Summary

Introduction and central research question

The subject of this inquiry is the behaviour of housing corporations. Housing corporations are organisations that are governed by private law and have been appointed a set of public tasks in the central government’s Public Housing policy by virtue of the Housing Act. Although their operations have always been strongly intertwined with the policy of a dominant central government, they have always been private institutes that supply houses on the market. On account of their origins, housing corporations are community-based organisations. This can also be derived from the legal entities used, namely the foundation and the association.

At the start of the nineteen nineties, housing corporations became involved in a central government policy operation aimed at more autonomy of the housing corporations. During recent years, housing corporations have been urged by the central government to sell existing rental houses to residents and to build owner-occupied homes. In the meantime, the housing corporations have secured a dominant position in the lower and middle segments of the housing market. In 2002, 552 housing corporations reported to the national regulatory body for public housing. With approximately 2.3 million rental houses, they had a share of approximately 40% of the Dutch housing stock.

Housing corporations constitute an interesting research subject on account of their position between state, market and community. Dutch literature refers to in-between organisations like these as hybrid organisations. However, our research relates to the behaviour of the housing corporations and not their position. The central research question is: How can the behaviour of housing corporations be characterised and how can their behaviour be explained?

Data collection

The behaviour-related observations were made based on the mandatory data submitted by the corporations to the national supervisory authority, a non-departmental public body, pursuant to the Housing Act, Centraal Fonds Volkshuisvesting (CFV). The mandatory nature of this information delivered by all housing corporations to the CFV means that the data covers the entire population. The data relates to the financial annual reports and programmes, the budgets and the realisation of key aspects of the policy, such as the rental policy, the construction and improvement related investments and the divestments (selling and demolishing existing housing stock). The housing corporations also have an obligation to report to the central government via the CFV in respect of the execution of public tasks. For example, they must have a preferred rental housing allocation policy for households with lower incomes. Data from the corporations’ annual reports to the Waarborgfonds Sociale Woningbouw (WSW) was also used. The WSW is a fund founded to guarantee loans supplied by the capital market to housing corporations. Approximately 90% of the housing corporations is participating in the fund, so the data of the WSW comprises 10% less than the entire population.

Housing corporations are expected to anticipate differences in local circumstances. The relevant data on this subject includes the incomes and the composition of the households (number of members, age and ethnicity) in the operating areas. Demographic data from Statistics Netherlands was therefore also used in the analysis. Long term expectations in respect of supply and demand in the regional housing market areas are also variables that
could influence the behaviour of housing associations. The market data was derived from
the periodical nation-wide investigation on the housing needs, data that have been
rearranged by the CFV in respect of the specific operating areas of the housing
corporations.

Descriptive research findings

The observations have been grouped into three main sections, whereby the behaviour of the
corporations is viewed from three different perspectives: 1) the perspective of a market
organisation, 2) the perspective of an executor of public tasks and 3) the perspective of
community-based institutes.

Comprehensive statistical measurements were used to obtain an impression of the
behaviour of the housing corporations. Significant differences were established between the
housing corporations in relation to certain aspects of their behaviour. Opposite behaviour
was also ascertained in certain areas. For example, some corporations refrain from building
if a supply surplus for particular housing is anticipated. This behaviour is balanced out
against the entire population, as some corporations on the contrary opt to build under these
specific circumstances. In this case, the final conclusion is that the sector of corporations,
taken as a whole, are indifferent to the market conditions.

In respect of spread of market behaviour, the most common behaviour serves as a base for
the following conclusions. From the perspective of functioning as a market organisation, it
can be stated that the response of housing corporations to market conditions is not in line
with expectations, if the pricing and the portfolio of theirs products are taken into account.
It is also clear that corporations do not encounter any appreciable financial consequence of
the market conditions. Strategic measures such as demolition and mergers, lead to a change
of market position, but the decisions made are evidently contrary to economic decision
rules used by market organisations. The continuing process of mergers induces a
development to less market and more hierarchy.

A comparison of the behaviour of the housing corporations in respect of how they execute
the public tasks appointed to them, highlights significant differences, that pertain to the
housing of the target group in particular. The spread is more obvious for tasks with no
clearly defined supervision and enforcement than for ensuring financial continuity. With
respect to the task of sober and efficient business operations, there is a significant deficit in
relation to the regulatory means for the external supervisor, in the focus of the internal
supervisory boards and in the control by the management of corporations.

From the perspective of the community the following conclusion can be made: as a
consequence of the legal entity changes and governance structure changes concerning the
position of the management and the supervisory board, a part of the corporations are
disengaged from interests of the local community.

Corporations, as community-based organisations, have opinions about the desirable
composition of the population in neighbourhoods. The opinions are evident in their
investment en divestment operations, but the effects of the operations are questionable in a
scientific perspective.

Their own communities are determining factors for the behaviour: teams operating within
semi-closed domains of the organisations, the engagements of the organisations with the
local society and the peer association and interaction at the national level.

The observed behaviour is not indicative of a simple transition from the ‘government’ to
the ‘market’. There is a shift from the local working area to a non-local institutional field of
professionals, and a transition from traditional community involvement to a businesslike
detachment. Mixing the atmospheres of state, market and community has an effect on the
decision making process, the task interpretation and the resulting behaviour, which can be asserted as counterproductive. A combination of the negative effects of the three atmospheres of market, government and community occurs.

**Explanatory theoretical framework**

A theoretical framework offers explanations of the behaviour of housing corporations. Universal theory has been specifically elaborated for the working field of the corporations. An important feature of this working fields implies that housing corporations cater for the housing needs of people who, through the specific characteristics of the housing market, would otherwise be allocated poor quality housing and unfavourable housing situations. Another relevant characteristic of the working field is that the potential added value, achievable by corporations in respect of the market, lacks sufficient attention and consideration. This characteristic leads, according to our theoretical framework, to a suboptimal functioning of non-profit organisations as economic bureaus. A suboptimisation occurs consequently in two different directions: organisation-inefficiency and market inefficiency.

The question about corporations behaviour concerns the functioning of organisations. In order to explain this functioning, the theoretical framework was elaborated on using insights and research findings that relate to the two-unit informal and formal organisation and to the interaction mechanisms ‘coercion’, ‘rivalry’ and ‘trust’.

**Formal organisation**

With the help of theoretical insights it can be concluded that housing corporations lack a formal rationality that enables them to optimise the organisation as a whole. Reflexive objectives, in other words, the objectives that serve the organisation, are given priority above transitive objectives that refer to desirable external results of the task execution. This preference is due to both the institutional environment and the way of working of the corporations. Characteristics of houses and housing complexes are unlike the judgements of the contracted tenants part of the formal regulatory cycles of the work processes. Corporations formalise routines but are lacking in respect of controlling organisation-instability, caused by an excess of financial means and the introduction of a new statutory form, in which the manager has been given the status of a owner-entrepreneur.

This reform went hand in hand with a rearrangement of the internal supervisory bodies after the example of large business organisations, resulting in a situation where only the weakest disciplinary mechanism of the commercial world have been adopted. Given the discretional power of corporation managers, the poly-interpretability of the corporation task and the lack of references for performance appraisal, it is evident that the supervisory structure in the corporation sector is insufficiently equipped to control strategic behaviour of managers of these ownerless companies. There are no shareholders with the final say. There is a legal form with a formal power for stakeholders, namely the association. However, associations are generally replaced by foundations, in which stakeholder possess less or no formal power. This replacement takes place during mergers and in case of amendments of the articles of bylaws. The foundation entity is in institutional opinions more professional.

The management form of housing corporations is instable on account of the lack of power of interested parties and the lack of checks and balances between formal and informal organs. This instability induces an increase in self-consumption of company means and a decrease in generating added value in comparison with the ‘market’. Another aspect that is lacking in the governance structure is an inbuilt mechanism against ascribed success of
decisions. Neither the market nor an informal organ of interested people has the right to refute and rectify evidence-lacking success claims made by corporation managers.

**Interaction mechanisms**

The manner in which the interaction mechanism coercion is applied explains the behaviour to an extent. Public interventions, threats, and other signs of commitment appear to be effective as corporations base the prioritisation of the execution of their task on the level of commitment of the public principal and the supervisors. However, the institutional whole of coercive interactions does not generate a strategic circumstance which induce housing corporations to improve their functioning and to achieve better results.

The interaction mechanism rivalry is of importance in the inter-corporation competition on the institutional field, in their negotiations on the purchasing market and in negotiations with central and local governments. The rivalry is less an incentive for improving the achievements of corporations than it could be. The rivalry among peer-organisations generates eagerness and overcommitment in negotiations and decisions with respect to real estate development and mergers. Encouraging competition has a counterproductive effect under these conditions: it provokes market inefficiency. It provide results that are disadvantageous to the execution of their tasks and the running of their core business. The rivalry goes hand in hand with private information which is a way conflicting with the public interest.

Trust is a mechanism that plays a role in the connection between principal, regulatory bodies, managers, employees, and clients. In its most dynamic reciprocal form, trust is the most economic interaction mechanism. It is even indispensable in human-to-human services. In spite of this, corporations and their institutional environment does not much utilize the force of trust. A number of the corporations implement uniform rules and increase the focus on control of organisation and environment. This suppresses trust as an interaction mechanism within the organisation and in the connection between the organisation and customers in the local working area. Trust appears to be a key factor in merger situations. This observation primarily relates to personal trust. If personal trust is the only decisive factor in transactions, then this is indicative of low institutional trust.

Organisations often opt for avoiding, non-approaching forms of interaction. Here, theoretical links can been made with the concept of institutional incompetence. This concept means that organisations show a decline of successes and an apathetic indifference for failures of their distinct members and of the organisation as a whole. Their are unable to anticipate and react properly on changing circumstances and threats in their environment.

Housing corporations are not incompetent institutions by nature. The autonomy enlarging policy of the central government went hand in hand with unstable pattern of interactions. Contradictory, confusing, and disturbing were the effects on the behaviour of housing corporations: a mixture of incentives both discouraging activity and provoking opportunistic behaviour. As so far, the incentives have a slight bearing upon transitive objectives. Transformation has not be the same as an improvement of the functioning of the housing corporations.

Institutional competence of housing corporations depends on the sound management of these organisations. However, the effectiveness of the management and the risk factor of management itself have been non-issues in the institutional field, especially in comparison with subjects as governance and autonomy.
Informal organisation

Housing corporations and their institutional environments opt for an ill-fated combination of working effects of the informal organisation. As previously stated, the new management board structure lacks an informal contra-weight. Formal judgement structures of assessment, project management and evaluation are no common restrictions on strategic preferences and personal incentives of corporation managers. Therefore, the behaviour of the corporation is depending on the extent to which the corporation manager is able to control his tendencies for passive and active task avoidance and for acting in a state of overconfidence. Overconfidence relates to the competence. It manifests in a self-evident certainty of success of decisions and an indifference in respect of the consequences of their actions. In view of the abundance of financial means and the lack of good references for the judgement of separate decisions and the allocational aspect, there is a large tolerance for errors. In comparison with organisations in other sectors this tolerance is probably unprecedented.

The informal organisation of the institutional field provides both challenges and shelter for managers. Making the same decisions as others is good, because other people made them too, reducing the fear of reproach from principals and supervisors. Institutional fields are as consequence of the way of verification and transfer of information susceptible for shared beliefs, unquestionable truths, competence illusions and herd behaviour. Nor the local community, neither the non-local institutional community has remedies for the effects of these phenomenons.

Reputation and nation-wide public fame are created by being the leader in the development of new activities. A rhetorical competition is taking place on the institutional field, based on stories about intentions and successes. These stories form a cultivation ground for uneconomic mergers, for other ineffective and inefficient decisions and for relieving chief-executives of the functional pressure of their management task.

Stories and achievements

The stories about performances of the housing corporations have become decoupled from actual achievements. Stories about the public housing interest are combined with strategies that in a collective context induces a decrease of service of the target group. Since the policy operation in the ninety nineties, the themes of market and professionalization have been incorporated in the stories. However, the discipline from the market does not work and corporations are evidently on strategic subjects indifferent to market conditions and customer evaluations. A number of the corporations promote themselves as market organisation in their presentation and the choice of new activities, while they lack the information transfer and the inner functioning of a market organisation. There is little focus on weighing up risk versus return on investments. Calculative discipline and a feedback on the effectiveness and the efficiency of the decisions made are no parts of a common practice. In respect of the opinions about professionalization, it can be established that this trend is more likely to lead to larger tolerance and less alertness in the operations of housing corporations.

The highly institutionalised field of the public housing sector promotes a decoupling of stories and achievements. Legitimacy is obtained with impressions of performance in that field, no matter the achievements that the organisations make in their local working situations. The quest for legitimacy is still taking place where the government is residing, in spite of all stories about autonomy.

There is an alternative way to be found. Legitimacy should be derived from the added value that corporations actually generate with initiatives, sound routines, and actual achievements in the community. Stories and achievements may then reinforce each other.