also about resource exchange as they structure resource exchange (Rhodes, 1997, p. 24, note 2). They are an alternative to other structures to coordinate the handling of tasks, problems, and opportunities. Klijn and Koppenjan (2012) distinguish another coordinating mechanism besides markets and hierarchies. They remark that many authors see trust as a coordinating mechanism for networks, a view to which they do not adhere. Rather, they see trust as "an important asset to achieve" (p. 593). There are always more factors playing their role, and Klijn and Koppenjan indeed remark that different mechanisms interact. It is not only markets or hierarchies or trust. As Granovetter (1985, p. 495) states: "Business relations are mixed up with social ones." Firms are embedded in a social reality: networks of interpersonal relations. These relations often form interpersonal networks where communication, decision making, and negotiations take place. Therefore, they must be mapped to understand how the networks come to decisions, and trust is one of the factors to be taken into consideration as it reduces uncertainty and takes the actions of other interests into account (Klijn & Koppenjan, 2012, p. 594; Zhizhong, Shiu, Henneberg, & Naude, 2013; Buskens, 1999; Poppo, Zheng Zhou, & Sungmin, 2008).

3.3.1 Trust

The trust concept had many meanings (Mouzas, Henneberg, & Naudé, 2007). It has received attention from a variety of scholars from different disciplines. In the discipline of law (contract law), the concept plays an important role in the creation of exchanges, especially in their formalization by contract (Macaulay, 1963); but disciplines like marketing and management (Zhizhong et al., 2013; Ganesan, 1994;

Ganesan & Hess, 1997; Doney, Cannon, & Mullen, 1998) also emphasize the importance of trust as one of the determinants of buyer–supplier relationships. Scholars focusing on organizational learning (Nooteboom, 2002) and sociology and political sciences (Fukuyama, 1995) deal with the concept in different ways and from different perspectives. Williamson (1979) sees it as a spin-off from one of his basic concepts, uncertainty – a phenomenon involving trust, although, for Williamson, trust is an instrument to decrease uncertainty; but this is nothing more than calculative self-interest (Nooteboom & Six, 2003). This transaction cost logic as a formal institutional instrument was seen as insufficient, for reality is much more complex because interactions are performed within an embedded social context. As a result, behavior and institutions are constrained by social relations, because they are embedded in society (Granovetter, 1985). So, transaction cost logic is not that logical.

These different approaches have led to misunderstandings and misuse of the concept, whereby especially the domain and the limitations of the concept are not well discussed (Mouzas et al., 2007). The domain is rather intangible. Doney et al. (1998) recognize two streams that can be seen as defining trust as coming from two sources. The first considers trust as stemming from an internal attribution that defines one's behavior. This behavior is then based on a belief, an expectation that others will behave in a non-opportunistic way, not taking advantage of their position. The second one defines trust as a response to this belief: acting based on these beliefs. Thus, trust is an important element of the quality of relationships. It determines one's credibility, it expects benevolence and honesty in the other party's behavior (Doney et al., 1998). This means that there is a dependence, at least on one side, between partners constituting this relationship.

3.3.2 Reliance

Mouzas et al. (2007) want to distinguish between trust and reliance: the first one is highly personal, based on emotions, and they contend that using this to describe business relationships is highly debatable. The second one, reacting to the nature of the relationship, has not so much to do with trust in the personal, narrow definition, but it is a cognitive process. They relate it immediately to the inter-organizational level (p. 1019). For them, these two are different levels of analysis. Personal trust cannot be translated directly into inter-organizational trust: "individuals in an organization may share an orientation towards another organization, which is quite different from claiming that organizations trust each other" (p. 1019). However, in this statement they exclude the orientation of individuals from two organizations towards each other as individuals. That is still based on the first source; and, as organizations are nothing more than groups of people (with a common goal and acting according to accepted norms and rules), the personal orientation is the basis of everything, including the way in which these two organizations (via their representatives) meet. The authors try to sidestep this ambiguity by differentiating between the personal aspect and the organizational aspect by using the concept of reliance to describe the institutionalized form of trust: the non-personal "rational standard within inter-organizational relationships" (p. 1020). For them, trust and reliance are independent characteristics of these relationships. As stated above, in my opinion these two cannot be separated, but, despite the fact that these cannot be separated, it is useful to distinguish between the two as long as the relationship is clear.

Reliance as a concept describes and analyzes the business-to-business relationship on an organizational level, and trust does so on the personal level. In contrast to Mouzas et al. (2007) however, this is not a distinction based on business-to-business, but rather on the abstract organization versus the human relationship that can also relate to the business-to-business relationship. Organizational trust thrives only thanks to the existence of individuals in organizations who trust each other on a personal base. Nooteboom agrees with this, stating that reliance is nothing more than "a broad term including all bases of expectations" (Nooteboom, 2002, p. 11). For him, trust is "based on social norms or values of behavior" (p. 11) and thus is the foundation of these expectations. Reliance is the wider form of trust, which he defines as follows: "Trust in things or people entails the willingness to submit to the risk that *they may fail us*, with the expectation that they will not, or the neglect or lack of awareness of the possibility that they might" (p. 45) (italics added), whereas real (personal) trust is: "'Real' trust, or trust in the strong sense, is an expectation that things or people *will not fail us*, or the neglect or lack of awareness of the possibility of failure, even if there are perceived opportunities and incentives for it" (p. 48) (italics added). This is clearly reflected in his comparison of these two forms of trust when he defines the sources of reliance. The relationship between these two can be better understood by elaborating on his classifications based on his reflections on cooperation, reliance, and trust production.

In Table 3.2, the relationship between these two different, but still interacting, concepts is shown – interacting, because trust as a form of mutual understanding is the basis for the emergence of reliance. Without trust, no reliance is possible. Klein Woolthuis (1999, cited in Nooteboom, 2002) concludes that trust as a prerequisite for a contract can act as a memory, a record for conclusions. So, they are complementary. They are substitutes insofar as contracts are designed to foreclose opportunism. Both have their expressions as shown in Table 3.2, called basis for sanctions. Trust then can help to make good contracts where everything is discussed

Table 3.2 Foundations of governance

Instruments for governance	Mutual understanding	Basis for benchmarking	Basis of behavior	Basis for sanctions	Level of analysis
Control	Reliance	Contracts, supervision	Partner's dependence on value, hostages, reputation	Some authority (the law, organization), contractual obligation	Institutions
Communication	Trust	Norms, values, habits	Habituation, empathy/identification, friendship	Ethics: values, social norms of proper conduct, moral obligation, sense of duty	Personal relations

Source: adapted from Nooteboom (2002)

openly, and so reliance is built. Acknowledging that trust in the narrow sense is such a basic concept in business relationships, the foundation, labeled as basis of relations among members in Table 3.1, must be considered when analyzing where this trust comes from. Therefore, another level must be included in discussing trust and reliance. This level is the basis of these norms and values: the socio-cultural context that defines socioeconomic and socio-political relations. Nooteboom realizes this when he discusses the locality of trust: "…to what extent and why are trust and governance spatially embedded, connected with location" (Nooteboom, 2002, p. 126). Mouzas et al. (2007) show the relation between inter-personal trust and business, or inter-organizational trust (or reliance as they rephrase it), which creates a variety of sustainable business relationships (Figure 3.1).

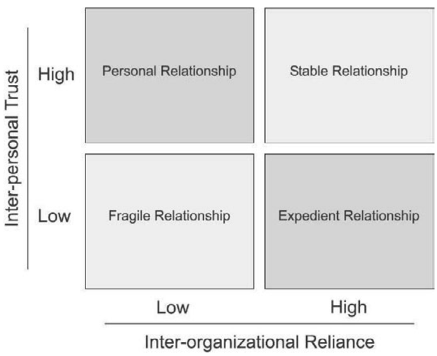

Figure 3.1 Trust and reliance in business relationships (Source: Mouzas et al., 2007)

In Figure 3.1, the necessity for a high level of interpersonal trust is articulated in its combination with a high level of reliance, resulting in a stable relationship. High inter-personal trust is achieved by relatively many anchor points: many personal relationships (Mouzas et al., 2007, p. 1024). This situation can help to save the business between firms when things go wrong on the business level, and it is the personal relationship between employees in both firms (mostly middle or top level) that guarantees that the companies are still on speaking terms. An expedient relationship – high-interorganizational reliance and low inter-personal trust – can exist when, for example, there are enough alternatives for firm X in its relation to firm Z. So, there is no need to put energy into building relationships.

For Fukuyama (1995), location is very decisive for the characteristics of trust, and he realizes that many scholars look at human associations (social groups) because of rational behavior. He acknowledges the existence of reliance as a rational relationship, but he rapidly adds: "Contracts and self-interest are important sources of associations, but the most effective organizations are based on communities of shared ethical values" (p. 26). These shared ethical values can be organized in such a way that they become social capital: the ability of people to associate with one another, a concept that he derives from James Coleman. Fukuyama sees differences between socioeconomic systems based on differences in shared ethical values leading to different levels of social capital (p. 10). He adheres to the conviction that real trust does not need contracts. On the contrary, they would destroy the relationship (Nooteboom, 2002, p. 122).

3.3.3 Acknowledgement of trust

So, this social capital results from levels of trust. If we define trust as a personal relationship between actors: a trustor who trusts another person, called a trustee. Then, the trustor gives trust to the trustee, because the trustee has created reasons for the trustor to do so. These reasons are acknowledged by the trustor as enough proof to give this trust to the trustee. The process is self-reinforcing but starts with the trustee who creates the basis for belief. This can be spontaneously generated, making the trust very powerful, or it can be hierarchically generated (Fukuyama, 2001). The first form is the basis for real trust and the second one is a basis for reliance, as defined in Table 3.2. This first form is a system of belief (in each other), the second one can follow as a result of the first. The process, as described in Figure 3.1, is applicable to both trust and reliance, and it takes place in a socio-cultural or socioeconomic environment. The element of acknowledgement can be compared to the two components as distinguished by Ganesan (1994) when he discusses a definition of trust:

- Credibility: the extent to which the trustor believes (expects) that the trustee can deliver (expertise and reliability);
- Benevolence: the extent to which the trustor believes that the trustee has intentions beneficial to the trustor when conditions arise that were not foreseen in advance (motives and intentions).

For Ganesan, expectations define credibility, and, regarding benevolence, intentions are central. They define credibility and benevolence. Credibility is based on former experiences, whereas benevolence is more related to future intentions. This two-sided element of trust is also recognized by Thorelli (1986, p. 38) when he observes that: “While solidly based in the past, trust is really a future-oriented concept.” So, a history full of experiences plays a role. In fact, experiences cast a shadow on the present, on how much trust the trustor will bestow on the trustee. The trustor needs to “observe and respond to each other’s (trustor and trustee) prior choices” (Axelrod, 1984, p. 182). On the other side are expectations, a calculation of cost and benefits that determines actions. To enhance the possibility of valuing these expectations, Axelrod (p. 180) emphasizes that the relationships between members of an organization “should be structured so that there are frequent and durable interactions among specific individuals.” These “shadows of the past and shadows of the future” (Poppo et al., 2008, p. 39) are important for the establishment of trust. They are not independent but intertwined. The shadow of the past is influenced by the expectations of the continuation of the relationship in the future. Poppo et al. even found that, if these expectations are weak, the trust in future exchanges is lower if there was a relatively longer prior history between the actors. So, they question the value of strong embeddedness of ties. It is like two people with a long history of friendship who feel that this long-valued relationship is betrayed by acts in the present. This feeling of betrayal is then so strong (because of a long-shared past) that they cannot believe it will be right again in future.

Opposing this view, this thesis establishes a relationship between actors based on ties influenced by different forms of embeddedness (in Figure 3.2, this is part of context).

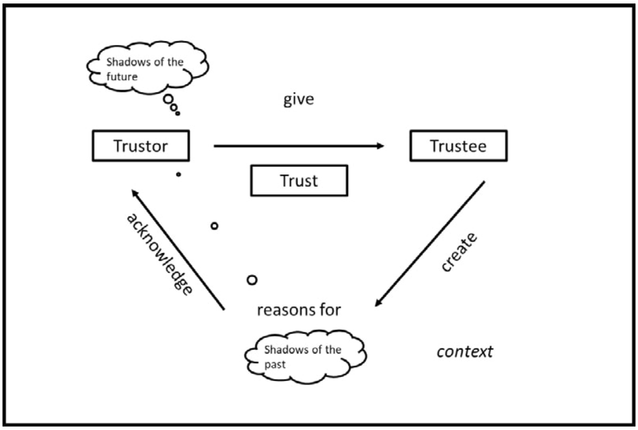

Figure 3.2 A model of trust-creating relationships (Source: author)

A feature of these forms of embeddedness is their variance in strength of ties and depth of embeddedness. This is a dynamic model, conveying the notion that trust enhances trust: the stronger the incentives created by the trustee, the greater the acknowledgement by the trustor and the more trust he will put in the trustee (*may not fail us*). This may be a reason for the trustee to even increase the reasons for the trustor to trust the trustee (*will not fail us*). This is a situation where the trustor lacks information that the trustee may have and this imbalance, creating uncertainties, is reduced by the trustee, so the relationship between the two may get stronger.

The context can change the character of the relationships, hence the differences between the Liberal Market Economy (LME) and the Coordinated Market Economy (CME) described by Hall and Soskice (2001) are variables influencing the abovementioned relationships. This will be dealt later in Chapter 5. In line with that, Doney et al. (1998) contend that national culture influences cognitive processes that via behavioral aspects influence trust. They argue that the concept of trust is important in interfirm relationships for lowering transaction costs. If trust exists between firms, a "source of competitive advantage is created" (Doney et al., 1998, p. 601). It is the context that determines the way in which acknowledgements are generated and how this process enhances the relationship. From the trustor's perspective, it is a process of interpreting the reasons that created trust. It is a translation of intentions shown by the trustee. As a follow up, the trustee evaluates this in terms of what he expected. If there is a mismatch, then three questions arise:

- Is this mismatch solved?
- If it is solved, how is it solved?
- Who is happy with the results?

This is in line with the approach proposed by Eshuis (2006), when he states that trust is an active process: it shows itself in the actions of the other party involved and developed through actions. Trustworthy actions enhance trust (p. 43). This therefore means not taking advantage of an opportunity that might benefit party A but harm party B (a *will not fail us* situation). Eshuis distinguishes three types of trust that shape the basis of relationships (pp. 44–49):

- Trust in individuals;
- Trust in institutional arrangements;
- Trust in institutions.

This three-pronged approach to the trust concept reflects the basis of benchmarking and of behavior as mentioned in Table 3.2. Researching trust from the perspective of competitive advantage of relationships within a region or cluster is as important as harder quantitative variables. Studies that relate market orientation to firm performance also acknowledge the value of the socio-cultural orientation to perform in a better way (Ellis, 2006). This means that, to be competitive, creating trust is of the utmost importance for individual firms and for regions in which firms (and public entities) are competing but also cooperating to produce a system to be of service to mutual customers like a port region.

3.3.4 Trust and embeddedness

Trust is a process that can be performed between two actors (individuals or organizations): a dyadic embeddedness within a context where third parties are involved, a network embeddedness, and a situation where the process of building and sustaining trust is influenced (by providing information, giving incentives, or even sanctioning) by institutions: institutional embeddedness (Buskens & Raub, 2013). This is in line with the three types of trust described by Eshuis (2006). This embeddedness is shaped by experiences, a process of learning. Besides the instruments for governance as described by Nooteboom (2002) and summarized in Table 3.2, learning as a third instrument can be distinguished as influencing trust (Buskens & Raub, 2013, p. 16). Past experiences (shadows of the past) play a role. These past experiences can be rooted in the trustor's own experience with the trustee, or they can be handed over to him by a third party who has his own experiences of the trustee. The trustor has learned something. This can be on the level of inter-organizational reliance or interpersonal trust. If we elaborate on Table 3.2, the structure shown in Table 3.3 evolves.

Table 3.3 Instruments of governance: experience, formalizations, and contextuality

Instruments for governance	Mutual understanding	Basis for benchmarking	Basis for behavior	Basis for sanctions	Level of analysis
Control	Reliance	Contracts, supervision	Partner's dependence on value, hostages, reputation	Some authority (the law, organization), contractual obligation	Institutions
Learning	Reliance and trust	Shadows of the past	Shadows of the future	Information about the trustee from past experiences or from third parties	Institutions and personal relations
Communica-tion	Trust	Norms, values, habits	Habituation, empathy/ iden-tification, friendship	Ethics: values, social norms of proper conduct, moral obligation, sense of duty	Personal relations

Source: adapted from Nooteboom (2002)

Giving an overview of the literature on the relationship between embeddedness and its effect on trust, Buskens and Raub (2013) show that there appears to be a strong relationship between these concepts. Their observations and results of empirical studies suggest that the degree of embeddedness influences trust. It should be noted that embeddedness is a two-side knife: because its structure can enhance control and/or learning, it can also enhance distrust (Buskens & Raub, 2013, p. 37).

3.4 GOVERNANCE IN PORT REGIONS

In the preceding sections, the different interpretations of governance and the notions of hierarchies, markets, and networks as subjects of the development of governance have been described. Thus, the network approach is considered a fruitful concept for researching port regions. The elements of the network – actors, processes, and institutions – have been described in terms of power, trust, and embeddedness. As networks operate within an environment, an understanding of a network's behavior can only be complete with an understanding of the most important developments in its environment from an economic, social, cultural, and political perspective. This section aims to take a closer look at the development of port governance, whereby the interpretations of governance have changed over the years.

3.4.1 Diminishing public influence

Governance in port regions has undergone changes thanks to the shifting relationships between ports and their governing institutions. In many countries, governments have taken a more distant position in relation to port activities and have restricted themselves to securing a safe environment for the inhabitants of the region and ensuring a level playing field for commercial activities (Brooks, 2007, p. 3). A devolution process has taken place in which responsibilities were transferred from the public to the private sector (Baltazar & Brooks, 2007). This was an attempt by governments to apply the NPM principles to the transportation sector, first and foremost the ports (p. 380). This has led to a mixture of functions transferred between public and private entities in such a way that a continuum between fully public and fully private can be distinguished. The World Bank (cited in Brooks & Cullinan, 2007a; Brooks, 2004) developed a typology of four models in which the activities vary between the public and the private sector. Brooks and Cullinane (2007a, p. 407) refer to them not as models of governance, but as administrative models, because they do not show who is responsible for the risks and what the lines of accountability are. Brooks (2004) provides the following overview showing the transition of responsibilities in the use of infra- and supra-structure from public to private:

A. Service Port Model

- Used in many developing countries. The port authority owns the land and assets (fixed and mobile) and performs all the regulatory and operations functions;
- Advantages: a streamlined and cohesive approach to growth;
- Disadvantages: potential for inefficiency, non-economic motivations may dominate (Brooks, 2004).

B. Tool Port Model

- The public sector (port authority) owns, develops, and maintains the port infrastructure and supra-structure including cargo-handling equipment. Other operations are performed by (small) cargo handling firms;
- Advantages: no duplication in facilities because investments are made by the public sector;
- Disadvantages: risks of under-investment (Brooks, 2004, p. 170).

C. Landlord Port Model

- The most common model. The port authority is the owner of the port land, and the infrastructure is leased to private operators that provide and maintain their supra-structure and install their own equipment and employ labor;
- Advantages: appropriate supra-structure investments, efficiency, responsive to changes in market situations;
- Disadvantages: excess capacity in infrastructure (everyone wants to expand), duplications in marketing efforts (terminal operators and the port authorities both visit potential customers) (Brooks, 2004, p. 170).

D. Private Service Port

- A complete retreat of the public sector. All regulatory, capital, and operational activities are taken care of by the private sector. Striking (and only?) example: the UK;
- Advantages: flexible and market oriented;
- Disadvantages: public sector has no influence on economic development, no long-term economic policies and strategies employed (Brooks, 2004, p. 171).

The World Bank typology is too simplistic and does not really match the goal that it is supposed to serve (Brooks, 2004, p. 171). To understand the possibilities and the outcomes of port devolution, a more complex division is necessary: in terms not only of activities, but also of responsibilities; and it is especially this approach to responsibility that divides the governance of ports. Balancing between acting as a landlord and taking entrepreneurial responsibility, port authorities “face a serious challenge keeping the balance between private and public goals” (Van der Lugt, 2015, p. 145). Van der Lugt remarks that port authorities are more customer oriented than task oriented, so there might be an inclination for the exploration role to dominant over the exploitation role. Although not researched by her, she asks whether privatization “might go one step too far” (p. 146). That would be an extension of their role beyond that of landlord.

The view on who should be responsible for certain public tasks has determined the way in which functions have been transferred to the private sector. As discussed in section 3.2.1, the NPM that took off in the 1980s and 1990s stemmed from an organization theory that adhered the notion that there was ‘one best way’ of managing (Scott, 2014). Organization theorists strongly doubted this rigid approach, stating that more attention should be given to the environment, which cannot be seen as another variable to cope with. Environmental complexity and environmental dynamism are features to be included in the equation. The organization theorists therefore formulated contingency theory. The contingency approach states that there is no 'best way', but there is an appropriate way to manage in accordance with a given context. The theory presumes that, given a certain situation, there are sets of contingency variables that should match if organizational performance is to be optimized (Baltazar & Brooks, 2007). The environment has an impact on the strategies to apply and the structure that the organization needs to make this strategy a success.

To research the effect of the devolution of port governance, Baltazar and Brooks (2007) use the matching framework (see Figure 3.3). The three elements of governance that they distinguish – environment, strategy, and structure – need to be in alignment to "fit" (p. 384) and deliver the optimal performance. Different environments require different strategies and structures leading to best performances in line with the possibilities created by the environment. The term, fit, views strategy "as the process of aligning organization and environment as patterns of interactions" (Venkatraman & Camillus, 1984, p. 514). The balancing out of environment, structure, and strategy to arrive at a "configuration" (p. 515) leads to the desired performance.

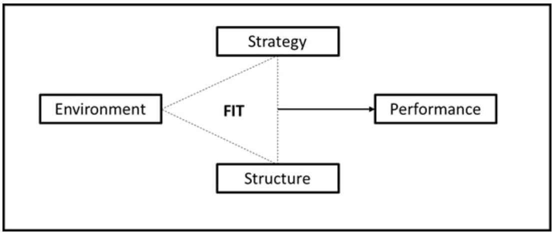

Figure 3.3 Matching framework for analyzing port performance (Source: Baltazar and Brooks, 2007)

Van der Lugt's (2015) research among 94 port authorities showed that the more devolved port authorities were the most entrepreneurial ones, with activities far beyond the landlord role, whereas more politically grounded boards "give more weight to macro- and cluster-level goals" (p. 80). She attributes this to their differing institutional settings. This thesis puts these settings in their political-economic context. The interplay between environment, strategy, and structure that creates the fit is an ongoing, never-ending situation. Although the matching framework was designed to assess port performance, it delivers a framework that can also be of help as a tool to assess another performance: the quality of the relation between the port and the port city.

Baltazar and Brooks (2007) present another approach to strategy by using the dichotomy made by Miles and Snow (1978, cited in Baltazar & Brooks): defender strategies (efficiency focused, so for a stable environment) versus prospector strategies (innovation focused in a dynamic environment). This dichotomy is an interesting one as it reflects the distinction made by Hall and Soskice (2001) in what they call the Liberal market Economy (LME) and Coordinated Market Economy (CME) : defender, cautious strategies in a CME environment versus prospecting, more daring, strategies in an LME environment.

This is the background for distinguishing three cultures in port management (see also section 2.6.3) (Suykens & Van de Voorde, 2006; Lobo-Guerrero & Stobbe, 2016):

1. The Hanseatic tradition where the municipalities manage the ports;
2. The Latin tradition with a large role of central government;
3. The Anglo-Saxon tradition with almost (to complete) independence of any public entity.

These different cultures are discussed in Chapter 5, when the political-economic context is discussed.

3.5 CONCLUSION

This thesis, taking governance as network governance, stands in the tradition of policy networks. It considers the political-economic system as decisive for how mechanisms that guide and rule the complex interaction process within the network are shaped. The focus and the research questions as stated in Chapter 1 are in the tradition of the focus and main research questions distinguished by Klijn and Koppenjan: focusing on power relations, determining key actors, uncovering power relations, and searching for the characteristics of the networks within networks, revealing the effects on decision making (Klijn & Koppenjan, 2012, p. 590). That is a research field that focuses on horizontal cooperative relationships. In the case of the port regions, that means the relationships between public, semi-public, and private actors in the port city network to solve complex problems. These groups have common and individual interests. Where does this lead us in view of the relationship between port and port city and the developments as described in Chapter 1 that have occurred over the last three decades (increase in scale of maritime and logistics operations; containerization; globalization as the driver of global trade; and agglomeration economies as an important characteristic of the urban economy)?

From the observations in sections 3.1 and 3.2, we conclude that the governance literature provides us with the concepts that describe this situation. It is about actors, processes, and institutions. The relationship between the port actors – port firms, the intermediaries (port authorities), and city municipalities – is one of governance networks where there is interdependence, trust, and mistrust (see section 3.2). With the application of NPM in different degrees, if one compares the three ports under study, one could also say: different degrees in the hollowing out of the state, to use Rhodes' (2007) terminology. This could be the case in an international environment such as a port city where public governance and port authorities as semi-public governmental bodies are confronted with new actors: international players such as conglomerates of maritime organizations of cruise line operators and container terminal operators. The question is whether the existing checks and balances are sufficient to deal with governance that has a broader scope than the local rules of the game. Or as Van Kersbergen and Van Waarden (2004, pp. 157–158) say: "The traditional separation of powers may be less suited for organizing accountability for these new forms of network governance." This is the institutional part of governance. Here we will touch on concepts that will be dealt with in Chapter 4.

In this chapter, the choice is made to approach governance as networks but with the notion that the hierarchy approach should be applied as well, because, in this tradition, leader firms and their relations shape the network. Power plays a role in that relationship. The network invites us to study the relations in the environment under study, hence the port and the port city. By doing so the network approach provides us with the concepts of trust, interdependence and reciprocity. Trust arises spontaneously but is a result of the involved actors' interdependence and degree of power. Trust is an important notion, for when one speaks of shared values – an important notion in the approach of clusters – this sharing must be based on trust. Sharing opinions about how things are done and should be done requires an understanding based on norms, values, and habits. Interdependence is about business relations. This thesis sees these business relations not only between firms but all actors in the port-port city relationship. So firms, port authorities, the city government and non-governmental organizations are to be included. Reciprocity as an expression of culture within the network that produces the sense of responsibility for not just the firm itself but the wellbeing of the cluster.

Governance in port clusters features a special relationship based on the idea of deregulation, or port devolution as it is called, as described in section 3.4.1 This brings us to the subject of control. Control concerning the governance of the port by the port authority and control of leader firms. This creates the sensitizing concept of ownership.

Summarizing this review of the literature, sensitizing concepts needed to inductively analyze the empirical data which are created as is visualized in Figure 3.4, which is summarizing the sensitizing concepts taken from the second body of knowledge, Governance.

Figure 3.4 Sensitizing concepts from the Body of Knowledge Governance