The Political Economy of Collaborative Organization*

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Abstract

This paper provides a theoretical framework to advance our understanding of collaborative organization through integrating extant theories of political economy. Eight propositions are advanced from theories of rent seeking, commodification, administrative capture, cartelization, transparency, risk, institutional logic, and transaction cost. These propositions are applied to a recent multi-sectoral collaborative, the Regional Greenhouse Gas Initiative. Because of the innate diversity that exists among institutions, collaborative organization constitutes a hybrid organizational form through which regulatory penumbras, or gray areas, emerge. Political economic conditions can arise in these penumbral areas, as they offer organizations the opportunity to operate within diminished regulatory environments.

Keywords

Political Economy, Collaborative Organization, Collaborative Governance

JEL Classification

G34, P48

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* Published: *Administration & Society. Available at:* http://aas.sagepub.com/content/early/2012/08/21/0095399712438373.abstract

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1. Introduction

Throughout the past decade, the public administration literature witnessed the ascendancy of collaboration, collaborative governance and collaborative public management as themes that define the discipline (Agranoff & McGuire, 2001; Bloomfield, 2006; Bogason & Musso, 2005; Bryson, Crosby & Stone, 2006; Cooper, Bryer & Meek, 2006; Held, 1996; McGuire, 2006; O'Toole & Meier, 2004; Pierre & Peters, 2000; Ring & Van De Ven, 1994; Thompson & Perry, 2006; Vigoda, 2002). Scholars have made significant headway into generating fresh theory in public administration that addresses many of the more fundamental questions of collaborative governance and public management.

In a recent symposium on collaborative public management O'Leary, Gerard and Bingham (2006) provide perhaps the most apt definition of collaborative public management yet.

> "Collaborative public management is a concept that describes the process of facilitating and operating in multiorganizational arrangements to solve problems that cannot be solved or easily solved by single organizations. Collaborative means to co-labor, to cooperate to achieve common goals, working across boundaries in multi-sector relationships. Cooperation is based on the value of reciprocity." (p.7)

As such, collaboration may be referred to as an inter-organizational process, or an inter-sectoral process. This paper concerns itself with the latter, and discusses specifically the interplay between multi-sector collaborative arrangements, between the public, private and non-profit sector.

This stream of literature is ambivalent. Some scholarship suggests that collaborative governance is characterized by innovative problem solving (Bloomfield, 2006; Chang, 1999; Teisman & Klijn, 2003). Many of these scholars suggest that collaboratives have harnessed the institutional diversity and institutional strengths of participants within the collaborative, to achieve mutual benefit. They suggest, "collaborative governance practice can resolve seemingly intractable public policy conundrums and produce successful policy outcomes" (Booher, 2004, p.43). These scholars suggest that collaboration has enabled organizations to overcome rigid regulatory environments, adverse political environments, and economic and social barriers. Ultimately, no one can deny the strengths of collaboratives at solving some of these more pressing fundamental policy problems.

On the other hand, some of this literature has suggested that there may be pervasive problems associated with collaborative governance, and this is where the literature finds its ambivalence. This scholarship acknowledges that collaboration may be time consuming and costly, and may ultimately make situations worse (Huxham & MacDonald, 1992; McGuire, 2006; O'Toole & Meier, 2004; Thompson & Perry, 2006). It suggests that collaboration should be utilized as a last resort when no alternative exists (Huxham, 2003; McGuire, 2006), and that public administrators may not be prepared to handle the tertiary effects of collaboration (McGuire, 2006; Teisman & Klijn, 2002). However, no one can deny the fruits of collaborative governance and public management. Difficult policy problems such as watershed management, community organization, and regional management have all been successfully solved by genuine collaboration (Agranoff & McGuire, 2003; Sabatier et al., 2005).

These streams of literature on collaboration have not yet achieved the point of maturation, and I suggest that once maturation does occur, this new theory in public administration research will see this ambivalence dissipate. Maturation, I suggest, results when a stream of research is able to integrate itself within a broader stream of literature in

other disciplines and subfields, and in so doing, it is able to find broader relevance in external academic communities. This paper puts forth a framework that may aid in this maturation process.

This paper integrates the literature on collaborative organization with extant economic theories of political economy. These theories, long established in neighboring disciplines, are built upon the understanding that self-interested rational actors seek to advance their own utility (e.g., parochial, economic, electoral, public service) given constraints present in their organizational environment (e.g., market-based, regulatory, institutional). It then applies them to one critical case, a recent inter-sectoral collaborative, the Regional Greenhouse Gas Initiative (RGGI). The RGGI provides an emblematic case for the importance of theoretical integration and will be used to generate a set of theoretical and testable propositions through which the framework can be tested in application to alternative inter-sectoral collaboratives. Each theoretical proposition may be applied to alternative collaborative organizations in practice; though not each proposition may be applicable unilaterally. And, as practice is often messier than theory, there can be significant overlap across the framework, depending upon the application. This is common of many established theoretical constructs.

The next section provides some background on this case. The third section provides distinct propositions that integrate these theories and applies them to this case. The fourth section provides a model for exposition that introduces the concept of the inter-sectoral fringe. A conclusion with implications for further research follows.

2. The Case of the Regional Greenhouse Gas Initiative Inc. (RGGI)

In 2003, New York Governor George Pataki invited governors of each Northeastern state to join in a regional initiative to curb the negative effects of global warming by collectively working together to reduce greenhouse gas emissions. After much negotiation, ten state governments are presently engaged in our nation's first ever mandatory greenhouse gas cap-and-trade program. The Regional Greenhouse Gas Initiative (RGGI) is a tripartite inter-sectoral collaborative between ten east coast state governments, a non-profit organization, and a host of private companies, most of which are regulated electric utilities. The ten states involved are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont; however, New Jersey has recently withdrawn from RGGI. The RGGI operates as a collaborative between the RGGI Inc. non-profit entity, the state legislatures and state environmental regulatory bureaus, and private compliance entities (RGGI Model Rule, 2006). The RGGI Inc. non-profit facilitates quarterly auctions in which carbon allowances are sold by each state government toward the use of meeting compliance period obligations. Firms that hold allowances in excess of their reported emissions may trade them with other firms that are in deficit, and the market determines the price that will be paid for those trades. Compliance entities are thus required to submit allowances equivalent to their reported emissions at the end of each compliance period. These institutions are known as transferable property rights markets, or colloquially as cap-and-trade.

The mitigation of greenhouse gases is arguably one of the most menacing of "wicked problems" (Rittel & Webber, 1973) facing policymakers today. The design and implementation of a regional greenhouse gas mitigation program without the aid and support of the federal government is particularly laudable; however, there are questionable structural attributes with regard to the RGGI that raise questions particularly with regard to the nature of political economic forces shaping its inter-sectoral organization. The US Federal

Government, via the Environmental Protection Agency has long operated a similar cap-and-trade program for sulfur dioxide and nitrogen oxide emissions, known as the US Acid Rain Program. Similar to a reference case, the Acid Rain Program is the national and non-collaborative precursor to the RGGI. And because the Acid Rain Program is non-collaborative, program participants are subject to greater regulatory, reporting and disclosure requirements.

The RGGI however, because of the nature of its collaborative structural design, has successfully sidestepped many of these important regulatory and reporting obligations. Agencies solely operating in the US Government must comply with a host of sunshine and reporting laws such as the Freedom of Information Act (FOIA). RGGI however, operates its program through a non-profit entity, and because no similar transparency law applies to non-profits, RGGI is shielded from the burden of disclosure. Information pertaining to the purchase and sale of allowances, and reports regarding the spending of billions of dollars of public money, are hidden from public purview in the RGGI.

The nature of collaborative structural design finds a similar effect on the public side as well. The FOIA does not apply to state governments, however most US states have adopted language similar to that found in the Federal FOIA. State governments however, are permitted to decide exemptions from their state information disclosure laws, and the RGGI participant states have declared much of the information that would otherwise be disclosed in the Federal Acid Rain program, exempt in the case of the RGGI, and they are able to do this because of their collaborative structural design. Participating state governments have declared this information in the category of trade secrets, and sealed it from public inquiry.

The case of the RGGI is particularly instructive, and will serve as a suitable case for exposition. As this paper seeks to develop a framework for the synthesis of theories of political economy and collaborative organization, it will make use of the RGGI for purposes of exposition. In the section to follow, a framework will be provided that applies extant theories of political economy to some of the more recent literature on collaborative organization. Eight propositions are provided within the following categories: rent seeking, commodification, administrative capture, cartelization, transparency, risk, institutional logic, and transaction costs.

3. The Political Economy of Collaborative Organization

The regulatory environment is both complex and limiting to organizations in all sectors, and it is a frequently cited reason for delayed progress and efficiency loss in public policy. Overcoming the regulatory burden is one of the most oft cited reasons for engaging in collaboratives (Agranoff & McGuire, 2001; Bloomfield, 2006; Bryson, Crosby & Stone, 2006). Organizations in each sector may lessen this regulatory burden through collaborative organization. Regulations that stifle production in one sector may be less stifling in another, and the merger of resources through collaboration may enable the execution of one sector's functions in another, thus keeping the production function constant while shifting the regulatory burden across sectors.

Theories of economic regulation have been long debated in the fields of Political Science and Economics, and these theories are equally applicable to collaborative governance and public management. The interplay between public agencies and private firms that we see in collaborative governance literature, achieves gains in efficiency oftentimes by ameliorating the regulatory burden. Theories of economic regulation and theories of collaborative governance are ripe for integration. As the regulatory burden is lessened via collaboration, political economic conditions may result. The aiding of private industry by public means via

collaboration suggests that perhaps theories of political economy are apropos.

3.1 Rent-Seeking

Theories of political economy therefore, may be instructive to collaborative organization theorists who seek a more robust explanation for cross-sectoral collaboration. The theory of rent seeking (Krueger, 1974; Posner, 1975; Tullock, 1967) as elaborated by Applebaum and Katz (1987) is particularly relevant. Applebaum and Katz suggest that there is a rich interplay between public administration and private agency that may result in a dichotomous relationship between regulator and regulated. They suggest that public administrators are rational actors with a parochial self-interest (Peltzman, 1976; Stigler, 1971; Tullock, 1967) who aim to extract rents from consumer surplus via regulated industry. They suggest that in the event that regulated industry is savvy, collusion will take place between the industry and public administrators toward joint rent extraction.

There exists an indelible line between collaboration and collusion. Assuming that these public choice theorists are accurate, and public administrators and private firms alike seek to pursue their parochial self-interests, then we can expect a certain degree of reciprocity or *quid pro quo* between each involved sector in the collaborative. Following Applebaum and Katz (1987), we can infer that collaboration in operations such as RGGI is motivated by a joint effort to extract consumer surplus from captive ratepayers within its relevant constituencies. Rent extraction in the form of higher electricity rates is justified in the name of greenhouse gas mitigation, while at the same time both the public and private participants in the collaborative can enjoy an increase in revenue.

The application of these theories of political economy to collaborative organization raises some difficult questions for the role of the regulatory environment. Whereas the *raison d'être* for collaboration most often cited is the lessening of regulatory burdens, the application of theories of political economy, and particularly in the case of the RGGI, suggest that the motivation toward collaboration is not simply a lessening of the regulatory burden, but rather a shaping of the regulatory environment. Firms may not only engage in collaboratives to escape regulatory stringency, but they may engage in them to benefit from it. Regulation is not simply a hurdle to overcome; it can also be a springboard to profit.

What can organizations gain from the regulatory environment in a collaborative that they could not otherwise gain in the absence of the collaborative? Although this will be discussed more in depth in a later section on competing institutional logics, we must define the nature of 'rents' within each participant sector. Collaborative institutionalization may enable an increase in the revenue generating capacities of public agencies beyond standard revenue generating capacities. In the case of the RGGI, an increase in revenue from the public utilities sector could have only come in the form of a tax on either the regulated utilities or the consumers directly, and would have been politically difficult. Collaboration within the RGGI however, enables state governments to generate millions of dollars in tax revenue through the sale of CO_2 allowances at auctions. And on the private side, utility companies increase revenue through increased rates and the sale of excess allowances. Parties to the collaborative may achieve gains in revenue that would be infeasible in the absence of the collaborative.

The literature on collaborative governance and public management has only briefly touched on some of the political economic conditions that may engender this sort of administrative capture and rent-seeking behavior. Some scholars suggest that reciprocity is a key component in the decision of agents to engage in collaborative arrangements (Thompson & Perry, 2006). Literature on collective action similarly cites reciprocity as a key component

in collective action (Axelrod, 1984; Ostrom, 1990). Ring and Van De Ven (1994) suggest that "fair dealing" is essential to the success of a collaborative. They do not suggest however, that a proportionate distribution of benefits is required for an equitable collaborative.

On the other hand, O'Toole and Meier (2004) suggest that the equity of the collaborative is uncertain when some groups party to a collaborative benefit more from the collaborative than others. The "dark side" hypothesis that they provide suggests that public administrators may be more acutely aware of, and more affected by, the larger political conditions in their environment. That public administrators and political actors are concerned for political conditions is neither a new theoretical construct nor particularly revelatory. Collaborative governance scholars would thus be well served to incorporate these larger political economic theoretical constructs, such as administrative capture, into their theories of collaborative governance and public management.

> *Proposition 1:* Inter-sectoral collaboratives may find that their institutional capacity to engage in rent-seeking behavior is concentrated due to the nature of their collaborative institutional arrangement.

3.2 Commodification of Regulation

Another often cited reason for collaboration is the innate difference in institutional strength between sectors (Bloomfield, 2006; Savas, 2000). Through collaboration, public firms can harness the benefits of marketization in private industry, such as efficiency and performance incentives. However, the role of regulation in achieving these trade-offs of marketization is key. Bloomfield (2006) for example, cites the case of competitive bidding for state contracts in Plymouth County, Massachusetts. When a private firm was exempted from the competitive bidding regulation, the result was increased cost at the hand of localized graft. As such, Bloomfield suggests that deregulation may be a hindrance to the success of a collaborative, removing the forces of market competition from private industry and thus nullifying the intent of the collaboration between public and private.

Bloomfield (2006) touched on an important point. Regulation may be essential for parties engaged in collaboration to achieve their aim. In his case, the absence of regulation spelled disaster for the partnership. Private firms have a host of characteristics such as efficiency and technical knowledge that they can offer to public agencies; however; one of the most relevant items that public agencies can bring to the table is their ability to produce and enforce regulation. It is oftentimes because of a public agency's ability to produce favorable regulation that private firms engage in collaboratives to begin with. Regulation is a commodity that private firms desperately seek. Private firms can benefit greatly from a positive regulatory environment.

> *Proposition 2:* Inter-sectoral collaboratives may form not only to minimize the constraints of a regulatory environment, but also to mutually shape that regulatory environment.

3.3 Administrative Capture

The theories of political economy discussed thus far, logically direct us to the theory of administrative capture (Peltzman, 1976; Stigler, 1971). The interplay between collaborative governance and administrative capture is an equally ripe area for theoretical development. In Stigler's seminal work *The Theory of Economic Regulation*, he elaborates on the nature of reciprocity that may occur between private firms and public agencies. Again, operating under

the classic public choice assumption that these agents are self-interested, Stigler suggests that private industry possesses resources that are demanded by public agents, and similarly that public agents possess resources that are demanded by private agents. Stigler suggests that administrative capture occurs when there is a reciprocal exchange of resources between sectors: public agents demand votes and other political resources, and private industry demands the legitimate coercive power of the state.

The coercive power of the state, Stigler suggests, exists in resources that public agents may provide to private industry. He suggests that public agents may do any of the following: 1) provide subsidies (redistributing revenue from public to private hands), 2) provide control over the entry into an industry (competition-limiting regulation), 3) provide limitations on acceptable substitutes and compliments, and 4) provide price controls and price-fixing. The nature of collaborative structural design may facilitate this resource transfer that we see in these theories of administrative capture. Again, the case provided is applicable. Within a regional cap-and-trade program, carbon emissions are reported for energy that is produced within the regional boundaries. Under standard market conditions, utility companies and large commercial customers are permitted to purchase electricity from outside of the state, and even from Mexico and Canada, and pay a transmission tariff for the transport of that power from the plant in which it is created to the facility in which it is consumed. In order to keep an accurate accounting of emissions, the purchase of power from non-RGGI states and abroad is considered "leakage," because it accounts for emissions that are not part of a reported total. RGGI states seek to limit the amount of permissible leakage, and in so doing, restrict the power market within their region. However, RGGI, unlike plans for similar programs in California and Western states, has no formally-binding limitation against leakage. This is what Stigler would call a limitation on acceptable substitutes or compliments. These leakage restrictions limit the size of the market, and competitors are squeezed out through regional regulatory barriers. It has the salutary effect of providing for an accurate accounting of emissions; however, some may consider market restrictions of this sort anticompetitive.

Another form of administrative capture comes at the hand of the state's power to define and create property rights. Oftentimes literature on property rights views them as being the mechanism by which the coercive power of the state may be limited (Epstein, 1985; McChesney, 1988), such as in the case of takings and eminent domain. McChesney (1988) suggests that property rights and constitutional rules often stand in the way of rent-seeking behavior as well. However, the state has a legitimate power to create and enforce property rights, and it is particularly the authority to create property rights that is sought widely by private industry. In our case of the RGGI, a property right has been created where one did not previously exist; the right to pollute the commons was circumscribed and delineated, and that right has been divvied out in a newly created market. A transferable property right has been created (Hahn, 1984; Tietenberg, 2006) and auctioned off to the highest bidder.

The nature of collaborative organization may enable the appropriation of benefits of the sort described here, in which collaboration between the state and a private firm enables the state to create a property right to be distributed to the private firm. These property rights that are created may provide benefits to the recipient in a number of ways; such as an increase in the utility of extant property rights, or exclusion on the range of allowable competition, or even the creation of a commodity that can be transferred into revenue in a market or exchange. The ability to create or circumscribe property rights is essentially the ability to create or restrict capital. Creating a property right such as a use right, or the right to sell a commodity, is the creation of capital for private firms at the hand of public authority.

> *Proposition 3:* Inter-sectoral collaboratives may form for the purpose of distributing resources; and those resources may be revenue redistribution, competition-limiting regulations, a narrowed market or more narrowly defined property rights, or price

controls.

3.4 Cartelization

A related political economic condition that may be equally applicable to collaborative governance is that of cartelization. This is the condition under which a market is made less competitive due to the strengths of larger market participants or the integration of members within a setting. Stigler's (1964) *A Theory of Oligopoly* suggests that mergers and cartels will form in order to corner the market and achieve price manipulation. Some cartels are sanctioned and approved by authorities, such as in the case of natural monopolies. Within the United States, we have a lengthy common law tradition that has delineated the range of acceptable cartelization that may occur. Federal legislation such as the Sherman Antitrust Act, Capper-Volstead Act, and administrative law, throughout much of the New Deal era and beyond, have circumscribed and expanded the range of acceptable cartelization. However, what is certain among each of these is that it is the government that has the authority to sanction and approve cartels, and it is the government that decides which anticompetitive arrangements will be quashed, and which will be supported.

The recent trend toward inter-sectoral arrangements in collaborative organization raises some interesting questions about the nature of cartelization. Since it is the government who determines which cartels will be permissible, collaboration between approved cartels and government begs the question of oversight. Collaboration between the public and private sector raises questions regarding the degree to which antitrust legislation and administrative law is applicable. Can a governmental organization legitimately sanction a cartel or merger to which it is a party? This similarly raises questions regarding the degree to which our long line of court rulings and precedent is applicable to collaborative institutional arrangements. Precedent regarding integration and anticompetitive behavior that was decided on the merits of private-on-private merger and cartelization, will have to be reinterpreted for its relevance for inter-sectoral integration. Precedent has been handed down over the generations, and since the first Progressives sat on the bench of the Supreme Court, dealing with the distinction between vertical and horizontal integration, merger authorization and oligarchy (Brandeis, 1914). The Court has made long-standing rulings on each form of integration, and has decided the standards under which each will be approved and sanctioned. Yet this ultimately begs the question of collaborative institutional arrangements. What will be the acceptable range of merger and cartelization in inter-sectoral arrangements?

A related set of questions is also raised regarding the exercise of the government's authority to disapprove of mergers and cartels. Politicians may reap benefits from threatening to eliminate favorable regulations, or eliminate an arrangement that functions in the benefit of a private interest (McChesney, 1988; Peltzman, 1976). This is an age old rent-seeking tactic utilized by lawmakers. By threatening regulations that would be harmful to an industry, a lawmaker may receive resources to offset the utility he would otherwise receive from the passage of said legislation. Oftentimes, private industry provides payments to lawmakers and regulators for the sole purpose of keeping cartels alive (Sabato, 1984). The government's role in collaborative governance may be the provision of legitimacy that private mergers and cartels desperately seek. The threat to quash that legitimacy may provide utility to the public component of the collaborative. Collaborative inter-sectoral arrangements may legitimate some forms of cartelization.

> *Proposition 4:* Extant cartels may seek inter-sectoral collaboration with government to legitimate their cartel, or may seek collaboration so that they can enjoy the status of an approved cartel or monopoly.

3.5 Transparency and Accountability

Oftentimes, sticky disclosure and accountability regulations prevent firms from functioning as they would otherwise choose to function. Again, collaboratives provide the possibility of limiting this regulatory burden, and even turning it into an asset for both the public agenda and private interests. The case of the RGGI is again instructive. The RGGI's ability to shirk from state and federal disclosure laws helps both the state governments and private industry. State governments are afforded a method of creative financing to raise government revenue, and private industry is afforded a method of creative financing and arbitrage that allows them both the opportunity to underwrite debt and under report profits.

Collaboratives oftentimes provide information to the public and related stakeholders that is either inadequate or inaccurate (Altshuler & Luberoff, 2003; Bloomfield, 2006). The incentive to engage in collaboratives for the purpose of concealing clandestine behavior is significant, particularly when it regards budgetary issues and other issues of financing. Municipal governments similarly find incentives to engage in public-private partnerships because those arrangements enable local governments to finance expenditures without bonding; this means that local governments may finance public projects off of the books and without incurring reportable debt (Bloomfield, 2006; McCubbins & Sullivan, 1984; Wallison, 1996). In many cases, it also means that local governments will be able to sidestep the public; as such public expenditures would otherwise require voter approval.

Some collaboratives go to great lengths to involve and inform the citizenry, mainly because doing so delivers much needed credibility to the exploits of the collaborative. It is unclear however, what level of citizen involvement or responsiveness is necessary to secure this legitimacy. Vigoda (2002), for example, suggests that there is indeed a distinction between responsiveness to the citizenry and collaboration with the citizenry, that responsiveness to the citizenry connotes a derogatory image of citizen involvement, in which citizen involvement is seen as a hurdle or speed bump that undermines efficiency. However, collaboration connotes a positive volitional role for citizen involvement, in which citizen involvement fosters efficiency through responsible democratic interaction. But what about collaboratives that view citizen involvement and responsiveness as a hurdle, and utilize the opportunities provided by the collaborative to exclude the public directly, or indirectly by misreporting or adumbrating information? If public involvement brings credibility to some collaboratives, does public exclusion limit credibility?

The literature on collaborative organization is somewhat ambivalent regarding the appropriate role for the citizenry. Collaborative arrangements are seen by some scholars to be inherently problematic in the area of accountability (Bloomfield, 2006; Bogason & Musso, 2005). Some scholars accept that accountability will be an issue *a priori* and suggest that collaboratives will be more successful when they build in mechanisms or systems of accountability (Bryson, Crosby & Stone, 2006). Other scholars suggest that accountability is not an appropriate focus (Agranoff & McGuire, 2001; Booher, 2004). Booher suggests that although collaborative governance is oftentimes practiced outside of the purview of the public, when constructed appropriately it will have the same outcome as a fully democratic system. Agranoff and McGuire suggest that the flexibility of more networked forms of governance is a signifier that accountability is less of an important goal, that collaboratives may function to avoid problems of outdated and outmoded regulations.

Yet this naturally raises concern regarding the appropriate role for collaborative organization. If the involvement of the public and the adherence to extant regulations is seen by some as a speed bump, and as a loss of efficiency that must be overcome, then collaborative arrangements may indeed facilitate a manner by which these hurdles can be

overcome. However, the current set of regulations that exist, exist for a reason. Regulations that require the disclosure and reporting of financial information were not crafted in a vacuum; they were crafted for a reason. Requirements for voter approval of significant public spending were not created for the purpose of being efficient; greater plebiscitary concerns were in mind when these laws were crafted. Recall that neither the term "efficiency" nor any relevant synonym is found anywhere in the U.S. Constitution. Collaborative organization may in fact offer a more streamlined process for facilitating public service; however, it may also offer a more streamlined process for undermining public accountability.

> *Proposition 5:* Inter-sectoral collaborative arrangements may enable increased efficiency at the expense of decreased transparency and accountability, as firms may choose to pursue actions in the sector that has the least restrictive regulations or the lowest threshold of accountability.

3.6 Risk Shifting

Collaborative organization may also streamline issues pertaining to risk. There are various types of risk depending upon the institutional arrangement, and the logic that guides that institutional arrangement determines the manner in which risk influences agency behavior. Within the private sector, risk can come in various forms: economic, political, environmental, or regulatory. These risk factors may make it more costly or more difficult for a firm to engage in its usual stream of business. Within the public sector, risk can come in many of the same forms. Environmental conditions may make it difficult for a public sector agency to carry out its duties. Economic conditions can threaten the tax base or financial solubility of public budgets. And more importantly, public agents are continually seeking to insulate themselves from political/electoral risk.

In many cases, risk may be thought of as a commodity to be traded. Risk, like debt, may be traded between entities through institutional arrangements, contracts, or changing environmental circumstances. A collaborative organization may enable the sharing or shifting of risk from one party to another, much in the same way that debt may be shifted between companies. Risk, either political, economic, regulatory, etc., may be shifted from the private sector to the public sector, and in the opposite direction. Agents party to a collaborative arrangement may find this to be one of the strongest motivating factors for engaging in a collaborative.

Collaborative organizations do not form under equilibrium conditions. Collaboratives form when all sides agree that collaboration can achieve a mutually beneficial improvement in the status quo. This improvement may come in the form of improved economic solvency, improved efficiency, decreased cost or increased profit, or even decreased risk. Collaboratives are ultimately more likely to form in turbulent conditions (Bryson, Crosby & Stone, 2006); simply because risk plays an important role in the determination calculus of firms in deciding whether or not to collaborate. Collaboration is often done in an effort to reduce those conditions of turbulence, or share them in some mutually beneficial manner.

The more pervasive case is the situation in which risk may be shifted from private agencies to public agencies. Forrer, Kee and Zhang (2002) conduct an analysis of public-private partnerships and compare them between the United States and the UK. Their analysis suggests that in the US, because public-private partnerships are conducted by arrangement rather than by a process of competitive bidding, these public-private partnerships are essentially creative methods of shifting risk from private agencies to public agencies (Bloomfield, 2006). Bloomfield (2006) furthermore suggests that many public-private partnerships are simply ways in which taxpayers become saddled with debt and costly

high-risk obligations.

An alternative form of risk shifting in collaborative organization takes place when risk is shifted from public agencies to private agencies. The most stringent form of risk for public agents, and also the most motivating form of risk, is political and electoral risk. This occurs when public agents are motivated by the fear that they will be turned down in the next election, or in the fear that their action (or inaction) will adversely affect the electoral standing of their political superiors. O'Toole and Meier (2004) suggest that this will occur when "there is pressure for state action yet disincentives for the state to definitively address policy problems" (p.683). Oftentimes, a public agency will want to appear to be addressing some growing concern, yet the act of actually pursuing that concern may be economically, environmentally, or politically damaging. Collaborating with a private agency that does not bear that element of risk, may enable the public agency to appear to constituents as if it is addressing the growing concern, while at the same time shifting the adverse effects of the risk from the public agency to the private agency.

The case of the RGGI is again instructive on this issue of risk shifting. There has been mounting political pressure for all levels of government to address important issues of climate change. Voters continue to increase in concern for the environment, and they take this issue with them to the ballot box. Yet politicians and public administrators are torn between the demands of the public, and the political financiers who have captured them. Important moneyed interests such as energy companies, transportation firms and automakers, and a host of stakeholders, continue to demand inaction from policymakers on this front. This in no way denies the fact that alternative moneyed interests seek more proactive environmental policy, nor the fact that certain environmental policies can produce rents. However, it is certain that policymakers and public administrators are torn between action and inaction; and climate change is clearly what Rittel and Webber (1973) would call a "wicked problem."

Collaborative organization between private electricity firms, state governments, and non-profit agencies that we witness in the RGGI enables this specific type of political risk to be shifted from public agents to private firms. State lawmakers seek to return to their constituents with the news that they have pursued proactive policies to curtail the adverse effects of climate change. Doing so directly, through methods such as direct public spending on abatement procedures or through state efforts such as a carbon tax, may greatly burden state coffers with debt, and have an adverse effect on state credit ratings and solvency. More importantly, it may force some policymakers to turn against their political captors. Political risk is effectively transferred from public agents to private firms. By engaging in the collaborative arrangement, public agents may appear to constituents as though they have taken useful and proactive steps in mitigating the harmful effects of climate change. At the same time, the cost that the state would otherwise incur in mandating a carbon tax, or in direct spending or subsidies on abatement procedures, are shouldered by captive ratepayers rather than by direct state funding, through a non-profit.

> *Proposition 6:* Inter-sectoral collaboratives may form to minimize the negative effects of risk, as the institutional arrangement may enable the collaborative to shift risk between sectors to offset political, economic, or environmental risk.

3.7 Competing Institutional Logics

An important factor determining the behavior of firms party to collaborative arrangements is the institutional logic that dictates the goals and incentives of each participating institution. Private firms have various arrays of institutional goals and incentives, yet each hinges upon the monolithic goal of financial profit. Likewise, public

firms have various arrays of institutional goals and incentives, yet each hinges upon the monolithic goal of electoral success, either directly or indirectly. However, within the non-profit sector the nature of institutional logic is not as clearly delineated. Non-profits can often posses the monolithic goal of institutional stability or legitimacy, which may frequently be determinant upon the support of a public sector agency or private contributions (Bigelow, Stone & Arndt, 1996). They may also seek to widen the turf or further a narrow policy, service or managerial objective (Steinberg, 1986).

Within the literature, these competing institutional logics have been viewed as roadblocks, hindering the potential success of collaborative governance arrangements (Bryson, Crosby & Stone, 2006; Provan & Kenis, 2007). As such, collaboration between public and private, and also the non-profit sector has been met with ample incredulity within the literature. Disparate goals and the inability to form goal consensus has been seen by these scholars to be a major reason for the defeat of collaboratives, or at least one that explains their ineffectiveness. Provan and Kenis (2007) likewise suggest that consensus is a 'critical contingency'; that without consensus the ability for the collaborative to be effective is impugned. They furthermore suggest that, without goal consensus, there is little point to even forming a collaborative to begin with.

Although competing institutional logics may sometimes provide a reason for the ineffectiveness of a collaborative, I suggest that differing institutional logics are an important factor that both motivates the collaborative to form initially, and is important for the mutual benefit across sectors. This claim is based upon the simple assumption that the reason for collaboration to begin with, is that one sector has institutional strengths (by virtue of its difference) that another sector may benefit from, and vice versa. If public agencies could accomplish the task on their own, they would not need to collaborate with private firms to begin with; it is the distinct sectoral diversity that motivates collaboration. And, it is the distinct sectoral difference that produces the mutual benefit that is sought by collaboratives. Gains are made across sectors, specifically because the diversity that exists, exists across sectors.

The case of the RGGI is again emblematic. Within the RGGI, each of the three participating sectors has a distinct set of institutional goals. The private firms that participate in the RGGI, such as the regulated utilities, have the overarching goals of shareholder profit, and more importantly, increased market share. The state legislatures and state regulatory bureaus that are a party to the RGGI have distinct sets of goals. They seek to show their constituents that they are making longstanding efforts to curtail the harmful effects of climate change. They have electoral and political goals. And they have institutional goals of increased investments and budgetary capacity towards promotion of climate friendly projects and development. For example, the RGGI holds quarterly auctions, and the first quarterly auction for 2009 yielded $50,621,785.11 for the State of New York alone (RGGI Inc. Auction 3 Release). This revenue generating capacity comes directly at the hand of consumer surplus, and the state does not have to deal with any of the impending backlash that it would otherwise receive from a system of taxes or user fees. To the participating states, this is essentially free money, and the opportunity to gain votes. These resources would be available to neither the private firms, nor the state governments, without the existence of this inter-sectoral collaborative. Collaboration therefore, enables these entities to increase their joint return, to a degree that far exceeds their ability to do so individually. Competing institutional logics may not necessarily be a hindrance to a collaborative; it may in fact be both the reason for the collaboration as well as the reason for its constancy.

> *Proposition 7:* Inter-sectoral collaboratives form and persist because of the inherent institutional differences that exist across sectors. It is this sectoral difference that increases the mutual benefit of the collaborative; it is not simply goal consensus, but

institutional diversity that produces mutual benefit.

3.8 Transaction Costs

The turbulence of institutional environments may incur transaction costs on the institution. Following from Coase (1960) and Williamson (1975, 1988), transaction costs may be significant enough to offset the decision-making calculus of some firms, as the interaction between firms, or between firms and their environment (e.g. a market), may have the effect of restructuring incentives and organizational behavior. Within the literature, there has been acceptance of the role that transaction costs play in institutional collaboration. Some scholars suggest that the institutional environment may push governments and businesses to form collaboratives for the purpose of minimizing transaction costs and resource dependencies (Agranoff & McGuire, 2001; Bryson, Crosby & Stone, 2006; Pfeffer & Salancik, 1978; Yuchtman & Seashore, 1967).

In an analysis of the biotechnology industry, Pisano (1991) finds that transaction costs are a key consideration in collaboration and vertical integration decisions. The biotechnology industry, according to Pisano, may be adequately characterized by stiff competition and high transaction costs. The success of firms within this industry, he suggests, is significantly determined by the extent to which those firms may reduce transaction costs. Although Pisano's case is mainly one that discusses non-inter-sectoral collaboration, and the adoption of vertically-integrated upstream structures, the point is still relevant. When transaction costs are high, and firms believe that collaboration may limit those costs, collaboration may ultimately be pursued.

However, collaboration itself can incur costs on organizations. The nature of the costs inherent to collaboration will ultimately vary between collaborative forms. Collaboration that is citizen-centered, for example, can be quite costly and time consuming (Booher, 2004). In environments in which transaction costs are significant, and in which collaboration may reduce those costs, collaboration may be pursued. As such, in order for transaction costs to be a determining factor in the formation and proliferation of a collaborative, the benefits of decreased transaction costs should ultimately be greater than the costs associated with collaboration.

> *Proposition 8:* The formation and survival of collaborative arrangements may hinge upon the degree to which the collaborative institutional arrangement reduces transaction costs, and the degree to which that transaction cost reduction exceeds the overall costs associated with collaborating.

4. The Inter-Sectoral Fringe

Inter-sectoral collaboration is both complex and dynamic. The institutional environment in any one sector alone is highly complex; and inter-sectoral arrangements only heighten this complexity. The theories and methods that have guided us in our research up to this time must also grow to become as dynamic as the institutional environments we analyze. Within collaboratives, political economic conditions may arise both as a cause and as a result of the institutional environment and the interplay among organizations. As such, the theories that we employ for understanding these organizational arrangements must be equally dynamic. A synthesis between theories of political economy and collaborative organization is necessary for parsimoniously understanding the complexity and dynamism of inter-sectoral collaboratives. Inter-sectoral arrangements necessitate a new theoretical development that

accepts that the area between sectors in which organizations may thrive, may itself be a hybrid organizational environment. These inter-sectoral organizations are hybrid organizational forms.

I suggest that an appropriate way to think of this hybridity is the concept of a penumbra. These inter-sectoral collaboratives may operate within a fringe area, a penumbra between sectors in which the restrictions inherent in any one sector may not exist, or may exist to a lesser extent. That fringe area may have a less restrictive regulatory burden. That fringe area may also enable interaction that facilitates mutually beneficial interactions, such as resource transfers, risk reduction, or transaction cost dissipation. As the inter-sectoral environment incorporates broader sectoral diversity, the potential for the widening of that fringe may result.

Consider the political economic conditions that may result from inter-sectoral collaboration, and the effect this collaboration may have on the regulatory environment. The regulatory environment within any one sector may be particularly restrictive. Organizations may therefore pursue collaboration to seek relief from this regulatory burden (Agranoff & McGuire, 2001; Bloomfield, 2006; Bryson, Crosby & Stone, 2006); this relief can occur because the regulatory penumbra that exists between sectors is a regulatory gray area. Organizations may function within this area for the purpose of sidestepping regulations that incur costs; either economic, environmental, informational (reporting or disclosure requirements), or political. Within the collaborative, functions that would otherwise be done in one sector may be done in another, and the ability to shift production to the sector with the lowest regulatory burden may enable a shifting of these regulatory burdens.

Inter-sectoral collaboratives may find that it is less likely that a complete set of regulations exists within the penumbral area. Longstanding regulations were crafted without consideration of possible proliferation of hybrid institutional environments. Consider again the case of the RGGI. Details of quarterly auctions in which billions of dollars of public money are transferred between private firms and state governments are effectively sealed from public record. Inter-sectoral collaboration has created an effective disclosure loophole, by allowing public money to be transferred through a non-profit organization. The types of disclosure and reporting regulations that exist in the public sector do not exist in the non-profit sector, and as such a regulatory penumbra is created. Within this regulatory penumbra, actions that would be restricted in the absence of collaboration are permissible. Within these penumbral zones, firms may pursue actions where regulations do not exist, where they can be effectively sidestepped, or where they are least enforced or monitored.

The hybridity of these penumbral zones provides opportunities to organizations that fuel political economic conditions. I suggest that within the range of possible inter-sectoral arrangements, there exists also a range of regulatory restrictiveness. I suggest that the greater the inter-sectoral collaboration, the greater the diversity of institutional choice. In tripartite collaboratives, those that incorporate multiple organizations from each sector have a greater diversity of institutional choices from which to select. Within this terminal regulatory fringe, organizations may select between sectors, choosing certain functions and operations within the environment that is least restrictive and most amenable to organizational goals. Collaboratives that possess less organizational diversity, such as collaboratives between only two sectors, may enjoy a more moderate regulatory environment. As such, they may possess less institutional choice.

5. Implications for Further Research

This discussion has produced several areas for gainful future research, and from them has come some important implications for extant research. The first implication is one that was already discussed in this paper previously. This deals with the effect that the proliferation of inter-sectoral collaboration will have on longstanding statutes, precedent, and regulations pertaining to anticompetitive behavior. The government has a legitimate role in permitting some forms of integration and monopolistic behavior, as they are necessary to securing infrastructure through natural monopolies. It is the government that licenses organizational behavior that would otherwise be impermissible. However, how can a governmental organization legitimately sanction a monopoly or a cartel to which it is a party? In some inter-sectoral arrangements, the regulated becomes the regulator. This organizational convolution leaves many questions unanswered. A rather lengthy common-law tradition that has produced volumes of case history, that has sanctioned and approved certain institutional arrangements and behaviors, may have to be reinterpreted in light of these newly emerging institutional arrangements.

The second implication concerns the nature of regulation itself. For decades, scholars have debated the merits of regulation versus market-based solutions to institutional problems (Averch & Johnson, 1962; Bardach & Kagan, 1982; Posner, 1974; Shepsle & Weingast, 1984). Shepsle and Weingast raise important questions regarding the appropriate role of regulation as an appropriate response to market failure. They suggest that political solutions to these market failures, such as greater regulatory controls, may entail efficiency gains in some situations, and in others they may exacerbate market failures. Scholars are right to raise these important questions, because greater regulatory control may be either a solution to institutional problems, or it may also simply be a clean bandage over a dirty wound. The integration of theories of political economy with theories of collaborative governance thus begs similar questions. To what degree, is collaborative organization an appropriate response to failures in the regulatory environment or to failures in traditional models of governance? Will collaborative organization further exacerbate the problems of a failed regulatory state by providing an alternative organizational form?

The theoretical development of this paper has been narrowly tailored in application solely to inter-sectoral collaborative organization. Whereas the empirical application provided should necessarily be constrained by this limitation, the theoretical framework need not be equally constrained. Economic theories of political economy have long been applied to organizational behavior in each sector independently. Economic theories have not as widely been applied to collaborative organization, both inter-sectoral and intra-sectoral. Many of the theoretical propositions provided here may be equally applicable to intra-sectoral collaboration. Indeed, organizations and firms in all sectors have long used partnerships, subsidiary corporations, divisions or departments, to shape, adapt to or shirk from the organizational and regulatory environment in a manner consistent with the goals and objectives of the organization.

Finally, the broader question that is raised by collaborative organization is the question of efficacy. Do the benefits of institutional diversity brought to bear on a problem result in better and more cost-effective outcomes? Do they engender an institutional environment that is more responsive to public needs and demands? If so, what are the explicit and implicit tradeoffs? Scholars have long utilized the tools provided by political economic theory to assess these questions for institutional analysis. If institutional collaboration engenders political economic conditions as detailed here, perhaps theoretical integration can provide for a more mature theoretical composition that is better suited to address the overarching questions of efficacy in collaborative organization.

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