ON CONCEPTS OF GOVERNANCE: A SURVEY AND INTERPRETATION

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1. Introduction

According to an increasing amount of economic, social and political theory economic and political life has undergone a transition “from government to governance”1. This transition, which relates to the movement from states and bureaucracies towards new forms of co-ordination and decision making, has been seen as a consequence of several different developments affecting the role of the state in society.

Although governmental interventions positively influenced the development of modern societies, several governmental policies in the 1960s and 1970s failed to meet their original targets, particularly in areas such as crime, pollution, and unemployment (Kickert et al., 1997). At the end of the 1970s and in the 1980s the negative results of public interventions more generally led to a pessimistic view of the governments’ abilities to achieve their goals, and this generated a new tendency towards deregulation and decentralisation. In all Western European countries and in the United States new catchwords became “less public” sector and “more private” sector. The collapse of the centrally planned economies of Eastern Europe countries at the end of the 1980s proved that central government was unable to deal with the complexities and fragmentation characterising modern societies (Kickert et al., 1997; p.4). In the last twenty years the challenges to governments’

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capacity to face all the tasks and demands formulated by society have been exacerbated by a severe fiscal crisis which forced the state to cut back on its activities; this in turn induced policy makers to redefine their political strategies in a wide range of policy sectors. Furthermore, the deregulation of financial markets, the globalisation of the economy, and the subsequently increasing importance of transnational political institutions, like the European Union and the World Trade Organisation, contributed to erode traditional bases of national political power. The state’s capacity to steer society has been challenged also by the emergence both of subnational governments, cities and regions, which often gained an autonomous role and bargaining power in the international arena, and of networks and private companies which have significant power and a high degree of autonomy from public bodies.

The growing complexity and fragmentation caused by these developments have cast doubts on the state’s ability to maintain some degree of control over its social, political and economic environment, and to meet effectively social needs. As the state-centric view of political processes and the image of a sharp state-civil society separation started to be discussed the search for alternative strategies and instruments in order to redefine the state’s role in society became central.

Against this background the concept of governance emerged as a response to complex changes of the institutional and social environment; it suggested that formal and informal authority can be complementary, through new forms of partnership, negotiation, and networking.

Roughly speaking, governance can be defined as “directed influence of social processes” (Kickert et al., 1997; p.2). This means that all kinds of guidance mechanisms, both deliberate and self-steering ones, and all kinds of actors, not only public ones, are included in the concept.\(^2\)

Despite its widespread use, the term of governance implies a concept that remains relatively ambiguous. The growing concern with “governing without government” and the use of governance arguments in a great range of fields multiplied interpretations of the term.

The governance literature is also confusing in its conceptualisation of the notion. One major source of ambiguity is that governance can be analysed both as an object of theoretical inquiry and as a policy paradigm (Jessop, 2003).

From the theoretical point of view, governance provides a conceptual framework through which policy process can be evaluated. More precisely, governance is seen as a theoretical paradigm useful to investigate how to sustain co-ordination and coherence among several actors, with different

\(^2\) “Nor is governance restricted to public actors. All kinds of actors are involved in governance, if only because government does not perform all the governing itself. A wide variety of actions from different actors has consequences for governance” (W. Kickert et al., 1997; p.2).
objectives and strategies, such as public/private institutions, corporate interests, civil society and international organisations. This conceptual representation of governance furthermore can be divided into two categories: an old and a new perspective of governance (Peters, 2000). The first one, which can be labelled state-centric, analyses the “steering” role of the state and its political and institutional capacity to control and influence society and the economy. The second view, more society-centred, focuses on co-ordination problems and on various forms of formal and informal types of interaction between public and private actors, looking particularly at the role of policy networks.

As a policy paradigm, governance refers to the empirical manifestations of the process by which state has been adapting to its internal and external challenges. In this view, particular attention is given to new forms of partnerships and co-ordination between governments and private/quasi-private actors, especially in activities such as service provision. Different models of governance have been most frequently discussed and launched in the public administration sector of the state, even if it is mainly in the field of economic development and urban studies that the debate on governance perspectives has brought to new modes of public-private exchange and co-operation.

According to this latter perspective, governance is also seen as a means of enhancing co-ordination capacities within and across other functional systems (Jessop, 2003). Important examples of such use of the concept include corporate governance, clinical governance, the governance of school and universities, the governance of sport, and so on.

As a consequence of these different uses, the basic notion of governance is not precisely defined.

Therefore, it can be useful to review different meanings, by distinguishing different strands of research in which the term is used. Since one of the most relevant attempts in the systematisation of distinct meanings of governance is carried out from the perspective of political science, particular attention will be given to this approach.

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3 As an example, clinical governance in the UK is now being developed as a framework through which institutions, organisations and their staff are accountable for patient care. In the US more “managerial” approach, clinical governance is about how to balance system-level needs for predictability, efficiency and effectiveness with individual professional needs for autonomy and independence. The main target is, in both cases, a fundamental concern for enhancing quality of care through co-ordination. See “Clinical governance”, Atti del Convegno, LUISS, Rome, 30 April 2004.
2. The debate on the meanings of governance

Contrary to Finer’s definition, which identifies government with governance⁴, in the current debate governance is not a synonym for government. Rosenau (1992; p.3) distinguishes the two terms by claiming that government refers to “activities that are backed by formal authority”, while governance refers to “activities backed by shared goals”⁵.

According to Rhodes (1997; p.46), governance stands for “a change in the meaning of government, referring to a new process of governing; or a changed condition of ordered rule; or the new method by which society is governed... the problems of definition become acute when specifying this new process, condition or method”.

In the literature on governance several classifications of the different meanings of this term can be found. For the purposes of this work we are interested in identifying six areas, in which governance is mainly used:

- in the field of economic development and urban studies
- in the field of international institutions
- in the field of corporate studies
- in the field of the New Political Economy
- in the field of political science
- in the field of economic studies.

2.1 “Good governance” and development economics

In the first research area, the concept of governance and, particularly, of “good governance” is seen as a necessary component of an effective economic development. Development economists recognise that dynamic economies are underpinned not only by free markets, investments and effective macro-economic policies, but also by a structure of “appropriate laws, social institutions, and values” (Hirst, 2000; p.14). Associative and collaborative forms of governance which enable and stimulate the participation of different actors are identified as important instruments to

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⁴ Finer (1970) defines government as “the activity or process of governing” or “governance”; “a condition of ordered rule”; “those people charged with the duty of governing” or “governors”; and “the manner, method or system by which a particular society is governed” (quotation in R. Rhodes, 1997; p.46).

⁵ “Governance is ‘a more encompassing phenomenon’ because it embraces not only governmental organisations but also ‘informal, non-governmental mechanisms’. So you get governance without government when there are ‘regulatory mechanisms in a sphere of activity which function effectively even though they are not endowed with formal authority’” (Rosenau, 1992, quoted in R. Rhodes, 1997).
enhance the economic competitiveness of cities and regions (Leibovitz, 2003)\(^6\).

In this context, an analysis of governance focuses on the set of formal and informal actors and structures involved in decision-making and implementing decision process. Besides government, other actors influencing governance vary according to the level of action under discussion. For example, in rural areas relevant actors may be landlords, association of farmers, co-operatives, religious leaders, NGOs, research institutes and the military authorities, while in urban governance, in addition to the preceding ones, media, entrepreneurs, multi-national corporations, international donors and even organised crime syndicates can influence policy making processes.

Several international development agencies and western governments call for “good governance” as a precondition for the implementation of development projects. The World Bank, for example, has been a leading advocate of good governance practises, which shape its lending policies towards developing countries.

According to the United Nations Development Programme (UNPD), “governance is defined as the exercise of economic, political and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences. Governance embraces all of the methods - good and bad - that societies use to distribute power and manage public resources and problems” (UNPD, 1997; p.9).

The Urban Governance Initiative (TUGI), developed by the UNPD in order to promote economic development and improvement of living conditions in the cities of the Asia Pacific region, sees urban governance as “a means to ensure that economic growth is equitable, sustainable and improves the human condition”\(^7\). In this line, good governance must satisfy nine major conditions: it has to guarantee participation of all men and women in decision-making, rule of law, transparency through direct access to processes, institutions and information, responsiveness, consensus orientation, equity, effectiveness and efficiency of processes and institutions, accountability of decision-makers at all levels, and strategic vision on human development opportunities.

2.2 Multi-level and committee governance

The second main use of the concept of governance is in the field of international relations and international political economy. It is widely

\(^6\) “In short, collaborative economic governance is an important institutional vehicle for the promotion of ‘progressive competitiveness’” (J. Leibovitz, 2003; p.2614).

\(^7\) TUGI (2003); p.1.
recognised that several relevant issues, such as world environmental problems, the regulation of world trade and international financial markets cannot be coped with or contained by action at the level of national states alone. This recognition has led to an extensive discussion of the role of international agencies, inter-state agreements and common commercial governmental practices as methods of governance.

In the European Union discussions about governance and constitutionalism started under the Portuguese Presidency of the Council in the first half of 2000, on the occasion of a more general rethinking of the role of European institutions and the new strategies to adopt in all the areas of intervention, from macroeconomic to fiscal and social policies. In that context, the reform of European governance was identified as one of the four priorities of the Commission; the White Paper on governance was the reaction to the widespread sense that existing institutions were not adequate instruments to guarantee suitable and coherent policies, especially in view of an enlargement to other Member States.

The particular nature of policy making processes engenders a particular kind of governance in the European Union (Christiansen et al., 2000). The legislative process involves different key institutions of the Union (Commission, Parliament, Council of Ministers and Court of Justice), which have specific powers and responsibilities, but none of them is “sovereign” or controls the process by itself. In the decision-making mechanism, all institutions share the power and only through co-operation and interactions decisions can be taken, so that policies become effective.

In the 1980s and 1990s, policy processes and institutional dynamics ensuing from negotiations and repeated treaty reforms became even more intricate, highlighting the need for increasing and continuous communication between policy makers at various levels, scientific experts from the Member States, Commission and Council officials and Members of the European Parliament. On the one side, as the volume of EU decision making rose, the attainment of co-operation and interaction among European institutions on a permanent basis became a priority, originating a growing number of “inter-institutional agreements”. On the other side, the implementation process of EU policies raised new interdependencies between national and the EU level.

Furthermore, the increasingly technical and specialised nature of EU policy making and implementation processes created a wide network of intergovernmental bodies, the “committees”, which enriched the map of institutional actors in the policy arena.

The absence of any institution having hierarchical control over the policy process and the greater need for inter-institutional and inter-level co-ordination and co-operation have set up the emergence of a particular mode of governance in the European Union. According to an increasing number of authors, the EU decision making process can be defined as system
characterised by “multi-level governance”, “in which various territorial levels form intermeshing network and require mutual co-operation in order to carry out joint tasks” (Christiansen et al., 2000; p.10). Other authors, acknowledging the relevant role of committees in all stages of the policy process, maintain that “committee governance” can be regarded as an essential feature of the European governance\(^8\).

The Commission’s definition of governance encompasses some of the prescriptions put forward by other institutions, such as the World Bank and the United Nations: “Governance means rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly for all that concerns openness, participation, accountability, effectiveness and coherence” (Commission of the European Communities, 2001; p.8). Consequently, the White Paper “proposes opening up the policy-making process to get more people and organisations involved in shaping and delivering EU policy”, promoting “greater openness, accountability and responsibility” for all actors involved (institutions, central government, regions, cities, and civil society in the current and future Member States), in order to tackle common challenges more effectively.

This implies a stronger co-ordination among institutions, which should encourage the exchange of information and should communicate the decisions adopted by the EU to the civil society, whose participation should be stimulated throughout the policy chain, from conception to implementation. Greater clarity and responsibility are required both from the EU institutions and Member States, but also from all other actors involved in developing and implementing EU policy at whatever level. Finally, policies must be timely, effectively, delivering what is needed on the basis of clear objectives, and coherent. Coherence is considered particularly relevant in a context marked by an increasing involvement of new regional and local authorities.

Each of these five principles of “good governance” is seen as central for establishing more democratic governance, supporting democracy and the rule of law in the Member States at all levels of government (global, European, national, regional and local)\(^9\).

\(^8\) “Committee governance can be seen as closely connected to certain characteristics of European governance: committee governance is functionally specialised, comprises multiple levels of government, lacks clear hierarchical structure, is multi-cultural, process-based and path-dependent” (T. Christiansen et al., 2000; p.8).

\(^9\) Some commentators, however, criticise the assumption that governance arguments, such as those referring to polycentrism and non-hierarchical structures, may automatically imply the attainment of more democratic outcomes. On the contrary, they argue that an emphasis on governance alone, and particularly on those aspects of flexibility and informality the concept implies, may raise serious democratic deficits. Many of the arguments proposed in the White Paper, “failing to deal with fundamental questions about power and its legitimate use”, may
2.3 Corporate governance

Corporate governance refers to the complex set of economic and legal rules and mechanisms governing corporations in an efficient and effective way which are intended to align the interests of managers with those of different stakeholders. Originally, the term arises from a distinctive feature of American and British companies, characterised, on the one hand, by highly dispersed shareholdings and an active stock market, and, on the other hand, by a permanent professional management.

According to Cuccurullo (2004), it is possible to distinguish between two definitions of corporate governance, depending on the number and kind of the stakeholders. Under the wider definition, the whole institutional framework of the corporation matters. In this case, a corporate governance analysis should take into account effects on all the “constituencies” of the firm, not only owners and managers, but also employees, suppliers, customers, public bodies and the community at large, their actions, financial resources and rewards (see Williamson, 1985). All the actors should be interpreted as stakeholders; accordingly, “the corporate governance system is to be judged by how well all interests are served” (Scott, 1998; p. 29). Outside variables affecting the corporation’s economic activity, such as culture, formal and informal rules, and external controls should also be considered.

Under the narrower, more extensively used definition, only relationships and agency problems between shareholders and managers are relevant. In this perspective, discussions of corporate governance focus on the costs of external equity capital to the firm and on the difficulties for ensuring protection of shareholdings’ interests against opportunism of the firm’s managers. More specifically, “corporate governance can be described as the processes by which investors attempt to minimise the transaction costs (Coase, 1937) and agency costs (Jensen and Meckling, 1976) associated with doing business within a firm” (Macey, 1997; p. 602).

Agency problems within the firm arise as a consequence of the separation between ownership and control (Berle and Means, 1937), which leads to an organisational structure in which shareholders cannot effectively monitor and discipline professional managers of the firms they have invested in. On the one side, managers need the investors’ funds, since they do not have enough capital to his own. On the opposite side, the financiers need the managers’ skills and specialised ability to generate returns on their funds. However, investors that finance firms are by no means protected against the risk that

hinder the achieving of the intended democratic outcomes. See, among others, V. Della Sala (2001).
their funds are expropriated by managers or wasted on unattractive projects\textsuperscript{10}. On the contrary, “\textit{investor protections turns out to be crucial because, in many countries, expropriation of minority shareholders and creditors by the controlling shareholders is extensive}” (La Porta et al., 2000; p. 4).

In an incomplete contracts world, in which complete contracts foreseeing all future contingencies in all states of the world are technically unfeasible, protection of the stockholders can be provided by the corporate governance, which can be intended, to a large extent, as a set of mechanisms through which “\textit{suppliers of finance to corporations assure themselves of getting a return on their investment}” (Shleifer and Vishny, 1997; p. 737).

The two most common corporate governance mechanisms relies on ensuring some protection to investors through the legal system, in the first case, and through concentrated ownership, in the second case.

Investors that finance firms obtain rights and powers which have to be protected through regulations and laws\textsuperscript{11}. Enforcement of laws can be assured by market regulators, by courts and by market participants. However, it is crucial to guarantee that external finance mechanisms can operate.

The legal approach to corporate governance argues that differences in law and its enforcement are central in explaining why firms can raise more funds in some countries than in others: “\textit{when investor rights such as the voting rights of the shareholders and the reorganization and liquidation rights of the creditors are extensive and well enforced by regulators or courts, investors are willing to finance firms. In contrast, when the legal system does not protect outside investors, corporate governance and external finance do not work well}” (La Porta et al., 2000; p. 5)\textsuperscript{12}.

The second approach focuses on the ownership by large investors as a means to reduce agency costs: if protection for small investors cannot be assured through the legal system, control rights’ concentration in a restricted set of investors can reduce agency costs. Traditional analyses of corporate governance systems compare the bank-centred model (such as the German and Japanese models), in which large banks control significant shares of finance and governance in major companies, and the market-centred system.

\textsuperscript{10} Expropriation by the controlling shareholders and managers can be realised in different ways. For example, besides the simple stealing of the profits, managers can sell the output and the assets of the firm they control to other firms they own at below market prices, or they can stay on their job even when they are no longer qualified for the firm’s activity (A. Shleifer and R. W. Vishny, 1997).

\textsuperscript{11} “Protected shareholder rights include those to receive dividends on pro-rata terms, to vote for directors, to participate in shareholders’ meetings, to subscribe to new issues of securities on the same terms as the insiders, to sue directors or the majority for suspected expropriation, to call extraordinary shareholders’ meetings, etc.” (R. La Porta et al., 2000; p. 6-7).

\textsuperscript{12} “Empirically, strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms” (R. La Porta et al., 2000; p. 24).
(characterising the United States and the United Kingdom), where a large number of investors provides finance to each firm and plays a key governance role.

However, as Shleifer and Vishny (1997) argue, these two approaches should be considered as complementary and not mutually exclusive, since successful corporate governance systems are characterised by a combination of legal protection and an important role for large investors. Such a combination distinguishes good corporate governance mechanisms from less effective systems, where legal protection of investors is less substantial and external financing is extremely limited.

2.4 Governance in the New Political Economy

The fourth usage of the concept of governance relates to the New Political Economy research field. This approach to governance focuses on the government of the economy and analyses the interrelationships between civil society, state, and the market economy. According to Lindberg et al. (1991; p.3) governance refers to “the political and economic processes that coordinate activity among economic actors”. Consequently, they identify six ideal type mechanisms of governance: markets, obligatory networks, hierarchy, monitoring, promotional networks, and associations. In their perspective, the state is not included in governance mechanisms, acting as a “gatekeeper”, by facilitating or inhibiting production and exchange.

A slightly different perspective is provided by Jessop (1997; p.95), that defines governance “as the complex art of steering multiple agencies, institutions, and systems which are both operationally autonomous from one another and structurally coupled through various forms of reciprocal interdependence”. According to Jessop, the increasing interest for governance practices in several disciplines can be explained as a consequence of the growing complexity and fragmentation of the political and economic environment in our societies. The widespread recognition of the difficulties to govern economic, political, and social problems through traditional instruments such as the state and the market, promoted a shift towards other modes of coordination of social relations. More specifically, three main forms of coordination can be distinguished: an “ex-post coordination through exchange” (performed by the market), an “ex ante coordination through exchange” (performed by the state), and an “ex ante coordination through exchange” (performed by the associations).

13 A. Shleifer and R. W. Vishny (1997) contrast successful governance mechanisms, such those of the United States, Germany and Japan, with other systems in which firms are dominated by big families and almost exclusively internally financed (such as the Italian case).
14 B. Jessop (1997; p.95) argues that the growing interest for governance arguments “could well reflect the dramatic intensification of societal complexity which flows from growing functional differentiation of institutional orders within an increasingly global society with all that this implies for the widening and deepening of systemic interdependencies across various social, spatial, and temporal horizons of action”.

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imperative top-down planning” (performed by the hierarchies of firms, organisations, and state), and a mode of coordination based on “reflexive self-organisation”. It is this last kind of coordination that Jessop refers to as governance. In his view, in many cases governance allows to overcome market and state failures.

On the one hand, markets are characterised by a “procedural rationality”, which is based on free and equal exchanges and is oriented to the efficient allocation of scarce resources. Market failures occur when exchanges do not lead to an outcome satisfying efficiency conditions. As an example, market forces may fail to address externalities caused by situations of interdependence.

On the other hand, coordination performed by the hierarchies is based on a “substantive, goal-oriented rationality that is directed to the effective realisation of specific collective goals established from above” (Jessop, 2003; p.5). In this case, top-down planning may fail to achieve collective goals because of making excessive demands on a priori knowledge and anticipation of the results of interactions among actors; this tends to overlook possible advantages of the unintended consequences of the bureaucratic action. As Jessop (1999; p.3) notes, “planning, bureaucracy, participation, reliance on professional expertise, etc., may each fail in different ways to generate adequate policies and/or to secure their effective realization”.

Among market and central planning the concept of governance, with its emphasis on “operational autonomy” and “reciprocal interdependence” of organisations, provides a third way to solve coordination problems through “the possible evolutionary advantages it offers for learning and innovation in a changing environment” (Jessop, 2003; p. 8).

While both the procedural rationality of the market and the substantive rationality of the state are liable to problems of bounded rationality, opportunism, and asset specificity, the “reflexive” rationality of governance allows to avoid these problems through “continued negotiation of the relevant goals among the different actors involved and the cooperative mobilisation of different resources controlled by different actors to achieve interdependent goals” (Jessop, 2003; p.5). Institutionalised negotiations and continued interrelationships make easier to exchange and share more information among actors of the governance system, reducing problems of

However, B. Jessop (2002; p.52) clarifies that in a broad sense “any form of coordination of interdependent social relations – ranging from simple dyadic interactions to complex social divisions of labour” can be defined as governance.

B. Jessop (1999; p.4) highlights that the key character of the reflexive rationality is “continued commitment to dialogue to generate and exchange more information (thereby reducing, without ever eliminating, the problem of bounded rationality); to weaken opportunism by locking partners into a range of interdependent decisions over short-, medium-, and long-term time horizons; and to build on the interdependencies and risks associated with ‘asset specificity’ by encouraging solidarity among those involved”.

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bounded rationality and opportunism. At the same time, by stimulating solidarity among different partners involved, the reflexive rationality of governance allows to overcome the negative aspects associated with investment in specific assets.

However, Jessop recognises that governance mechanisms as well can fail in providing economic and political coordination. Several sources of failure may be identified. Especially when the object of governance is not precisely defined but is a complex system (such as the global economy), problems of underestimation or deficient knowledge about the conditions and the interrelationships among different actors may lead to a failure of governance attempts. Furthermore, continued changes of the objects of governance and their environment can prevent actors from exploiting advantages provided by strategic learning. Finally, coordination problems at various levels, risks of legitimacy losses and difficulties in stabilising expectations among different subjects participating in the governance structure represent other conditions for governance failure.

Since all form of coordination can be prone to failure, the need for more general and flexible steering solutions implying a mix among different modes of coordination may emerge. Metagovernance entails “collibrating” (according to Jessop’s definition) the various governance mechanisms, through a “judicious mixing of market, hierarchy, and networks to achieve the best possible outcomes from the viewpoint of those engaged in metagovernance” (Jessop, 2003; p.15). Flexibility is an essential feature of coordination mechanisms in order to cope with the increasing policy environment complexity: “This involves recognition that complexity excludes simple governance solutions and that effective governance often requires a combination of mechanisms oriented to different scales, different temporal horizons, etc., oriented to the object to be governed” (Jessop, 2003; p.16). In other words, different steering mechanisms should be continuously combined and rebalanced to face the increasing environmental complexity, while actions, expectations and also objects of governance should be modulated and adapted to external conditions as they tend to change.

The concept of metagovernance leads to a different approach to economic and political problems, where not optimal, but satisfying solutions should be sought in order to minimise the risks of failure.

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17 The need for more general practices is highlighted also in B. Jessop (2005; p.53), where it is argued that “the need for such practices is especially acute owing to the wide dispersion of governance mechanisms in an emerging world society and the corresponding need to build appropriate macro-organizational and intersystemic capacities to address far-reaching increases in the complexity of interdependencies”.
In this perspective, governments regain an increasing role, by providing the framework within which metagovernance practices can take place.18

2.5 Political science definitions

Another usage of governance relates to the field of political science studies. Interest for governance issues arises as a consequence of the emergence of new public management strategies since the early 1980s.

Instances for privatisation and proposals of changing the role of the State reflected not only discontent for public bodies’ inability to face several social and economic issues but also the diffusion of market ideologies and the rhetoric associated with the coming into power of conservative governments.

Among others, the field of welfare services, for instance, has been particularly interested by an intense process of redefinition of its bureaucratic structure. As an example, in 1988 and 1989, in the UK, the Conservative Government realised a series of market-oriented reforms of the welfare state, characterised by the introduction of “quasi-markets” into the social services’ delivery. As Le Grand (1991; p.1257) argues, “the intention is for the state to stop being both the funder and the provider of services. Instead it is to become primarily a funder, purchasing services from a variety of private, voluntary and public providers, all operating in competition with one another”.

The privatisation of public services and industries and the consequent need for regulating new service providers from one side, and the introduction of management and commercial practices within the public sector from the other generated a new model of public management distinct from the conventional view of hierarchical control. Moreover new practises of co-ordination through networks and partnerships have been growing in salience at all levels in cities, regions and industrial sectors, embracing a diverse range of actors, such as labour unions, trade associations, firms, NGOs, local authority representatives, social entrepreneurs and community groups (Hirst, 2000). These developments awakened political scientists’ growing interest in order to conceptualise new models of “steering” and governance.

The two most relevant approaches to governance problems in this field are the “socio-cybernetic” and the “network” perspectives.

According to the socio-cybernetic approach19 policy outcomes are the result of actions by a great variety of social, political, and administrative actors, reciprocally interdependent. As a consequence of social trends which have changed governing relations, new forms of interaction, such as

18 “Governments play a major and increasing role in all aspects of metagovernance: they get involved in redesigning markets, in constitutional change and the juridical regulation of organisational forms and objectives, in organising the conditions for self-organisation, and, most importantly, in calibration” (B. Jessop, 2003: p.15).

19 This approach played a dominant role in the Dutch research on political science and it is one of the leading contribution to governance analysis in Europe (J. Pierre, 2000).
steering, managing and guiding have emerged in addition to more traditional forms of deregulation and privatisation, blurring the boundaries between state and society. For Kooiman (2000, p.142), “no single actor, public or private, has the knowledge and information required to solve complex, dynamic, and diversified problems; no actor has an overview sufficient to make the needed instrument effective; no single actor has sufficient action potential to dominate unilaterally”. In this perspective, governance is seen as an interactive process among several actors, none of which enjoys effective authority over the others, or over society. Consequently, central government is no longer a single sovereign authority, nor it is in an upper, advantaged position compared to other actors. The task of government is to enable socio-political interactions through new patterns of interrelations, such as self-regulation, co-operative management, and public-private partnerships. Three modes of governance can be distinguished: “self-governing”, “co-governing”, which relates to the use of organised forms of interactions for governing purposes, such as networks, public-private partnerships, communicative governing, responsive regulation, and “hierarchical governing”, whose most common and practised instruments are laws and policies.

The concept of interdependency is central also in the policy network approach to governance. The idea of policy network is used to indicate “(more or less) stable patterns of social relations between interdependent actors, which take shape around policy problems and/or policy programmes”

20 “Steering in the context of governance recognises that government cannot impose its policy but must rather negotiate both policy and implementation with partners in public, private, and voluntary sectors” (G. Stoker, 2000; p.98).

21 According to Kooiman, “social-political governance will be considered to be arrangements in which public as well as private actors aim at solving societal problems or create societal opportunities, and aim at the care for the societal institutions within which these governing activities take place” and “There seems to be a shift away from more traditional patterns, in which governing was basically regarded as “one-way traffic” from those governing to those governed, towards a “two-way traffic” model in which aspects, problems, and opportunities of both the governing system and the system to be governed are taken in consideration. This is what I call social-political governance, based upon broad and systematic interactions between those who are governing and those who are governed, and this applies to public-public as well as public-private interactions” (J. Kooiman, 2000; p. 139 and p.142).

22 The concept of network in the public policy analysis first emerged in the mid-1970s and early 1980s. In contrast to the dominating instrumental logic of goals and means Scharpf (1978) criticised the idea that public policy can emerge from the choice process of a single decision maker. According to his view, since policy decisions are “the result of interactions among a plurality of separate actors with separate interests, goals, and strategies” (F. Scharpf, 1978; p.346), policy analysis should be focused on the interorganisational network within which policy is made. R. Rhodes (1997; p.37-38) defines policy network as “a cluster or complex of organisations connected to one another by resource dependencies”, and distinguishes among five types of networks: policy communities, professional networks, intergovernmental networks, producer networks and issue networks.
Interdependencies among actors in networks arise because agents cannot attain their goals by themselves, but they need to exchange information and resources. These interdependencies blur the boundaries among public, private and voluntary sectors, which often tend to overlap each other. Besides reciprocity and interdependence, trust and cooperation are key features of network governance, which provides a third mechanism of resources allocation and social co-ordination, in addition to markets and hierarchies. Rhodes (1997; p.53) defines governance as “self-organising, interorganisational networks”, which are characterised by

- interdependence among organisations, including non-public ones;
- continuing interactions among network actors, as a consequence of the need to exchange resources and information;
- game-like interactions, based on rules and patterns of relations which are formalised and institutionalised;
- a significant degree of autonomy from the state, because networks are autonomous and self-governing, being able to develop their own policies and to influence their environment.

Kickert et al. (1997) consider the network model as an alternative to other models of governance: the rational central rule model and the multi-actor model (bottom-up approach).

The rational central rule perspective focuses on the authoritative relationship between central ruler and target groups which are objects of steering. According to this model, policy processes, which are characterised by the division between politics and administration, consist of a neutral implementation of ex ante formulated policy goals. The main weaknesses of this approach are found in the lack of information and control by the central steering agent and in the assumptions about the existence of a causal relation between goals and means. This model suggests that improvement of governance mechanisms may derive from strengthening of co-ordination and centralisation.

The multi-actor perspective focuses on the relation between central ruler and local actors which is taken as the point of departure of the analysis. In this approach, governance is seen as a process in which local actors assess their interests and purposes and try to obtain more resources from central government. The main causes of failure are identified in the lack of resources and in constraints to participation of local actors. The model suggests therefore to stimulate decentralisation, self-governance and privatisation processes, by accelerating the retreat of central government in favour of local agents.

The network approach focuses on interactions between actors. In this perspective, governance takes place in networks of various actors (individuals, coalitions, bureau, organisations), none of which possesses the power, or the steering capacities, to determine unilaterally the strategies of
the others: “The government is no longer seen as occupying a superior position to other parties, but as being on equal footing with them” (Kickert, 1997; p.9). Since each party has specific and often conflicting interests and strategies, policy processes are viewed as “an interaction process in which actors exchange information about problems, preferences and means, and trade-off goals and resources” (Kickert, 1997; p.9). The lack of incentives to co-operation or the emergence of blocks to collective action are considered the main reasons for failure.

2.6 Economic Governance

The concept of governance applied to the economy raises a number of fundamental issues relating to the nature of both the economy and governance (Gamble, 2000). The main question is whether the economy should be conceived as a spontaneous order, resulting from separate and unplanned individual exchanges, or as a regulated one, either through the state or through other institutions external to it. In debating economic governance, the assumption that there is a separation between the two concepts is very common: economy would belong to the private sphere while governance to the public one, so that economic governance establishes a relationship between the economy and the state, analysing how the state governs the economy.

Economic governance implies that the governing of the economy is not necessarily performed by the state, but there are different modes of governance, which include markets, hierarchies (including companies and public agencies), networks and associations (private interest organisations and policy communities), clans and communities (private, local, face-to-face relationships).

The state has always a role in governance, but often this role is an enabling rather than a directing one. In effect, the state intervenes both by constituting (and guaranteeing the respect of) the regulative framework within which economic agents operate and as an agent itself among others. A distinction needs to be drawn between these two functions of the state in order to achieve a comprehensive interpretation of the concept of economic governance.

23 According to A. Gamble (2000; p.112), central to economic governance is the notion of “economic constitution”, which denotes “the rules and norms which constitute an economic order, but also the modes, institutions, and the procedures of governance, which determine the division of powers, the representation of interests, the locus of decision-making, the limits within which power is exercised, the boundary between the public and the private, and the objectives of policy”. Economic constitutions reflect particular circumstances and a specific mix of modes of governance.
Historically, several forms of economic governance emerged in the last two hundred years: in each mode of governance, a different role was assigned to the state.

In nineteenth century liberal ideology, economy was self-governing, because the market, through the price mechanism, was able to guarantee the correct and successful functioning of economic system. Under this view, the role of the state was limited to remove obstacles to and to provide the conditions for the market functioning.

The twentieth century saw the emergence of a different perspective. In the context of an enormous expansion of state’s intervention in different sectors and the rise of new responsibilities for public governments, a “national protectionist constitution” became dominant for the main part of the century.

In the last thirty years of the twentieth century the role of the state in economic governance has been challenged and other actors, such as corporate hierarchies, networks, and policy communities gained weight\textsuperscript{24}. The perception of the tasks concerning the state changed, moving from a planning role to an enabling, regulatory one: "The state’s task is to support other modes of governance, such as markets and networks or corporate hierarchies in governing the economy, rather than to seek to impose its own pattern" (Gamble, 2000; p.114).

Likewise, the role of the market as the only co-ordination mechanism of interactions among agents has also been challenged. Traditionally, in the neo-classical economic literature, markets are seen as the unintentional results of interactions among individuals pursuing their own interests; the market provides agents with all relevant information through price mechanism. Consequently, markets are the main answer to co-ordination problems of individual actions.

These statements have been contested by an increasing amount of literature, the new institutional economics (NIE), one of whose central hypothesis is that markets only function optimally within the framework of institutions (North, 1990).

Two branches of the NIE can be distinguished: one of these is particularly concerned with the institutional environment (or the rules of the game: polity, judiciary, laws of contract and property), while the other focuses on the institutions of governance (or play of the game: the use of markets, hybrids, firms, bureaux) (Williamson 1998; p.75).

\textsuperscript{24} The subject seems to show important links to that debate developed from the well-known Galbraith’s analysis of transformations in United States capitalistic system. Particularly, Galbraith points out great corporations’ planning demand as a natural outcome of economic development. Obviously, this demand, in modern terms, raises problems of “governance”. Galbraith’s theory has been bitterly criticised from some representative of Austrian school, especially Hayek. It is worth to be noted, that they had an original point of view, compared with the Anglo-Saxon tradition, of relationship between institutions and markets dynamics.
Transaction-cost economics, which is an important analytical instrument in this second branch of the NIE, originates from Ronald Coase’s analysis of firms and markets. In his 1937 paper, rather than taking the organisation of the economic activity in firms and markets as given, defined by technology, Coase described firms and markets as alternative means of allocating resources and re-conceptualised the firm as a governance structure. He argued that transaction-cost differences between markets and hierarchies were responsible for the decision to use markets for some transactions and hierarchical forms of organisations for others. Particularly, according to Coase, under conditions of uncertainty, incomplete information, and absence of simultaneity in transactions, the net of “separated” contracts implicit in the functioning of the market system could imply high transaction costs. The emergence of alternative governance structures allows to sensibly reduce such costs. Specifically, the opportunity to economise on transaction costs explains why the firm as a “nexus of contracts” can replace the market as a “net of contracts”.

In this line, Williamson suggests that governance structures, which differ in their cost and competence, are a means to economise transaction costs arising both from the nature of transactions and from the nature of individual agents. “Transaction-cost economics concurs that the transaction is the basic unit of analysis and regards governance as the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realise mutual gains” (Williamson, 1998; p.76).

More precisely, the notion of efficiency used in transaction cost economics hinges upon the idea that the firm is a sort of composite production function, in which both categories of production and transaction costs are explicitly taken into account in the optimisation process (Baumol, 1988). Efficiency thus requires the minimisation of both types of costs incurring in every level of activity. The context in which this line of argument should be considered is typically that which originates in a situation of bilateral dependency (or bilateral monopoly), when actors have to make investments on specific assets, which tend to lock them in by generating sunk costs. These high costs of exit lead agents to protract the bargaining process. The transaction-cost economics further assumes that agents are subject to bounded rationality and are inclined to opportunism (self-interest seeking with guile), that is they can strategically pursue their interest; as a consequence of these assumptions, incomplete contracting and contractual hazards emerge. According to Williamson, the pervasiveness of

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25 Each transaction implies some costs, defined as transaction costs, which can emerge both in the drafting, negotiating an agreement stage (ex ante costs), and as a consequence of a bad execution of the transaction (ex post costs, which include the set-up and running costs associated with the governance structures).
these factors may often generate excessive market transaction costs. Economic organisations can attenuate the problems associated with the above factors by both reducing the number of exchanges and ending prolonged disputes; they are “craft governance structures that economise on bounded rationality while simultaneously safeguarding the transactions in question against the hazards of opportunism” (Williamson, 1988; p.569).

If we admit that relations cannot be regulated by means of complete contracts and that problems of asymmetric information and moral hazard can emerge, the importance of governance structures become evident. Ex post governance of incomplete contracts can be seen as an important instrument in effecting hazard mitigation. In this context, the market is only one form of transactions governance. Specifically, when transactions are “standardised”, there is no need for any form of authority, since the market functioning by itself ensures an efficient allocation of all resources: “market governance is the main governance structure for nonspecific transactions of both occasional and recurring contracting” (Williamson, 1985; p.73).

Likewise, in an Arrow-Debreu economy where agents can costlessly write all state-contingent contracts (that is contingent on all future variables), all decisions are made ex ante and all quasi-rents are allocated ex ante. There are not ex post decisions to take, because all decisions are taken at the starting point of the relationship. Consequently, there is no need for a governance system. Also in the mechanism design theory, in which it is possible to design a mechanism, contingent on all publicly observable variables, providing the actors with incentives to exert the optimal level of efforts there is no room for an ex post bargaining and for governance.

On the contrary, in an incomplete contract context characterised by bounded rationality, opportunism and asset specificity, there can be room for an ex post (after the contract’s sign) bargaining over the quasi-rents. It can emerge a problem of governance, that is how to govern this bargaining

26 As an example, for an extensive analysis of the transaction cost approach to health reforms, see A. Bariletti and G. France, (1994, 1996).
27 Williamson notes that, even if economic organisations (hierarchies/firms) may reduce market transaction costs, they do not fully eliminate them. Hierarchies have transaction costs of their own. When the cost of organising the same transaction within the firm or across the market is the same, the transaction will be “left” to the market.
28 Many transactions, however, are not of this type. The purchase process can be not instantaneous, on the contrary the production of the good chosen by the consumer may require some time. In the relationship between the buyer and the producer many events can occur, which may alter the cost of producing the good as well as the buyer’s willingness to pay for it. While before the agreement is signed the market of the goods is competitive, once the production begins a bilateral monopoly emerges. In this situation, the buyer values the good more than the market, while the contracted producer has the lowest cost to finish the good. “The difference between what the two parties generates together and what they can obtain in the market place represents a quasi-rent, which needs to be divided ex post” (L. Zingales, 1998; p. 497).
process, how to allocate the right to take *ex post* decisions in non specified contingencies. Even if governance institutions does not fully solve the problem of asymmetric information among agents, they alleviates problems of opportunism, by the provision of incentives to co-operate.

In the spirit of Williamson (1985), Zingales (1998; p.497) defines a governance system as “the complex set of constraints that shape the ex post bargaining over the quasi-rents generated in the course of a relationship”. In short, this definition highlights that, for a governance system, it is necessary a bargaining over the quasi-rents, arising from the relationship.

Specifically, Zingales focuses his analysis on firms and defines “corporate governance” as “the complex set of constraints that shape the ex post bargaining over the quasi-rents generated by a firm”. There are three main channels through which the governance system (the conditions affecting the division of quasi-rents) affects the economic efficiency (the total surplus produced):

- effects on the *ex ante* incentives to undertake some actions: rational agents will not spend the optimal amount of resources in value enhancing activities if they are not properly rewarded. One goal in designing a governance system is to motivate those investments that are not properly rewarded in the market place;
- effects on ex post bargaining efficiency: a governance system can affect the degree of information asymmetry between the parties, co-ordination costs and liquidity constraints. For example, if control rights are assigned to a large set of claimants, free-riders problems can emerge and prevent to undertake efficient actions;
- effects on risk aversion degree: different governance systems can generate different amounts of risks and allocate them to the parties in different ways.

Transaction cost theory has provided an impressive research agenda and has been applied to explain a number of important issues. Particularly, the multi-institutional nature of the resource allocation process and more generally of the co-ordination of economic and social activities has been recognised, while the nature of markets, firms and the state has been examined from their transactional efficiency properties point of view.

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29 “Each of the three devices fails when bounded rationality, opportunism, and asset specificity are joined. Planning is necessarily incomplete (because of bounded rationality), promise predictably breaks down (because of opportunism), and the pairwise identity of the parties now matters (because of asset specificity). This is the world of governance.” (O. Williamson, 1985; p.32)
3. **Defining a governance framework**

Multiple uses of the term may lead to conclude that governance is too vague a concept to be an useful explanatory tool, while the variety of meanings with which it is adopted makes very difficult to precisely define what we are talking about. As Jessop (2003; p.4) points out, “it has become a rather fuzzy term that can be applied to almost everything and therefore describes and explains nothing”.

However, from our overview of the eclectic literature on governance, it is now possible to identify some key features on which a baseline agreement on the concept can be found.

As argued above, the notion of governance introduces a distinction between “governing” and “government”, wedging itself among the two terms. “Government” refers to the action of governing, interpreted as the exercise of political power through legitimate coercive power, the use of which legally belongs only to the formal institutions of the state. “Governance”, on the other hand, relates to a different action of governing. More precisely, it refers to the problem of sustaining co-ordination and coherence among several actors, with specific individual goals. In a broad sense, governance can be defined as the formal and informal ways in which interactions among a plurality of actors are managed, in order to assure that co-operation and co-ordination can be fulfilled and the pursuing of individualistic objectives does not threat the functioning of the system\(^{30}\). Accordingly, governance includes institutions, processes, and mechanisms, based on a complex structure of incentives and constraints, through which all the agents involved articulate their interests, pursue their goals, meet their obligations and reconcile disputes.

Many modes of governance can be distinguished, including markets, hierarchies, networks and other forms of relationships among actors. In the literature, a preliminary distinction must be made between approaches that include the state in governance mechanisms and approaches that consider the state only in an enabling and regulative role, outside the governance relation.

However, following a narrower definition, we refer to governance as a specific form of coordination of complex relations among several, interdependent actors. In our view, governance represents the way in which interactions in networks of various actors are coordinated and managed. The governance relationship among actors may be stable, lasting and “institutionalised”, that is contextualised in an organisation, firm or country, or it may be a spot one, as in cases of relations established *ad hoc* to solve specific and occasional problems.

\(^{30}\) “Governance is ultimately concerned with creating the conditions for ordered rule and collective action. The outputs of governance are therefore different from those of government. It is rather a matter of a difference in processes” (G. Stoker, 1998; p.17).
In this perspective, governance emerges as a third way, alternative to the State and the market, for coordinating collective action. In many cases, the authoritative action of the State does not represent the more efficient and effective strategy, especially when fragmented problems involve the participation of several different actors in the policy process. In such cases, coordination among peers and information exchange can prove to be more efficient. Likewise, the market solution to coordination problems does not always represent the best strategy. The anonymous exchange among independent, maximising agents can yield inefficient results, when not all the restrictive assumptions of the First Fundamental Theorem of the welfare economics are satisfied, as in the presence of external effects or public goods.

A governance relationship can also be prone to failure, but openness to failure risks and willingness to cope with uncertain results are just some of the greatest strengths of this approach.

Having defined what we refer to with the term of governance, we now aim at identifying some relevant aspects of the concept, in order to consider governance as a basic framework for understanding collective action problems. Such a framework can provide a reference perspective, a focus through which many of the established relations in public economics problems can be reconsidered.

Specifically, three aspects are worthy to note in order to define a governance perspective:

**First aspect of a governance perspective: multiplicity of actors from the public, private and voluntary sectors – blurring of boundaries between different sectors**

Actors in governance relationships are not necessarily drawn from public bodies. On the contrary, there is a widespread agreement that governance mechanisms involve the interaction among reciprocally influencing agents from public, private and voluntary sectors. The authoritative power and a formal enforcement by the state are not required, since the interrelationship finds an internal co-ordination mechanisms, based on complex incentive-disincentive structures: “The essence of governance is its focus on governing mechanisms which do not rest on recourse to the authority and sanctions of government” (Stoker, 1998; p.17). As Gamble notes, “governance denotes the steering capacities of a political system, the ways in which governing is carried out, without making any assumption as to which institutions or agents do the steering” (Gamble, 2000; p.110).

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31 As R. Keohane (2002; p.202) argues, “Government is the subset that acts with authority and creates formal obligations. Governance need not necessarily be conducted exclusively by governments and the international organisations to which they delegate authority. Private firms, associations of firms, nongovernmental organisations (NGOs), and associations of NGOs all engage in it, often in association with governmental bodies, to create governance; sometimes without governmental authority”.  

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The system of governance is not based on a unique centre of power, and power relations do not go on a one-way, as in hierarchical coordination mechanisms. On the contrary, many centres and multiple interrelationships among many actors at different levels and stages of the decision process increase the complexity of the governance structure.

The growing complexity and fragmentation of political, economic and social problems imply that problem solving and decision-making processes involve several interests and actors. The emergence of an issue, such as a policy definition, leads to the creation of forms of partnerships and networks among representative groups from public, private and the private non-profit sectors which together set the rules of the game, the direction for development and define long-term policy projects.

Different actors can be represented by the multiplicity of public institutions and agencies at various levels (national, regional, local), on the one hand, and by agencies and companies from the private sectors, that are assuming a relevant role in key areas (such as urban service delivery and strategic decision-making, for instance), on the other hand.32

The blurring of boundaries between the public and private sector is highlighted also by the emergence of a range of voluntary or third sector agencies “variously labelled voluntary groups, non-profits, non-governmental organisations, community enterprises, co-ops, mutuals and community-based organisations” (Stoker, 1998; p.21). These non-profit organisations are gaining wide recognition for their contribution to deal with social and economic problems, without reliance on the formal authority and resources of the State. As the literature on welfare mix shows, for instance, welfare delivery is often provided by the state and produced by private market actors, while the distribution is carried out with the collaboration of voluntary associations of civil society (Marcussen and Torfing, 2003).

The increased number of actors involved in a governance perspective implies both a growing complexity in the system of government and a sharing of responsibilities between public institutions, on the one side, and the private and voluntary sectors and the civil society, on the other.33

However, since a necessary minimum of ground rules is necessary to ensure a fair behaviour among actors and to maintain collectively agreed

32 There are the well-known examples of former public enterprises sold off by governments: airlines, utilities, and so on. There have also been extensive changes in the urban services sector with entire areas becoming dominated by private enterprise and a few company names... In other areas such as government information systems there has been a rise in government outsourcing with again certain key private suppliers becoming dominant actors in the market” (G. Stoker, 1998; p.21).

33 G. Stoker (1998; p.19) points out that “responsibilities that were previously the near exclusive responsibility of government have been shared. Contracting-out and public-private partnerships are now part of the reality of public services and decision-making in many countries".

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standards and arrangements, formal laws and their enforcement are essential to guarantee the respect of rights and responsibilities. As suggested by some authors, the State retains an enabling and regulative role outside the governance relationship.

In order to apply a governance framework for enhancing our comprehension of collective action problems in public economics, the identification of the main actors involved in each relationship and their role has to be considered as the first step of analysis. Specifically, an investigation of how formal and informal competencies are shared, if they tend to overlap and how this affect the functioning of the decision making process is essential for understanding governance mechanisms. Secondly, the legislative and regulative context within which the relationship takes place have to be analysed, by explicitly considering that formal, but also informal norms are relevant in shaping and influencing the interaction among actors.

*Second aspect of a governance structure: interdependencies among actors*

Emphasis on interdependencies among the actors has been put by several approaches in the governance literature. Specifically, however, the concept of interdependency is at the core of the definition of policy network.

Interdependences directly arise from the nature of certain social, political and economic problems, whose complexity implies that none of the actors has the whole set of the necessary abilities, information and resources to attain the desired goals by himself.

In this perspective, the need to exchange information and resources entails agents interacting and reciprocally cooperating. Accordingly, reciprocity, interdependence, trust and co-operation are distinctive features of the governance relationship, which typically is carried out through networks, associations, forums and other forms of associative partnerships.

While each agent is formally autonomous within the relationship, in the sense that he can act independently from the others, all the agents are tightly dependent upon each other to achieve both private and common objectives. Each agent is involved in the network since he can contribute with his own resources and skills to the action of the others.

In such a context, none of the agents is in a prominent position with respect to the others, even though some actors can be stronger and have higher influence. While each actor has some private information from which he can take advantage, no one can control all the relevant information.

The need to exchange information, resources and human capital represents an essential and unavoidable feature of the relations characterising a network. In other words, since different agents cannot be considered as independent and separate factors of a productive process, information exchange and reciprocity of action are specific features of the kind of interaction that occurs within the network.
At the same time, no formal authority or chain of command can be identified, and also the governmental institutions participating are only one amongst many actors. However, since actors pursue their own goals and strategies, along with the “institutional” common objectives, a coordination among individual actions is needed. A good governance structure within a network implies that each actor is stimulated through an appropriate structure of incentives and disincentives to deal “fairly” with other components. It means that agents can take more advantage from a coordinated rather than an individualistic action, and that pursuing a collective action is a common objective of the group. In other words, a good governance is achieved when the furtherance of private goals becomes a means to pursue the common objectives.

It is worthy to note that, according to our definition, governance represents a peculiar mode to coordinate different actors engaged in a specific relationship. Accordingly, not all the coordination problems require some form of governance. More specifically, only when problems of collective choice are particularly complex, involving a plurality of agents, the attainment of common objectives is strictly related to the emergence of a good governance among different interests.

This second aspect of the governance perspective suggests to focus on the ways and the context within which interactions take place: how the contractual power is shared among agents and the rules of the game are set, for instance, if they are established by a super-ordinate authority or are the result of the collective bargaining. Another important issue to be considered in defining a governance system relates to the analysis of the informational structure: how relevant information is distributed among actors, how agents may take advantage of asymmetric information by adopting strategic behaviours, and which mechanisms are provided by the governance structure to face cases of hidden action or information (constraints, incentives/disincentives).

Finally, an investigation of time perspectives gaps among the several agents involved in the network can prove essential to verify the possibilities for an effective coordination. Different time perspective influencing the strategic choice set of each actor may negatively affect the governance structure, ultimately leading to a failure of the system. Failure may occur when some agents choose to adopt strategies able to obtain an immediate impact, rather than following the same time horizon of the other members.

Furthermore, the emergence of a governance structure depends not only by the number of the actors involved, but also on the time-frame of the projects to be implemented within the network. Short-term projects may not require complex coordination mechanisms. On the contrary, a system of governance is essential to ensure the implementation of more articulated projects, implying medium and longer term perspectives. Specifically, a
governance structure may be a prerequisite for projects that require a flexible time-frame and combine financial and sustainability issues, especially when interests of different actors have to be reconciled with unintended outcomes of the network collective action.

Third aspect of a governance structure: openness to change, innovation and learning. Willingness to cope with uncertainty and failure risks.

As the last remark suggests, the complexity and fragmentation of several problems require a mode of governance which does not focus on precise and well identified outcomes, but is able to modify and adapt its responses to different situations and contingencies. Continuous learning from experience and openness to change and innovations are important features of this form of coordination.

The potential of a governance mechanism is linked to its capacity to change and adjust to the changing environment. Since it is open to experimentation, a governance perspective explicitly recognises that failure may occur and that learning possibilities come from both by successes and failures. According to Stoker (1998; p.22), “recognising the power dependence in collective action means accepting intentions do not always match outcomes. ... Opportunistic behaviour may add to the complexity and uncertainty of outcomes... Governance implies a greater willingness to cope with uncertainty and open-endedness on the part of policy- framers”.

Efficiency and effectiveness of the governance structure within the network have to be valued not only with reference to the attainment of the planned outcomes, the more so because ambiguous results can be differently evaluated and interpreted by the various partners. Moreover, short-term inefficiencies may be justified to reach better final results. As Healey (2004; p.13) remarks, “instead of a narrow focus on the “efficiency” of resource use, such a mode of governance would acknowledge the importance of redundancy in resource use and availability. Some resources and practises need to be around for unforeseen situations,...Instead of an attitude of rule-following regulation and hierarchical reference to higher authorities... this demands an attitude that recognises and encourages imaginative power and organisational energy”.

Compared to other forms of coordination such as market and the state, a governance perspective highlights the importance of aspects such as the capacity of evolution, learning and adaptation.34

34 There is also a fourth aspect of a governance perspective it is worthy to point at: governance as culture. The authors are currently analysing such particular aspect of the concept of governance. Under this perspective, governance can be defined both as formal and informal arrangements to manage collective action, and as values, norms and traditions that pervade individual behaviour and collective action: “Everyday societal habits, norms, values, expectations, and codes of behaviour become assimilated by economic agents in different cultural settings as the “natural” or acceptable way of organising, interacting and learning (Hodgson 1994). Recognition of such “soft” institutional parameters takes us a long way in
4. Summary and conclusion

This paper provides an overview of the main uses of the concept of governance. Our interest is motivated by the widespread attention this term has received by both the theoretical literature and policy debate. Due to its several uses, governance has become a “fuzzy” term, which has multiple, but often not well-defined, meanings. Our purpose has then been to sort out the confused conceptualisation of the notion and to show how essential features implied by the concept of governance may be relevant in order to analyse co-ordination problems in public economics.

According to several authors, a transition “from government to governance”, that is, from traditional and hierarchical forms of steering and management to new and more flexible ways of co-ordination and decision-making, took place in economic and political life. This transition refers to the emergence of new kinds of guidance mechanisms and to the increasing importance of new actors, interacting each others through new forms of partnerships and networking.

Different meanings of governance are analysed in this paper according to six areas in which the term is mainly used.

In the field of development economics concepts of governance and, specifically, “good governance” are considered as an essential component of dynamic and efficient economies. Accordingly, several international development agencies and western governments require the existence of a good governance as a precondition for the implementation of development and lending policies.

International relations and international political economy also make an extensive use of the term. The increased interdependency between states, national institutions and international agencies has induced a wide debate about the search for new methods and instruments of governance. At the European Union level, for example, the rethinking about the role of European institutions in a context characterised by the emergence of new institutional actors led to the White Paper on Governance, in which new ways for promoting participation and responsibility of all potentially involved actors are explored. New formulas, such as “multi-level governance” and “committee governance”, have been proposed in order to highlight the need for greater inter-institutional and inter-level coordination between European actors.

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Corporate governance refers specifically to corporations’ management problems, in a situation of incomplete information and agency relationships. In such a context, the concept is used to identify the complex set of constraints governing relations between investors and managers.

A fourth use of governance is in the field of the New Political Economy. According to this approach, the term relates to the government of the economy. Specifically, governance represents a third mechanism of co-ordination, alternative to state’s central planning and market’s individual exchanges. Compared to the other mechanisms, a governance perspective allows to take advantage of the possibilities coming from learning and innovation processes which arise from the interaction among several actors.

A broad use of the term is made by the political science studies. Since the early of 1980s, the search for new models of “steering” and management arose as a consequence of the privatisation of public services and the introduction of commercial practices within the public sector. Interest for governance issues led to different approaches to the problem, within which two of the most relevant are the “socio-cybernetic” and the “network” ones.

According to the first approach, governance denotes an interactive process among a great number of social, political, and administrative actors, reciprocally interdependent, since none of them can affect policy outcomes by itself. Neither central governments can be considered in an advantaged position compared to other actors. The role of the state should be limited to enable the new modes of interrelations through which socio-political interactions take place (such as “networks”, “public-private partnerships” and so on).

Emphasis on interdependencies among the actors has been put also by the latter approach to governance. The concept of interdependency, indeed, is at the core of the definition of policy network. In this perspective, the need to exchange information and resources implies agents cannot attain their goals by themselves, but they must interact and reciprocally cooperate. Interdependencies coming out in networks tend to blur the boundaries among public, private and voluntary sectors, which often tend to overlap each other. Accordingly, reciprocity, interdependence, trust and co-operation are distinctive features of the concept of network governance.

The idea that the actions of a plurality of agents need a particular form of coordination brings together political science and economic definitions of governance.

Increasing complexity and fragmentation of problems and interactions imply that problem solving and decision processes involve several actors and interests, leading to the creation of networks of relations among different interdependent subjects. Such feature of interdependence directly arises from the nature of several economic, political and social problems, whose
complexity implies that none of the actors has the whole set of the necessary abilities, information and resources to attain the planned goals by himself.

The search for new forms of coordination leads to the idea of governance, interpreted as one of the different instruments for governing problems, also economic ones. Governance refers to a concept different from government. While in the latter case, the State is the main actor or, at least, is in a prominent position, governance implies a plurality of actors, with different objectives, strategies, and motivations. The action of these agents needs a special form of co-ordination and integration, in order to assure that the pursuing of individual goals does not conflict with common objectives and does not end with a paralysis of the system.

In this paper, we choose to adopt a narrow definition of governance. In our view, governance refers to the formal and informal ways in which interactions among a plurality of actors are managed, in order to sustain co-ordination and coherence within the relationship.

In this perspective, governance can prove to be a valuable alternative to the State and the market solutions. Since it represents a peculiar mode to coordinate different actors engaged in a specific relationship, not all the coordination problems require some form of governance. However, when problems of collective choice are particularly complex, involving a plurality of agents or long-time perspectives, the attainment of common objectives is strictly related to the emergence of a good governance among different interests.

A theoretical definition of governance by itself, however, does not provide a useful explanatory tool. In order to apply the governance perspective to the analysis of collective action problems in public economics, we suggest to consider some relevant features of the concept. Specifically, we argue that a careful investigation of various actors, their interrelations and the context or external environment within which they act is needed to understand the role of the governance structure in explaining how the system operates and evolves over time. The three fundamental aspects of a governance structure must be analysed with specific reference to the examined problem.

Particularly when complex and multifaceted problems have to be faced, as in the case of cultural policies, local development projects or tourism development policies, a careful analysis of the governance relationship among different agents and their interests turns out to be essential in order to assess their potential sustainability.
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