

Unfolding a multiple principal agent system in the Netherlands

A way to analyse the case of the Dutch public housing sector

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'It is the aspect of leadership we commonly imply in the word "responsibility", the quality which gives dependability and determination to human conduct, and foresight and ideality to purpose' (Barnard, 1938, p. 260)

Abstract

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1 Historical introduction of the Dutch housing sector

In the Netherlands social housing is delivered by a public private policy system. Private organizations, the Dutch housing corporations, are responsible for the development and management of approximately 2.3 million social houses. The Housing act provides objectives for their *modus operandi*, implying a set of public tasks on them. Since 1990 the relative autonomy of the housing corporations has become a leading principle in the policy of the Dutch government. The government has committed itself to this autonomy, respecting the own policy discretion of the organizations and refraining from interventions. In 1995 long term subsidization and state provided loans have been converted in lump sums, providing housing corporations large injections in their working capital without additional spending conditions. Upwards of 2000 housing corporations are stimulated by the government to sell a part of their rental housing stock, a policy that enhanced their capital and freedom of operation furthermore.

All kinds of specific regulation have been issued by government, including restrictions to commercial activities in real estate development. A complaint of a Dutch sector organization of commercial landlords has induced an EU intervention in the Dutch policy (European Commission, 2009; European Commission, 2010). The EC supports the allegation that housing corporations use state aid to compete unfairly the commercial rental sector.

State secretary Heerma, the initiator of the autonomy policy, expressed expectations at the start of the process (Zoon, 1988). Ideologically driven he expected an entrepreneurial spirit owing to their private status. More autonomy would be accompanied by more responsibility of the housing corporations for their own policy and a better allocation of resources. One expectation had a pragmatic motif: the sector of the housing corporations should solve its own problems, such as financial defaults. Leading up to his initiative the political position of Heerma had been at stake by a few incidents of failing housing corporations.

However since 2009 the game is back to square one. Ministers keep so to speak (Bertram, 2010) a camping bed in the house of parliament in order to answer unremitting questions about failures of housing corporations. A sequence of media reports on commercial investment failures and integrity violations have affected the credibility of the Dutch social housing sector (Koolma, 2011). Mismanagement and bad calculations have caused million losses. Recently the corporation Vestia committed itself completely to interest rate

derivatives, a policy that has resulted in a unsecured 2 billion debt. A default of Vestia is possible and would cause a financial breakdown of the Dutch social housing sector.

In reaction to this sequence of debacles the sector organizations no longer support the idea of autonomy of housing corporations unconditionally, on the contrary they call for resolute state control and enforcement by peer reviews (Aedes, 2012) and introduction of internal discipline (VTW, 2009). Employees of a state research bureau blame corporations of an alleged misallocation of societal resources (Koning & Leuvensteijn, 2010) and dispute the legitimacy of the Dutch social housing sector.

How could this all happen, why were the initial expectations reversed by the course of business?

2 Main questions

When a policy does not succeed causes can be sought in different directions. In this paper the probable cause is placed in the governance of the sector and the organization of the decision making of the actors. Regarded in this way, one could suppose that the conceptualization of the environment in which the actor intervenes has not been adequate. In the tradition of the Dutch public administration such a conceptualization is called policy theory (Hoogerwerf, 1987), supposing that actors use a causal model of reality in order to achieve a policy. The idea of rational, scientific policy making is contested by several scientists including van Twist. He argues that the concepts underlying a policy can better be regarded as narratives (Twist, 1995). The policy assumes a division between state and private actors in which the state has a coordinating role (VROM, 1989, pp. 51 - 52), refraining from direct central steering of the private actors. Similar to this policy theory Gaebler and Osborne (1992) have written about transformations of public sectors. Closer reading discloses narratives: a belief in self-fulfilling evolution to autonomous and accountable enterprises instead of clear observations and sound reasoning.

The hardly defined borders between civil society and market in Heerma's memorandum (Koolma, 2008, p. 306) indicates thin reflections on the expected behavior of the housing corporations. Foreseeable decision dilemmas between nonprofit objectives and market operations stayed below the surface. The sector organization coined the *societal enterprise* in a publication of essays, rather abstracted from the organizational practice and promoting the societal enterprise as way to realize autonomy of the housing corporations (Aedes, 1999). Commissioned by Aedes researchers warn in a booklet against moral hazard due to an unbalanced principal agency structure and unclear property rights (Dijk, Klep, Maden, Duit, & Boekel, 2002). Another early warning indicates a bias of the boards of governors to strategic issues like mergers, takeovers and real estate investments (CFV, 2003), leaving social housing objectives to the concerns of the CEO's. Organizational issues like cost control

do not get significant attention in 2002 (Koolma, 2008, p. 356). A report commissioned by the House of Parliament expresses doubt about the legitimacy, efficacy, and efficiency of housing corporations (Conijn, 2005). Neither the government, nor the housing sector itself spent appropriate attention to those major issues of organizational behavior. A vision on behavioral control has not been part of the arrangement between state and sector, a shortcoming that is regretted at the end of the decennium (Minister voor WWI, 2009; Aedes, 2012).

Vague definitions and poor elaborations of concepts are typical phenomena of policy theories and sector narratives. Practice models of reality fail to describe, explain or predict the course of business and since the start of the autonomy policy. A more scientific view of the sector might clarify.

This brings us to the main questions of this paper. *Firstly, how can the organization of Dutch social housing policy as a whole be adequately be conceptualized and modeled? And secondly, can the reported sector instability be explained by the way of organization?*

The elaboration of the two questions will be theoretical. The paper is a first step in a comprehensive research on Dutch policy making and public sector governance, providing a conceptual framework for the empirical subprojects.

3 Modeling of the Dutch social housing sector

Researchers commonly highlight the successes of the Dutch social housing sector, based on tradition of building of good and moderately priced houses for a clientele extended to the middle class. These publications mostly treat the sector as a whole, ignoring possible differences between housing corporations and the interdependence between organization of the sector as a whole and the behavior of distinct housing corporations. Few studies pay attention to the organizational level, in particular on themes like efficiency (Graaf, Winter, & Berkhout, 2001) and corporate culture (Dreimüller, 2008).

3.1 Modeling of Dutch social housing sector in recent literature

An serious attempt to conceptualize a model of the sector is made by Koffijberg (2005). He uses a network approach to observe and to analyze major changes in the sector, including the promising start of the autonomy policy of the Dutch state. Special attention is paid to interaction strategies of the central state towards the sector organizations and specific corporations. Koffijberg distinguishes hybrid interaction strategies:

- Joining hierarchical and network approach;
- Alternation of hierarchy and network;

- A frontstage / backstage approach.

The last point is derived from Goffman (1959), whereas Goffman's concept of impression management would be more to the point. Closer reading reveals the intention of Koffijberg (2005, pp. 267 - 273) to distinguish between formal and informal organization. He rejects the idea of a strict dichotomy between hierarchy and network approach. Differing from the main stream of Dutch network researchers he states that hierarchy can be an effective way to realize certain policy goals. Consequently he recommends smart combinations of network and hierarchy strategies.

3.2 Other fundamentals: formal and informal organization

The findings of Koffijberg show a striking similarity to concepts of a founding father of American organizational science, namely Barnard. He distinguished scalar and lateral connections between member of organizations and between organizations. Organization by free agreement is inherently more flexible and adaptable than that of scalar organizations (Barnard, 1949, p. 155).

Barnard has coined the paired formal – informal organization (Barnard, 1938, pp. 114 - 120). Formal organization serves operational consistency and stable provision of goods and services, while informal organization is indispensable for the adaption to the environment and the vitality of organizations. Formal organization has a reduced power to cope with complexity, while informal organization lacks alignment and stability. He stresses the interdependence of formal and informal in organizations and large collectives: 'a society is structured by formal organizations, formal organizations are vitalized and conditioned by informal organization. What is asserted is that there cannot be one without the other. If one fails the other disintegrate (Barnard, 1938, p. 120)'. Formal and informal organization will reinforce each other in healthy organizations, or disrupt each other in pathological situations. Leaders ('executives') play a key role in the adjustments between formal and informal organization.

3.3 Informal processes of information exchange and social comparison

Barnard has described the paired functions of formal and informal organization quite abstractly. Festinger and colleagues have made a beautiful study on informal organization, including network analysis *avant la lettre* (Festinger, Schachter, & Back, 1950). They describe precisely informal processes in a provisional settlement on a campus: the exchange of information, inclusion and exclusion of members in the network, and the growth of cliques around informal leaders. Informal organization is characterized by inequality of the distribution of information and influence.

Festinger has made another contribution, namely the theory of social comparison processes (Festinger, 1954). The theory is applicable on professional peer groups. The member of the peer groups have to deliver certain achievements. The measurability and even the observability of the achievements can be difficult because of the nature of the performance. Marris indicates also the absence of clearly defined goals ('unlike football') and the lack of established criteria for judgement as an occasion for social comparison processes (Marris, 1964). Under those circumstances a peer group makes mutually judgements by comparison, in which opinions on the showed abilities are more leading than information on actual achievements. Two extensions can be made to this theory. Firstly, the gap between opinions in a professional peer group upon actual performance can be seen as an example of decoupling (Meyer & Rowan, 2000). Secondly, ranking performance of organizations by shared opinions is commonly called reputation.

3.4 Processes of undirected goal seeking and shifting normalcy

Reputation is no more of less than a ranking account of praising gossip and defamations in an informal network (Koolma, 2008, p. 70). The more informal and social comparing a professional peer group is, the more compelling and uncorrected is the force of reputation. Because of the decoupling the action of informal leaders and followers is attracted to the issues which provide impressions of success. The goal selection is made by estimation of chance, and does not arise from e.g. an assignment to solve societal problems or compliance to commands of an authority.

Sequences of actions and reactions between the members of a peer group can be interrupted by moments of moral judgment and recalibration. If not, the reputation-driven goal seeking lacks moral orientation or misses ethical constraints, finally resulting in destruction of value and harm interests of the group as a whole (Koolma, 2008, p. 86). In that case the state of normalcy (Grassiani, 2009)¹ will be shifting: what in present is experienced as normal behavior was probably neither imaginable nor acceptable before. If the evolution of the in-group normalcy deviates from normalcy in the out-group society – as consequence of autonomic behavior and the rise of own norms of the group – the group can be characterized as deviant (Merton, 1957).

Williamson states that Barnard has not paid enough attention to eventual disadvantages of informal organization. Informal action may undercut the efficacy of internal organization and lead to resource misallocation, like 'on-the-job leisure, waste, investment distortions and other forms of subgoal pursuit (Williamson, 1990, p. 177).

¹ In the line of argumentation an a-symmetrical conflict with the environment is presumable.

3.5 Controlling informal groups

Professional peer groups have to cope with dilemma's of collective action. Protection of the resources of the group is the theme of the well-known free-rider dilemma. In professional peer group the reputation of the profession is a collective good. Actions of a individual member, like professional failure, cheating clients, and abuse of resources, may harm the reputation of the group as a whole.

Recent studies conceive groups as complex systems balancing between cooperation and competition (Axelrod, 1997; Fehr & Schmidt, 1999). An important element in this experimental literature is normative control by punishment of individual members. Real live observations show also informal control by punishment of members who oppose to the course of action in a group (Festinger, Schachter, & Back, 1950, pp. 8, 101 - 113). Anticipating on defamation and exclusion, members hesitate to protest and avoid participation. In disputes eventual inequity in social status or in-group reputation is decisive: guided by informal leaders define socially what is real and true, regardless of facts, and enforce conformity by social pressure.

Individual initiatives to punish other members for norm violation are risky and imply high costs (Heckathorn, 1990, p. 368; Fehr & Schmidt, 1999, p. 817), in some situations a reason to apply exogenous control to force compliance of group norms (Heckathorn, 1990, p. 366). In terms of this paper, a principal is introduced. In that case the group shows an ambivalent attitude towards member which are transgressing norms of the principal, depending on the acceptance of the authority of the principal. If the authority is not beyond doubt, transgression is a strategy that does grow the in-group reputation, even if the punishment is applied by the authority. A real live example is the interaction between juvenile gangs and the policy. Challenging exogenous authority can be a very attractive strategy, despite of the costs of the punishment.

Failing punishment has a high impact on the members in the group: if norms are meant to support in-group cooperation a major part of the members shift to competitive, opportunistic behavior (Fehr & Schmidt, 1999, pp. 833, 849). In mixed populations norm guided agents are defeated by non-normative agents (Castelfranchi, Conte, & Paololucci, 1998, p. 12).

Fehr & Schimdt stress the importance of what they call the interaction between the distribution of preferences and the strategic environment (1999, p. 856). There are 'environments in which the behavior of a minority of purely selfish people forces the majority of fair-minded people to behave in a completely selfish manner'. In public goods games a minority of fair-minded players can effectuate cooperation, provided that strategic environment is shaped as a public good game and punishment is applied, regardless of the

reputation of the transgressors. This last remark point a shortcoming of the social-dilemma games (Levine & Moreland, 1990, p. 607): namely, status differences are decisive. Social dilemmas can be breached by an appointment of a leader, but what to if an informal leader is acting self-interested and does not want to resolve the dilemma? Who is giving the definition of the strategic environment and determining the rules of the game to play?

3.6 Group mediated decision failure

So, Levine & Moreland object to the effect of pallid groups in social dilemma games (1990, p. 607). Based on the idea of Plato's cave, Zucker has shown differences between an occasional group and a group with a settled distribution of status (Zucker, 1991). The more institutionalized the group and the more persistent and self-assured the group acts in an erroneous observation. The most institutionalized group has the smallest chance of error detection.

Higher status member of a group dominate the verbal exchange of information, and 'are more likely to criticize, commando or interrupt others' (Levine & Moreland, 1990, p. 598). The relation between dominant leaders and critical decision errors is subject of studies on 'groupthink' (Hart, 1990; Whyte, 1998). Whyte states: 'the lack of vigilance and preference for risk that characterizes group contaminated by groupthink are attributed in large part to perceptions of collective efficacy that unduly exceed capability. High collective efficacy may also contribute to the negative framing of decisions and to certain administrative and structural organizational faults.' Goncalo (2004) indicates that contributions to past successes of a group have negative impact on individual performance. The explanation is that group-focused attributions gives rise to convergent thinking and obstruct the search and processing of information on for example radical changes in the environment. Other authors indicate also obstructions to learning: perceptions of competence leads to misspecified connections between actions and outcomes, 'superstitious learning' (March & Levitt, 1999) and 'traps of distinctive competence' (March & Levinthal, 1999). So, exploration of new tasks can proceed without proper feedback. Social psychologists pay attention to the social context of learning failure. Social facilitation works out negative if persons perform unlearned tasks in the presence of bystanders (Blascovich, Mendes, Hunter, & Salomon, 1999).

Another reason why professional peer groups do not react on errors adequately is defensive of nature. Colleagues avoid awkward questions about in-side know failures of one of them (Hood, 1998, p. 41). Salient examples of this kind of failure can be found in hospitals. However, the phenomenon is universal. Covering up peer failure protects the reputation of the professional group and the institution, while continuing consequences of failure to clients and the environment are taken for granted. The costs of compliance (Castelfranchi, Conte, &

Paololucci, 1998) are high to the peer member who decides to disclose the failure: he anticipates defamation, exclusion, the usual destiny of 'whistleblower'.

3.7 Characteristics of leadership: responsibility or in lead of herds

Leadership in informal organization is a troublesome issue, in scientific aspect too. Barnard (1949, p. 81) pointed out that *leadership* includes the meaning 'to be in advance' as well as 'to guide others, to govern their activities'. There is a fundamental difference: in the first meaning the collective action is without command and coordination, the second meaning implies the acceptance of a position of responsibility (Barnard, 1938, p. 174). Only in the second case, moral shifting and eventual dilemma's of collective action can be overcome.

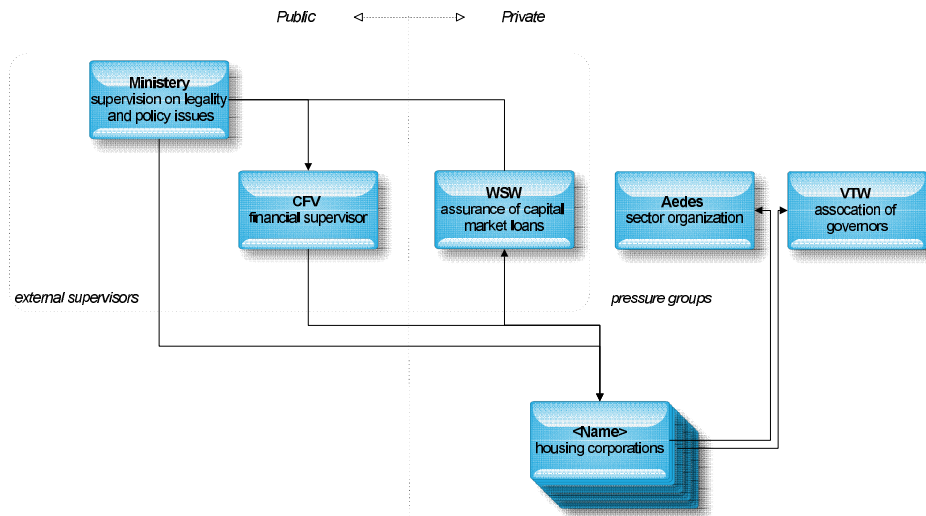
Organization based on free association has a weak leadership structure (Hood, 1998, pp. 142 - 143; Arrow, McGrath, & Berdahl, 2000). The ultimate punishment for members which are violating norms and codes is dismissing and exclusion from the professional community. The punishment bears costs for the collective: the size and the resources of the collective diminish and the dismissal itself can cause and sequence of voluntary exit of members sympathizing with the dismissed member. As consequence, the collective has a weak power to enforce compliance to norms and codes.

The leadership in the meaning of being in advance of the collective refers to self organization, acting with an own set of rules (Schelling, 1978; Lakomsky, 2005, pp. 121 - 127). In this respect, the efforts of institutional economists on the subject of herd behavior have to be mentioned. In a review Bikhchandani & Sharma (2000) distinguish three kinds of explanation: information-based, compensation-based and reputation-based herding. Scharfstein & Stein (Scharfstein & Stein, 1990) represent the approach of reputation-based herding. Corporate acquisition and investment decisions are made in a competitive field, in which some managers take decisions in advance, without ex-ante economic evidence. The decision itself provides them reputation and the impression of being successful. Others observe the decision, neither knowing if it is a sound decision. They follow the head runner(s). If not, they risk the chance of losing connection and getting the reputation of a backward sucker. Being part of a trend in a sector, following decision makers are protected against blame of their principals in case of failure. It is a setting in which decision makers easily can avoid responsibility. The head runners find confirmation of their improvident decisions by success attributions of the following competitors and other members of an economic field like sector analysts (Scharfstein & Stein, 1990).

3.8 Formal model of the sector

The follow figure show the way the Dutch social housing sector is organized.

Figure 1 Formal organogram of sector



Koffijberg made his study in a period in which there was a special Ministry of social housing. Since October 2010 the Ministry of Interior is charged with the supervision on the housing corporations. The Housing Act and subsequent regulations arrange the position of the Centraal Fonds Volkshuisvesting (CFV) as national financial mandatory agency and of the circa 400 private housing corporations. In the Housing Act they are called admitted institutes. Exit out of the sector is forbidden, entry is restricted and almost impossible (Koolma, 2008, p. 355). The Housing Act issues the non-distribution constraint, a usual attribute of nonprofit sectors (Ben-Ner & Gui, 2003) prohibiting the payment of dividend to shareholders or other actors. Housing corporations participate in the Waarborgfonds Sociale Woningbouw (WSW), an institute with banking license and triple A status. By providing assurance to capital suppliers, housing corporations can loan at a lower rate. Thanks to an assurance backing by the Dutch state, a construction that is noted as state aid (European Commission, 2009). The WSW tests the accounting journals of the housing corporations before granting assurance.

In the private sphere resides to pressure groups based on free association. Aedes represents 90% of the housing corporations and the VTW members of the 75% of the boards of governors. Housing corporations have on the score of the Housing Act a internal mandatory board, a board of governors, that is charged with the supervision on the executive board (single or more members). Housing corporations operate in a complex principal agency relation, having one internal and three national supervisors. Because of that, the sector is to be seen as a multiple principle agency system.

3.9 Some provisional observations of informal organization

In this paper some provisional observations are made. The empirical research on the informal organization of the sector is in a starting phase. Many dossiers are waiting to be disclosed and analyzed. Lots of fragmented information is already available. Therefore aspects of informal organization will be used as frame for the following observations.

Koffijberg (2005) elaborated on the relation between the Dutch government and the housing corporations, coming from a situation in which the sector organizations had almost a monopoly on entrance to the Ministry. In the negotiation leading to the lump sum conversion of state loans and subsidization, the monopoly of the sector organizations was broken. The dependence of the housing corporation decreased. After that, Aedes became the new sector organization and dropped definitely the dominance in the connection between housing corporations and state.

The sector shows signs of an informal stratification. Some housing corporations have easier access to the national principal than others. The social comparison theory predicts the splitting of a leading group, an event that happened in the sector. A sub association called the 'De Vernieuwde Stad' came into being, containing the larger urban housing corporations. Size of the housing corporations, measured in the number of rental houses, is important. Like a protocol the size of information is exchanged at first meetings between executives of distinct housing corporations. Executives of housing corporations know their position in the ranking of the larger housing corporations. Size is seen as needed for acquisition of new mergers and of real estate positions.

The fanning a couple of housing corporations to commercial operations has overtaken the Ministry. Two regulations on prohibited and forbidden operations were issued (1999 en 2001). The EC imposed a stricter separation between social housing tasks and commercial operation. A part of the population of housing corporations have changed their profile from social housing managers to real estate entrepreneurs. Both cases as accounting information show a mismatch between profile and entrepreneurial skills and outcomes. An anonymized study of the Ministry on some of the cases of failure (VROM-inspectie dienst uitvoering, 2010) shows serious moral hazard in connection to the real estate sector.

The sector organizations have issued codes to align and to bound behavior of their members. Subjects are the CEO-compensation, the social housing mission, obligatory visiting reviews and the internal governance. Not all housing corporations are member of the organizations and even less comply unconditionally. It is not the difference between *comply or explain* that is causing the low rate of compliance, but an attitude of non-commitment. The sector organizations argue that compliance would have prevented the cases of failure. However, among the sinners are both exemplary compliers as prominent ignorers of the

codes. The VTW has requested the government to enforce the sector codes legally. The government is in an own process of preparing legislation, apparently in a return to central state ruling of the housing corporations.

Some cases show clear examples of misperception of new competences, managerial overconfidence and groupthink of the small circles around the CEO, like the members of the board of governors. An urgent question is why the governance structure has failed. Early signals of failure have been ignored by colleagues.

The reactions of the sector on the failure have been avoiding. Neither the seriousness of the situation nor the causes of the failures were in debate. Instead the fact of the small numbers of failure and the unfair treatment of housing corporations by the public media (Koolma, 2011)². In the meanwhile the sector has lost public credit and is facing an inquiry by the Dutch parliament.

4 Hypothesizing on causes of instability of the sector

This paper concludes with some hypotheses on the causes of instability of the Dutch housing sector. This hypotheses will be tested in further research, comprising agenda reconstruction, interviews, media analysis and extensive longitudinal data analysis.

Firstly I want to stress the need for a complex adaptive system approach. A one-fold principal agency model will lead to too simple explanations.

The entrepreneurial games of executives of housing corporations have put the sector in trouble. Yet, I agree with Young (2003) that success or failure of the entrepreneurial approach of nonprofit organizations depends largely on the incentive structure. Therefore the first hypothesis is:

1a) The switch from intrinsic motivation to extrinsic motivation and from a problem solving approach to a chance directed, opportunistic orientation has caused failures, and by consequence

1b) the sector has become so divergent that the retrieval of a common purpose will be too difficult.

2a) Entrepreneurship is confused with a high risk preference and drop of responsibility by CEO's, and

2b) this attitude will harmful to the purpose and resources of the housing corporations if the actual behavior is not bridled by internal supervisors.

² This study shows a tendency to negative coverage of the events.

Cybernetics provide the concept of feedback (Wiener, 1948). People confuse usually positive and negative feedback. Negative feedback stabilizes and directs locomotive actions. Positive feedback augments the amplitude of the motion and diverges from equilibria. Positive feedback is the locomotive force of escalation, like panicking herds. In the next hypothesis positive feedback is the underlying cause of instability:

3a) If internal supervisors shift from sound assessment and evaluation of acquisition and investment proposals to a weighing on expected gain of organizational reputation, they amplify the propensity of certain CEO's to prioritize reputation above performance.

3b) If external supervisors glory CEO who are transgressing norms and regulation, they provoke a multi-agent game with growing risk-taking, and distress agents who want to comply to sector norms and regulation.

3c) A long-term prevalence of reputation above managerial performance perverts individual behavior and subverts a sector.

The choice of the triple principal structure is nowadays seen as a reason of a low level of error detection by the external supervisors. More harmful is the unbalanced choice of supervised subjects (Schilder, Mosch, & Hage, 2006). For instance societal efficacy and efficiency are not covered by the three national supervisors, nor by the internal boards and their incentive contracts (Koolma, 2008, p. 523). The design of the formal organization is deficient on this point. More precise, the hypothesis is as follows:

4) If CEO's and their staff are not disciplined to a deliberate allocation of resources, and are allowed to put all organizational resources on one single acquisition or investment decision, camel nosed or not, the survival of the organization will be put at stake.

The co-existence between formal and informal organization. As said, formal and informal organization can disrupt each other. For instances public authority is considered to operate indifferent to informal reputations of the supervised agents. This is an issue of equality of rights.

5a) The authority of the supervisor is affected if the reputation of the agent weighs the judgment and the decision.

5b) If a formal superior serves the reputation-building of an agent beforehand, the superior persists in praising the agent after failure.

Network approach has been promoted as an alternative to hierarchy. However, informal organization is in predisposition unequal. Reputations are ranked as soon as an informal organization emerges. Both formal and informal organization have interrelations, in which a superior and a subordinate can be distinguished. Formal and informal hierarchical and lateral relations can be congruent, or can diverge.

5c) Enduring inversions of formal and informal hierarchy, called subordination, disrupts the governance and will lead to failures on integrity and competence.

Increasingly organizational behavior is analyzed on phenomena of herd behavior. The distribution of best practices is a pragmatic use of the herd propensity of human beings. The Dutch social housing sector has a tradition on experiments and diffusion of new practices. Also an enduring process of mergers can be observed and denoted as a type of herding. An other case of herding can be observed in the acquisition of land. Simply argued, herding is harmful and destabilizing sectors if bad examples are followed. Herding literature provided three explanations for herding, depending on the subject and setting. Three hypotheses will be tested in the different cases of herd behavior in the social housing sector:

6a) herding is a rational way of coping with informational shortcomings;

6b) the rationality of reputation-based herding depends on the confidence that reputation will match performance in the long-run.

6c) Incentive-based herding is an uncontrollable motion in a sector that is characterized by intrinsic motivation.

Some final statements on the conditions for organizational failure in sectors. Changes in the environment imply a problem of adaption. Sometimes convulsions trigger an uncontrollable reaction of organizations.

7a) A sudden of (perceived) wealth destabilizes organizations.

7b) A drop of incentives destabilizes organizational leaders.

7c) Leaders destabilize their organizations and their environment, if 6a) en 6b) coincide.

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