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Trust as an enabling factor for performance management?

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I. Introduction

Over the last two decades the implementation of performance management within the public sector has developed in several identifiable stages. A substantial part of the early literature dealt with performance management either on a process-oriented how-to-do level or on a level that attempted to identify adequate performance indicators. The lines between performance reporting, performance measurement and performance management were blurred. At times performance measurement was used as a generic term whereas at other times a distinction was made between performance reporting as a monitoring tool and performance management as a steering instrument. Today at last the lines between performance reporting and performance management are getting clearer with the former being an accountability tool and the latter a steering instrument. The popularity of the Balanced Scorecard (Kaplan/Norton (1992), Kaplan/Norton (1996)) first in the private sector and then also in the public sector has done its part to increase the popularity of performance management. Strategic management systems are becoming more and more important at all levels of the public sector, at least on a rhetorical level. The British Local Government Act 2000, for example, requires all local authorities to prepare a community strategy for promoting or improving the economic, social and environmental well-being of their respective area and for contributing to the achievement of sustainable development in the United Kingdom. That part of the Best Value Initiative (see DETR (1998), Sanderson (2001), Bouckaert/van Dooren (2003), Game (2005)) aims at emphasizing the importance of improved strategic planning and the advantages of an improvement in the quality of life. This is more in line with the second generation of performance measurement which, other than the first generation, puts less focus solely on improving the technical or operating efficiency (prominent examples for the first generation are the GPRA, the compulsory public tendering regime, and the first wave of public sector reforms in New Zealand (Schick (1996), p. 10, Bouckaert/van Dooren (2003), p. 128, Matheson/Kwon (2003), p. 42, Norman (2004), p. 41.) Furthermore, performance management is today not only promoted as a steering instrument within the public sector but also as a management tool for managing contract relations between the public authorities as principals and the private or non-profit contract partners. Performance indicator-based contracts within the public sector and across the sector lines are used in many OECD countries as a steering and monitoring instrument.

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When reviewing the amount of literature on performance measurement and performance management, one could reach the conclusion that the dysfunctional effects take priority especially if these are embedded in a hierarchical management culture. Suboptimization, tunnel vision, myopia, measurement fixation, negative gaming, ossification are among the well documented dysfunctional outcome effects of performance measurement in the public sector (e.g. Smith (1995), Johnson (2005), Radnor (2005)). With respect to performance management in the US Bennett and Hill observe that despite its popularity performance management systems have not been as successful as initially projected (Bennett/Hill (2002)) Performance management sometimes looks like another management fad established to give government a more business-like appearance.

Much less is written about the conditions under which performance management is successful. There are calls, eg. by Halachmi, with reference to McGregor, to put more emphasis on the human factor of the business (McGregor (1960), Halachmi (2005), p. 510). Possible options for improving performance management can be found in the growing influence of the so-called soft elements of performance measurement (Karkatsoulis, Michalopoulos and Moustakou (2005), p. 580). This paper will concentrate on the trust factor, which is one such soft element. Trust is seen more and more as an important factor in the management of human affairs and inter-personal as well as inter-organizational relations (Hosmer (1995), p. 379). Trust is regarded by some authors as an element that can have a significant impact on the productivity and performance of public agencies (Wintrobe (1997), p. 448, Boukaert (2002), Karkatsoulis, Michalopoulos and Moustakou (2005), p. 580).

To look at trust in the context of performance management may seem odd as performance measurement and performance management, especially when implemented in a hierarchic public management culture (Sanderson (2001), pp. 300, Johnson (2005), p. 13), are mistrust-driven. The often unchallenged presumption that better performance is achieved mainly through more control is in line with such a public management culture. The basic ideas are driven by a set of assumptions which in 1960 McGregor labelled "Theory X" ((McGregor (1960). Theory X is driven by a culture of mistrust (Halachmi (2005), p. 509). The same basic distrust of government is articulated by Niskanen and other proponents of New Political Economics. In the models of New Political Economy the public sector employees and the politicians are described as self interested individuals. In that model, a public servant with a high intrinsic motivation either seems to be a relic of the past or a hopeless idealist who has not even begun to understand the realities of life. Niskanen, who is still one of the most prominent proponents of public choice, in the 1960s and 1970s introduced the concept of the budget maximizing bureaucrat (Niskanen (1968), pp. 293, Niskanen (1971), for an overview and extensions of the basic model see Wintrobe (1997), pp. 433). Maximizing the bureau's budget is regarded by Niskanen as the self interest-driven bureaucracies' equivalent to the businessman's profit motive. The arguments of Leibenstein are closely linked to the reasoning of modern, public choice-driven theories of bureaucracies (Leibenstein (1966)). Leibenstein is convinced that public administrations are prone to x-

inefficiency. According to Leibenstein, who has a narrow understanding of efficiency, x -inefficiency is the difference between the economically efficient behaviour of firms, assumed or implied by economic theory, and their observed behaviour in practice. In perfect competition, there will be no x-inefficiency because if any firm is less economically efficient than another it will not make sufficient profits to stay in business. However, in other market forms, e.g. in monopolies or in oligopolistic markets, it may be possible for x-inefficiency to persist because the lack of competition makes it possible to use inefficient production techniques and still stay in business. The existence of multiple market failures is one reason for public service provision. As many public services were traditionally delivered by monopoly providers or under oligopolistic market conditions, they are labelled as x-inefficient. If one agrees with these assumptions, a call for trust seems an idealistic concept. The low level of trust in government was also a factor that has stimulated Western governments to engage in modernisation strategies for the public services (van de Walle/Bouckaert (2003), p. 892). Performance measurement and performance management were among these modernisation strategies. Looking at the mixed history of the control-oriented performance measurement and management initiatives, they cannot be can not be labelled as overwhelming success stories. A control-dominated performance management has often led to a performance measurement bureaucracy. A control-based approach requires that activities can be clearly defined and demands an amount of stability and predictability which cannot be found in today's public sector. Therefore, the paper takes up the idea to look more closely at trust as one of the possible soft factors which could lead to more effective performance management in the public sector. Although there are some links, the paper does not focus on the connection between performance measurement and citizen trust, a topic with in recent years has been addressed by some researchers (e. g. (van de Walle/Boukaert (2003), Yang/Holzer (2006)). In that context especially Yang and Holzer call for an improvement of performance measurement by "embracing such factors as government-wide evaluation, institutional arrangements, citizen involvement and communication strategies" (Yang/Holzer (2006), S. 114). They are convinced that these measures can serve as an effective link between performance and citizen trust. There are other authors who are more sceptical of a casual relationship between performance and trust. Van de Walle and Bouckaert for example argue that "a unilateral focus on performance will not be sufficient since the perception and the definitions of performance are not only created in government-citizen interactions, but also in everyday citizen-citizen relations. Restoring trust in government cannot just be based on a managerial action-plan but requires social engineering as well. The core question should therefore be how government can alter these perceptions and evaluation criteria in a way that is acceptable in a democratic society" (van de Walle/Bouckaert (2003), p. 909).

This paper addresses the following questions: Is trust an enabling factor for successful performance management? If so, what directions does the growing literature on the soft factor trust give with regard to the design of performance management systems as a steering instrument in the public sector?

After the following chapter that deals with trust from a terminological perspective, the paper looks at the relationship between trust and performance management. It then moves on to the question of what the potential benefits of trust are in the context of performance management and finally addresses aspects of trust building in the context of performance management. The paper does not address the controversy as to whether performance management makes sense at all as a management instrument in the public sector. Rather it concentrates on the relationship between trust and performance management.

II. Trust in economic literature

Trust is slowly gaining in importance in the economic literature. Dasgupta, for example, regards trust as a central element in all business transactions, a point that is as yet rarely discussed by economists. According to Dasgupta, trust is treated rather as an underlying fact, present whenever called upon, a sort of ever-ready lubricant that permits voluntary participation in production and exchange (Dasgupta. (1988), S. 49.) The idea of trust as a lubricant is an old one already articulated by Arrow (Arrow (1975), S. 23) back in the 1970s. In political science, the idea of trust as a lubricant and social kit of society has been gaining in importance since the 1990s in the context of the discussion of social capital (e. g. Putnam (1993), pp. 171). In communities (and societies) with more social capital cooperations need less explicit safeguarding measures and the resources spent on regulation and monitoring are less than in those with low social capital. Furobotn and Richter stress the contribution of trust concerning the aspect of decreasing transaction costs. (Furobotn/Richter. (1999), S. 56). A decrease of transaction costs and mutual gains in cooperative behaviour are the central message of the New Institutional Economics-approach towards trust particularly stressing the extrinsic value of trust leading to cost reductions (Kubon-Gilke/Sturm/Held (2005), S. 1).

If one looks at the definitions of trust, it becomes obvious that there is a lack of conceptual clarity (Hosmer (1996), S. 380, Luhmann, (2000), S. 123). Trust is a paradoxical and rich concept which is accompanied by much ambiguity and confusion in the trust literature as well as in political discussions (Shapiro (1987), p. 624, Noteboom (2005), p. 55). In everyday use there is often no clear distinction between trust, hope and confidence (Ripperger (1998)). As Hosmer's literature review shows, there is equally no common understanding of trust in the organizational literature. Rather it discusses different approaches toward trust (Hosmer (1996), S. 381 ff.):

- Trust as an *optimistic individual expectation*: This approach focuses on the expectations of the trust giver. Trust in that sense has to do with an optimistic expectation about the outcome of an uncertain event. For Gambetta "trust is a particular level of the subjective probability with which an agent assesses that another agent or group of agents will perform a particular action, both before he can monitor such action, and in a context in which it affects his own action"

(Gambetta ((1988), p. 217). Trust is associated with personal vulnerability, because the trust giver would be worse off if the trust receiver acted according to the expectations. Trust is seen as a risky investment which includes the risk of exploitation by the trust receiver. The trust giver does not rely on safeguarding measures against an opportunistic behaviour of the trust receiver. Trust is based upon past experience and future forecast. According to Barber, trust has to do with the expectations of a technically competent and morally correct role performance from those associated with the trust giver. Furthermore, trust has to do with expectations of the persistence and fulfilment of the natural (and existing) social order (Barber (1983), pp. 9). In more recent publications it is stressed that such an optimistic expectation makes sense if the trust giver regards it as more likely that his trust will not be abused (e.g. Rippberger (1998)). If trust is not blind, the possibility of a disappointment of the placed trust is not ignored but processed internally by the trust giver before an optimistic expectation is formed (Luhmann (2000), S. 104).

- Trust as *interpersonal relation*: Trust is something which is formed in a dyad of dependent interactions and includes a concomitant expectation that the other will reciprocate trust with trust in order to achieve the benefits of mutual cooperation. Trust has to do something with behaviour expectations and aims at improving the quality of the cooperation. It relies on reciprocal beneficial behaviour. Morally, trust includes the implicit promise from one person to the other not to harm the other. According to Butler and Cantrell, interpersonal trust is linked to integrity (i.e reputation for honesty and trustfulness of the parties involved), competence (technical knowledge and interpersonal skills to perform the job), consistency (reliability, predictability and good judgement in handling the situation), loyalty and openness (Butler and Cantrell (1984)).
- Trust and *economic transactions*: The potential of trust is discussed as the basis for economic transactions. The attitudes reach from a concept of trust as a sensible norm which therefore focuses on the transaction cost advantages of trust (e.g. Arrow (1975), Hill (1990), Rippberger (1998)), Richter/Furobotn (1999), Göbel (2002)) to a concept of trust as something which should not be included in the modelling of economic behaviour (e.g. Williamson (1993)). In his earlier publications Williamson regards trust as something desirable, but voted not to include trust in his modelling, (Williamson,(1975)) because of the difficulties involved in trying to separate trustworthy and untrustworthy behaviour. In his more recent publications Williamson is more sceptical when he states that "trust merely muddies the clear water of calculativeness" (Williamson (1993), S. 471.)
- Trust and *social structure*: not only can trust be analysed on the individual or organisational level, but it also needs to be examined with a societal focus. Some authors link trust to social

capital (e.g. Coleman (1984), pp. 85, Putnam (1993), pp. 170.). It is linked to an extensive set of societal expectations on just and fair exchange processes.

In her detailed review of organisational theory literature of trust, Hosmer identifies the following aspects as its common ground (Hosmer (1990), pp. 390):

- “Trust is generally expressed as an optimistic expectation on the part of an individual about an event or the behaviour of a person.”...
- “Trust generally occurs under the condition of vulnerability to the interests of the individual and dependence upon the behaviour of other people”...
- “Trust is generally associated with willing, not forced, cooperation and with the benefits, resulting from that cooperation.”.....
- “Trust is generally difficult to enforce.....” and
- “Trust is generally accompanied by an assumption of an acknowledged or accepted duty to protect the rights and interests of others.”

For Hosmer these voluntarily accepted duties clearly go beyond a negative promise not to harm the interest of the other party but instead aim to provide a positive guarantee that the rights and interests of the other party will be respected in the final outcome (Hosmer (1996), p. 392). McLain and Hackman define trust along similar lines as the “belief that a specific other will be able and willing, in a discretionary situation, to act in the trustor’s best interest” (McLain/Hackman (1999), P. 155) For Noteboom trust is a four-place predicate: “the trustor (1) trust the trustee (2) in some aspects of behaviour (3) under some conditions. (4) Trust also has a variety of sources” (Noteboom (2005), p. 36). Trust is subject to framing since the willingness to trust is greater in a situation which is framed a potential loss than when the same situation is framed as a potential gain (McLain/Hackman (1999), p. 166).

Much of the citations so far deal with trust from an individual perspective. According to Luhmann, individual trust will work only in simple social structures. In more complex structures, *system trust* as a means to manage complexity is additionally needed (Luhmann. (2000), pp. 60). For Luhmann system trust has much to do with the confidence in the functioning of systems and in the belief that systems repetitively generate reliable results in a trustworthy way (Luhmann (2000), p. 90). As opposed to personal trust system trust is depersonalized and has a complementary relationship to personal trust.

Noteboom classifies trust in people and trust in organisations as forms of *behavioural trust*. Central aspects of behavioural trust are a trust in competence and a trust in intentions, honesty and truthfulness. Noteboom is convinced that organisations can be an object of trust in both their competence and their intentions. Competence trust refers to the ability to conform to expectations. Intention trust refers to the commitment to perform to the best of one one’s competences (Nooteboom (2005), p. 38)

On the basis of a literature review on trust and trustworthiness Caldwell and Clapham (Caldwell/Clapham 82003)), pp.349) have developed a typology which further specifies the elements of interpersonal and organisations trustworthiness:

Interpersonal trustworthiness factor	Key elements of factor	Organisational trustworthiness elements	Similarities with interpersonal trustworthiness
ability	skills, competencies, expertise	competence, financial balance, quality assurance	focus on task, excellence and outcomes
benevolence	benevolence, intentions, “desire to do good”	interactional courtesy, responsibility to inform	demonstrating respect, courtesy, and involvement
integrity	character, integrity, fairness, credibility	legal compliance, procedural fairness	honors ethical requirements and treats others fairly

Table 1: Comparison of interpersonal and organisational trust (Caldwell/Clapham (2003), p. 353

III. Relationship between trust and performance management

Looking at the relationship of trust and performance management one can distinguish at least the following cases. Two of them are rival and three complementary.

- case 1: trust as a substitute for performance management
- case 2: performance management as a substitute for trust
- case 3: performance management as a basis for trust
- case 4: trust as a basis for performance management
- case 5: performance management as a safety device to limit the risk of the trust giver

In the first case trust is regarded as an alternative steering element to performance management. Instead of relying on an explicit steering tool with performance indicators and target agreements, the cooperation and relationships are trust based. The principals trust that the agents will perform at their best ability and in the best interest of the commonwealth. Decades of New Political Economy, New Institutional Economics and New Public Management have raised doubts, to say the least, that such a self denying public servant, which was en vogue in Max Weber’s times can these days be found in the public sector any longer.

In the second case an explicit steering by performance management replaces a trust-based cooperation. In former times, when public budgeting and accounting was input-factor-driven and when there were no agreements on expected output or outcomes, the principals trusted that, if enough resources were provided, the best possible outcome would be reached. Decades of New Public Management have led to a situation where performance agreements play an important role. Accountability more and more means reporting the level of the performance achieved. Instead of relying on an implicit steering by trust, clear performance expectations are articulated and their fulfilment is monitored on a regular basis. Performance management as an explicit steering instrument replaces the implicit trust-based cooperation.

Performance Management as a popular management tool can also be regarded as one approach (among others) for creating trust in the functioning of the public sector. The existence of a performance management system as a steering instrument in public agencies and as a tool for governing the relationship with private counterparts in public private partnerships may help to create the impression of a modern public sector which is up-to-date with modern management practises. The implementation of a performance management system may be seen as an instrument to signal competence by conforming to what is regarded as a behaviour which is up to a professional management standard.

From an institutional point of view one could argue that such a practice is a form of mimetic isomorphism. According to DiMaggio and Powell it may be advantageous for organisations to model themselves after other organisations which are regarded as successful in situations where organisational technologies are poorly understood, goals are ambiguous or where the environment creates symbolic uncertainty (DiMaggio/Powell (1991), p. 69). Such a modelling process is in response to uncertainties and is aiming to increase the legitimacy of the copying organisation. It also demonstrates that an organisation is trying to improve their management, at least at a symbolic level. For DiMaggio and Power the history of management reforms in US government agencies is almost a textbook case for mimetic modelling (DiMaggio/Powell (1991), p. 70ⁱ)

The implementation of a performance management system may also be interpreted as an act of coercive isomorphism, especially if it is externally imposed on an organisation. According to DiMaggio and Powell, coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisations upon whom they are dependent as well as by cultural expectations that exist in the society within which the organization is supposed to function (DiMaggio/Powell (1991), p. 66). Due to the fact that performance management systems are sometimes forced upon public agencies, coercive isomorphism should not be ruled out completely. The line of argument presented is of course not exclusive to an implementation of performance management systems within the public sector. It is rather open to implementation by every management practice or management fashion labelled as modern.

It is an open question whether the existence of a performance management system improves management capability. Promoters like Kaplan and Norton, who see their Balanced Scorecard as a strategic management system, are convinced of the instrumental value of such a tool. To them it is an important step towards better management, irrespective to whether it is implemented in the public or in the private sector (Kaplan/Norton (1996)). Sceptics would argue that the existence of a performance management system may be seen as a mere ritual of confidence and good faith (Meyer/Rowan (1991, p. 58)). In that sense the existence of a performance management system may just be a ritual in order to create confidence that public agencies are operating up to externally expected standards. If performance management convincingly acts as a symbol for a modern public sector, it may help to create trust or at least to decrease of mistrust in public entities. Performance management like all other instruments

which help to create the impression of a modern public sector also may have an exonerative effect on the side of those who keep up the impression that they are really in a steering position. In addition, it may help those to safeguard their autonomy whose actions should be guided by performance targets provided that the indications leave much room for discretionary behaviour. Given that many services are public services because they are difficult to define, it is likely that the discretionary freedom will be high.

The consideration of the problems that performance management systems face in the public sector brings us to different relationships between trust and performance management. Trust can also be a necessary basis for performance management. Performance measurement as well as performance management face many challenges when implemented in the public sector. The following table provides an overview of central obstacles of performance measurement, as identified by Johnson (Johnson (2005), p. 11).

	obstacles
implementation	low theoretical or methodological planning competence (“data-driven” implementation) small resources/capacity for development inadequate implementation structures low top-management commitment impatience resistance
use	lack of relevant statistics and data measurement errors low decision relevance running down of performance indicators proliferation of performance indicators information overload indirect line of responsibility no ownership of performance loyalty to professional norms rather than to management misrepresentation (manipulation of data) “creaming”
outcomes	suboptimization tunnel vision myopia measure fixation gaming/ratchet effect ossification discrediting of performance indicators

Table 2: obstacles associated with the implementation, use and outcome of performance measurement (Johnson (2005), p. 11)

This list of obstacles suggests that implementing performance management cannot be a simple task either, as it includes performance measurement. Compared to the challenges of performance measurement, the problems of performance management are likely to be bigger, especially if it is combined with a performance-linked pay system. Coming to a consensual agreement of the performance objec-

tives, identifying relevant indicators, getting some first idea about the interaction of the performance indicators, limiting the amount of indicators integrated in a performance management system are just a few problems that performance management systems face in the public sector. Three other challenges are the problem of measurement, the problem of coming to a joint interpretation of the measurement results and the problem of identifying causalities between two or more indicators.

Linking performance indicators with compensation schemes as promoted by Kaplan and Norton (Kaplan/Norton (1996)) can be regarded as a special challenge in situations where the measurement is not easy. The evaluation problems that most public services face and that usually lead to noisy measures may leave much room for window-dressing. The street-wise self-interested agents will also develop a notoriously high ability to find their way around the indicators (Jacobides and Croson (2001), p. 208). The problems of finding an appropriate monitoring system and of choosing the right indicators are furthermore multiplied by the problems of uncertainty and ambiguity. The types of services examined by most principal agent models refer to activities where the output is easily observable and measurable in an objective way. In real life, though, most of the activities do not meet these requirements (Prendergast (1999)). There are many public services where the output is not easy to measure. It is frequently quite difficult to define what constitutes a politically desirable outcome or output of the public services. The definition of the desirable output or outcome is often a highly political endeavour. Decades of experience with programme evaluation with a myriad of problems regarding output and outcome measurement show that it is highly unlikely that one does not have to rely on proxy indicators. Linking incentives to outputs which are not easily measurable can invite dysfunctional behavioural responses. Taking into account that a public service provision was preferred because the quality of the services cannot be fully specified *ex ante* and in some cases not even *ex post*, it becomes obvious that it is pure fiction to believe that a public service provider will come to a high rate of objective output or outcome indicators if only he tried hard enough.

As first modelled by Holmstrom and Milgrom for multi-tasking activities it is not helpful to reward an easily measurable subset of activities (Holmstrom and Milgrom (Holmstrom and Milgrom (1991), pp. 25). Complex jobs, like many public services, are most likely unsuitable for explicit contracts. In those cases where only a subjective performance evaluation is possible, the principal agent theory predicts that the agents are likely to waste valuable resources by currying favours of the principal (Prendergast (1999), p. 9). There are many examples of gaming the system of public service delivery. These include behavioural gaming (bus drivers not stopping at all bus stops in order to be on time which is rewarded by a financial bonus), definitional gaming through providing for some slack in outcome measures and data gaming by manipulating the measurement process (Radnor (2005)).

Jacobides and Croson argue that performance measurement may even contribute to agency loss where measurement imperfections, unobserved multitasking, casual ambiguity and latent economics of continuation prevail. Such losses can occur, if the insistence on monitoring destroys value by creating or-

ganizational dysfunctionalities (in the form of productivity paradox and perverse learning/pyrrhic victory) or simply wastes resources through ineffective incentive schemes (Jacobides and Croson (2001), pp. 212). A productivity paradox occurs should a significant incentive incongruence between the principal and the agent exist and the adopted indicators be inappropriate or should monitoring be so expensive (and socially wasteful) that any social efficiency gains are swamped. In situations where perverse learning-inefficient measures are implemented the agent has room to beat the numbers without making any extra effort on behalf of the principal. In the case of a pyrrhic victory the present costs of implementing a new information system outbalance future productivity gains. Situations, labelled by Jacobides and Croson as “giving away the store”, occur if more incentive bonuses are paid to the agent than the total extra benefit created. Reasons for this are poorly designed incentive systems (Jacobides and Croson (2001), p. 213 and pp. 216).

All these obstacles or challenges make clear that performance management will be a steering instrument in want of improvement when implemented in the public sector. It seems highly unlikely that all the problems can be vanquished. It is more likely that performance management systems in the public sector, and probably in the private sector, too, will only cover parts of the steering spectrum. Therefore, there is a need for additional factors to be applied. Trust could be one such additional factor as an implicit coordination mechanism. In that sense trust can be regarded as a complementary measure to an explicit steering process by indicators. Trust and a trust-based organisational culture could be an approach which limits the necessity of explicit performance indicator-based steering and which, if functional, could also limit the amount of dysfunctional effects of performance measurement. In that sense a certain amount of trust and trustworthiness acts as a basis upon which it is sensible to implement a performance management system, if at all. Without a certain level of trust the dysfunctional effects could easily exceed the potential positive effects of performance management.

The fifth case is closely linked to the fourth case. In this fifth case, performance indicators may act as a safety device to limit the risk of the trust giver. Trust can be seen as a risky investment of the trust giver. Before providing trust the rational trust giver evaluates how risky the decision is. This includes expectations about the consequences if the trustee does not act according to the expectations of the trustor. If trust is not granted unconditionally, a rational trust giver bases his decision to trust on the calculation of the risk involved in the fact that the other side might exploit the shown vulnerability by acting in an opportunistic way. The trust giver may come to the decision that there are risks he or she is not prepared to take. The trust giver therefore may look out for complementary measures. One option could be to enter into a performance indicator-based contractual agreement with the trust receiver. Implicit and explicit instruments are in that case used as complementary procedures. Such an explicit indicator-based performance contract could be targeted at limiting the foreseeable risk of the trust giver and may be the basis for an optimistic expectation formed by the trust giver. Trust, if not blind, to some extent demands control measures in order to limit the disappointment quota by the trust giver.

If the trust receiver can be convinced to agree to explicit monitoring by the trust giver, this may be a step towards fostering the trustworthiness by the trust giver in future. The readiness of the trust receiver to agree to some explicit monitoring measures in itself may be a signal of trustworthiness. As already mentioned, trust is something which is formed in a dyad of dependent interactions. The performance indicator-based safety net may act as a step towards improving the cooperation quality. Monitoring the explicit performance indicators may also act as a measure that permits regular examination at least on a symbolic level as to whether a continuation of trust is still reasonable. Such a symbolic control may contribute that a trust-based relationship is maintained.

IV. Benefits

As far as the benefits are concerned that trust reaps, Noteboom identifies extrinsic and intrinsic values of trust. According to Noteboom, the intrinsic value of trust lies in the improvement of the personal well-being or the quality of life (Noteboom (2005), p. 36) whereas the extrinsic value of trust lies in the fact that it enables transactions (between persons, network partners, organizations) with lower transaction costs than mistrust-governed relationships cause. Trust is regarded as a crucial coordination and control mechanisms and as an essential ingredient for successful relationships (Borgen (2001), p. 210). Trust does not only reduce transaction costs. It also acts as a measure for stabilizing the expectations of the involved parties (Kubon-Gilke/ Sturn/ Held (2005), S. 8.)

The reduction of transaction costs is something that is high on the agenda of those writers who address the economic consequences of trust. If one implements a performance management system, one will face costs for design, implementation and monitoring at the least. The design process in itself is resource consuming. Indicators need to be identified, a business model needs to be developed and such questions as if and how the indicators are linked to an incentive system are to be addressed. Taking the obstacles into account that performance management encounters in the public sector, the design process of the performance management system faces some challenges. The more airtight the performance management system is supposed to be against all forms of creative gaming by those who should be steered by the performance management system, the higher the design costs. The design costs are lower if the performance management system is not overburdened with many performance indicators introduced in order to monitor the agent closely.

Implementing a performance management system is also resource consuming. A lot of energy and resources are spent on communication processes, i.e. convincing staff members of the necessity of performance management and explaining the business model to them that is linked to the performance management system. Additionally to the communication costs, resources are spent to diminish the costs of resistance. These are likely to be lower if a performance management system is implemented in an organisation where the relationships are based on trust. Resistance is likely to be high if the per-

formance indicators are linked to a performance-related pay system. It is a positive aspect that such a linkage may encourage special efforts by the employees, however, a negative aspect is that it may invite all types of gaming. Given that performance management faces many evaluation problems and that many input-output-outcome relations in the public sector are unclear, any discussion about the “right” indicators could easily be destructive. Most likely a lot of energy will be spent in heated discussions of the benefits and shortfalls of the proposed performance indicators. Considering that some services are provided by the public sector because they have elements that are not easily describable, it is likely that the right indicators will be identified only with difficulties.

A performance management system is only complete if there is regular evaluation of the achieved results. Monitoring costs are high if the monitoring system has to detect all types of fraudulent behaviour of those to be monitored. Taking into account the amount of evaluation problems in the public sector, this is at the best a nearly impossible task. Looking at trust from the perspective of principal and agent, trust decreases the monitoring costs on the principal’s side. Embedding performance management in a trust-based environment may also have the positive effect that transparency is not imposed externally but internally in the self interest of the reporting entity. Therefore, the number of obligatory reporting indicators can be reduced which in turn reduces the transaction costs. It is easier to implement true and fair accountability in environments where transparency is high on the agenda and where it is unnecessary to hide failures than in environments where mistrust reigns. In the latter environments externally imposed minimum reporting obligations lead to a window-dressing of performance reports and to the hiding of information by the reporting entity through every possible means. Trust may reduce the need of heavy-handed third party control (Borgen (2001), p. 211). Furthermore, formal contract obligations can be expensive to enforce, especially in fields where performance and underperformance are difficult to measure. On the agent’s side, a trust-based relationship goes along with less reporting obligations to the principal and a greater autonomy and flexibility to fulfil the required tasks than in a relationship which is governed by a mistrust assumption. If the agent values autonomy highly, it is likely to have some positive effects on the intrinsic motivation of the agent. In a trust-driven environment the agent probably will not spend as much time to find shortcuts for meeting the externally imposed performance targets nor will he spend his or her energy in gaming the measurement and evaluation process.

There will be a gain if performance evaluation is not seen a system of closely monitoring the performance of the staff members, but rather as a system that evaluates predominantly the organizational performance and organizational learning. In an organisation that is guided by Theory X such gain is less likely than in an organisation with a certain amount of trust among its members.

McLain and Hackman (McLain/Hackman (1999), p.154) regard trust as a general mechanism for risk reduction. Compared with other risk reduction elements trust has several benefits (McLain/Hackman (1999), pp. 157). Firstly, trust requires a less structured specification and management than the distri-

bution of rewards and punishments by explicit contracts. For McLain and Hackman trust is a force that decision makers can use to manage ambiguity and future risks. In addition, trust is fundamental to relationships and decision making in organizations because it is impossible to formulate behavioural expectations for all structural contingencies in advance. Furthermore, trust appears to be a factor that, if reciprocated, strengthens over time and is not consumed like other forms of capital in the process. The supply of trust increases rather than decreases with use, and if not used, trust can become depleted (Borgen (2001), p. 210). Trust may therefore be regarded as a remedy for reducing the perceived risk and ambiguity of a decision or a process. If we recall that ambiguity and problems of identifying the “right” performance indicators are highly likely in the public sector, trust may be a helpful element of a functional performance management system.

McLain and Hackman are convinced that on a personal level especially in the case of ambiguous organizational decisions the value of trust will increase and trust will reduce employee stress, because it is a resource for managing risk, dispersing complexity and dealing with the unfamiliar through the help of others (McLain/Hackman (1999), p. 165). The presence of trust may also encourage members of an organisation to share power and control. Therefore it facilitates the accomplishing of organizational and personal goals through processes such as delegation. Furthermore, trust encourages the sharing of information and participation in task complexity which in turn is essential for a good quality of cooperation and for group effectiveness (McLain/Hackman (1999), p. 171). Any information advantages of the agent are in a trust-based culture not seen as a disadvantage but rather as a necessity in a highly specialized process of public production (Göbel (2002), p.127). The principal benefits from the information advantage of the agent who is the specialist for the required task. The principal does not use his energy in designing overburdening monitoring systems. Therefore the agency costs decrease.

Another beneficial effect of trust may arise in the context of organisational learning. In a mistrust- and blame-driven management culture where a lot of energy is spent by the parties on keeping their backyards clear and appropriating the causes for failures to someone else within the organisation or to reasons outside the organisation, an open analysis of areas for improvement is less likely than in an organisation with a trust-based culture. A no-blame culture enhances an open-minded identification of areas for improvement, which is a first step towards organizational learning. If the analysis of failures is already blurred and the diagnosis is unclear, it is difficult to identify the right counteractions. Organisational learning may additionally benefit if the search for possible improvements is a joint endeavour. There may be positive effects on the quality of the proposals made as well as on the acceptance and authority to implement the identified measures. Some improvements are only possible in mutual co-operation. Organisational learning and trust are elements that have a positive effect on each other as building and maintaining trust requires an environment of shared problem solving. Repeated success in trust-based problem solving greatly strengthens trust between the parties involved (McLain/Hackman (1999), p. 162).

On the structural level McLain and Hackman also regard trust as a force supporting an adaptive organizational structure. Trust in their view is more flexible, adaptive and generally applicable than frameworks that are forced by formal policies and procedures (McLain/Hackman (1999), p. 171).

V. Trust-building

One has to distinguish at least three levels of trust-building in the context of performance management. Firstly, a performance management system as a steering instrument runs more smoothly if the relationship between the parties is based on trust. Secondly, the performance management system itself must fulfill certain requirements in order to be trustworthy. Thirdly, the performance management system may be an approach to build system trust. On all three levels, trust is something to be built and maintained. The act of trusting can be regarded as a temporal phenomenon since it is based on experiences, interactions and perceptions of others, organizations and institutions (Cadwell/Clapham (2003), p. 351) From a principal agent perspective and on the individual level trust can be seen as a specific investment by the trust giver in the expectation of a positive reaction of the trust receiver. For the trust giver trust can be seen as a risky investment which she or he is only willing to make if the chances of keeping that trust are higher than 50 %. Trust may be regarded as an attitude reflecting the willingness to assume a risk and relinquish control in the hope of receiving a desired benefit (Caldwell/Clapham (2004), p. 351.) The propensity to trust is influenced by one's inherent orientation towards trusting, habit, stable belief and a history of positive experiences (McLain/Hackman (1999), p. 165). In some parts of the public sector the starting conditions are not good because performance measurement and performance management often have a strong control focus and are often mistrust-driven.

Trust, being something that is difficult to enforce, cannot easily be installed. There are dimensions of trust which are totally out of control. Noteboom, for example, regards trust on empathy or identification as two foundations of trust that cannot be engineered (Noteboom (2005), p. 41).

The formation of an optimistic expectation of the trust giver needs an information basis. There are various options. Trust may be something which can gradually replace control measures. Over time and when the trustee has proved reliable, trust may replace explicit control measures. In that case, the basis of trust is the past trustworthy behaviour and the past performance. For Noteboom one problem with that approach is that the implemented control measures may be better designed to control opportunism and in themselves signal distrust. Trust building would at first have to overcome distrust and "when a relationship starts on such a footing, it may be difficult to turn around to a trust-based relationship" (Noteboom (2005), p. 48). Another basis for forming an optimistic trust expectation could be the expected future behaviour and performance. In that case the reputation of the trustee would be a possible basis for the trust-building. The reputation of being trustworthy is something a trust receiver may not

want to compromise, for example in order to keep things simple and to maintain a certain amount of autonomy.

Trust-building could furthermore be achieved by starting with small, i.e. with steps that limit the risk and expand vulnerability as trust grows. It could even be rational to start more ambitiously with bigger steps as long as they balance the mutual interdependence so that an untrustworthy behaviour can be immediately retaliated (Noteboom (2005), p. 49.) For Barber trust also has to do with the expectation towards the performance of a role as is technically as well as morally correct (Barber (1983), pp. 9). The trust giver must be convinced that the trustee will act according to the assigned role expectation.

Recalling the statements on trust as *interpersonal relation* factors like integrity, i.e. the reputation for honesty and trustfulness of the parties involved, it is clear that competence in form of technical knowhow and interpersonal skills to perform the required job, consistency (reliability, predictability and good judgement in handling the situation), loyalty and openness are also important factors for personal trust building (Butler and Cantrell (1984)). One drawback is that these factors can only be influenced in part.

As we have already mentioned, trust, once obtained, does not always continue to exist. It is more reasonable to assume that the trust giver re-examines his or her optimistic expectation in regular intervals. The behaviour of the trust receiver in critical or potentially conflicting situations is vital for the prolonging of trust or for a change from trust to mistrust. If the trust receiver in such situations aims for his short-term benefit, trust may easily be withdrawn. On the other hand, if the trust receiver opts for a trustworthy behaviour, trust will deepen.

As already discussed above, interpersonal trust may act as the basis for implementing a performance management system. Interpersonal trust lowers the transaction costs and makes the implementation of a performance management system smoother, especially in a sector where the operational problems of a performance management system will be high.

Looking at the requirements for the development of interpersonal trust, it is quite obvious that a change of the management culture is needed in those cases where it was traditionally based on mistrust. The concepts of what such a change in culture would have to contain are still as unclear as the concept of trust. Sydow's trust-sensitive management could be a first step. Trust-sensitive management considers how decisions, forms of contracting, monitoring, communication, events, procedures, forms of punishment and reward can effect the development of trust (Sydow (2000), p. 54, Noteboom (2005), p. 47). Trust and trustworthiness are also linked to the culture of an organisation. Many of the factors for interpersonal trust refer to value positions and basic attitudes. Therefore, trust-building needs time and can only be partly influenced.

Where the aspect of *trust building in a performance management system* is concerned, the literature on trust, which predominately deals with interpersonal trust, does not offer much guidance. Elements like integrity, honesty and empathy are linked to interpersonal relationships and not to organizations. As-

pects like reliability and competence are more easily transferable. A management tool commands trust if it is in itself trustworthy. When implementing a performance management system, questions may arise concerning the purpose of such an instrument. Those supposedly being coordinated by the instruments for performance management suffer the fear of being instead controlled by it. The long history of a hierarchical management culture in parts of the public sector does not help to dismantle this fear. A similar kind of resistance against management by objectives or individual target agreements can be found in the private sector. There target agreements were also not welcomed with enthusiasm by the employees. This shows that the introduction of a performance management system needs a decisive communication effort in order to make the purposes of such an instrument clear and to reduce cognitive and emotional mistrust assumptions. Trust is probably only generated if those who should be steered by the performance management system believe that the system is not predominately targeted at supervising them. A second critical phase is the process of coming to an agreement about the indicators to be included. It is necessary to implement a transparent process targeted at arriving at a common and shared understanding of the expectations regarding the outcome of the performance management system. Shared expectations are not only necessary on the level of the general purpose of the management system but also regarding the assigned tasks on individuals and teams. The tasks assigned to individuals or teams must also be in line with the competences and capabilities required. Furthermore, a consensual system needs to be implemented that describes how to deal with conflicting issues and a concept needs to be established of how to implement organisational learning. Further questions to be addressed are if and how the performance management system is linked to a performance-related incentive system. There are quite some odds against linking it to a performance-related pay system. The difficulties start with identifying the right indicators and continue with an unclear measurement process. Even if the output and outcome could be clearly observed, problems exist regarding identifying any clear cause-and-effect relationships between the observed output/outcome and actions of individuals or teams. An alternative to linking the performance results to financial rewards could be to link it to personal development targets or organisational development goals.

In order to create trust in a performance management system requires not only good implementation management but also a trustworthy performance. This trustworthiness will only be generated on the basis of past experiences. Looking at the fears of those who should be steered by a performance management system and the reputation of performance management it is unlikely that a performance management system will receive any leap of trust in advance.

On a third level, performance management may be an instrument of building organisational trust. Its potential to create the impression that the public agency is up to date with modern management practices was already addressed in Chapter III. Taking the criteria of Caldwell and Clapham on organisational trustworthiness into account, a performance management system could address all three aspects of the ability dimension. Furthermore, as a communication system it has a link to the responsibility to

inform and may include standards of procedural fairness. Whether or not the implementation of a performance management system equals a measure for building system trust depends not only on the performance of such a system and the attitudes of the internal stakeholders towards performance management, but also on the view central external stakeholders take with regard to the system. Do they see it as a potent remedy for modernizing the public sector or does an anti-government culture (van de Walle/Bouckaert (2003), p. 905) prevent the general public from forming a positive expectation at all.

VI. Summary and Conclusions

Trust can be regarded as a concept that is rich but complex and difficult to be engineered. Till now it has not been high on the agenda in those countries where performance measurement was implemented in a hierarchical public management culture. Nevertheless, trust is looked upon by some authors as a soft factor which could potentially improve performance management. The complementary relationship was addressed by this paper in three cases: performance management as a basis for system trust, trust as the basis for performance management and performance management as a safety device within trust-governed relationships. A performance management system embedded in a trusting management culture produces many benefits. Regarding transaction costs, the design, implementation and evaluation costs decline. Furthermore, trust is a generalizable risk reduction mechanism and a remedy for ambiguous situations. Beneficial effects also arise in the context of complex problem-solving and organisational learning. With respect to trust-building, there are at least three distinct levels. There is the interpersonal level which implies that the relationship of the principal and agent contains a certain amount of trust. Secondly, trust-building is also necessary with respect to the instrumental level. Last but not least, a performance management system can be classified as a means for increasing trust in the capability of a public agency and therefore as an instrument for improving system trust. The latter is only possible if performance management is regarded as a useful instrument by important external stakeholders.

This paper mainly addressed the issue that trust could be a beneficial factor in the context of performance management in the public sector. Much more research is needed, however, into how to move from mistrust-driven relationships to trust-governed relationships in a field where theoretical concepts such as the New Political Economy as well as the behaviour of some actors in the public sector have seriously eroded the belief that public servants are not driven by self interest and that something like an intrinsic motivation exists. It will be difficult to decrease distrust especially in the case of a hierarchical public management culture. It is a long way from a reduction of distrust to the building of trust. The general literature on trust has also shown that trust-building needs time. Therefore the calls to move from a factor x-driven public management culture to a factor z-driven management culture may not easily be put into practice. There are no concepts as to what could be the most relevant leverages

for trust-building in the context of public management. It is also still an open question who and what could act as mediator in order to help speed up the process of trust-building.

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ⁱ In their quote they refer to the implementation of PPBS and zero based budgeting.