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**A New Institutional Perspective on Alternative Governance  
Mechanisms at the Local Government Level**

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**Abstract:** The "new institutional economics" (NIE) can go a long way toward comprehending the emerging complexities of local government. As local bodies seek to forge collaborative partnerships with other organizations, they have to decide whether to solve horizontal co-ordination problems through market, hierarchy or network mechanisms. NIE can show that where other governance mechanisms are incomplete or subject to high transaction costs, trust and co-operation can informally develop through the process by which network interactions become embedded within each other. We show how this approach can be revised to take into account the expressive dimension of behavior in hope-based networks whose members are bound together not so much by structures of resource dependence as by the hope they place in the advancement of common goals. To co-ordinate these networks in multi-organizational partnerships, local authorities may have to play a transformational leadership as well as a facilitative role.

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## Introduction

Despite considerable cross-country diversity in both the functions undertaken by local government and the sources of local government revenue, there has been a global trend toward increasing complexity in the local public sector over the last two decades. Bailey (1999, p.262) observes that this trend has been particularly marked in advanced countries, where a "shift away from monolithic, hierarchical, highly standardized, bureaucratic production technologies to microcorporatist networked organizations dominated by meeting the needs of consumption rather than production" constitutes, in his view, a shift from "government to governance" at the local level.

This paper will seek to examine how far economic theory can go in understanding this complexity. It takes the view that while a public choice-agency theoretic perspective may highlight the susceptibility of local authorities to various types of government failure (Kerr, 1999; Wallis, 1999), it may fail to adequately grasp some of the complexities and potentialities of "modern" local government. In particular it may neglect the networking capacity local authorities have exhibited in those countries where they have played a catalytic role in forging multi-organizational partnerships (MOPs) with government agencies, businesses, community groups and voluntary associations. We will first seek to understand how far the "new institutional economics" can go in comprehending this capacity through its transactions cost analysis of markets, hierarchies and networks. The main contribution this paper will make will be to suggest how the standard economic assumptions which underly this approach should be revised to distinguish the "expression games" played in hope-based networks (HBNs) from the "strategic games" played in interest-based networks" (IBNs) so that the "facilitative" role local authorities typically play in the latter may be compared with the more demanding "transformational leadership" role they may be required to play in the former. To play either role it must be assumed that local authorities are democratically elected and have a mandate, in terms of either a "power of general competence" or the legislation that specifically governs central-local relations, to engage in partnerships with other organizations in order to facilitate the development, in a broad sense, of their local communities.

The paper naturally divides itself into four main sections. Section 1 will consider how local authorities can be involved in multi-organizational partnerships. Section 2 will then apply a "new institutional economics" perspective to analyze how

horizontal co-ordination problems in these implementation structures may be solved through markets, hierarchies and networks respectively. Section 3 will suggest how economic theory should be modified to compare interest-based with hope-based networks. Section 4 concludes the paper by comparing the transformational leadership with the facilitative role local authorities may be required to play when they are confronted with either type of network in their multi-organizational partnerships.

### **1. Local government involvement in multi-organizational partnerships**

There would seem to be two main ways in which local authorities can be involved in multi-organizational partnerships (MOPs). Firstly, central government may co-opt local bodies, along with other organizations, into policy initiatives such as community policing that are targeted toward local citizens. Secondly, local authorities may exercise their own initiative in establishing collaborative partnership arrangements with other organizations. Typical examples of this would be where local governments join with local business leaders and tertiary institutions to facilitate small business development or develop a strategy to make the local area more attractive for new investment. In many countries, local authorities have been active in establishing collaborative relationships with businesses, voluntary organizations and community associations in the fields of urban and rural regeneration as well as in social care, education, environmental and other policy sectors (Lowndes and Skelcher, 1998, p. 314).

These tendencies appear to have gained momentum in the last two decades as "decrementalist" fiscal policies have placed resource-constrained local bodies under more pressure to lever-in new sources of finance. In this regard MOPs can enable local bodies to gain access to grant regimes that require financial and in-kind contributions from the private and voluntary/community sectors. They can also use their private sector partners to overcome public sector constraints on access to capital markets (Mackintosh, 1992).

Over the same period, the organizational and management changes that have been undertaken at all levels of government have also expanded the scope for multi-organizational partnerships. In particular, the restructuring of large bureaucratic structures into single goal agencies (Hood, 1991) that, in some cases, have been sold

off to the private sector, and, in other cases, been kept at "arms length" from each other through quasi-market arrangements, such as the "purchaser-provider split", has tended to increase the fragmentation of the public sector. As the range of different agencies responsible for shaping and delivering policy has increased dramatically, the problems of horizontal co-ordination that arise in this "polycentric terrain" (Rhodes, 1997, p.xii) have often been addressed at the local level where MOPs provide a means of developing strategic direction and sustaining co-ordination.

The central feature of MOPs is their underlying "structures of resource dependency" (Rhodes, 1988). This arises because the groups and organizations that could potentially belong to them control different amounts and types of resources—authority, legitimacy, money, information, and so on. They could therefore benefit from engaging in processes of deliberation, compromise and negotiation that produce a system of horizontal co-ordination through which dispersed resources can be mobilized and pooled so that "collective (or parallel) action can be orchestrated towards the solution of a common policy" (Kenis and Schneider, 1991, p.36).

Two major problems would appear to stand in the way of the emergence of this system of horizontal co-ordination. The first is the "prisoners" or bargaining dilemma that arises in situations where defection from co-operation is more rewarding for opportunistically rational actors than compliance due to the risk of being cheated (Scharpf, 1992). Some actors may withhold the resources they have agreed to contribute to partnerships and attempt to "free-ride" on the contributions other parties make to the advancement of common goals. Secondly, there is what Borzel (1998) terms the "structural dilemma" that arises because the actors that engage in partnership decisions are often agents of the groups they claim to represent. As this writer puts it:

" Horizontal co-ordination between organizations is based on bargaining between the representatives of the organizations. These representatives are not completely autonomous in the bargaining process. They are subject to the control of the members of their organization. These intra-organizational 'constraints' have major consequences for the representatives' orientations of action and the reliability of their commitments made in interorganizational bargaining, rendering the finding of consensus in interorganizational bargaining processes more difficult for two reasons: first due to the self-interest of the organizational representatives, and second, because of the

insecurity caused by intra-organizational control and the need for intra-organizational implementation of interorganizational compromises" (p.261).

The framework the "new institutional economics" (NIE) presents for comparing the three main types of institutional solution to these co-ordination problems must now be considered.

## **2. A NIE approach to comparing markets, hierarchies and networks**

Attempts by economists to differentiate alternative institutional solutions to horizontal co-ordination problems often take as their point of departure the emphasis seminal thinkers in the NIE tradition (Coase, 1937; Williamson, 1985) gave to markets and hierarchies as distinct governance mechanisms associated with specific types of transaction costs. Subsequent developments in this tradition have added a third category to this scheme. Different triads of terms have thus emerged: markets, hierarchies and networks (Thompson *et. al.*, 1991); community, market and state (Streek and Schmitter, 1985); markets, bureaucracies and clans (Ouchi, 1991); price, authority and trust (Bradrach and Eccles, 1991); and markets, politics and solidarity (Mayntz, 1993). All these hark back, in a sense, to Boulding's (1978) distinction between exchange, threat and integrative relationships. Although there are different emphases in these schemes, three ideal types can be delineated as shown in Table 1 (adapted from Powell, 1991). It should be borne in mind, though, that as Bradrach and Eccles (1991, p.289) point out, "price, authority and trust are combined with each other in assorted ways in the empirical world".

### *The Market Mechanism of Governance*

Table 1 indicates that one possible solution to horizontal co-ordination problems in a MOPs may be through a market system of governance in terms of which the resource contributions of the various partners would be specified through a series of legally binding contracts. At least some measure of hierarchy may be required to operate this contractualist mode of governance. This could take the form of an organizational structure, such as a contract management agency with the authority to enter into and manage contracts with the various partners. The property rights implications and key features of this predominantly market mode of governance have been succinctly summarized by Lowndes and Skelcher (1998, p.318):

"Price mechanisms are the means by which the relationships are mediated and where conflicts emerge there may be haggling or recourse to law in order to determine the liabilities of the parties involved. Markets provide a high degree of flexibility to actors in determining their willingness to form alliances, although the competitive nature of the environment and the parties' underlying suspicion may limit the degree of commitment to any collaborative venture".

This mode of governance may give rise to particular transaction costs that render it incomplete in the case of MOPs. Hindmoor (1998, p.30) has identified four different sources of transactions costs that could have this effect: "complexity"; "power asymmetries"; "information asymmetries"; and "thinness".

With respect to complexity he argues that "a proposed exchange is more complex the larger the number of contingencies that have to be considered *ex ante* by both parties before being able to specify what will *ex post* constitute satisfactory performance of an agreement" (p.30). The number of contingencies that arise in MOPs may simply be too large to be governed by a complete system of contracts. Moreover, the qualities of "consummate co-operation"- the use of judgment, enthusiasm and initiative- that may be expected of the parties involved in these collaborative arrangements may simply be too difficult to define in contractual terms.

Apart from these complexities, the potential effect of power asymmetries may discourage some groups and organizations from participating in these arrangements. In this regard, Hindmoor (1998) suggests that some parties may be reluctant to engage in contractual arrangements with central government agencies since they may fear that they will be unable to enforce compliance or achieve compensation through the courts because of the unique capacity the government has to "overturn or ignore judgments against it" (p.31). Lowndes and Skelcher (1998) have found that where contractualist arrangements are used to govern program delivery by MOPs, power asymmetries may work to the detriment of voluntary and community organizations. Despite "official insistence" on community involvement in the urban regeneration projects they studied in the UK, these organizations were often excluded. As one of their interviewees commented:

"Unless you're cute and big, the voluntary sector could get squeezed out. Small and specialized voluntary organizations haven't got the clout or understanding required by the process. These organizations are valuable

because they bring enormous energy and commitment, but you need political clout and strategic nouse to get into partnerships" (p.327).

A third, and very familiar, source of transactions costs in contractualist arrangements are information asymmetries. These "occur and complicate exchange when the underlying circumstances relevant to a trade are known by one or more but not all parties to that exchange" (Hindmoor, 1998, p. 31). The tendency by actors in market modes to treat information as a type of property to be used to gain an advantage over their collaborators as well as their competitors may inhibit the free flow of information and cause information asymmetries to persist to a degree greater than that observed with network modes of governance.

The fourth source of transaction costs mentioned by Hindmoor (1998) arises when transactions are "thin" since "the smaller the number of trading partners an actor can deal with to achieve their desired objectives", the more likely it is that "the very consummation of an exchange can leave one or both actors more reliant upon the other" (p.32). This appears to be a general formulation of the problem of asset specificity analyzed by Williamson (1985). In the context of MOPs, Hindmoor (1998) essentially argues that the more complex the system of contracts becomes in terms of the contingencies it covers, and the more specific tasks are contractually allocated to different partners, the greater the dependence these partners will have on one another and therefore the greater the risk they face of being opportunistically exploited by each other.

When these factors cause the transactions costs associated with market modes of governance to be high, other modes such as hierarchies or networks may be more efficient. Consideration does need to be given, though, to the types of transaction cost they generate. We will first do this in regard to the hierarchical mode of governance.

#### *The Hierarchical Mechanism of Governance*

A hierarchical solution to the problems of horizontal co-ordination in a MOP could involve the establishment of a bureaucratic structure with clear roles, responsibilities and reporting lines to co-ordinate the inputs of the different organizations. This could be overseen by a partnership board in which the number of votes held by the representatives of the different organizations could be clearly established. This may overcome some of the problems of co-ordination and collaboration found with market modes.

Significant transaction costs could, however, be involved in establishing such a hierarchical structure and maintaining its authority over time. Lowndes and Skelcher (1998) refer to the potentially high negotiation costs that could be involved in establishing a partnership board:

"Partnership creation involved negotiation and contest over 'who's in and who's out', a significant shift to hierarchical structures compared with the relatively fluid memberships and indistinct boundaries in pre-partnership collaborations. This was sometimes focused on a particular issue like the allocation of seats to a board or management committee; at other points it was played out in terms of debates about leadership, remit and priorities" (p.325).

The transactions costs associated with establishing a hierarchy would thus appear to be related to the degree to which a contest for authority arises between the potential partners. This may explain why hierarchical structures can emerge with relative ease in cases where the vertical line of authority is largely uncontested. Hindmoor (1998, pp. 33-4) thus observes that "in the case of the employee-employer relationship, hierarchy is attractive to both parties because it is assumed that the employee has no particular preference over the nature of the tasks they are called upon to perform".

Unfortunately this is unlikely to be the case with a MOP since the potential partners "cannot remain indifferent to the direction in which authority is exercised as it is precisely this that they seek to influence" (Hindmoor, 1998, p.34). Indeed, it is possible that the contest for authority between these actors may be unresolved and a hierarchical structure may fail to form. Alternatively it may only be possible to form a partnership board by deliberately excluding groups or organizations which cannot accept its authority. The multi-organizational partnership may thus have to function without their co-operation. However, even if a reasonably inclusive structure can emerge from this contest for authority it is likely to have a tendency toward formalization and routinization that may result in further transactions costs in terms of reduced flexibility and innovation.

It would seem, then, that both market and hierarchical modes of governance may be incomplete or subject to high transactions costs. Questions must then be raised about the relative desirability of networks as a mode of governance for multi-organizational partnerships. Can they form and function with lower transaction costs than markets or hierarchies? Are they more flexible or inclusive? Can they elicit greater commitment from potential partners? It is to these questions that we now turn.

*The Network Mechanism of Governance*

Networks cannot be simply distinguished from other governance mechanisms by the presence of trust and absence of rules in network-like relationships. Although most writers on networks would agree with Hindmoor (1998, p. 25) that to understand how these governance mechanisms develop, "it is necessary to understand how and why trust emerges", this does not imply that trust is not also an important factor reducing the transactions costs of markets and hierarchies. The essential difference is that while "markets and hierarchies generate trust by providing institutional safeguards . . . the defining characteristic of a network is a trust that does not depend on the presence of formal and exogenous safeguards" (p.34).

Moreover, this trust is based on a confidence that the actors in a network will not break the rules that circumscribe the boundaries of their co-operative behavior. These rules have been conceived in a variety of ways. Rhodes (1988, pp.42-3) finds the differences between various types of "policy networks" residing in the "operating codes", "underlying philosophies" and "rules of the game" that govern relations within them. Wilks and Wright (1987, p.305) refer in a similar vein to how the avoidance of disputes within such networks is tantamount to "an unwritten constitution" governing relationships. In a corresponding manner Jordan and Richardson (1979, pp.100-1) have sought to identify the "operation understandings" that influence "the process by which and the atmosphere within which . . . policy-making is resolved". They highlight the importance of rules which allow actors to achieve "understandings which benefit all participants" (p.472). According to this view, such rules are constitutive of policy networks since they give each actor information about how others can be expected to act and thereby enable collaborative activity to be undertaken "in a context where participants already have mutual needs, expectations and experiences" (Jordan, 1990, p.326).

The main difference between the rules and understandings that govern network relationships and those that characterize markets and hierarchies would thus seem to lie in the informality of the former. As Hindmoor (1998, p.35) has pointed out:

"Because they are informal and unwritten, such rules cannot be enforced in the way that a legally recognized contract can. Neither is compliance ensured by giving one actor hierarchical authority over the actions of another. Clearly the actors in a (network) must trust each other not to exploit their positions and

trust each other in the absence of any external safeguards. It is trust that makes the emergence and survival of such rules possible."

It would thus seem that, from a NIE perspective, networks can address horizontal coordination problems without requiring their members to expend resources on institutional safeguards against opportunistic or non co-operative behavior.

Networks are, of course, not just a concern of NIE. The study of networks has been very much in vogue in recent years. According to Kenis and Schneider (1991), the network concept seems to have become "the new paradigm for the architecture of complexity". The widespread use of network concepts across a variety of disciplines is reflected in the following comments by Borzel (1998, p252):

"Microbiologists describe cells as information networks, ecologists conceptualize the living environment as network systems, computer scientists develop neuronal networks with self-organizing and self-learning capacities. In contemporary social sciences, networks are studied as new forms of social organization in the sociology of science and technology, in the economics of network industries and network technologies, in business administration and in public policy."

The main problem facing network theorists in the social sciences would seem to be to explain how the collaborative activities within the context of "interdependent relationships based on trust, loyalty and reciprocity" that they typically associate with networks can be developed and sustained. Most of the solutions to this problem can be grouped into two categories. The first is derived from the type of strategic game theory that has become very familiar to economists. It seeks to explain the formation of networks based on complementary interests. The second is derived from the (less familiar) concept of "expression games" formulated by Goffmann (1959). We will seek to compare and contrast two types of network- one interests -based and the other "hope-based" - that can be explained in terms of these two types of game. Although the expression games that give rise to hope-based networks (HBNs) may seem to lie more within the domain of social psychology than economics, we will try and suggest how rational choice theory can be modified to help it explain better this type of interaction.

### 3. Interest vs Hope-Based Networks

Over the last two decades game theorists have made considerable progress in developing their understanding of the conditions under which it is rational for agents to trust and co-operate with one another (Axelrod, 1984; Coleman, 1990; Kreps, 1990). The following factors differentiate the games modeled by these theorists from the "Prisoners Dilemma" situations that render socially sub-optimal non-co-operative strategies rational from an individual perspective: the number of actors is relatively small; contact with those outside the network is limited; interaction between actors is expected to be frequent; and co-operation in one area can be made contingent upon co-operation in other areas. Under these conditions actors will calculate the impact their non-compliance with network rules will have on their reputation within, and future access to, the network. Where each member holds a mutual expectation that the costs of non-compliance will exceed the benefits, trust and co-operation can develop since, as Gambetta (1988, p.10) puts it, "actors will trust since they have reason to trust". The resulting interest-based network (IBN) can thus be expected to function as a stable governance mechanism despite the absence of formal sanctions against non-compliance with its "rules".

#### *Policy Communities as Interest-Based Networks*

Hindmoor (1998) has suggested that the IBNs that emerge from these repeated games are likely to take the form of "policy communities" rather than "issue networks". A distinction between these two types of "policy network" has been made by Marsh and Rhodes (1992, p.25) along the lines shown in Table 2.

For governance within a MOP to take the IBN form of a policy community it would seem that the complementarity of interests between partners should arise from a relatively balanced structure of resource dependencies. Access to the MOP must therefore be limited to those partners who can make significant resource contributions. Moreover, these contributions would not be limited to a particular project but would occur in the context of an ongoing policy issue, or series of interconnected issues, in respect of which the actors share the same tacit or paradigmatic understanding. Their need to engage in "frequent, high-quality interaction" with respect to this issue or issues would have the effect of transforming a "one-off" game into an iterated relationship. As negotiations become embedded

within other negotiations, trust and co-operation can develop since actors will realize that defection in any one area can lead to the unraveling of co-operation in other areas. This characteristic of what Granovetter (1985) termed "embeddedness" would seem to save the transactions costs of setting in place more formal safeguards against non-compliance with network rules.

The institutional disadvantages of IBNs do, however, become clearer the more they conform to the ideal type of a policy community. In the first place, these governance mechanisms can become as elitist and exclusive in their own way as hierarchies. Moreover, their informality can make it difficult to hold them publicly accountable in the same way as hierarchical structures that function under the aegis of elected public bodies such as local authorities. In their survey of the urban regeneration activities of MOPs, Lowndes and Skelcher (1998, p.328) found that:

“The importance of informality, personal relationships and trust . . . was regarded negatively by some of our informants. Network-style relationships were viewed by those who felt excluded or marginalized as ‘cosy’, ‘cliquey’ or ‘sewn-up’. The reliance on social contact, friendship and personal trust made it hard for new actors to ‘break in’ to networks”.

More specifically, it would seem that IBNs can ossify into "iron triangles" comprising committee councilors, professional managers and "insider" interest groups that collude to keep in place programs that confer benefits on each party and spread costs over the local rate-paying or national tax-paying population while, at the same time, denying other groups access to the local policy process.

Policy communities have also been portrayed as sources of resistance to change. In Britain, case studies based on the "Rhodes model" have been made of policy networks in agriculture, civil nuclear power, youth employment, smoking, heart disease and health services, information technology and exchange rate policy (Marsh and Rhodes, 1992). Most of these networks were found to exhibit, to a varying degree, the properties of policy communities so that "in each area a limited number of groups enjoyed privileged access to policymaking shaping both the policy agenda and policy outcomes" (Rhodes and Marsh 1992, p.199). Significantly, Rhodes and Marsh (1992) conclude that such policy networks can act as a major constraint on policy change. These writers point out that such networks "do not necessarily seek to frustrate any and all change but to contain, redirect and ride-out such change, thereby materially affecting its speed and direction" (pp.196-7).

There are also opportunity costs associated with the time and effort involved in networking activities. In this regard Lowndes and Skelcher (1998, pp. 322-3) make the following comment:

"Getting to know key individuals and building relationships took time and could distract organizations from their 'core business'. As one informant noted: 'You could pack your week with inter-agency meetings, but what would you drop then?'"

Less obviously, from a perspective that focuses narrowly on transactions costs, there may be what Borzel (1998) terms "redundant possibilities" in such apparently wasteful networking activities in that they "can provide additional, informal linkage between the inter- and intra-organizational decision-making arenas . . . (that) help to overcome the structural dilemma of bargaining systems . . . Networks do not directly serve for decision-making but for the information, communication and exercise of influence in the preparation of decisions" (p.262).

Borzel does, however, broaden her critique of the NIE approach to analyzing the comparative institutional advantage of networks by referring to the way it neglects "the role of consensual knowledge, ideas, beliefs and values" (p.264). She goes on to suggest that alternative, more cognitive, approaches to the studies of policy networks may be emerging in theories of learning and communicative action such as the "advocacy coalition" model of Sabatier (1988) in which network members "do not resort to strategic bargaining but rather rely on processes of communicative action such as policy deliberation or policy change through policy learning" (p.264).

At first sight such theories may seem to be suggesting a mode of network interaction that lies outside the explanatory domain of conventional economic analysis. We will now look at a specific framework that can be applied to modify a rational choice approach to explain interaction within hope-based networks (HBNs).

#### *Hope-Based Networks (HBNs).*

In an important survey article on "The Emotions and Economic Theory", Jon Elster (1998) has suggested a number of ways in which rational choice theories could be modified to better explain the effect the emotions have on behavior. According to this writer, emotions such as hope can be distinguished from non-emotional mental states by six features, namely "cognitive antecedents, intentional objects, physiological arousal, physiological expressions, valence, and action tendencies" (p.49). This

scheme may be simplified and made applicable to HBNs by distinguishing three components of the emotion their members come to share in common.

In the first place their shared hope will be triggered by the "core beliefs" they have about the possibility of advancing their common goals through engagement in the policy process. In essence a belief that it is "neither inevitable nor impossible" (Sutherland, 1989, p.193) that certain goals can be advanced through participation in the policy process must be combined with a belief that these goals are "worthy of pursuit in a special way incommensurable with other goals we might have" (Taylor, 1985, p.135) to elicit a hope that is expressed through an investment or commitment of self to the realization of these goals.

Emotions such as hope, nevertheless, involve more than a set of beliefs. These beliefs must be expressed with a degree of "emotional energy" that is reflected in the characteristics of physiological arousal, physiological expression and valence described by Elster (1998). Collins (1993) has formulated a theory in which emotional energy is "the common denominator in rational social action". According to this writer, only people with very high or very low levels of emotional energy will pass the attention threshold at which their degree of emotional intensity becomes "empirically visible, both in behavior (especially nonverbal expressions and postures) and in physiology" (Collins, 1993, p.211). We have suggested that the beliefs underlying hope will be expressed with a high and observable *passion* to advance the goals in which it is placed. This passion can "either draw people toward, or repel them away from, interactions in which it is generated by participants" (Wallis and Dollery, 1999, p. 144).

In his survey of emotion theory, Elster (1998, p.47) has pointed out that "by and large, psychological studies of the emotions have not focussed on how emotions generate behavior. Instead, they have tried to identify the proximate or ultimate causes of the emotions. To the extent that psychologists are concerned with behavior, it is usually with *action tendencies* rather than with observable actions." These "action tendencies" have been defined by Frijda (1986, p.70) as "states of readiness to execute a given type of action".

Three distinctive action tendencies would appear to be produced by the shared emotion that is developed within HBNs. In the first place, the shared hope of members will give rise to an entrepreneurial alertness to opportunities to advance their common goals. Erich Fromm (1968, p.9) has highlighted this characteristic of hope:

"Hope is paradoxical. It is neither passive waiting nor is it unrealistic forcing of circumstances that cannot occur. It is like the crouched tiger, which will jump only when the moment for jumping has come".

A second (and related) action tendency is a readiness to keep striving to advance their goals in the face of cumulative disappointment. Snyder (1994) defined hope as "the sum of the willpower and waypower that you have for your goals" (p.5). He proposes that, in the course of striving to achieve the goals they place their hopes in, people need to exercise (i) "willpower" as they draw on their reserves of emotional energy or "determination and commitment", and (ii) "waypower" as they generate one or more effective paths to their realization. They will particularly need to exercise willpower and waypower in the face of opposition or resistance or when the path they are pursuing toward a goal comes to be blocked.

From this perspective, hope primarily generates an action tendency toward perseverance. It can thus be seen as an important source of the in-process benefits that reward people for their participation in that type of activity where, according to Hirschman (1985), a "fusion of striving and attaining" may occur as individuals "savor in advance" the realization of what they are striving for. This not only compensates them for "the uncertainty about the outcome, and for the strenuousness or dangerousness of the activity" but can act as a disincentive to free-riding in team situations (pp. 14-15).

The action tendencies of alertness and perseverance appear to characterize the ideal type of a "policy entrepreneur" described by Kingdon (1984) who are depicted as "lying in wait" for an opportunity to push their pet proposals or concerns forward for consideration by other policy makers. HBNs can therefore be conceived as bringing together policy entrepreneurs who seek to engage in the policy process in pursuit of goals that are the object of their shared hopes.

The third action tendency produced by hope and a tendency to be drawn to interact with actors who share the same hope. To explain this action tendency Elster (1998, p.64) rejects a cost-benefit model of the emotions that treats them "as psychic costs and benefits that enter into the utility function on a par with satisfactions derived from material rewards" in favor of an approach that views them both as sources of dissonance and as mechanisms of dissonance reduction. He thus seeks to apply to a study of the emotions the theory of "cognitive dissonance" popularized by Leon Festinger (1957) which suggests that to reduce the unpleasant feeling of tension they

experience when they act on their tendencies, individuals will look for cognitions that support their actions and reduce the feelings of tension or dissonance that arise when they engage in them. This approach can explain why individuals who hold the beliefs associated with hope will be drawn to interact in HBNs that share their beliefs. There would appear to be two ways in which network interaction can strengthen the emotions shared by members: through the rhetoric that strengthens the beliefs that underly shared emotions; and through the production and reproduction of emotional energy through interaction with other members of the group.

Interaction within HBNs is likely to involve a mutual sharing of reasons for the beliefs that trigger these emotions. Each member is likely to have his or her own reasons for participating in the network but these will always, to a degree, be implicit, inchoate and partly articulated. They will therefore look to others to provide a clearer, more explicit articulation that reinforces the beliefs they share in common. This will not only strengthen the cohesion of the network but may also serve an "evangelistic" function, persuading outsiders to commit themselves to these groups as an expression of how much these beliefs mean to them.

A HBN can come to be identifiable by its rhetoric. It can be seen as being engaged in what Goffman (1959) called "expression games". These are typically a form of social interaction that involve "senders" who express themselves in particular ways, and "receivers" who take in and react to such expressions, forming an impression of the "senders". Loury (1994) has argued that this concept is particularly pertinent to policy studies since the interpretation of political expression generally involves "making inferences from the expressive act about the sender's motives, values and commitments" (pp. 432-3). He suggests that acceptance by a particular may require the use of "code words" and the resort to "groupspeak". These expressive acts will induce a dissonance that impacts on group members according to the degree that they compromise their autonomy by engaging in them. They may therefore function as a selection mechanism, screening out those members for whom this dissonance is most intense so that the internal cohesion of the HBN increases with time as it comes to comprise a membership who genuinely share the beliefs that are expressed through this rhetoric.

Another type of selection mechanism has been identified by Collins (1993). This writer emphasizes what he calls the "interaction ritual" (IR) aspect of expression games. He proposes that an "interaction ritual" (IR) can only be "successful" in the

sense that it augments the reserves of "emotional energy" that the members of a group need to draw on if they are to maintain the action tendencies associated with the emotions they share in common if it passes two important thresholds. The first is a "threshold of boundedness". This is likely to be passed in interactions within HBNs since their members will hold the set of beliefs that give rise to their shared emotion with a level of emotional energy that is high enough to be observable. A person who does not have the passion of other members will find it more difficult to interact within these networks than Kuran's (1990) theory of preference falsification seems to suggest. It will be hard to "keep up an act", continuously "fooling" other members about their lack of emotional intensity and, even if they succeed in this falsifying strategy, they will derive no satisfaction from a sense of belonging to these groups. A culture of passion can therefore function as a selection mechanism, screening out those participants who do not genuinely share the HBNs beliefs. The boundedness of these networks may thus be enhanced over time by the selective effect of this culture.

The second threshold that must be passed for a successful IR to occur is what Collins terms a "threshold of density". This threshold is passed when at least two persons are close enough for a sufficient period of time to ensure that they can be moved by one another's passion. Frequent, face-to-face, interactions could be regarded as having a high density in this sense.

Collins argues that once the thresholds of boundedness and density are passed in a particular IR, the participating group's focus of attention and common emotional mood will go through a short term cycle of increase and mutual stimulation until a point of emotional satiation is reached. The interaction will leave each participant with an "energetic afterglow" that "gradually decreases over time" so that individuals have an incentive to reinvest their emotional energy in subsequent interactions. It may therefore accumulate across IRs so that individual members may build up "a long-term fund" (Collins, 1993, p.212) of passion by repeated participation in successful IRs. It is this fund or reserve of "willpower and waypower", that can be drawn on by the members of a HBN to counter the emotional component of the dissonance they experience as a result of accumulated disappointments and to sustain their "action tendencies" to "lie in wait" "like crouched tigers" for opportunities to advance their common goals.

A comparison between IBNs and HBNs is made in Table 3. From a comparative institutional perspective, there would seem to be a number of advantages

a HBN has compared to an IBN as a governance mechanism within a MOP. The action tendencies toward entrepreneurial alertness and perseverance that are produced within a HBN are likely to make their members both more flexible and more committed than the members of an IBN. These action tendencies can be regarded as a type of "value-added" to the expression games played within HBNs since these are just as likely to solve "prisoners" and "structural" dilemmas as the repeated strategic games played within IBNs. In addition, the members of a HBN are likely to have a strong "change orientation" compared to the members of an IBN. Rather than simply seeking to "contain and ride-out" changes imposed from the top-down, they will "lie-in-wait", preparing themselves to take advantage of opportunities to either initiate changes that advance their common goals or advance one another into positions from which they can launch such initiatives.

The recognition that HBNs are effective "change agents" may provoke strong opposition from those groups that are excluded from the multi-organizational partnerships the HBNs manage to take over. While IBNs may be just as elitist - exclusion from, say, a typical policy community may be viewed as less threatening to the groups concerned. They will view it as constituting the "local establishment" that needs to be accommodated or circumvented if they are to advance their own goals. The emergence of a HBN that not only holds the levers of local power but is committed to using them to overcome all resistance to the changes it is seeking to implement does, however, present a more serious institutional threat to groups with rival goals. To counter this "imminent danger" they may mobilize "reactionary" HBNs that are committed to advance the forward momentum of "progressive" HBNs. This corresponds, of course, with Sabatier's (1988) finding that in "policy subsystems" where participants are divided on a narrow set of core beliefs, a stable alignment of rival "advocacy coalitions" can emerge over time. The balance of power between these groupings is only likely to be disturbed by exogenous factors such as an election or economic crisis. This structure may therefore produce a "policy paralysis" no matter how strongly orientated any one advocacy coalition or HBN is to paradigmatic change.

The potential for HBNs to provoke the mobilization of resistance sufficient to produce such policy paralysis may mean that they may be less long-lived than IBNs. The "long march" strategies of IBNs with their characteristic emphasis on "incremental change through partisan mutual adjustment" (Lindblom, 1959) may thus

ensure a longer continuity of these governance mechanisms than is the case with HBNs whose focused passion to advance the group's goals may eventually produce strong resistance and the accumulation of disappointments that can eventually "douse the fire" produced by their early success in advancing their goals.

In addition to the degree that a HBN seeks to strengthen its internal cohesion through a "politically correct" language involving "code words" and "groupspeak" they may become more prone to policy errors (Loury, 1994) and less likely to deliberate about the scope for compromise between competing goals than are IBNS that often require a high degree of deliberative rationality to forge a reconciliation of interests.

Finally, HBNs are likely to be more dependent on actor-specific leadership skills than IBNS. At least one actor in an IBN is required to initiate and facilitate the informal pre-partnership collaborative activities out of which a multi-organizational partnerships may be formed. However, for a HBN to emerge from these networking activities the members may have to look to one actor as the "leader". Leaders can play a focal role in HBNs, facilitating the development of a "culture of passion" and the convergence of follower hopes on a shared vision. To do this they may ensure that the thresholds of density and boundedness are passed by structuring group interaction into a number of levels descending in status from the 'inner circle' of followers who the leader chooses to interact directly with. Access to this level of interaction will be limited to those followers in whom the leader has placed the highest level of trust. This trust will be based not just on the skills and resources which these followers can deploy in performing the tasks allocated to them, but also on the passion which they express in seeking ways to advance the leader's quest. Leaders can thus shape the development of their follower culture by setting the terms according to which followers compete for access to their inner circle. Moreover, they can influence the passion that is generated in this circle and which filters down the different levels of followership by enhancing the commonality of focus and emotional mood that is stimulated by IRs. Bennis and Nanus's (1985) conception of leaders as 'managers of meaning' would seem to be pertinent in this regard. To perform this function, leaders must direct their followers attention to the point and significance of their actions and interactions and narrow their evaluation of this point and significance to a simple consideration of whether these activities are moving the quest in the direction intended by the leader (Wallis and Dollery, 1999).

The comparative institutional analysis we have undertaken of markets, hierarchies and both interest- and hope-based networks would suggest that no mechanism can *a priori* be argued to be a superior mode of governance for MOPs. We need to direct our attention, now, to the role local authorities can play in these structures.

#### **4. Conclusion: The Potential Catalytic Functions of Local Government**

In many countries local governments can make use of unique institutional resources that can enable them to play a catalytic role in the formation and development of MOPs. Their multi-purpose structure and the discretion they typically have over the range of community services they seek to provide and the delivery mechanisms they use in providing them has been a concern to government failure theorists since these characteristics of local authorities make it difficult to subject them to vertical lines of authority within which they can be made accountable for clearly specified outputs. However, it is these same characteristics that make local authorities particularly suited to their role of being suppliers of community governance. As they seek to develop this role they are also likely to expand their institutional memory as a result of having to learn how to cope with, and adapt to, the range of pressures that can be traced to the drive by both central government and citizen ratepayers to make local governments deliver more for less.

To cope with these pressures, local authorities have had to restructure themselves to both retain an "in-house" capacity to supply strategic direction to the range of organizations and groups they collaborate with and to develop a capacity to manage the mix of governance mechanisms they deploy in serving their "communities of interest". An intra-organizational structure that separates advice from implementation, regulation from service delivery and commercial from non-commercial functions can enable a local authorities to contract-out those services and functions in respect of which the transactions costs of market governance are lower than those associated with hierarchical in-house provision. At the same time the pressure on local authorities to deliver more for less may induce them to engage in the type of networking activities that Lowndes and Skelcher (1998) suggest can constitute necessary preparation for the formation of MOPs.

Local authorities can position themselves at the center of these networks whether they take the IBN or HBN form discussed in the previous section. Within an IBN they can bring key resources of democratic legitimacy and the informational advantages they may have developed where they have a history of working with local groups and agencies to solve problems that cross organizational boundaries. As Painter *et.al.* (1997, p.242) have pointed out:

"At issue is a catalytic role in facilitating liaison where problems are not susceptible to single-agency solutions. Given the perspective that only a local authority as a multi-purpose body can bring, in some respects the onus is on it to make linkages, strategically intervening to draw agencies together. As a senior officer in a London borough observed of the changing environment: 'The local authority world will just die away if they don't, not just respond to it, but manage the new world.'"

With regard to HBNs, local authorities may be well-placed to prevent, or break through, the type of policy paralysis that can emerge when a "reactionary" HBN is able to mobilize sufficient resistance to stall the forward momentum of the advance of a progressive HBN's policy quest. To do this they must be able to deploy officials who have a tolerance for what Barber (1984) terms "autonomous politics".

According to this writer there can only be scope for the emergence of "autonomous politics" on those occasions when "some *action of public consequence* becomes *necessary* and when men must thus make a *public choice* that is *reasonable* in the face of *conflict* despite *the absence of an independent ground*" (Barber, 1984, p.122 - original emphasis). For autonomous politics to occur, each value, belief, interest or obligation affected by a particular choice opportunity must have an "equal starting place" and then be required to earn legitimacy by running the "gauntlet of public deliberation and judgment" (Barber, 1984, p.137). Where conflict emerges, each side is given an adequate opportunity to make their case so that where one prevails, the other is left with the impression that they have been the subjects of a reasonable process. As Barber (1984, p.127) points out:

"The word reasonable bespeaks practicality. It suggests that persons in conflict have consented to resolve their differences in the absence of mediating common standards, to reformulate their problems in a way that encompasses their interests (newly and more broadly conceived) even while it represents the community at large in a new way. "Well, I guess that's reasonable," admits an

adversary who has not gotten his way but has been neither coerced or cajoled into the agreement he has consented to. He is neither victor nor loser; rather he has reformulated his view of what constitutes his interests and can now "see" things in a new manner."

When local officials bring together HBNs the very fact that the local authority has multiple goals and is therefore less committed to the advancement of any of the particular goals these different groups place their hope in, may allow them to play a mediating role as they strive to preserve these norms of reasonableness in inter-group interaction. Moreover, the local authority is likely to be uniquely concerned with the possibilities this type of interaction hold for the forging of a common vision of community development that can engage the support of divergent HBNs. To the degree that its representatives have a propensity to internalize politics, to encourage debate, to relax the norms of "political correctness" (Loury 1994), to allow the expression of dissent and to strive to forge from conflicting views some common and yet creative conception of how the local public interest is affected by the issues at hand, they may be able to exercise what Burns (1978) termed "transformational leadership". This is the force that though "closely influenced by particular local, parochial, regional, and cultural forces" is able to "find a broadening and deepening base" from which "to reach out to widening social collectivities to establish and embrace 'higher' principles and values"(Burns, 1978, p.429). The emergence of hope rather than interest-based networks in a local area would thus seem to place greater demands on the governance capacity of local authorities in the sense that they need to develop transformational leadership skills to bring these potentially conflicting groups together in the pursuit of a shared vision for the development of their community.

To the extent that NIE can be adapted to take account of both interest- and hope-based types of network interaction, it can provide a rationale for the relatively open-minded approach to the capabilities of particular local authorities that can be associated with an "activist orientation" by central government to local government policy (Wallis and Dollery, 1999b). Rather than simply presuming that local authorities, in general, have an excess spending bias due to their susceptibility to various types of local government failure, this approach would recognize the networking capacity some local authorities might have developed through repeated interaction with other organizations in MOPs. From this perspective the question of

whether particular local authorities may have a comparative advantage in coordinating and steering such MOPs is essentially an empirical one. An activist approach to local government policy would thus not involve the center conferring a *carte blanche* on all local authorities. Rather it would foster and develop central-local trust-based relationships in which those authorities that satisfy the performance expectations of the center are rewarded by being entrusted with more functions and a greater degree of local autonomy. Eventually, the most trusted authorities could come to play a significant activist role in the supply of local governance and the development of their communities.

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**Table 1: Modes of governance-market, hierarchy and network**

	<b>MARKET</b>	<b>HIERARCHY</b>	<b>NETWORK</b>
<i>Normative basis</i>	Contract-property rights	Employment relationship	Complementary strengths
<i>Means of communication</i>	Prices	Routines	Relational
<i>Methods of conflict resolution</i>	Haggling-Resort to courts	Administrative fiat-supervision	Norm of reciprocity-reputational concerns
<i>Degree of flexibility</i>	High	Low	Medium
<i>Amount of commitment</i>	Low	Medium	High
<i>Tone or climate</i>	Precision and/or suspicion	Formal, bureaucratic	Open-ended' mutual benefits
<i>Actor preferences</i>	Independent	Dependent	Interdependent

**Table 2: Policy communities vs issue networks**

<i>Dimension</i>	<i>Policy community</i>	<i>Issue network</i>
Number of participants	<i>Membership</i> Very limited, some groups consciously excluded.	Large
Types of interest	Economic and/or professional interests dominate.	Encompasses range of interests.
Frequency of interaction	<i>Integration</i> Frequent, high-quality interaction of all groups on all matters related to policy issues.	Contacts fluctuate in frequency and intensity
Continuity	Membership, values and outcomes persist over time.	Access fluctuates significantly.
Consensus	All participants share basic values and accept the legitimacy of the outcomes.	Some agreement exists but conflict is ever present
Distribution of resources	<i>Resources</i> All participants have resources, basic relationship is an exchange relationship	Some participants may have resources, but they are limited. The basic relationship is consultative.
Internal	Hierarchical; leaders can deliver members	Varied, variable distribution and capacity to regulate members
Power	There is a balance of power among members. Although one group may dominate, it must be a positive-sum game if the community is to persist.	Unequal powers, reflecting unequal resources and unequal access- zero-sum games

**Table 3: Interest-Based vs Hope-Based Networks**

	<i>Interest-Based Network</i>	<i>Hope-Based Network</i>
<i>Type of game</i>	Repeated strategic game.	Expression game with repeated IRs.
<i>Motive for co-operation</i>	Resource dependence.	Shared belief in the worth and possibility of goals.
<i>Explanation of actor behavior</i>	Cost-benefit analysis of co-operation vs defection.	Search for cognitions to reduce dissonance .
<i>Tone or climate</i>	Open-ended mutual benefits.	Passion
<i>Flexibility</i>	Medium	High
<i>Commitment</i>	Medium	High
<i>Orientation to change</i>	Contain and "ride it out"	Overcome resistance to it
<i>Potential opposition from excluded groups</i>	Low/medium	Eventually high
<i>Continuity</i>	Long term	Medium term
<i>Deliberative rationality</i>	Encouraged	Discouraged by "political correctness"
<i>Leadership dependence</i>	Medium	High