

# Strategic governance in public agencies

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## Abstract

This article elaborates a strategic governance perspective of public agencies. The pivotal concept is the social network. First, the classification based on the duties of agencies provides contexts for elaboration of relational patterns. Second, the triad composed of three actors offers an image of the roles within networks captured by the roles of *mediator*, *tertius gaudens*, and *divide et impera*. Within inter-organizational arena there are three fundamentally different institutional network environments for public agencies, that is, neutral, competitive, and regulative. The suitable network structure and the agency's role within it depends on the type of the agency and the institutional arena. In this study three roles for public agencies with their immediate social surrounding is identified; 1) the benevolent mediator 2) business partner, and 3) antitrust agent. The resulting scheme shows that the public agencies are attuned to both building and destruction of relationships within their networks.

## INTRODUCTION

Governance offers a broad perspective on the functioning of society. What is seen as unifying features behind the viewpoints is the pluricentric rather than unicentric view of the number of parties involved. In other words, it is assumed that governance takes place between many rather than few actors. Networks play important role in the study of governance signifying not only the multitude of actors, but also the different types of actors such as public and private organisations, as well as civic engagement. There is also an emphasis on the processes of governing rather than on structures of government. To put it otherwise, processes of governance highlight “soft” coordination mechanisms, such as negotiation, alliance formation and cooperation, in contrast to “hard” methods of command and control. The relationships between actors are assumed to contain risk and the discussion of governance has taken into account the institutional arrangements to reduce and handle such risks (Kersbergen and van Waarden 2004).

There are a number of deficiencies in network inspired governance discussion. First, we should not be overly impressed by the complexity of network structures composed of multiple actors. Many of the key developments in social network analysis have emerged from the examination of very small networks, often consisting of not more than three members (Shaw 1954, Heider 1946, Granovetter 1973, Burt 1992). To put it otherwise, simple ideas can provide fertile ground for the understanding of complex realities. Second, networks are often portrayed in a positive light which gives too narrow a view of the interaction patterns. Terrorists employ networks, but we would not consider them a welcome

part of our societies. In this sense, changes in societies' governance only provide new form and content for the relationships that exist in all forms of human interaction, and they might have both positive and negative forms and consequences. The interesting feature of networks is that they are able to both illustrate and orient changes in the governance of societies. Third, the formation of a network does not automatically create relationships among its members. Networks are socially embedded (Granovetter 1985) in the fabric of our society which makes them context-sensitive. For instance, coordination failures signify a situation in which intended ties do not result in actual interaction among the parties.

The aim of the article is to analyse relational strategies of public agencies in relation to their immediate client groups in a network consisting of three actors. Although such networks are very limited in governance perspective, they extend the analysis of two actors in principle – agent relationships into the examination of three actors in group processes. The examination illustrates simple network structures identified in the previous research for the use of public agencies to orient their strategic actions in cooperative, competitive and regulative social environments. The article is divided into five parts. The first part presents the approaches and the need for the examination of social relationships within public sector context in general, and public agency context in particular. The second part introduces categorisation of agencies into specific types. The third section deals with the relational constellations in triads, that is, networks composed of three actors. In the fourth part of the article, the roles in triads are matched with types of agencies to produce a classification of agency types into three tribes; 1) benevolent mediator, 2) business partner, and 3) antitrust agent. The concluding section deals with the implications of the triadic structures to the strategies of public agencies and networks in society.

## **Networks in the public sector context**

In a purely formal sense, networks consist of points (nodes) reflecting the actors and lines (arcs, edges) depicting relationships among these actors (Wasserman and Faust 1994). Actors can be individuals and their collective counterparts, such as organisations or nation states. The relationships can have diverse content, such as communication, flow of resources, sentiments, co-membership or mutual interests. In a relational sense, being an individual, organisation or nation state is not about the actor's attributes, such as gender, size of revenue or GDP, but rather about the accumulated contacts with other individuals, organisations and nation states. In this line of thought, networks are a ubiquitous feature of social life existing in both deeply entrenched hierarchies, as well as in competitive markets.

Most discussions about networks in the context of public administration (and others) are related to networks as a metaphor. As a concept, “network” is one of those magic concepts which are used extensively, usually in a positive light, but not in a precise or consistent manner (Pollitt and Hupe 2011). Dowding (1995,2001) contrasts the examination of policy networks with the tradition of sociological network analysis, while giving conditional superiority to the latter. The descriptive policy network studies have not resulted in major empirical breakthroughs nor has the network analytic tradition given many novel findings in policy analysis, even though many real-life developments encourage taking networks seriously. Increasingly, the delivery of public services takes place in agency networks and jointly with non-governmental actors (private enterprises, third sector organisations) in contractual relationships. In addition, international agreements and privatisation further boost the development of networks (O'Toole 1997).

Provan and Kenis (2007) argue that, in the public sector, the assessment of public sector networks is important, but at the same time the diverse interests of the stakeholder groups makes it a difficult task. In the analysis of the hollow state, that is, separation between the government and services it funds. Milward and Provan (2003) suggest that clear principal-agent relationships including some public service provision, infrequent contracting, matching resources with governance, and stability to foster cooperation help produce efficient performance and desired outcomes of outsourced service provision.

Recently, Provan and Kenis (2008) tried to combine inclusion of networks as a mode of governance with the social network analytic tradition. They pointed out that networks require guidance, and that the establishment of overseeing units within network structures improves their functioning. They also pointed out two important features of networks; 1) brokering, which has an impact on the number of ties (density) in a network, and 2) control in the network, ranging from participant governed networks to lead organisation controlled networks. Similarly, Agranoff (2006) argues that networks need management as organisations do, but networks should be managed in a non-hierarchical, cooperative way.

In a theoretical sense networks have been viewed from three different perspectives (Thompson 2003), as governance structures originating from the transaction cost analysis (Williamson 2000), as open patterns of relationships originating from the actor-network theory (Latour 2005), and as a compilation of nodes and relationships originating from the social network analysis tradition (Freeman 2004). Probably the most common view is to see networks as “hybrids” in a transaction cost inspired framework and as governance structures situated between markets and hierarchies (Grandori 1997), but public sector interactions are

not hybrids in the sense proposed by (Williamson 1999). In transaction cost economics, the hybrid form of governance (hybrid contracting) is situated between non-secured market hazards and private firm. Contracts function as safeguards against market hazards, but they do not impose a vertical manager-subordinate position on partners. Public agency is also a governance arrangement, but it reflects a situation in which private hierarchy (firm) and regulated industry have failed to function. To put it otherwise, when markets fail, try (private) organisation, when all fails, try public agency. In the transaction cost framework, public agency might be the most efficient solution to governance. Low incentives combined with socialisation practices, educational requirements and/or administrative control and supervision guarantee the fulfilment of the primary task of an agency. For instance, in foreign affairs agency, the rigid pay grades and agency specific education makes career diplomats decent civil servants not known for being adventurous, which is desirable in sovereign transactions of the state.

### **Public agencies**

Public agencies are part of government, and are intended for the administration of law, which sets them apart from privately owned firms and other non-profit organisations (Gortner, Mahler, and Nicholson 1997). The administrative duty describes the essence of public administration as a legally proscribed entity. In this sense, public agencies are not sovereign powers, but execute government functions under delegated authority by way of legal obligation. While the legality of administration defines what agencies are to do, legal statutes also define the limits of administrative action so that they cannot initiate their own policies or programs without legal mandate (Harlow 2006) Although, “publicness” is a multidimensional concept (Bozeman 1987), in strategy formation the distinction between public and private

organisations is clear: public organisations cannot invent their own business the way in which stock-holder company can. Even so, strategy is about purpose, direction and goals; these are as important in public sector organizations as in private. Still, the variety of legal systems and national traditions makes it difficult to define a public agency with accuracy, even in a single context such as Europe. The formation of agencies has been a vehicle for market-based reforms in some countries, especially in the UK. In others, particularly in Sweden, both central and local agencies have traditionally been responsible mainly for the execution of public policy. The unifying features of agencies include:

- some degree of autonomy from political direction;
- a pre-established strategic direction through political decision;
- budgeting autonomy;
- financing from a combination of its own revenues, earmarked contributions and subsidies from the state budget;
- publicly-owned assets;
- public accountability defined by law and tradition (OECD 2001).

There are many classifications for public agencies according to different principles, such as the formal-legal type ((Wettenhall 2005),(OECD 2002), task structure (Dunleavy 1989), state activities (Hardiman and Scott 2010), policy field (United Nations 1999), and observability of action (Wilson 1989). The task-based classification is useful here, because the actual duty of an agency enables to infer the role of the agency with more accuracy than any legal or functional classification. Dunleavy identified eight public agency types for the purposes of his bureau-shaping model. The primary emphasis of the classification was to demonstrate that agency heads are not automatically budget-maximizing bureaucrats as proposed by (Niskanen

1971) and (Tullock 1974), because in many instances the growing budget does not produce benefits for the agency itself. Instead, the bureau chiefs would enjoy most top management positions in small staff agencies close to politicians.

Types of agency include 1) delivery agencies, which directly deliver services and are labour intensive because they provide the manpower to implement policy; 2) regulatory agencies, which are concerned with the regulation of other agencies or enterprises; 3) transfer agencies, which are money-moving organisations that handle the payment of government subsidies or entitlements to individuals or enterprises; 4) contracts agencies, which focus on developing service or capital specifications and then contracting out to private-sector firms; and 5) control agencies, which supervise grant provision to other public-sector bureaucracies, and to sub-national government in particular. 6) Taxing agencies, which are responsible for the tax collection, 7) trading agencies, which operate commercially or quasi-commercially delivering or providing services to other government bodies, but charging fully for them, and 8) servicing agencies, which provide facilities or services to other government bodies, but do not charge for them (Dunleavy 1989).

The classification is dated and possibly somewhat biased towards the developments in the British central government. The position of trading agencies has changed the most over time, as some of the recent developments, especially in EU, has detached commercial organisations from the structures of government. Privatisation in Europe has affected sectors such as water, energy, telecommunication railways, and air transportation. Privatisation has not been EU policy, but rather an unintended consequence of the EU integration (Clifton, Comin, and Fuentes 2006). This means that trading agencies, and public corporations under direct government control, are under increasing pressure to be outsourced as government-owned



corporations under private rather than public law. In the following, there is an anecdotal summary of the comparative studies of the agency types.

The classification into agency types gives differentiation into types of duties public agencies have, but some of the duties may take many forms. For instance, delivery organisations can be collective services, such as armed forces, which do not actually include individual client interaction, or they can deliver personalised services such as health and education. The national variation in the governance of health and educational establishments does not allow clear separation between central and local government agencies (OECD 2009), even though the notion of “agency” tends to refer to a central government body.

The significance of contract agencies is seen in the growth of *Public-private partnerships*, (PPP:s), which refer to a long-lasting cooperation between public and private actors in producing services and products by sharing risk, cost and resources (Koppenjan and Enserink 2009). Institutional cooperation, *policy* networks, infrastructure contracts, community and urban development are the main functional areas of such cooperative practices (Hodge and Greve 2005). In view of the definition of public agency as a statutory body created through legislation with defined duties, power and accountability to government puts many informal community initiatives outside the public agency context, as well as those PPP arrangements in which the main operator is a stock-holder company (Hodge, Greve, and Boardman 2010). Long term-infrastructure contracts in building and maintaining infrastructure or public facility is the main form of PPP, and one of the initial motivations for it was the option to circumvent annual ceilings for debt by transferring payments to the future. The evidence on the success of PPP endeavours remains to be mixed (Hodge and Greve 2009).

Regulatory agencies are an ideal type of agency due to their independence of operation and responsibility for material regulation and oversight of specific sectors of industrial and commercial activity. In the USA, regulatory agencies enjoy more autonomy than their European counterparts, and they are often subject to review by courts only. The task of a classic regulatory agency is both economic and social. First, the agency must ensure smooth functioning of the industry by averting market failure, and second, it has to oversee that threat activities of public concern do not pose a threat to the general public's interests (Everson and others 1999). In a comparative study of regulatory agency formation in Latin America and Europe 1980-2000, (Gilardi, Jordana, and Levi-faur 2006) found a sharp increase of both economic regulation agencies (telecommunications, electricity, competition, securities and exchange) and social regulation agencies (food safety, pharmaceutical and environmental) in Europe, but the pace in establishing social regulation agencies has been slower in Latin America.

In a seven-country-study of transfer agencies (Dunleavy and others 2006), it was found that the technological progress has put stronger demands on the social security agencies for staff cuts because of computerisation and outsourcing of information systems. There is also pressure for reorganisation of these services, especially with similar processing services that are used by employment agencies. Social security agencies have been early adopters of information systems, but slow in keeping up with their progress, partly due to low level of technology use among some customer groups (the elderly in particular).

The most important task of the control agencies is to deal with transfers to federal and local level of government. The organisation takes number of forms such as (1) a central government ministry/agency; (2) an independent agency (grants commission) reporting either

to the executive or the legislature on a permanent or periodic basis; (3) intergovernmental forums, including intergovernmental civil society forums; (4) national legislature; and (5) sub-national government forums. The central government ministry or agency is the main organisation type dealing with central-local transfers (Shah 2007). An overall assessment of OECD countries is that the most common way of central government system of financing sub-national governments is through earmarked grants. It seems that fiscal federalisation has resulted in increased sub-national responsibilities in spending, but at the same time sub-national government has become more dependent upon central government transfers for its resources (Bergvall and others 2005).

Tax administration is a lifeline for acquiring resources for government. In many cases, tax agencies have also other duties than those related to collecting taxes (Dunleavy and others 2006). In general terms, the administrative cost of collecting taxes is less costly in developed than in developing countries. In comparison, the UK and Germany employ over two tax officers per 1000 of national populations, whereas the equivalent number in the Dominican Republic and Tanzania is around 0.10. Moreover, functional separation into duties is more efficient than division according to type of taxes, and it leads to better management and increases compliance. In the developing countries, there is a trend to organise tax administration into semi-independent revenue authorities, which offer better pay to staff and impose greater accountability for performance (Gallagher 2005).

The servicing agencies are basically staff units of the government as a whole. The motivation behind forming such agencies is similar to the motivation for forming support units outside line hierarchy. Academic interest in the shared services seems to concentrate on ICT technology (Becker, Niehaves, and Krause 2009, Walsh, McGregor-Lowndes, and Newton

2008). Sometimes it is cheaper to centralise them than to multiply their functions across subunits. In areas such as purchasing units, centralisation of procurement may induce economies of scale. The number and duties of servicing agencies diminished due to outsourcing and decentralization of the duties in the spirit of new public management (OECD 2002), but in some areas, such as ICT services, the technological development may have had an influence on the shifting balance between centralisation and decentralisation. The emergence of personal computers in the 1980s decentralised information-processing tasks which was countered by the new option for centralised computing, aided by the development of information networks.

### **Triadic constellations**

German sociologist Georg Simmel (Simmel 1950) was one of the pioneer's in assessing the significance of number of participants as a basis for group formation. According to Simmel's thought the fundamental transformation in sociability emerges in moving from the examination of dyads, that is groups of two, into the examination of triads. The triad is composed of three elements, which connect to one another forming a group. In contrast to dyads, many basic properties of social and political life first appear in triads. There can be a brokerage role, majority and minority positions, and any one of the members can leave the group without dissolving the group completely, which mitigates the power of one against the others. As conflicts arise, the triads are better equipped to solve them as the third party can mediate conflicts with one another. The important characteristic of the triad is that addition of more members into it does not necessarily pose a qualitative change in the social structure (Krackhardt 1999).

Simmel divides triads into three roles 1) Non-partisan, 2) *Tertius gaudens*, (the third who benefits), and 3) *Divide et Impera* (divide-and-rule). The non-partisanship that is required for mediation has one of two presuppositions. The third element is non-partisan either if he or she stands above the contrasting interests and opinions or is actually not concerned with them, or if he or she is equally concerned with both. Simmel identifies two roles for the non-partisan. One is the mediator, who remains as a neutral outsider from the decision-making, but who could be a member of a colliding party. The other is the outside arbitrator who is considered impartial by both of the parties, but takes actively part in decision-making. “The administrator, who is thoroughly familiar with the special interests of his district, will be the most suitable mediator in the case of a collision between these special interests and the general interests of the state which employs him.”

The strength of weak ties thesis (Granovetter 1973) represents a modern day application of the non-partisan role. Local bridges connect otherwise weakly groups together. It is not so much the case of solving grievances between other parties, but, instead, of transmitting information between social circles. Infrequent, sentimentally weak, haphazard contacts are central to such flows of information. These contacts are beneficial not only for the connecting actor, but also for the integration of society as a whole since the building of communities characterised by frequent, sentimentally strong and on-going contacts are likely to produce locally integrated, but globally disintegrated social structures.

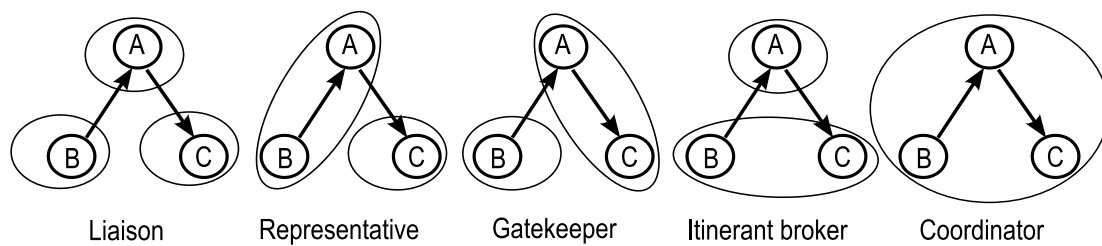


Figure 1. Brokerage roles (Fernandez & Gould 1994).

Mainly focusing on public administration, (Fernandez and Gould 1994) analysed transmitter roles between otherwise unconnected actors in a public sector context (Figure 1). The significant feature of transmitter role “brokerage” is that resources flow between the members of a triad. They argue that the power in a brokerage position is dependent upon brokers not conspicuously pursuing their own interests, and that those in the transmitter roles are more influential if they do not take a strong stance on the issues at hand. Brokerage can take a number of forms in triadic relationships; such as coordinator, (itinerant) broker, gatekeeper, representative and liaison roles in which resources pass from one actor to another. The coordinator mediates between actors within the same social structure. For instance, ministry of finance is in a coordinator role when allocating budget funds across ministries in the cabinet. Liaison role signifies a situation in which all of the three parties are from different subgroups. Such is the situation where local government delivers services to citizens with the funds given by the central government agencies.

In the *tertius gaudens*, the third uses the social structure for his egotistic purposes. Competition is the key to understanding the benefits of the situation.” On the broadest scale, the *tertius gaudens* is represented by the buying public in an economy with free competition. The fight among the producers for the buyer makes the buyer almost completely independent

of the individual supplier”. Competitive market behaviour deprives personal features from the interaction within triads. The position of the tertius is somewhat passive as he or she is able to enjoy the benefits originating from rivalry between the others without actively aggravating the struggle.

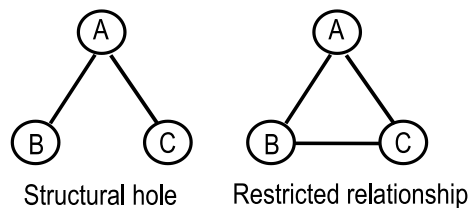


Figure 2. Structural hole and restricted relationship (Following Burt 1992).

In social capital literature, the structural hole theory represents recent developments in building on Simmel’s ideas (Figure 2). The principle of *tertius gaudens* is the theoretical background for the examination of structural holes (Burt 1992) which refers to a third party “entrepreneur” who benefits from the lack of connection between other two parties in a competitive environment. Lack of connection between any two actors provides an opportunity which can be benefited by a third party. Information benefits are obvious gains to be extracted. The tertius is able to extract rich information quicker, because unrelated partners transmit information from independent sources. Further, the gain for a buyer in competitive markets can be reversed to benefit the tertius. The supplier of products and services might use the detachment of the clients to increase its profits. A prime example would be a real estate agent who pushes up the price among prospective home buyers. The role of entrepreneur in a structural hole is not only a passive bystander enjoying benefits of the situation, but also a ruler controlling the relationships. This also mixes the idea of entrepreneurial action with the *divide et impera* (divide and rule) approach.

Divide et impera. The distinguishing nuance of the divide-and rule position is embodied in the fact that the third element intentionally produces the conflict in order to gain a dominant position or gains a possibility for domination by only keeping the others separate or unable to unite. The king who delegates the plots of land of his most powerful vassals in geographically distant areas, diminishes the potential for unified conspiracy against the crown. Likewise, an ancient Peruvian practice of splitting conquered areas into two equal halves, but giving the governors slightly different ranks, induces enough jealousy to hinder their joint action against the ruler.

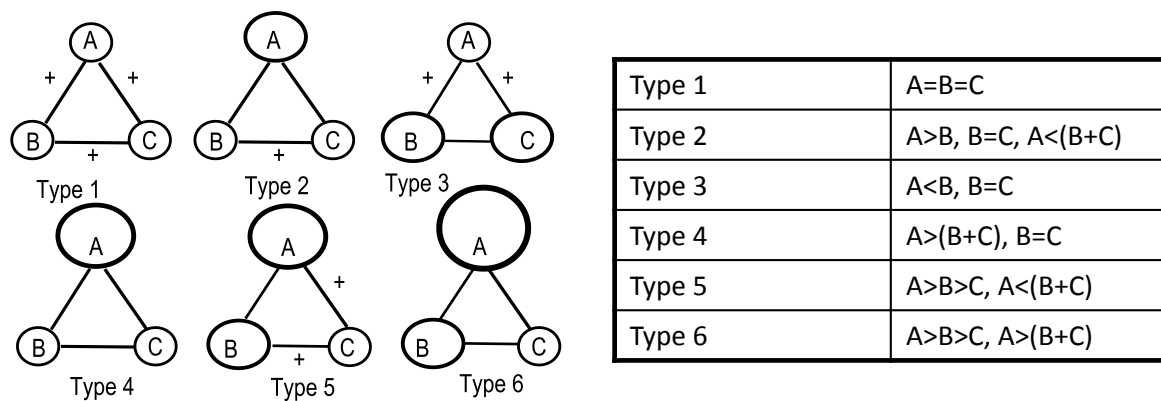


Figure 3. Coalitions in triads (following Caplow 1956).

An early formulation of coalition theory (Caplow 1956) illustrates the possibilities of alliance formation in triads (Figure 3). The idea is that members in the triad tend to seek control over the others and that they are sometimes unequal in power. Attempts to coerce a weaker member to a disadvantageous coalition will encourage the weaker one to form a more advantageous coalition with another party. They will try to form alliances to gain control over others and the combined power in an alliance is the sum of the strength of its members. Caplow's model is one of the building grounds for the developments in game theory and it has been both extended and refined later (Gamson 1961), (Caplow 1968). For the current purposes, the original idea is most suitable because of its faithfulness to Simmel's ideas and



clear graphical formulation of the triad power structures. The fundamental question of how the initial differences of power shape the coalition formation remains unsolved (Mesterton-Gibbons and others 2011). In figure 3, the size of the node (and formula) refers to actors' power and the lines marked by a + sign point to the likely alliances between the nodes. The similar power base of actors in type 1 makes all alliances equally likely, and, in types four and six, no alliance between others is likely, because they would not provide any opportunities for dominating the most powerful one. The important finding in this is that the weakest party is not always the most vulnerable to domination. In types 3 and 4, the weakest actor is likely to be in the dominant coalition and the two weakest actors are able to get control in type 2 situation.

The examination of triadic structures of mediation, *tertius gaudens* and divide-and-rule shows that even very small social structures offer variety of options for social action. The triadic structures illustrated here contain of four elements; 1) the existence of relationships, 2) group membership, 3) direction of the tie, and 4) the power resources of the actors. Theoretically, the actors in the triadic setting could comprise of politicians, bureau chiefs, clients or other stakeholder groups and the examination could include intra-organisational relationships. To highlight the strategic options for public agencies, and to simplify the analysis to a finite set of actors, the following examination of public agencies orients the attention to a specific set of three actors; public agency and two client groups in their financial and cooperative interaction.

## **Public agencies in context**

The basic orientations of the third appear in agency context. Agencies can behave as non-partisan intermediaries between politics and the environment, self-interest seeking profit maximisers or harsh rulers aiming at domination of network partners. The role of an agency with its partners depends on the duties it performs and possibly also on the flow of financial transfers, as well as on the nature of recipients of such transfers. In other words, there is not one definite network role for a public agency, but role-based orientations for different types of agencies. The innate inclination in the role of agencies is not an “essence” that resides hidden in the structures of agencies. Rather, it is a case of demands of the social context, combined with the ethos of the government. Empirically, we are likely to witness corrupt forms of the basic types which suffer from the lack of supervision, distorted incentive structures or destructive patterns of social embeddedness.

The triadic structures identified in the previous research are not fully compatible with one another. The brokerage model (Fernandez and Gould 1994) emphasises the direction in the flow of resources and group affiliation. The structural hole model (Burt 1992) orients its attention only to the existence of ties, and the coalition model (Caplow 1956) assumes the existence of ties of all actors, but extends the analysis to the initial power resources of the actors, and none of the models take public agencies as their primary focus. Combination of the models in public agency context is represented in Figure 4.

The membership of parties in a triad is significant in the examination of public agencies. Despite of their relative operative or strategic freedom, agencies are an integral part of the government. This makes it significant to make a distinction between internal and external

interaction. Apart from servicing agencies, all other agency types deal with the outside constituencies. Another relevant aspect of network structures is the content of interaction. The operation of agencies in a variety of contexts makes it difficult to take into account agency-specific content of transactions. For illustrative purposes, the main direction in the flow of financial transfers is depicted in Figure 4 by a directed (arrow) line and desirable cooperative interaction by an undirected line. The position of an agency is depicted by a letter "A" and client groups by letters "B" and "C". In service delivery some services could be handed free of charge such as security (police, army), but in many cases agencies impose some of the cost to the client such as in health care or education. It is quite easily discernible that taxing agencies extract funds from enterprises and citizens, then pass them on to politicians, to be distributed through government budget. Likewise, transfer and control agencies pass on most of the appropriated funds to their clients in a quasi-autonomous fashion, while regulatory agencies usually impose at least part of their costs to those they regulate. Tentatively, delivery agencies providing involuntary services such as prison administration do not charge for the service, but instead provide a compensation (whatever meagre) for the work of the inmates (Weiss 2001). Next, the triadic structures of non-partisan, *tertius gaudens* and *divide et impera* are discussed in the public agency context.

#### The Non-partisan "the benevolent mediator"

Weberian bureaucracy has much in common with the non-partisan role and delivery of public services as rule-bound practices and purposefully impersonal interaction serves to maintain neutrality of action, but impartiality allows some level of responsiveness. (Alford 2002) provides very useful discussion of generalized exchange processes in public service delivery. The service delivery process does not only take place between an agency and a client (or beneficiary and obligatee), but as part of generalised exchanges and generalised trust in

society (Putnam, Leonardi, and Nanetti 1993). In a way, by providing service, agency returns the non-paying client for the mandate it has acquired from the citizenry through political process, and the client in return gives his or her consent to the laws and social order of the society. Further, a willing client could take part in the production process, as in the case of a citizen filling his or her tax report. If the clients are unwilling recipients of services (obligatee), for example subject to prison services or police force, the same idea of generalised exchange applies. The obligated client can offer compliance in exchange for the agency offering the client decent treatment. Compliance thus serves as commodity akin to money, because it decreases the cost of providing the service.

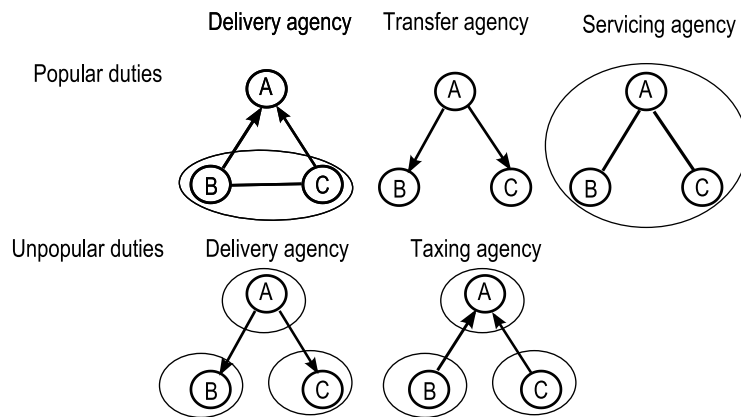
Client group support is a relevant aspect of triadic interaction of non-partisan type. Extensive empirical evidence (n=960) in US state agencies (Ryu and others 2008) shows that while political budget actors (governors, legislatures) play a major role in defining agency appropriations together with institutional factors, there is significant client influence. Client groups provide strong support for agency programmes and resources. In agencies where top administrators perceive strong influence from clients budgets are greater. This gives a competitive edge over some agency types. Agencies responsible for popular duties, such as health and education establishments, could benefit from their client support and their pressure toward politicians induced by collaborative group effort. In transfer agencies, both the automated impersonal delivery of services and the diffuse nature of recipients work against mobilizing client support and even if successful increased levels of transfers do not make much difference in the operational budgets of transfer agencies (Dunleavy 1989).

Unpopular duties (taxation) or forced services (prisons) are not likely to get backup from the clients, but could instead get negative feedback from joint client action in the form of tax

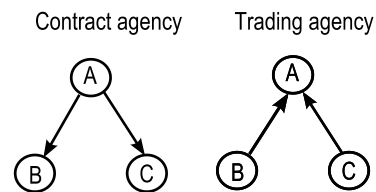
revolts or prison uprisings. Passive separation or active segregation of client groups could be instrumental in discouraging such developments. In a financial sense, the servicing agencies are empty of interaction, because the internal clients of the agency do not pay for the services. The key to the success of servicing agencies is to become useful to other agencies. This is particularly relevant in advisory duties. If staff professionals are unable to join organisational power networks, they are unable to sell their programmes and bargain for resources (Moss Kanter 1979).

Further, occupational groups have an integral role in the strategic design. Planning in professional work also takes place at the operational level (Blau 1974, p. 250). The specialized knowledge possessed by professional groups enables and facilitates detailed planning, but decision-making procedures associated with strong professionalism, such as collegial decision-making, decreases the decision-making powers of the agency head. Occupational groups do not appear as an important feature in the strategy literature, nor do they usually play a great role in the examination of public agencies, but for instance, Moe (Moe 2005) points out that operative employees can turn the political-administrative dichotomy upside down. By using the power of the unions, professional groups have a say on who gets elected as their principal, which could create benefits for the profession (job security, pay, better and broader programmes). The analysis here points to a similar development, not with union power, but with a client group formation.

### The non-partisan "Benevolent mediator"



### Tertius gaudens "Business partner"



### Divide et Impera "Antitrust agent"

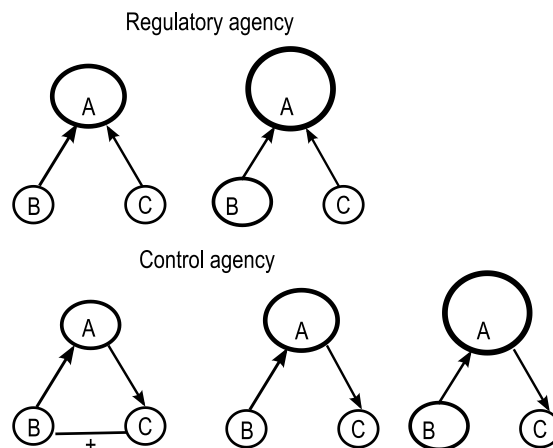


Figure 4. Ideal triad constellations for public agencies.

### Tertius Gaudens "The business partner"

The situation of contract and trading agencies is similar to market exchanges between buyers and sellers in competitive markets. Here, it is not a question of generalised social exchanges and trust, but of financial transactions in which egotistic motives play a role. Trading agencies are supposed to behave in the same fashion as private enterprises selling goods and

services. Contract agencies are able to enjoy the fruits of the competitive market, but, unlike regulatory agencies, their duty is not normally to police the relationships among the contractors or the providers. In public contracts, the tendering procedures can either eliminate interaction, i.e. “close bids”, or increase competition among the providers, i.e. “auctions”. The public–private-partnerships are possibly of this type.

The hybrid as a governance form does not apply to agency-enterprise interactions (Williamson 1999). It is very difficult for a public agency to resort to actor-specific contracting, even if this would be beneficial for the outcome. Favouring of trusted partners, friends or relatives does not conform to the principles of administrative law, nor does it stand public scrutiny in democratic forums. To put it otherwise, relational contracting in the form of trust and reciprocity is very difficult to apply in public agency interactions with private sector partners. Public agency has to resort more on contractual contracting, described by identifying obligations for both parties in great detail (Van Slyke 2009). In a more theoretical sense, this is what makes a difference between the “hybrid contracting” or network in transaction cost analysis and the interaction between public agency and its private environment. However, it is quite possible that in public-private projects which take years to complete, initially purely financial arrangement develops into a social one resulting in knowledge sharing, building of cooperative practices and possibly leading to innovation by combining the abilities of both parties, as witnessed within private sector cooperative practices (Dyer and Singh 1998), but the initial conditions to achieve such a situation are not always particularly good in public sector context.

### Divide et Impera “the antitrust agent”

The delegation of regulatory and control agencies into the divide and rule category is not self-explanatory. One could argue that the idea of generalised exchange in society would fit the task of both regulation and control in a way that, by offering compliance, sub-national governments and regulated industry would get benevolent guidance in return from the supervising agencies. The obstacle to this is that, in case of controlling agencies, is that the division of resources between central and subnational government is predominantly a zero-sum game among sub-national governments. Loyalty and willing compliance of one region to central government resource allocation does not rule out the option for another region to use its voice as a means of non-compliance to elicit extra resources. In the regulation of private industry, reference to compliance to societal norms does not work very well as foreign investment plays an important role in many industry sectors.

The discussion of regulative state is useful in describing the role of regulative agencies. Majone’s analysis of European regulation suggests that the rise of regulative state consists of increased promotion of efficiency by remedying market failure through regulation, at the expense of redistributive and stabilization aims of the state (Majone and Baake 1996). In the European context, the policing of competition is a prime example of the relational implications of regulation. Antitrust legislation restricts firms’ cooperation in view of fixing prices or sharing markets, and imposes restrictions on predatory pricing to gain market share. In a cartel type activity, there is a lenience programme which gives the whistle-blower an exemption from the fines imposed on cartel activity and decreased fines if the enterprise admits its involvement in a cartel type activity. Merger control is another type of directly relational activity which restricts the formation of too dominant players in the markets (European Commission 2011).



In economic literature, there is a discussion of regulatory capture which can be a result of monopolies manipulating state agencies that are supposed to control them, or more generally an outcome of sectional interests influencing the working of the government (Dal Bó 2006). The possibility of capture gives a good platform to assess possible coalitions identified by Caplow (Caplow 1956) presented in Figure 3. Any coalition between an agency and a regulated enterprise could result in either partial (type 3) or complete capture (Types 1,2,5) of the regulating agency. Only types 4 and 5 would work against any capture. Both of these types refer to a “dictatorial” situation in which the power of the agency is far superior to those of the regulated (see Figure 4).

Another area of interest in the divide and rule approach is the position of control agencies dealing with financial transfers to subnational governments. Taking aside geographical, cultural and historical features of sub-national divisions, splitting-up of states in federative systems or local governments in unitary governments into parts of different size, wealth or population creates rivalry over central government financial transfers to balance these differences. Fiscal federalism literature suggest that decentralisation of production enables the delivery of “local public goods”, but that central government has to take care of redistribution, stabilization and equity among regions, sometimes even with purposeful discrimination of regions. In economic thought, there are two main threats to central–sub-national interactions: 1) Central takeover leading to the destruction of an effective federal structure by stripping federal levels of their powers, and 2) the impairment of federal institutions through opportunistic behaviour at decentralised levels to raid the common resources at the expense of other jurisdictions (Oates 2005). Constant bargaining is the result of not fully specifying level of decentralization in national constitutions (Breton 2006). If

there is no particular aim to discriminate some regions and not others, we would not be willing to see central-local coalitions. Following Caplow (1956) centre – local coalitions are the only options in type 3, and possible constellations in types 1, 5. On the other hand, we could allow some imbalance of power between centre and the subnational government if this does not result in total domination of the one over the other. Then, both superior power of the central government and superior power of the sub-national government could work for equal treatment of regions (types 2, 4, 6).

The discussion above described ideal relational patterns for types of public agencies to maintain and improve their position through strategic governance. The constellations presented here pose a number of normative, predictive and moral implications. In a normative sense, there are two clear ways to improve the strategic manoeuvring space for public agencies: 1) In some popular duties (delivery agency), public agency should try to encourage client group interaction and group formation to improve its finances, 2) In most other cases, public agency should try to cut the ties between its immediate client groups to maintain its position of power and to guarantee functionality. In a predictive sense, collaborative interaction among client group is expected to result in 1) larger budgets (popular duties), 2) lack of functionality (unpopular duties), 3) increases in the price of public contracts (contract agency), 4) plots against the public interest (regulatory agency), and 5) increased powers of subnational governments (control agency). In a moral sense, it is reasonable to ask to what extent is it permissible to foster or discourage client group interaction for the benefit of public agencies. Influencing parents through their children to combat budget cuts might be a fruitful strategy for avoiding them, but using minors as policy instrument is not neutral in ethical terms. Likewise, discrimination among regions of the country might prove useful strategy for

governing the nation, although it may include unfair suppression of coalition formation among subnational governments.

## **Conclusions**

This examination has shown that the network role of public agencies is not constant, but dependent upon the administrative duties of the agency concerned. Sometimes it is a non-partisan role, sometimes egotistic interest-seeking role (*tertius gaudens*) and at times a divide and rule role (*divide et impera*). The triad composed of three actors offers a variety of network strategies for a public agency; a benevolent partner in the non-partisan role, business partner in the *tertius gaudens* role, and antitrust agent in *divide et impera* role. The complexity of networks might incite us to believe that power and influence would dilute into many rather than few hands (Castells 1996) as any actor is only a fly in a big cobweb. Although, all individuals and organisations in the planet are connected to one another through six intermediaries (Watts 2004), we have very little control over those only distantly connected to us. The possible actions in the triads enable us to see that public agencies are able to transform their immediate social surrounding through strategic governance. In a mediator role, the task structure of the agency defines whether it is beneficial for an agency to either foster or discourage client group interaction, the main divisive factor being the popularity of the agency's duties. In competitive environments, public agencies appear as business partners in connection to their clients and providers. Here, lack of connections provide the agency with both information and control benefits. In an antitrust agent role, the dictatorial position of an agency suppressing possibilities for coalitions among regulated industry or sub-national government would be the most desirable position for a public

agency. In brief, agencies can also actively shape their relational environment either by fostering or discouraging interaction among their partners. In public sector context, these actions also raise ethical issues. To what extent is it right or duty of public agencies to influence client behaviour?

The scheme of relational constellations around public agencies is relevant for the previous discussion of networks in public sector context. An attempt to see networks in a precise manner suggests that desirable network structure is contingent upon the administrative duties of agencies. In this sense, agency needs a clear view of its own duties to be able to provide clear guidance to its network partners, but networks do not need to be informal arrangements among equal participants. In some instances, proper functioning of public agencies requires hierarchical command and control position of an agency in relation with its immediate social environment. In other instances, client compliance or cooperative client group support would lubricate service transactions, and increase budget appropriations. Often, a client-driven network constitutes a risk strategy in public agency triadic networks as it could lead to capture of the agency or ransacking of central government resources. In addition, this article has some practical implications to other perspectives on interaction between public agency and its environment such as stakeholder analysis (Donaldson and Preston 1995) and policy analysis (Wilson 1989). A typical stakeholder analysis would take into account the power and interest of a stakeholder group. Likewise, one of the important features in policy analysis is to analyse the concentration of costs and benefits among the stakeholder groups. The perspective of strategic governance extends these viewpoints by adding the mobilising ability of the stakeholder groups into the assessment. In other words, power/interest and cost/benefit calculations are not enough in dealing with external constituencies. In this sense, the

examination of the connectedness and connecting ability of the stakeholders provide valuable instrument in evaluating the possibilities of policy implementation.

Some of the inadequacies of triadic analysis are evident. One of the problems in the delivery of services is that the relational chains between political decisions and actual delivery of service to the client have to pass through a multitude of organisations, which may distort the actual service content from the one intended. Although, the notion of triad cannot take the chains in the operation fully into account, it puts forward the idea that disconnection between politics, administration and society are the problems, not the length of chains *per se*. Further, the chains of implementation could be portrayed as triadic sequences similarly as economic processes can be described as sequential principle –agent relationships. Another neglected area of the study has been the intra-organizational arena within the hierarchies of public agencies. It would also be possible to study the interaction patterns between agency headquarters and semi-independent divisions as well as between agency heads and occupational groups of different professional status.

Triadic constellations are micro-structures of the complete social network, but they do have dynamic macro-level consequences. In the spirit of market-based reform, the hollowing of the state diminishes government delivery of public services. It is a move from the welfare state to a competition state (Cerny 1997). Similarly, the increase of regulatory agencies signifies a move from the welfare state to a regulatory state (Moran 2002). As shown by the triadic structures, agencies in the non-partisan role impose both benefits and costs on the partners they interact with in their environment, but it seems that in the *tertius* position, and *divide et impera* position, client group interaction produces mainly cost to the agency. What is more, regulatory agencies have a duty to destroy cooperative ties within the industry they are

supervising. The interesting relational paradox appears from this examination. Although, the increase of market-based provision of public services and regulation of these private services are perceived as features of a more networked society, it seems that in relational terms it might be the case that we witness hollowing of the networks of their relational content. Herbert Simon (Simon 1971) once pointed out that “rabbit rich world is a lettuce poor world” to refer to the importance of retaining information processing ability in times of abundant information. Similarly, “network rich society might be a relationship poor society”, in which we have to see that informal arrangements of governance do not bring about networks devoid of meaningful social interaction.

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