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David W Parker, Uwe Dressel, Delroy Chevers, Luca Zeppetella,

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Agency theory perspective on public-private-partnerships: international development project

Abstract

Purpose

This paper explores agency theory in the context of delivering a public-private-partnership in an international development project. Through the lens of agency theory, the role of Governments, NGOs and private commercial service providers are explored.

Design/Methodology

A framework is developed and evidence provided from a case study to explore several propositions; thereby identifying insightful conclusions from the case analysis.

Findings

While international development projects in a public-private-partnership context exhibit some agency characteristics, they tend to show unique features that require measured approaches to operational management.

Originality

There has been little research that explores agency theory in the context of a public-private-partnership involving Governments, NGOs and private commercial service providers, executed as an international development project. This work, therefore, exhibits new and novel findings.

Keywords: Agency theory, Information asymmetry, International development projects, Public-private-partnership

Introduction

The unacceptable high rate of projects being completed over budget, behind schedule and without meeting quality and scope requirements is widely recognised (Cullen and Parker, 2015; Lim and Mohamed, 1999). There is evidence that the poor success rate is partly due to leadership (Nixon *et al.*, 2012), inadequately managed resources (Lim and Mohamed, 1999), ineffective stakeholder welfare support (Parker *et al.*, 2013), and impoverished communications (Ceric, 2012). Moreover, international development (ID) projects appear to have an even worse success rate (Ika and Saint-Macary, 2012; Youker, 1999; Khang and Moe, 2008), with some countries experiencing as little as 10 per cent planned completion against target (Diallo and Thuillier, 2004, 2005).

In this study, we follow the early stages through to implementation of a Road Safety Toolkit for aid organisations that was initially tested in Kenya; and which ultimately would assist humanitarian agencies develop road safety programmes. Road crashes are the largest single cause of mortality for NGO staff in the field. This case describes how a multi-sector partnership was conceived and delivered, and how the stakeholders met the challenges of communication and co-ordination. The case allows agency theory to be explored through the dynamics of the large number of players operating within a multi-sector public-private-partnership (PPP): governments, NGOs and private companies. We explore how agency theory may assist us to understand the relationships associated with managing ID projects, and ultimately provide insight and so improve project outcomes. Agency theory has been widely used across a variety of disciplines since its inception some four decades ago (Eisenhardt, 1989; Hirsch and Friedman, 1986). However, recently the theory has been given little attention in operations management and project management literature. This is remiss as agency theory applies to most relationship situations (see Majone, 2001) in which one party (the principal) delegates authority for control and decision making about certain tasks to another party (the agent) (Basu and Lederer, 2011). The essential assumption underlying agency theory is that agents are essentially selfish opportunists who, unless monitored effectively, will exploit their principals (Miller and Whitford, 2007). The information asymmetry that exists between agents and their more distant principals provides the basis for opportunism. It is assumed the agent will act upon this unless controlled or ‘incentivised’ not to do so (Fama and Jensen, 1983; Jensen and Meckling, 1976; Jensen and Ruback, 1983). Agency theory has been used to explain relationships in the field of economics and finance (e.g., Sappington, 1991), political science (e.g., Moe, 1984), social sciences (e.g., Shapiro, 2005), information systems, (e.g., Mahaney and Lederer, 2011), and management, generally (e.g., Donaldson and Davies, 1991). More recently, it has been applied to supply chain management (e.g., Zsidisin and Ellram, 2003) and project management (e.g., Forsythe *et al.*, 2015; Ceric, 2012). The theory was first formulated in the economics literature (Jensen and Meckling, 1976; Ross, 1973) as a quantitative and conceptual approach to investigate the nature of resulting costs. Subsequently, an empirical focus has emerged to explore organisational behaviour and corporate governance (Cuevas-Rodríguez *et al.*, 2012). This empirical approach is referred to as positivist agency theory (Eisenhardt, 1989) and is popular in management research. In a more adjunct capacity, is the research in trust and relationships (Brewer and Strahorn, 2012; Zwikael and Smyrk, 2015; Aubert and Kelsey, 2000), asymmetric information (Ceric, 2012; Xiang *et al.*, 2012), communication (Turner and

Müller, 2004; Diallo and Thuillier, 2005), and the extensive literature on project risks and their management (e.g., Maqsood, 2011); with Chang (2014) researching risks in construction contracts through the lens of a principal agent model.

Because the project client/owner has limited resources, such as time or specialist knowledge, a person or entity is contracted to perform specific activities required to complete the project. Ross (1973) identified such relationships as classic agency arrangement. Subsequently, Mitnick (2013) asserted that all contractual arrangements contain important elements of agency. Most commercial relationships can be seen as an agency relationship (Bergen *et al.*, 1992). The more the interests between the agent and the principal align, the higher the probability that the agent will work in the principal's interest (Cuevas-Rodríguez *et al.*, 2012). Agency theory proffers that the principal will need to use control mechanisms such as monitoring: referred to as 'agency costs' (Xiang *et al.*, 2012). Turner and Müller (2004) used organizational theory to explain the nature of a project, which they describe as a temporary organisation. They also use agency theory to explain the project owner (principal) appointing the project manager (agent) as the chief executive of the project, similar to that of a company owner. Turner and Müller (2004) explain how another hierarchy above the project manager must be in place to control the activities of the agent similarly to a company board. Such a project board exists in PRINCE2 where the board can oversee and monitor the actions of the project manager (OGC, 2005).

Using agency theory it is possible to evaluate relationships parsimoniously so as to assess their fragility across a range of factors. Thus, a critical question for operations management and project management is:

How should those associated with the planning, delivery and execution of a project benefit by gaining greater understanding of agency theory and implication of levels of trust?

Our study will examine how management governance choices transform agency relationships between project teams and their organizations, thereby allowing them to understand the mechanisms of project governance and its implications. The focus of our work and particular interest is in how agency theory can contribute to our understanding of project management within the context of international development (ID) projects. Applying agency theory to an ID project is particularly interesting because of the nature of these projects wherein the presence of information asymmetry between principal and agent is particularly high and complex. Khang and Moe (2008) provided a relevant conceptual framework in this instance, focusing on critical success factors in ID projects over the project's life-cycle. In this paper,

the principal-agent interactions occur between the Government donor and a non-governmental organisation (NGO) in the country where the project is to be carried out (also referred to as the implementing agency). This context provides a rich opportunity to explore relationships using agency theory (Bebbington, 2005). Moreover, the importance of ID projects cannot be overstated:

The success of these projects determines the socioeconomic progress in the recipient countries but also the effectiveness of the contribution of the donor countries and agencies. Understanding the critical factors that influence project success enhances the ability of donors and implementing agencies to ensure desired outcomes (Khang and Moe, 2008:72).

Given the two perspectives of agency theory (Eisenhardt, 1989): (i) positivist agency theory where the principal and agent are likely to have conflicting goals; the theory is thus used to describe governance means to reduce the self-serving behaviour; and (ii) principal-agency theory, where the trade-off occurs between the cost of measuring behaviour and the cost of measuring outcomes and transferring the risk to the agent, are especially relevant to ID. This is shown schematically as in Fig. 1.

Take about here

Figure 1

By definition, the objectives of ID projects are to reduce poverty and improve living standards, and to enhance environment protection and the building of physical and social infrastructures (Khang and Moe, 2008). These humanitarian and social objectives are usually much less tangible, with deliverables less visible and measurable than with infrastructure and industrial projects. Another characteristic of most ID projects is that a complex web of many stakeholders are involved (Youker, 1999). ID projects commonly involve three separate stakeholders, namely the funding agency that pays for but does not directly use the project outputs, the implementing unit, and the target beneficiaries who actually benefit from the project outputs but most commonly do not pay for the projects. The role separation of these three key stakeholder groups has several important ramifications. First, financial accountability by the project management team is often considered as important as its responsibility to complete the projects within the time, cost and quality. Second, because of the common developmental, cultural and knowledge gap between donors and the target recipients, the likely mismatch between the real needs and capacity of the target groups and the understanding and development policies of the funding agencies may result in poor project design, a precursor of failure in the implementation. Third, complicating the

requirements for financial accountability are the efforts by the funding agencies and the governments of the recipient countries to establish rules and procedures to regulate the disbursement and utilization of the development funds.

Therefore, our work seeks to answer the following question: How significant is the application of agency theory in identifying the rationality of relationships within an ID project given that individuals will prefer behaviour that maximize their utility given two conditions: First, agency theory holds that bilateral relationships between principals and agents (i.e., the two interested parties involved) are guided by their agreeing about the most efficient contract that would align their individual interests as each faces information asymmetry with the other. Second, while agency theory assumes that every economic relationship is influenced by individual interests and opportunism, within ID projects, the mechanism that supports effective control of monitoring and sufficient incentives need to be clear. Therefore, by concentrating on the project organization dyad of these two interested parties, we identify the tactics deployed to diminish information asymmetry and how a new approach to ID projects might be fostered. To inform practitioners and expand project management research, this study responds to the call from project-as-practice researchers who examine the activities of participants in relevant contexts (Blomquist *et al.*, 2010). Agency theory's utility for examining international development projects will become more apparent by noting both the problems that agency theory seeks to identify and identifying methods to overcome these problems. This study contributes to research both operations and project management by providing theoretical arguments for understanding how interested parties make decisions on their individual approaches under different conditions when undertaking ID projects. We seek to answer the research question by exploring parsimoniously the interplay between these interested parties using agency theory within a framework that focuses on critical success factors in ID projects over the project life-cycle. We begin by reviewing the current research into ID projects and how they differ to the commercial arena. Then, we introduce agency theory and its assumptions and followed by the relevance of agency theory to ID projects. Then, using agency theory, we present two categories of ID practices: positivist agency theory and principal-agency theory and their respective sub-categories. We then examine the factors that may influence the approaches that principal takes in the interest of better managing agents' project delivery quality. Relevant propositions are derived that relate the agency-based factors in buyer-supplier relationships to the ID projects. Drawing on the propositions within the framework of this paper, we explore their explanatory qualities by drawing on an ID case study. In our

“Discussion” section, we derive a range of conclusions and their implications for ID projects. Finally, we discuss the implications for research and practice in operations management and project management and offer critical questions that will form an agenda for future research in this area.

Project management

Project-based management is involved with approximately 30 per cent of global GDP (Parker *et al.*, 2013) with mega projects (multi-billion dollars) representing the single largest capital spends (Cullen and Parker, 2015; Müller and Jugdev, 2012). How to successfully undertake a project and what factors influence the success of projects are the most studied topics in the operations management and project management literature (Müller and Jugdev, 2012). Pinto and Slevin (1988), argue that there are 14 critical factors, including: client consultation, personnel, monitoring and feedback, communication, power and politics, types of contracts used, organisational structures, and strength of collaboration between parties. Such factors are consistent with agency theory (Müller and Turner, 2005) where types of contract (outcome-oriented, behaviour-oriented), measures of communication and relationship are evaluated against the perceived success of the project. To minimise (agency) costs, Turner and Müller (2004) included methods and frequencies for project owner and manager communication. Projects are now increasingly common across a wide range of activities and industries; arguably because they provide an efficient means for mobilising talented people to complete specific tasks (PMI, 2013; Gann and Salter, 2003). However, project work leads to frequent moves between temporary teams, which significantly influence personal relationships (Bredin and Söderlund, 2011). In ID projects, additional factors play their part (e.g., language and cultural issues) (McShane *et al.*, 2010). The success of a project refers to relying on all parties to perform well in projects (Das and Teng, 2001).

Mahaney and Ledrer (2003) focused on how agency theory explains project success, concluding that monitoring led to project success and that outcome-based contracts did not relate significantly to project success. These authors also argued that monitoring reduces privately held information and this improves project success. Monitoring also provides feedback to the agent to ensure that they are working towards the correct end-goal that is not ambiguous (Levitt and Snyder, 1997). Müller and Turner (2005) found that while extensive collaboration and a mid-level project operational structure contribute to high project performance, an overly structured control and monitoring process hinders the chances of project success. Zwikael and Smyrk (2015) explored a control-trust-risk approach in project

governance and the balance between control and trust in a principal (owner's representative)-agent (project manager) relationship. They found that, during a turbulent project involving high risk, a trust-based relationship is superior while more control leads to a superior management strategy within a more stable environment. Clearly these findings have consequences in ID projects.

Agency theory

Agency theory explains the relationship between the principal and the agent when the agent has been engaged by the principal to make decisions and act on their behalf (Mahaney and Lederer, 2003). Fundamentally, when ownership and control are separated, the agency problem arises because of *agency cost* (Cuevas-Rodríguez *et al.*, 2012). The body of literature on agency theory identifies two issues that it attempts to address: first, is the dilemma of cooperating parties not necessarily sharing the same interests (Eisenhardt, 1989). When asymmetric information exists between a principal and an agent, where one of the parties is better informed than the other, which invariably is the agent (Schieg, 2008), the *information-rich* party can opportunistically operate with self-interest rather than in the interests of the other party and to the ultimate benefit of the project. This is normally achieved through contractual mechanisms that govern the project (Mahaney and Lederer, 2003). Research into agency theory in supply management (Fayezi *et al.*, 2012) shows that increased monitoring allows the principal to receive information that is less asymmetrical. Owing to hidden information and confidentiality, the principal cannot guarantee that the agent will be mobilizing their capabilities to support the principal's project, or that the agent is serving another client/principal, as an agent can serve more than one principal at a time (Unsal and Taylor, 2010)

Concerning *agency cost* as the agency problem, Jensen and Meckling (1976) describe agency cost as the sum of the monitoring expenses incurred by the principal, the bonding expenditure by the agent, and the residual loss which is equivalent of the reduction in benefits received by the principal as a result of the agent's desire to maximise their own utility. Lyonnet du Moutier (2010) and Mahaney and Lederer (2003) describe agency cost as the financial implications arising from the interests between the principal and the agent not being shared. Shleifer and Vishny (1997) categorise agency cost into four types of agent opportunism: (i) over investment, (ii) insufficient effort, (iii) entrenchment strategies, and (iv) self-serving behaviour.

Relevance of agency theory to international development projects

Diallo and Thuillier (2004; 2005) identified four high-level success factors in ID projects: (1) the project profile (its political value), (2) project management (how the project was executed, chiefly in terms of the iron triangle of time, cost and quality), (3) the impact (the extent of the effects on the beneficiaries), and (4) trust and communication (at all levels of the aid chain). Khang and Moe (2008) developed critical success factors for ID projects which they applied to the various stages of the project's life-cycle. Empirical studies have identified that the values and preferences of players could be aligned through establishing a clear project mandate being at the scoping stage of project design (Linger and Owen, 2012). Forsythe *et al* 2015 researched information asymmetry within a building information modeling system to find that such a system can provide identical information impartially. While asymmetric information may lead to mistrust and opportunistic behaviour, it also leads to potential risks (Ceric, 2012). While parties in an agency relationship may have conflicting attitudes towards risk and sharing risk, these parties may prefer different actions or make different decisions because of their risk perspective (Ceric, 2012). Risks associated with information asymmetry (Jäger, 2008) are that characteristics, information and intentions are all hidden (Winch, 2010). The different risk preferences are linked to the possible gains to be made by the principal or agent (Hendry, 2002). Hidden characteristics may result in adverse selection decisions and thus lead to moral risks because the agent may act in their own interests. While screening and monitoring reduce adverse selection, moral hazard, and delays (Mahaney and Lederer, 2003), these actions may be detrimental to mutual trust and cooperation. Agency theory is predicated on the notion that there is a negative trade-off between risk and incentives (Holmstrom and Milgrom, 1987). A method of addressing the agency theory problem is incentivising (Hockenbury and Hockenbury, 2003). Incentive theory focuses on tasks that are too complicated or too costly to do oneself (Sappington, 1991). Thus, the principal is obliged to hire an agent with specialised skills or knowledge to perform the task in question. In addition, time constraints may also be a reason for hiring an agent (Perrow, 1986). The dilemma is how the principal can best motivate the agent to behave as the principal desires, by taking into account the difficulties in monitoring the agent's activities. While incentive systems contain mechanisms that offer rewards to the agent for acting in accordance with the principal's desires (e.g., financial or penalties), they have been shown to have limited effect (Mitnick, 2013; Jensen and Murphy, 1990). The popular commercial view that controlling and monitoring agent behaviour becomes unnecessary if the right incentives to divert the agent's interest in the

direction of the principal's goals have only a specific project benefit (Miller and Whitford, 2007). Ross (1973) showed that incentivising into agency alleviated the problems of compensation-contracting because agency was seen, in essence, as an incentive. Schieg (2008), recommends six methods to minimize risks associated with information asymmetry: bureaucratic control (e.g., project contracts and governance); information systems (e.g., information modelling systems and project reporting); incentives and bonuses; corporate culture (e.g. effective processes and the right people); reputation (e.g., gain repeat business); and trust (e.g., stewardship relationships). Levitt and Snyder (1997) looked at the asymmetric information problem facing the principal, and considered how to elicit early warning signs from agents during projects. Their research analysed how the principal can encourage agents to give this information by encouraging and rewarding their behaviour. They argue that the principal must not excessively intervene, or reprimand if the news is bad, when agents come to them with early warnings.

Projects provide the environment in which agency problems are likely to occur (Bredin and Söderlund; 2011). Projects define necessary skill requirements, one of which involves close collaboration between experts of various disciplinary fields and areas of expertise. Gann and Salter (2003) add that the typical make-up of the team is a group of people, most of whom have never met before (Lindqvist, 2005). Because projects are relatively short-term, the project team are often unfamiliar with one another, thus leaving projects susceptible to agency problem. Given that non-project work-teams benefit from "clan control" (Eisenhardt, 1989), we can assume that project team is likely to lack such goal congruence between team members without as much chance to know and trust one another. This reduces the need to monitor behaviour or outcomes as motivational issues are minimised (Dirks and Ferrin, 2001). Lambert (1983) found that principals learn about their agents through longer-term relationships, thus in short-term relationships the asymmetry of information is significant and can be used to the agent's benefit and thereby reduce risks.

It is acknowledged that most project risks are not technical but managerial (Shenhar and Dvir, 2007). Managers therefore have generally four options for responding to risk: (i) avoid; (ii) transfer; (iii) mitigate; or (iv) accept (Chang, 2014). Responses to agency problems would be: avoidance, although it is difficult to achieve as it would result in the principal acting as the project manager which is often not feasible. The principal could simply not continue with the project because a project manager would not be able to be appointed. Often, the risk of an agency problem is paid little heed.

Allen and Lueck, (1995) state that the principal is normally risk-neutral while the agent is risk

averse. Because agents can make decisions that affect their welfare as well as their principal's, they may negatively affect results. Additionally, because of information asymmetry, the agent's decision excludes agreements related to action and payment (Anurag, 1997). To improve the situation, the incentive method needs to maximize expected outcomes (Grossman and Hart, 1992). However, increasing financial rewards can increase an agent's risk preference. As a result, the principal and agent can have contracts with complex incentive methods.

Important to considering risk is to be aware that trust between the parties becomes manifest when information is regularly shared (Lewicki *et al.*, 2006). Aubert and Kelsey (2000, p.199) identify the benefits of a trusting relationship between the principal and the agent: "Trust in a contractual relationship can facilitate the exchange of information and bring about a reduction in control and its associated costs since the parties do not have to fear any manifestations of opportunism". A level of trust and mistrust underpins a professional working relationship (Brewer and Strahorn, 2012) and is regarded as a reciprocal mechanism with vulnerability to both parties; the trustor must display trusting behaviour, while the trustee needs to display behaviour that is trustworthy (Brewer and Strahorn, 2012). Trust is primarily gained through the perceived integrity and competence of the other party (Aubert and Kelsey, 2000).

Conceptual framework and hypotheses

The ID literature points to an outcome-based contract, in that the agent aligns to the principal's goals, as being appropriate in most instances (Balkin *et al.*, 2000). Monitoring is likely to decrease information asymmetry between two parties but may not be cost-effective (Watts and Zimmerman, 1986). Tasks with less programmability can lead to more problems with agents (Guinan *et al.*, 1998). Fig 2 illustrates that, depending on the nature of the ID project, the principal has first to decide whether to use outcome-based or behaviour-orientated contracts (a) and then adjust to what extent the contract follows agency or stewardship theory or (b) make the project manager the principal.

Take about here

Figure 2:

Critical to project success are communication and collaboration between project owner and project manager, donor and NGO, or principal and agent. As has been observed earlier in this article, ever-increasing reporting requirements have hindered ID projects and thus suggest

that the balance of the contract between donor and agent has gone too far towards behaviour contracts. There are, of course, multiple levels of principal-agent relationships throughout an organisation (Kiser, 1999) and indeed throughout the aid chain. This is recognised in our framework because it evaluates agency matters between the donor and NGO, or project team and contractors, as the case may be. Our framework also assumes that the actors are altruistic and will want to act for the IDs project's good. Further discussion of success factors and criteria in the management of international projects, as evidenced from projects funded by the European Union, can be found in Bayiley and Teklu (2016). Similarly, a study by Yalegama et al. (2016) identified the critical success factors (CSFs) of community driven development (CDD) projects in Sri Lanka from different stakeholder's perspectives. Whilst CDDs are a different type of ID project, they do offer insightful propositions on how cultural and value differences might affect the perception of CSFs in other countries, and how these might be different.

Although this somewhat contradicts traditional agency theory, this approach was also taken by Azam and Laffont (2003), who considered donors in their framework. Indeed, a criticism of agency theory has been the assumption of pure self-interest. Even when considered to be altruistic, the donors and NGOs will still think differently about how that public good can be achieved, meaning that moral hazard remains an issue. Our proposed conceptual framework for testing is depicted in Fig. 3.

Take about here

Figure 3:

However, it is acknowledged that there is conjecture regarding the fit between traditional project management concepts and the reality witnessed in many ID projects. It is argued:

Since project management has been at the core of ID from the very beginning, it is quite legitimate to question how PMs carry out their roles as we seek to understand what they accomplish and how. Is project management a misnomer in the field of ID, and more specifically, how is it practiced in that field and what are its PMs really doing?

(Ika and Saint-Macary, 2012 p421)

The work of Ika and Saint-Macary (2012) challenges the assumptions of prescribed project management stages in ID projects and suggest that the evidence from several international projects (Chad-Cameroon pipeline project, a World Bank project and a large investment in Sub-Saharan Africa) indicate that little structured planning takes place. Moreover, "asymmetry of power impedes PMs ability to deliver development" (p431). This is classic agency behaviour.

Conceptualising Phase

The selection of the right implementing agency is an important phase in ID projects. There is a good chance that the principal (donor), will lack knowledge of both the country where the project is to be implemented and the local agents (NGOs) that will implement the project. It is important that the NGO selected because it is experienced in implementing similar projects that ensure greater goal congruence between principal and agent. Issues of moral hazard may arise throughout the project, thus increasing the need for monitoring and agency costs. Consequently a proposition for testing is:

P₁ Was a structured process followed when selecting the agents?

Planning Phase

In an ID project, involving the local partner extensively in this stage of the process is critical to its success. The donor can help address issues of information asymmetry by respecting and using the NGO's knowledge about how to implement the project and allow them to contribute to the project design process extensively. To achieve this, agency theory calls for a balanced contract between principal and agent. Müller and Turner (2005) have demonstrated that this is also the best approach for ensuring continued communication between parties which, in turn, should improve chances of project success. Goal congruence continues to be an essential factor in this stage of the project and might be improved by establishing a formal process of documenting a shared statement of goals. Consequently, a proposition for testing is:

P_{2a} Was a process followed to engage stakeholders when planning the ID project?

P_{2b} Are there periodic reviews planned for throughout the entire life cycle of the project?

Implementing Phase

As noted by Khang and Moe (2008), the steps taken in the conceptualising and planning phases will help the implementing phase to progress. Continued communication and collaboration between donor and NGO, facilitated by a balanced contract, will help ensure the best chance of the project succeeding. Khang and Moe's (2008) framework shows some limitation in this phase as it does not specifically allow for flexibility in the execution of the project. Rather, it evaluates this phase of the project by how the activities and outputs defined in the planning phase are executed. The continued close communication between agent and principal should minimise any issues of mistrust or suspicion of moral hazard that arise from

this flexibility. Therefore, in the planning phase of the project, a mandate needs to be developed for auditing the project consistently. According to Pinto (1990), these audits should be conducted both at regular intervals and at critical times (e.g., set milestones such as when beginning a new project phase).

P₃ Is there flexibility in the implementing of the ID project?

Closing Phase

The effectiveness of this final phase will be largely influenced by the conceptualising and planning phases. However, it is in the interests of both parties to see this phase completed effectively. The donor is therefore likely to reward the agent's initiative in shaping and implementing the project by choosing them to implement future ID projects. Moreover, as the donor knows that the agent is capable of successfully completing an ID project, the chances of adverse selection and the need for strict monitoring and behaviour controls are reduced in the future. Hence, criteria for reporting the project's achievements and success must be established. This can be done in two ways: by assessing (i) the project management success and (ii) the actual project success (time, quality, and cost). Development impacts should therefore be used as criteria to assess the acceptance of the development aid by the intended recipients. This entails identifying that the correct beneficiaries and their relevant needs have been targeted, and that these match the priorities of the donors. The selection of an implementing agency with the willingness to carry out the donor's vision for the project in the conceptualising phase is identified as critical to the project's success in this regard.

P₄ Does principal and agent prior positive experience influence project outcome?

Methodology

Cases and testing proposition

Prior to undertaking extensive empirical field research, with the underlying need of designing and developing of a range instruments for data collection and eventual testing of hypotheses (a development from use of propositions), we explored conceptual and theoretical validity by grounding the model with a small case study. Such confirmatory reflection of hypotheses using published cases is an established research method (Yin, 2013). Detailed, longitudinal case studies are appropriate for studying poorly understood phenomena (Marshall and Rossman, 2014) and, where contextualization and vivid descriptions of organizational

behaviours are important. The case study is an appropriate method to explore the initial hypotheses that will be used to answer the research question

A case study is beneficial because it facilitates the investigation of a phenomenon in its real-life context (Rowley, 2004). We focus on a single ID project because it provides unusually revelatory information (Yin, 2013). The case was selected as it has a number of unique qualities that make it a logical candidate for theoretical sampling, and it displays characteristics of a revelatory case (Yin, 2013). The case presented an unusual opportunity to study an ID project in which inherent risks and uncertainties are extreme and good relationships and high-level of trust are necessary (Ika and Saint-Macary, 2012). Because of the lack of knowledge on agency theory in ID projects, this research started with assumptions from the literature in a range of fields. The research follows an approach that can best be described as theory elaboration (Ketokivi and Choi, 2014). Compared to testing a theory, in theory elaboration the empirical data serve to illustrate an existing general conceptual or theoretical framework.

Case agency evaluation: international development aid project

Gatignon and Wassenhove (2010) developed the fleet safety project, which we use here to exemplify our methods, in response to the needs of 40 members of the Fleet Forum, a collaborating amalgamation of organisations that supply vehicles and provide advice on fleet management in the humanitarian sector. Put simply, this ID project would: *produce material that would assist humanitarian agencies develop road safety programmes*. These agencies had neither the resources nor know-how to organise the project on their own. Road crashes are the largest single cause of mortality for NGO staff in the field. With the backing of the Danish government aid agency, Danida, the project drew on the resources of government, the humanitarian sector and private companies to develop, test and distribute a Road Safety Toolkit for aid organisations. This case describes how a multi-sector partnership was conceived and delivered, and how the stakeholders met the challenges of communication and co-ordination. The case allows agency theory to be explored through the dynamics of the large number of players operating within a multi-sector public-private-partnership (PPP): governments, NGOs and private companies. The case has been analysed using the conceptual framework developed in this research (refer Fig.4):

Take about here

Fig.4

Players and stakeholders: \$500,000, half the total funding, was donated by Danida, the Danish government's aid and development agency. A formal proposal was submitted to Danida by the Kjaer Group (supplier of some 70,000 vehicles) and the Fleet Forum. The proposal detailed the project cycles, objectives, benefits, resources required and the private organisations and NGOs involved (see Appendix I for details). The project management team comprised representatives from Fleet Forum, the Kjaer Group, TNT, and GRSP. What ensued were lengthy debates over many months between Forum members and the project team, with the result that a final training toolkit was specified. The project scope comprised (i) fleet safety management training and (ii) drivers training.

The United Nations World Food Program (WFP) agreed to manage the project funds. Momenta a UK-based company specialising in private-sector advisory services was selected to design and draw up the toolkit. For input on specific topics such as environmental management, HIV and AIDS policies for truck drivers, specialised agencies such as United Nations Environment Programme and the North Star Foundation were used. Promotion of the kit and the production of media were controlled by the World Bank's Global Road Safety facility and the FIA Foundation. At the same time, private partners such as Shell, Sakhalin, BIG and Johnson & Johnson were asked to contribute to the project by sharing both their experience and their own road safety guidelines.

The controlling project team soon became aware of the complex problem of managing and communicating with large numbers of project partners. (Appendix AI shows the organisation profiles). There were often times when conflicts and decision were raising issues: *The partnership found its equilibrium through straightforward negotiation among team members and trade-offs involved give and take.* The first significant issue occurred when there was wide-spread dissatisfaction with the unwieldy 100-page draft toolkit submitted by Momenta. This resulted in the management team taking ownership of its writing. The view was that Momenta really did not understand what was needed and had gone their own way. Eventually the toolkit was launched in a pilot study in Kenya, with Oxfam, World Vision International, ADRA, Goal, Care International and WFP. Four different types of workshops were held. Local Kenya logistics and transport experts were contracted to lead transport operations workshops. Two-day driver training sessions took place under the guidance of local driving instructors. At the same time, TNT and an NGO called Safe Wheels carried out four-day 'train the trainer' sessions. Unfortunately, poor communication often resulted in cancellations and lack of participation. Coordinating so many agencies was proving difficult—operating Kenya compounded the problem - and soon the rainy season was imminent. Moreover,

political unrest and the threat of riots made staying in the country unsafe. The project team returned to Amsterdam, leaving the pilot only three-quarters complete.

Eventually it was considered safe to return to Kenya; and the postponed sessions were resumed. By the time the pilot ended, the toolkit had been tested on 1,500 staff, representing thousands of hours training for the organisations involved. During the project's closing session the management team set about harnessing the knowledge gained from the pilot. Participant surveys, reports and interviews were reviewed for possible future improvements. Eventually the "Fleet Safety Toolkit" was circulated for final comments before a final version was printed and ready for distribution. The toolkit had become a 55-page guide to fleet safety for humanitarian organisations, complete with minimum standards, checklists and detailed recommendations on implementing.

Validating the propositions with the case

The case is a complex example of an international development project involving a large number of players within a multi-sector PPP being delivered in challenging circumstances. While the case allows numerous facets of ID projects to be examined, in this instance, we use agency theory to explore the principal and various agencies within the limitations of the propositions. However, what becomes apparent when reviewing the case is that, while agency issues are apparent in the case, their criticality is dramatically diminished in the PPP ID project. The underlying assumption in the agency theory is that agents are pursuing financial benefit; this is not the case in a humanitarian project.

P₁ Was a structured process followed when selecting the agents?

Support is at the core of this PPP ID project; while the partners concerned have different objectives, values and cultures but they are sharing risks, responsibilities, resources, and competencies to achieve their individual objectives (Rangan *et al.*, 2006). Because no formal process applied during the conceptualising and planning stages, a comment made by a member of the core project team was:

The objective of the project was not defined at the start, it evolved over time; this was primarily due to the nature of it being a PPP alliance, which by definition has multiple-decision-making centres. This makes alliances considerably more complex to manage than projects with a single chain of command.

The initial phases of the ID project identified vague strategic objectives, conflicting priorities, and a lack of transparency of costs and benefits of participating in the project. Such initial issues are common in PPPs (Dussage and Garrette, 1999). The choice and selection of

partners was an *ad hoc* process that relied upon recommendations from associates and players, and did not involve any tendering or formal assessment. Moreover, NGOs were selected because of their experience; private commercial agents were approached as a result of their creditability. There was little ongoing monitoring, which meant no agency costs were attracted, and low levels of moral hazard were experienced.

P_{2a} Was a process followed to engage stakeholders when planning the ID project?

The project's conceptualising and planning identified specific objectives and value-creation, which fit exactly with the funding agencies missions (World Bank, 2004; Danida, 2014). Also notable is that, because long-term relationships were importantly built with the funding agencies for future projects, no one could afford to antagonise them. Consequently, elements of the project's scope and objectives were clearly humanitarian in nature, which were non-monetary and difficult to quantify. Less formal arrangements were used such as memoranda of understanding, and even oral agreements instead of contracts.

In an ID project such as this alliance, a player cannot force the others to accept any particular solution or direction to take. While the management and co-ordination has been entrusted to one person or group, it would not be taken kindly on the part of the dominant leadership to impose too many of its own decisions against the wishes of the others.

A formal proposal was submitted to Danida by the Kjaer Group and the Fleet Forum showing the breakdown of expenditure. While much of the planning resulted from meetings of the core management team, this was not copied to Danida. Evidence of the project's success was in the delivery of the training toolkit.

P_{2b} Are there periodic reviews planned for throughout the entire life cycle of the project?

In the case, principal and agents shared similar goals and no financial reward was required to meet the targets. Aspects of the PPP are what make ID projects different from commonplace applications. The case illustrates the variety of imperatives and strategic objectives held by the players and stakeholders. Most apparent was that the corporate culture was characterised by driving cost-effectiveness and efficiency versus humanitarian imperative and speedy delivery, improving living standards, local capacity building and altruism. Consequently, periodic reviews and scheduled reporting were often ignored. In the commercial world, outcome-based incentives prove to be more motivating, leading to more successful project outcomes, than relying on monitoring. Conversely, behavioural-based relationships focus on an agent's skills and behaviour (ethics), regardless of project outcomes.

P₃ Is there flexibility in the implementing of the ID project?

Agency theory assumes that there should be continued close communication between agent and principal to minimise any issues of mistrust or suspicion of moral hazard that may arise. However, it was noticeable from the case that operational imperatives were markedly different between NGOs and private corporations. For example, the Kjaer Group focused on pushing corporate practices such as key performance indicators, resource management, scheduling and diarised meetings, whereas the NGOs were used to operating in such a way that such activities are of low priority. The case showed at times that sectors banded together when negotiating but without prior planning or monitoring. However, informal and regular progress meetings took place.

P₄ Does Principal and agent prior positive experience influence the project outcome?

The dynamics of the players was particularly influential in meeting the project's objectives. The core management team had extensive prior experience of one another through previous ID projects. That team-members came from the same sector, were of the same nationality, and had similar experiences simplified what was otherwise a complex project. Having a committed group of players is not uncommon in ID projects because shared value systems invariably dilute other conflict.

Discussion

While Mahaney and Lederer (2003) say that monitoring may act as a motivating factor in completing tasks to get praise from the principal, Saam (2007) argues that the *perfect* monitoring systems does not exist and that pure information systems are expensive and time consuming. Beyer *et al.* (2012) suggest that, in theory, project owners can lead with perfect efficiency because their goal is to maximise overall profits. This indicates that goal conflict is non-existent. Agents may be so independently minded that they will continue to pursue their own goals regardless of contract type; this is especially true for ID countries where such agents are in high demand. Beyer *et al.* (2012) demonstrated that entrenched managers use their discretion for pursuing their own interests at the cost of the principal.

External pressures such as government policies, economic climate, competitor actions, technological change, social and environmental setbacks, civil unrest or military conflict cause unforeseeable and uncontrollable variations on project outcomes (Sharp and Salter, 1997). In such circumstances, while passing the risk to the agent may seem an attractive idea, it becomes increasingly expensive to the principal as the agent will demand a higher price to compensate for the additional risk (Fassina, 2004). Contrariwise, behavioural-based contracts may motivate agents to make more defensible project decisions (Lerner and

Tetlock, 1999). Because the governance rules within a community of practice would regulate behaviour standards, those who break the rules are punished through social sanctions (Henisz *et al.*, 2012). Across a wide array of situations, collective norms or senses of identity has been shown to alter individual behaviour compliance with or the successful invocation of psychological perceptions (Ring and Van de Ven, 1994). For the community of practice to be able to assuage agency behaviours, information about project performance would need to be known. Meyerson *et al.* (1996) argue that, when the pool of possible staff and talent becomes scarce, and information on performance is diffused, reputations become vulnerable. Principals should be able to capitalise on this vulnerability and tap into the communities of practice when seeking a manager for their projects. Selecting one who is an active and respected member of the community of practice may reduce agency behaviour.

Conclusions

Through the lens of agency theory and the limitations imposed by exploring a series of propositions, several insightful conclusions have been derived from the case. International development projects have particular nuances that make them unique compared to the majority of commercial applications. An added dimension and other complexity results from the PPP incorporating Government, NGOs and private corporations. The case examined in this article exemplified the need for PPP ID projects to build on partner networks to influence and disseminate information about outcomes. To achieve this needs differing organisational cultures to be recognised and managed. While funding is critical, in-kind commitment of support is necessary. Conventional scoping, scheduling and budgetary control lack the flexibility required by ID projects, and is better served by adopting a sequence of conceptualising, planning, implementing and closing. Given the characteristics of many developing countries, there is a need to have realistic expectations of the time required, and acknowledging that it is not always possible to plan accurately. Climate, security, geography, political aspects, and the durability of the project team over a long time period are considerable challenges. While all the problems associated with agency relationships are apparent in the case under review, their criticality to the objectives of the PPP ID project is far less than what it might be in a commercial environment. The underlying assumption in agency theory is that agents pursue financial benefit or other self-gratifying goals; this is not the case in a humanitarian project.

A theory-elaborating case, such as the case examined in this study, provides perspectives and theoretical ideas for future research. A limitation is that findings are based on a specific

case. Future research could collect large-scale data from other cases or examples and thus test an expanded range of hypotheses. This exploratory work has identified several interesting phenomena: for example, that international development projects, while having unique characteristics, also exhibit classic features of agency theory. Further work is currently being based on several large projects to refine and develop our understanding of theory in ID projects. Clearly there is a need to quantify in detail the impact of agency relationships, potential goal conflicts between principals and agents, information asymmetry, levels of acceptable risk, and how comparative study with commercial projects might bring greater insight.

The implications from this work for managers of international development projects, the various players i.e., NGOs, commercial contractors, Government agencies, clients and policy makers include aspects that are specific to the nuances of this specific case but also hold relevancy for similar international projects. Projects are dynamic systems; they cannot be carried out efficiently without trust between key stakeholders. Communication and inter-relationships are inseparable, and in international development projects, they are critical factors of outcome success. The launching seminars organized by the donor agencies, as seen in our case example, were critical to *selling* the initiative to the on-ground stakeholders rather than creating a good working climate within the project team. Despite the ubiquitous use of electronic communication, the semi-virtual ID project teams cannot avoid the contact and face-to-face communication. The on-ground meetings were especially important ones that helped establish trust. Multilateral donor agencies should assess regularly the level of trust, project by project, between the project manager and the various players. Our study does not come to any conclusions of a comparative nature, and does not reveal behaviours specific to an African environment as compared to other international locations. This was not our goal. However, where multilateral development agencies and bilateral organisations fund development projects we anticipate transference of learning from this work. We plan on pursuing this further, since databases are currently being assembled on international development projects. A transcultural analysis of the empirical results through the lens of agency theory from a larger survey would allow us to confirm the results from the African case and perhaps even to discover cultural differences in the importance of agency theory. For ID project managers and agencies it should be recognized that agency theory is based on the assumption that both principals and agents are rational economic-maximizing individuals. This does not hold for either the agency or the private investor. Studies have shown that governments are often driven by other than purely economic motives. Also, studies of

private-commercial investors show that they do not always see the monetary rewards as the most essential. Agency theory assumes that the principal building control mechanism is to prevent opportunistic behaviour from the agent (i.e., a 'negative' relationship between the principal and agent. The relationship between the private investor and government sponsor has a more 'positive' character, where the interaction is based on support and mutual trust. In many cases the control mechanism functions as a dysfunctional factor, lowering trust between the principal and agent, which impedes open communication. Agency theory also assumes that there is an information asymmetry between the principal and agent which facilitates the agent's opportunistic behaviour. The negotiations between the private investor and NGO or other funding agency, and the personal relationship between them can result in less information asymmetries and less opportunistic behaviour, and therefore substitute for detailed monitoring mechanisms.

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Figures

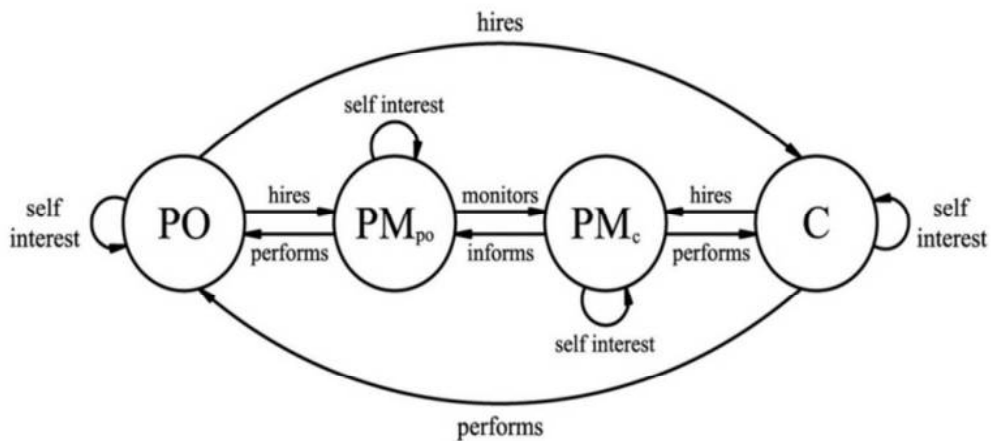


Figure 1: Principal-agent theory relationship for international development (ID) (PO project owner, C contractor, PM_{po} project owner's project manager PM_c contractor's project manager).

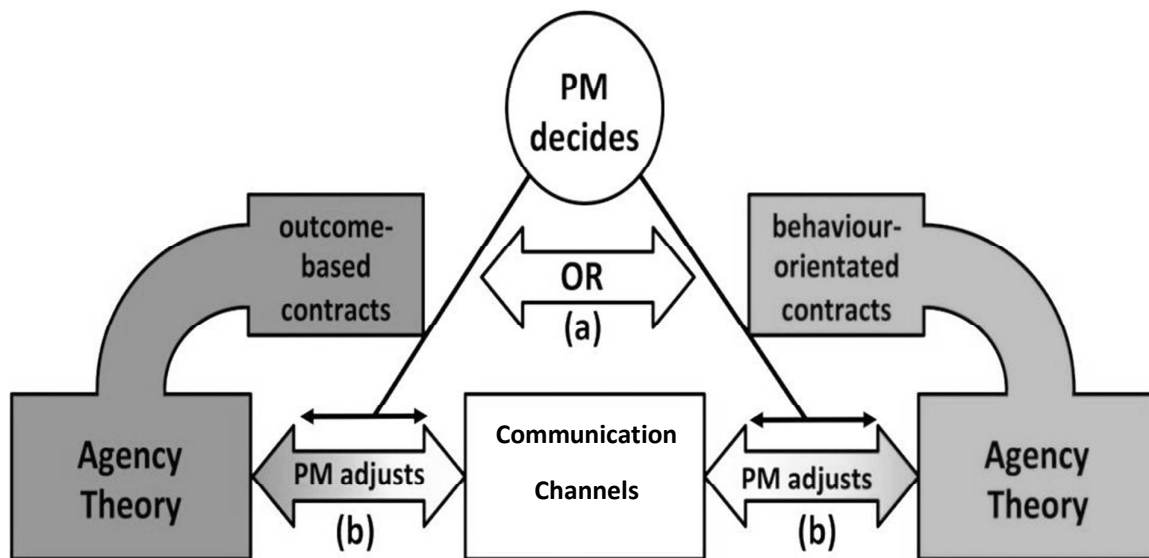


Figure. 2: Agency dynamics

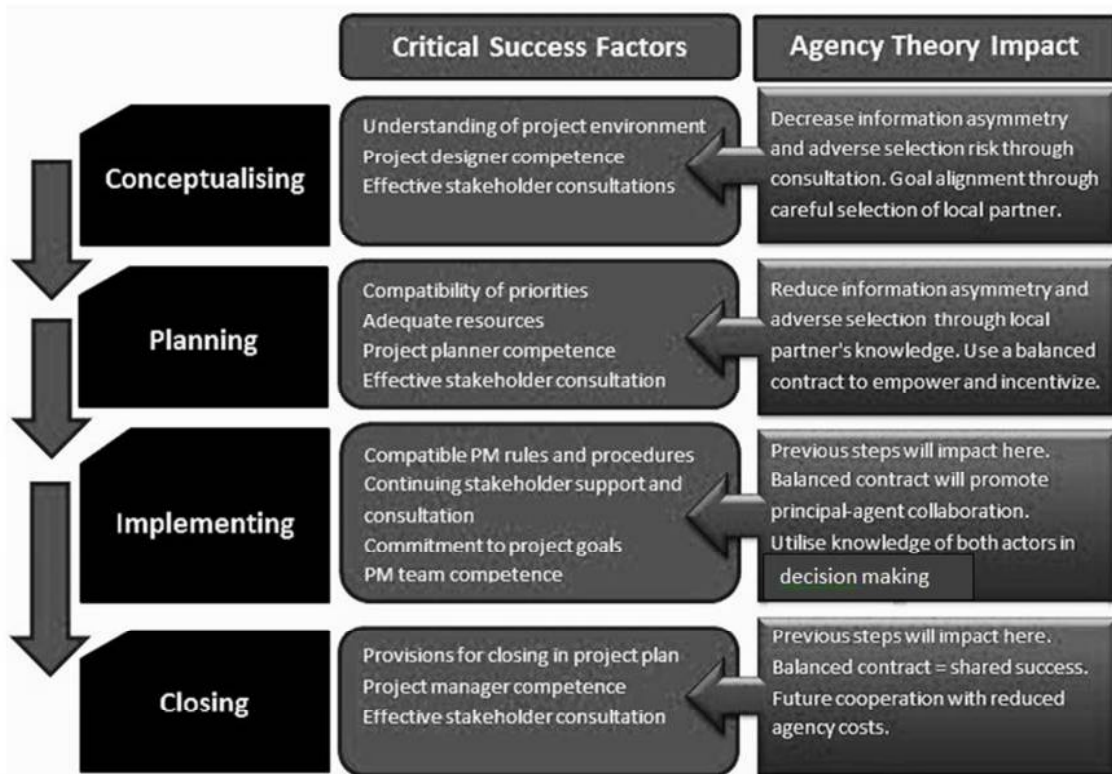


Figure 3: Agency theory in project lifecycle model of ID project

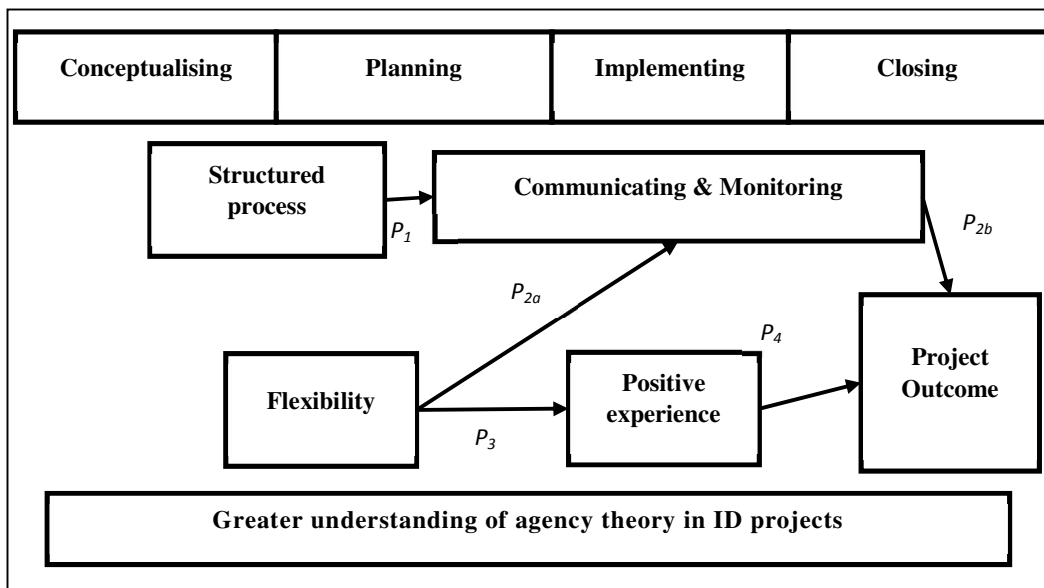


Fig.4 Conceptual framework: Agency in ID projects

Appendix Table AI. Organisations

*Core Partners; #Implementing agencies; \$Advisory, @Auxiliary Partners

Sector	Name	Project Role
Government	Danida*	Part of Danish Ministry of Foreign Affairs – Official Development Assistance Funds
Humanitarian Organisations NGOs	Fleet Forum members*\$	Network of NGOs and private companies to address issues facing NGOs with their vehicles
	North Star Foundation@	Public-private partnership to set-up clinics for HIV & AIDS throughout Africa
	Oxfam#, World Vision#, Care International#, Goal#, ADRA#	Group of NGOs implementing international relief and development projects
	UN World Food Programme #	UN agency dedicated to fighting hunger
	UN Environment Programme@	UN agency dedicated to preserving the environment
	Global Road Safety Partnership*	Geneva-based NGO focused on promoting safer roads, founded by UK Department for International Development, the International Federation of the Red Cross, and the World Bank
Private Corporations	Kjaer Group*	Supplier of vehicles to humanitarian organisations
	Momenta@	UK-based design company selected to design and draw up the toolkit
	Volvo\$	Advising on truck maintenance
	TNT*	Global logistics company advising on training
	Safe Wheels@	Train the trainer organisation
	Shell\$	Advising on operating in Africa
	BIG\$	Transport company
	Johnson & Johnson\$	Advising on fleet management
	Sakhalin\$	Consortium comprising Gazprom, Shell, Mitsui and Diamond Gas. Advising on Health, Safety and Environment.
	Glen Edmunds Performance Driving School@	Driver instructor course delivery