

## Article Review

### RETHINKING DEMOCRATIC LEGITIMACY: THE ROLE OF METAGOVERNANCE IN NON-MARKET APPROACHES

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#### Abstract

**Purpose of the study:** The aim of this study is to demonstrate why metagovernance is not effective in increasing the democratic legitimacy of networks; to this end, an articulated map will be presented to describe how interactions occur within metagoverned environments.

**Methodology/approach:** To construct the macro-model of analysis, the methodology of Quivy and Campenhout (2005) was used. To consolidate the knowledge involved in the theoretical approach, the Knowledge Development Process-Constructivist (Proknow-C) method by Ensslin, Dutra and Ensslin (2000) was used. Such a proposal allowed a multidisciplinary perspective, capturing important concepts from economics and organizational theory to apply them to the meta-governed environment.

**Originality/Relevance:** Metagovernance systems suggest some ability to provide democratic plurality to a social environment, in that we need to understand "if" and "how" this applies; metagovernance is recent in academia and is under discussion; we need to understand its impact in countries with developing institutional environments.

**Key findings:** Metagoverned systems involve multiple players; difficulty of reconciliation raises transaction costs, both ex-ante - to achieve consensus in the network - and ex-post - when creating mechanisms to deal with disgruntled actors. Such a scenario leads key players to effect coalitions to 'narrow the road' to their own interests, and practice corporate political activity seeking to influence decision making. Actions will focus on impacting the public agent designated as metagovernor, in order to influence possible changes in the environment (regulation).

**Theoretical/methodological contributions:** An articulated map has been proposed, presenting the cycle of interactions within a metagoverned environment. It shows that sometimes the decisions taken are not the most democratic ones, but those of interest to coalitions.

**Social contributions / to management:** From a legitimacy perspective, it is necessary to understand how the outcome of networked decision-making can become more democratic, and how metagoverned environments can become less susceptible to harmful corporate political activity, especially in developing democracies.

**Keywords:** Metagovernance; market; non-market; democracy; government.



## 1. Introduction

Government-market relations are present at the core of societies and directly impact the lives of individuals. Whether through the formulation of public policies (Souza, 2006) or even through the indirect influence of monetary policies (Bernanke & Kuttner, 2005), government actions and decisions have the capacity to, to a greater or lesser extent, influence production and consumption decisions in the market sphere. Analyzing the evolution of market governance relations up to the point of discussion of this article - metagovernance mechanisms - involves understanding the theoretical discussion developed for the central actors of this discussion: market and governance bodies.

Essentially in economics - the science that studies "how society manages scarce resources" (Mankiw, 2001) - understanding market dynamics has been a challenge, the subject of extensive study by schools of economic thought. The representatives of classical economics, for example, understand the market as a space of allocative efficiency (Smith, 1996), where information must be complete and accessible (Jevons, 1965) and the individual is rational to define his production and consumption options, based on scarcity (WALRAS, 1996) and utility (Jevons, 1965; Marshall, 1996). The institutional school, in turn, presented the market as the space for resource allocation that is governed by institutional mechanisms (Veblen, 1965); it is the supporters of the new institutional economics who begin to consider the influence of institutions on economic decisions, dimensioning the property rights and transaction costs in the models (North, 1972; Williamson, 2000). The Austrian school describes the market as a field of dynamic processes of human action by which individuals contribute to the overall functioning of society (MISSES, 2009), and considers freedom, the legal framework and competition as essential conditions for the "creative power of a free civilization" (HAYEK, 1990). Economic sociology authors understand the market as a social arena (Swedberg, 2005), where firms, individuals, and government interact (Fligstein & Dauter, 2012) through power relations (Bourdieu, 2005).

Similarly, governance, especially state governance, has been debated by schools of economic thought. Adam Smith, considered the father of economics, already wrote about the interventions of public power in his time (Smith, 1996). Marshall, another author of the classical school, discusses in his major work issues of regulation and government participation (Marshall, 1996). The most impactful approach in favor of government intervention in markets emerged against the backdrop of the 1929 crisis. John Maynard Keynes advocated market regulation and the use of government spending to offset falling aggregate demand in times of economic crisis (KEYNES, 1996). Such a position influenced several central governments to intervene in the economy to promote regulatory measures and combat negative business cycles (CAMPOS, 2008). However, in the 1970s, Keynesian influence on economic decisions was diminished due to the stagflation scenario not foreseen in its theoretical model (Rothbard, 2011). This panorama opened space for the contribution of economic schools of thought with pro-market influence, such as the Austrian school (Rothbard, 2011), which theorized the harmful influence of central banks in manipulating interest rates and its consequence in business cycles (Hayek, 2011), and the Chicago school, with its essential contribution on regulation and government failures (McKean, 1965; Stigler, 1971).

The rise of free-market oriented economic thinking has brought about profound changes in the structures of world markets in the last fifty years, which began to interact in a more integrated way, in the continuity of the globalization process (Ocampo, 2002). In this context, large business conglomerates were formed, many of them transnational (Hirst & Thompson, 1998). Such global integration process provided the emergence of networks of public and private actors able to change the hierarchical relations between market-state (Banerjee, 2014) and coordinate governance activities (Sørensen, 2006). Especially with regard to corporations, researchers suggest a positioning of intervention, taking responsibility for public interest issues not served by state governance (Eberlein, 2019; Scherer, Palazzo & Matten, 2014; Scherer & Palazzo, 2011).

Due to this new market configuration, questions have been raised about the asymmetry of power between such organizations and society. The deepening of social crises, the appearance of cases of immoral conduct of managers and the worsening of environmental impacts, gave rise to discussions about the consequences of market positioning of companies and raised questions about corporate governance (Jensen & Meckling, 1976; Curi, 2019). Discussions on Corporate Social Responsibility, although already existing since the 1950s, appeared with more volume and notoriety (Carroll, 1999; Bakker, Groenegen & Hond, 2005). The need to analyze the decisions and behaviors of large organizations and their controllers was observed, especially regarding corporate political activity, due to the greater influence in the world strategic scenario (Whittington, 2012), especially regarding the study of non-market strategies (Baron, 1995; Back & Allen, 2010; Costa & Abdalla, 2019).

On the one hand, with government interventionism facing some discredit, a shift in the way to coordinate activities within an increasingly fragmented political system has been identified (Sørensen, 2006). On the other hand, the increased interaction between markets has highlighted several network actors, which have the ability to influence in situations that involve the whole society (Banerjee, 2014). Such scenario provided the emergence of metagovernance, a higher governance system that aims to mediate the relationship between the various network actors, having as justification the search for democratic plurality (Sørensen, 2006; Banerjee, 2014).

Metagovernance is the system that articulates "institutions, mechanisms, relations, and processes" through which social actors - state, markets, citizens, and organizations - seek democratic plurality, establish rights and obligations, and mediate differences (Sørensen & Torfing, 2009; Banerjee, 2014). Metagovernance is broadly characterized by authors as "an act of agency, in which specific actors-that is, metagovernors-interact to influence the activities of other actors" (Gjaltema, Biesbroek & Termeer, 2019).

A major question already raised is why metagovernance exists (Gjaltema, Biesbroek & Termeer, 2019). We have identified that authors often relate metagovernance to the possibility of making the governance process in networks more democratic and plural (Sørensen & Torfing, 2009; Banerjee, 2014; Gjaltema, Biesbroek & Termeer, 2019). Such a proposition leads us to the following question: is it possible that a metagovernance environment is efficient in the sense of increasing democratic legitimacy? Indeed, studies have already shown that metagovernance did not provide for more democratic governance networks (Sørensen, 2006; Evans, 2007; Qvist, 2017; Gjaltema, Biesbroek & Termeer, 2019). However, despite empirical evidence that a metagoverned environment does not become more democratic, there is still a need to present theoretical development for what happens within metagoverned environments. Only then will it be possible to understand why metagovernance does not increase democratic legitimacy.

This theoretical essay aims to further the discussion on metagovernance, building on already developed academic theories. The proposal here is to demonstrate why **metagovernance may not be efficient in increasing the democratic legitimacy of governance networks**.

The argumentation of this paper was developed from the perspective of governance in developing countries. Such countries are characterized by an environment with weak institutions (North, 1990), and by having public agencies with less transparency, as well as reduced stakeholder monitoring (Rufín & Rivera-Santos, 2012) and non-democratic political practices that are culturally transmitted (Rasheed, 2020). Metagovernance systems can present themselves as environments of intense corporate political activity and therefore susceptible to non-market strategies; in developing countries, this dynamic becomes clearer due to the weaker institutional framework.

Discussing the workings of metagovernance from this perspective is important for at least four reasons: 1) governance networks deserve academic attention because they create new governance spaces and alter the traditional configuration of government, breaking the traditional dichotomies of state and society (Sørensen & Torfing, 2009); 2) metagovernance systems suggest some capacity to provide democratic plurality to a social environment (Sørensen, 2006), in which we need to understand "if" and "how" this applies; 3) the topic is recent in academia and is at a stage of discussion, as already noted (Sørensen, 2006; Sørensen & Torfing, 2009; Gjaltema, Biesbroek & Termeer, 2019); 4) we need to understand the impact of new governance mechanisms in countries with developing institutional environments, where there is less public management literature (Rufín & Rivera-Santos, 2012).

The next section presents the development of this discussion in light of the theoretical references. The development discusses the concept of metagovernance, and is divided into four sections: the first section evaluates the premise that governments seek social welfare, based on the concepts of market failure and government. The public agent problem is also presented. In the second section, the practice of non-market strategies in governance environments is discussed and the difficulties of the decision-making process are presented. In the third section, the concept of social cost is applied to the metagovernance model. The fourth section presents a theoretical-exploratory map of the concepts presented. Finally, the fifth section discusses metagovernance in relation to the international political scenario.

## 2. Literature Review

**Governance.** To thoroughly understand the concept of metagovernance, one must first understand the meaning of governance. Here goes: it is the set of processes that involves the act of governing in a social environment. Not without reason, government is the name given to the group that coordinates the political-decisional system in modern societies. In a more elaborate definition, governance is the process by which actors regulate a set of social, political, and economic practices according to some predefined goals (SØRENSEN & TORFING, 2009).

**Metagovernance.** Metagovernance, in turn, is understood as higher-order governance: it is the way to improve the governance process in a fragmented political system in order to provide plurality of self-governed networks and institutions (Sørensen, 2006; Sørensen & Torfing, 2009). Organizational networks are formed involving state and civil society actors for deliberation and negotiation on public policy issues (Bogason & Musso, 2006). Its propositions move towards the articulation of actors and institutions for collective decision-making, in a mediated way. Metagovernance analyzes, then, the complementarity of governance activities in order to apply a comprehensive intervention strategy (Bogason & Musso, 2006). It is, in short, the governance of governance (Sørensen & Torfing, 2009).

**Origin.** The metagovernance proposal emerged from the disbelief in the traditional political system after failures in the governance process (Sørensen, 2006), as well as from the greater participation of private organizations in the formulation of public policies and also due to the growing interest of social participation in the governance process (Bogason & Musso, 2006). Metagovernance focuses on plurality management, with the aim of inducing more coherence in the governance of an area (Boudewijn & Glasbergen, 2014), in order to increase democratic legitimacy.

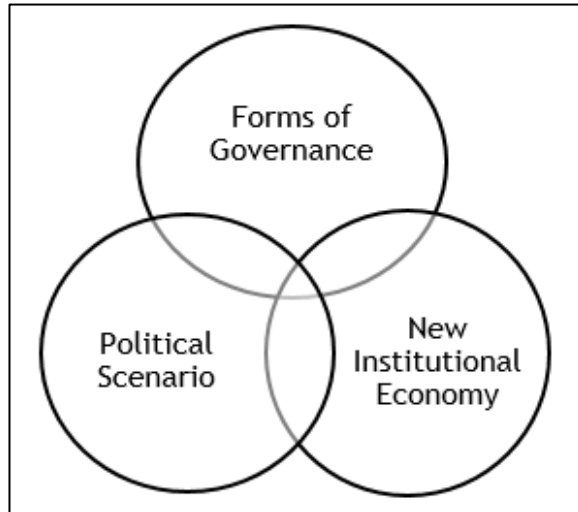
As already presented, studies have already shown that metagovernance has not provided for more democratic governance networks (Sørensen, 2006; Evans, 2007; Qvist, 2017; Gjaltema, Biesbroek & Termeer, 2019). The key question of this theoretical essay is: why might metagovernance not be effective in increasing the democratic legitimacy of governance networks? The sections below aim to discuss the question from a multidisciplinary perspective, going through already formulated theories, especially in the fields of economics and organizational theory, assessing the opportunities and limitations of the metagovernance model.

### 3. Methodology

#### 3.1 Methodological path

This study is based on the methodological model proposed by Quivy and Campenhoudt (2005). To build the analysis model, three concepts were used: Forms of Governance, Political Scenario and New Institutional Economics. Figure 3 presents the relationship map between the concepts.

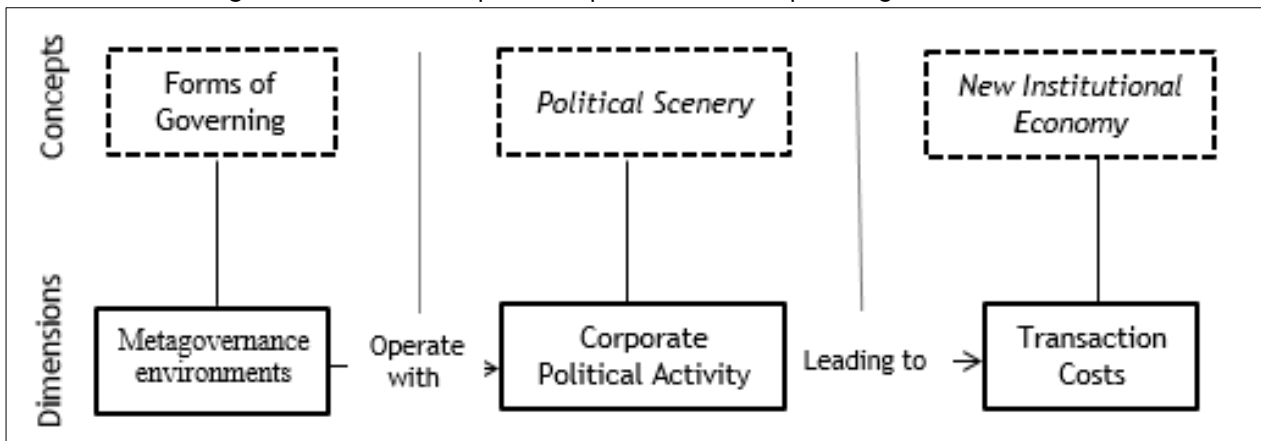
Figure 1: Relationship map between the concepts



Source: Based on Quivy and Campenhoudt (2005).

The second step was to break these concepts down into dimensions. Among the forms of governance, metagovernance environments were chosen to be analyzed. As for the political setting, it was analyzed from the perspective of Corporate Political Activity (CPA). The New Institutional Economics was applied from the perspective of transaction costs. Figure 3 below presents the map that presents the concepts and relates the dimensions employed in this work, and how they articulate.

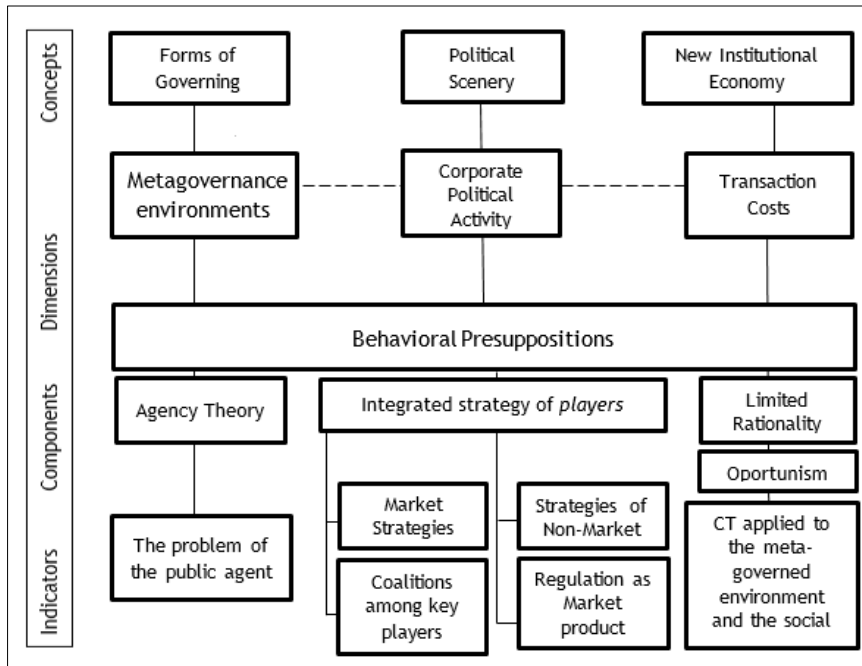
Figure 2: Articulated map of concepts and relationships among the dimensions



Source: Based on Quivy and Campenhoudt (2005).

From the concept map the decomposition of the dimensions into components and indicators is derived so as to develop the analysis model and provide the capture and analysis of data and experiments in a systematic manner (Quivy & Campenhoudt, 2005). Figure 4 presents the analysis macro-model under which this study is part of.

Figure 3: Analysis macro-model



Source: Based on Quivy and Campenhout (2005).

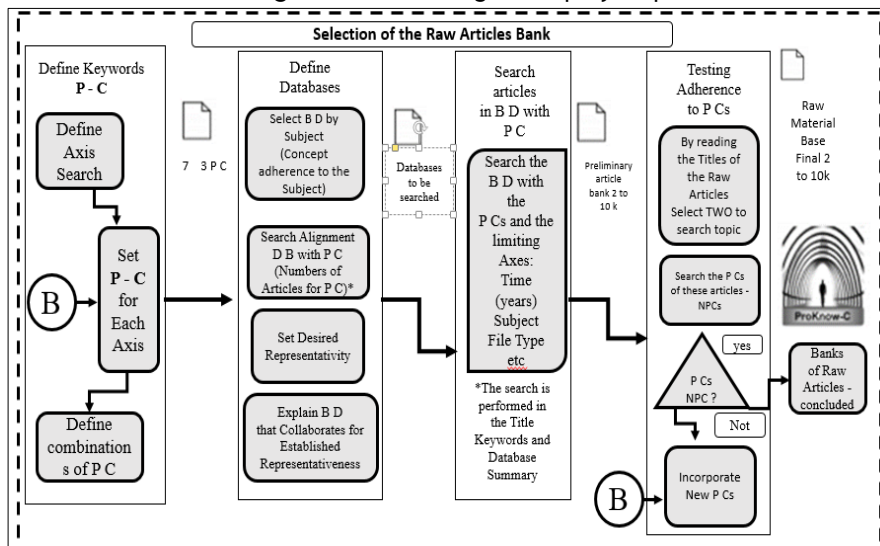
The above macro-model seeks to guide the research in the understanding of decision-making processes in meta-governed environments, from the perspective of behavioral assumptions. For this, the methodological option was for an exploratory qualitative study, with participant observation and bibliographic research in a multidisciplinary perspective, going through important concepts of theories already formulated in the areas of economics and organizational theory and applying them to the metagovernance environment.

### 3.2 Methodology

The methodology applied to reach the proposed objective was the Knowledge Development Process-Constructivist (Proknow-C), proposed by Ensslin, Dutra and Ensslin (2000). This methodological proposal involves the search for scientific productions, in order to enable the consolidation of the necessary knowledge about the research theme. The step-by-step methodology is described below.

This instrument, which favors the generation of knowledge of a given theme through a structured process (Dutra et al., 2015), was used, from criteria of relevance and methodological alignment, in the selection of a set of articles that address accounting narratives in organizations, focused on linguistic biases applied in reports prepared by managers, accountants and/or those responsible for the companies.

Figure 4: Methodological step-by-step



Source: Ensslin, Dutra, and Ensslin, (2000).

The first stage involved defining the keywords: "meta-governance" and "meta-governance". The second step was to define the databases and search for the keywords. The databases selected were Web of Science, SAGE Journals, Emerald, Scopus, Taylor & Francis and Science Direct. X studies were found that mentioned metagovernance.

In the third step three paradigms were established: "agency theory", "corporate political activity" and "transaction costs". In the research databases, these expressions were cast in pairs: 1) "metagovernance/meta-governance" + "institutional theory", 2) "metagovernance/meta-governance" + "corporate political activity" and 3) "metagovernance/meta-governance" + "agency theory". At the end of the methodological systematization, 17 studies were found.

In the fourth step, a systematic procedure was applied to eliminate the duplications found and to categorize the works found, analyzing, title, abstract and keywords, journal, year of publication and paradigm/perspective.

#### 4. Results and Discussion

Below are the seventeen articles selected at the end of the Knowledge Development Process-Constructivist (Proknow-C). They were categorized by author, year, journal, paradigm/perspective, and number of citations.

Table 1: Selected articles

Author	Year	Work	Periodic	Paradigms Perspective	Citation number
Rufín, C., Rivera-Santos, M.	2012	Between Commonweal and Competition: Understanding the Governance of Public-Private Partnerships	<i>Journal of Management</i>	Transaction Costs / New institutional economics (NIE)	53
Bekker, M. C.	2014	Project governance: "schools of thought"	<i>South African Journal of Economic and Management Sciences</i>	Agency Theory	39
Barron, A.	2010	Unlocking the mindsets of Government Affairs Managers: Cultural dimensions of corporate political activity	<i>Cross Cultural Management: An International Journal</i>	Corporate Political Activity	33
Ge, L. Brewster, C.A.	2016	Informational institutions in the agrifood sector: meta-information and meta-governance of environmental sustainability	<i>Current Opinion in environmental sustainability</i>	Transaction Costs / New institutional economics (NIE)	15
Albareda, L. Waddock, S.	2016	Networked CSR Governance: A Whole Network Approach to Meta-Governance	<i>Business &amp; Society</i>	Corporate Political Activity	49
Eberlein, B.	2019	Who Fills the Global Governance Gap? Rethinking the Roles of Business and Government in Global Governance	<i>Organization Studies.</i>	Corporate Political Activity	29
Marra, M.	2012	What coordination mechanisms work to manage regional development programmes? Insights from Southern Italian regions	<i>European Urban and Regional Studies</i>	Transaction Costs / New institutional economics (NIE)	21
Klakegg, O. J. Williams, T. Magnussen, O. M. Glasspool, H.	2008	Governance Frameworks for Public Project Development and Estimation	<i>Project Management Journal</i>	Agency Theory	144
Milner, A. L. Mattei, P. Ydesen, C.	2021	Governing education in times of crisis: State interventions and school accountabilities during the COVID-19 pandemic	<i>European Educational Research Journal</i>	Agency Theory	0
Holmen, A. K. T.	2011	Governance Networks in City-regions: In the Spirit of Democratic Accountability?	<i>Public Policy and Administration.</i>	Agency Theory, Transaction Costs / New institutional economics (NIE)	32
Verma, M.	2016	Role of the State in Partnerships with the Private Sector	<i>Journal of Development Policy and Practice</i>	Agency Theory, Transaction Costs/ New	14

				institutional economics (NIE)	
Ayres, S. Sandford, M. Coombes, T.	2017	Policy-making 'front' and 'back' stage: Assessing the implications for effectiveness and democracy	<i>The British Journal of Politics and International Relations</i>	Transaction Costs / New institutional economics (NIE)	31
Entwistle, T. Bristow, G. Hines, F. Donaldson, S. Martin, S.	2007	The Dysfunctions of Markets, Hierarchies and Networks in the Meta-governance of Partnership	<i>Urban Studies.</i>	Transaction Costs / New institutional economics (NIE)	107
Eshuis, J. van Buuren, A.	2014	Innovations in water governance: the importance of time	<i>International Review of Administrative Sciences</i>	Transaction Costs / New institutional economics (NIE)	19
MacLeod, G. Jones, M.	1999	Reregulating a regional rustbelt: institutional fixes, entrepreneurial discourse, and the 'politics of representation'	<i>Environment and Planning D: Society and Space</i>	Transaction Costs / New institutional economics (NIE)	68
Ayres, S.	2014	Place-based leadership: reflections on scale, agency and theory	<i>Regional Studies, Regional Science</i>	Agency Theory	33
Barron, A.	2011	Exploring national culture's consequences on international business lobbying	<i>Journal of World Business</i>	Corporate Political Activity	37

Source: Prepared by the authors.

The knowledge construction methodology applied allowed a deeper insight into the dynamics in a metagovernance environment, making it possible to foster the discussion about the democratic legitimacy of a governance network.

#### 4.1 Metagovernance and Agency Theory: The "public agent" problem

Metagovernance. Theory points out that metagovernance can be exercised by any actor who has the resources to do so-whether public or private (SØRENSEN, 2006). There is also empirical evidence that metagovernance can be practiced in a multi-level format, with multiple metagovernors at different levels (Gjaltema, Biesbroek & Termeer, 2019). Participation of the public agent: Although the metagovernance model considers the interaction of various stakeholders in the decision-making process, the role of the public agent is considered paramount in most research so far on metagovernance execution (Boudewijn & Glasbergen, 2014; Banerjee, 2014; Gjaltema, Biesbroek & Termeer, 2019). Although metagovernance presents itself as an indirect form of governance exerted by the influence of various self-governance processes (Sørensen, 2006), most studies on metagovernance point out that its activities are coordinated by public actors (Gjaltema, Biesbroek & Termeer, 2019). Even in scenarios where actors take responsibility for issues of public interest - filling the state vacuum - there may be some indirect government involvement, such as regulatory support or threat (Eberlein, 2019).

Metagovernance instruments. Another major question already raised is how metagovernance is accomplished, and the instruments used for metagovernance do not differ much from the means of traditional government interventions (Gjaltema, Biesbroek & Termeer, 2019). Hierarchy instruments, economic instruments, and information instruments are the means used to institutionalize processes and coordinate a traditional metagovernance system (Gjaltema, Biesbroek & Termeer, 2019). Now, such governance mechanisms - and everything involving the decision between hierarchical and market decisions - have already been widely discussed in organizational theory, in particular by New Institutional Economics theorists (Williamson, 2000). Regarding organizational governance decisions in networks, whose impact is of general repercussion in society, we have as context the discussion started in this theoretical essay about the relations between governance and market, which will be followed below.

The idea of intervening in the markets was strengthened after the concept of market failures (Bator, 1958) was coined to define situations in which the allocation of goods and services is not efficient, leading to a loss in social welfare. Information asymmetry, externalities, anticompetitive conduct, asymmetric market power, and monopoly are identified as market failures (Barbosa; 2019). Market failures are presented by authors as motivators for the proposition of intervention in markets (Campos, 2008). Some of the tools used by the government to combat these failures are public policies - tax incentives, credit policies, tariff protection, tax creation, and the creation of restrictive legislation. But are these regulatory tools always used in the public interest?

On this subject, the Chicago school provided us with an important addition with the concept of government imperfections (Mckean, 1965). The interventionist lines of thought worked with the vision of a complacent state (Campos, 2008). This view was challenged by Chicago School researchers, who presented the state as an actor of political force, capable

of prohibiting, forcing and coercing, and, therefore, a threat to sectors of society (Friedman, 1962; Stigler, 1971). Regulatory action would be, then, another product of the market, the result of the interaction between private interests that demand regulation in search of greater economic results - via protectionism and subsidies, for example - and regulators, who offer regulation in exchange for political support (Stigler, 1971).

This view of the behavior of public officials is close to the theories presented by the Austrian School, especially with regard to the conceptual separation proposed between law and legislation. The law is presented as a set of abstract rules that regulate a free and secure sphere; it is born as a consequence of unintentional actions - that is, in a natural way, not aiming at specific interests (Hayek, 1985); legislation, in turn, is the result of intentional action taken by a parliamentary majority; such intentional action can be used aiming at private interests, mainly through the coercive power that emanates from hierarchical governance situations - either from the State or any other agent that seeks the so-called public interest.

In its general definition, regulation is the set of techniques or actions that, when applied to a system, allow it to achieve a certain stability or continued conformity. The differentiation presented by the Austrian School is essential to the understanding that there can be regulation without the imposition of legislation. Such concepts eventually get mixed up, since legislation is the tool most often used to regulate traditional systems of government. But there are others. Going back to the Chicago school's concept of the state player: possibly coercion is the tool most used to regulate non-democratic systems of government. Regulation of the environment is only a product, but there is more than one tool; in general such tools are inherent to a public agent.

Public Choice Theory theorists (Mitchell & Simmons, 1994), when studying behavior in the electoral process, endorse the understanding that public decisions are not made to achieve the public interest, but rather for motivations inherent to the individual interests of those involved in the decision-making process: "politicians seek votes, bureaucrats seek more job security and budgets, and interest groups and voters seek more jobs and income" (Mitchell & Simmons, 1994; Campos, 2008). Such individual interests sometimes do not represent the interest of the collectivity (Buchanan & Tullock, 1999). This is possibly a situation of agency conflict in the public environment.

The theoretical framework of New Institutional Economics, especially agency theory, has much to contribute to the analysis of the meta-governed public environment. An agency relationship is a contract whereby "one or more persons - called the principal(s) - contract with another person - the agent - to perform some service on their behalf, and which involves delegating decision-making authority" (Jensen & Meckling, 1976, p. 308). Taking here the metagoverned environment (society) as the principal and the metagovernors as agents, an agency relationship is observed; when the public agent makes decisions that do not legitimize the will of the metagovernors, there is an agency conflict.

Table 1 presents the concepts developed above, which can cause a serious agency conflict in the public environment:

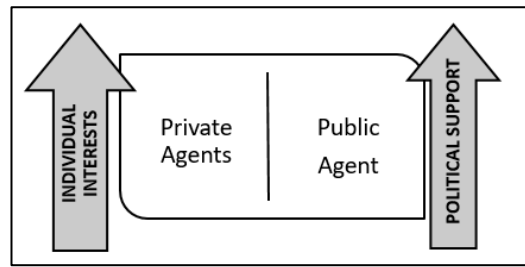
**Table 2:** Theoretical framework presented in the section

Theoretical Framework	Authors
State as an actor of political force, able to restrain, oblige and coerce. Regulatory action as a product of the market.	Chicago School FRIEDMAN, 1962; STIGLER, 1971
Legislation as a result of intentional action taken by a parliamentary majority.	Austrian School HAYEK, 1971
Public policies are taken by motivations inherent to individual interests.	Public Choice Theory BUCHANAN & TULLOCK, 1965 MITCHELL & SIMMONS, 1994
Agency relationship. Agency conflict.	Agency Theory JENSEN & MECKLING, 1976

Source: Prepared by the authors, based on the theoretical framework presented.

This is basically the "public agent" problem (figure 1), and should be applied to the metagovernor. Regardless of whether the metagovernor is a public manager (most cases), or even a private actor, he coordinates actions that interfere with the common welfare of the principal (society), that is, his position is representative of a kind of "public agent". Still, the metagovernor may prioritize particular interests over the more democratic decision-making process. Be it their own interests - in the case of the public metagovernor, with hierarchical power and electoral ambitions - or the interests of one or more organizations - in the case of private metagovernors with network management capacity.

**Figure 5:** Win-win relationship in networks and the public agent problem.



Source: Prepared by the authors, based on the theoretical framework presented.

Research based on public-private partnerships has already indicated concerns about governance aspects, especially related to transparency, effectiveness, and elite capture (VERMA, 2016), especially when there are ill-defined sectoral policies, complexity in decision making, and inadequate regulation and oversight mechanisms (Klijn, Teisman, 2003; Li et al., 2005; Zhang, 2005; Kwak et al, 2009).

It should be noted that the meta-governed environment may present all the conditions for an agency conflict to exist - varied agent behavior, informational asymmetry, and the impact of the agent's action on the entire principal. Especially in developing countries, these conditions become more evident, as the vulnerable institutional environment is more susceptible to corruption (Rufin & Rivera-Santos, 2012). Therefore, the decisions made by metagovernors may not be in accordance with the general opinion of the other individuals in the population, thus not being the optimal choice to be made regarding the level of democratic legitimacy.

Such a harmful relationship between public agent and network can be developed from the practices of corporate political activity: companies acting strategically with the public agent, through lobbying or via pressure groups; and the latter responds with public policies or changes in regulation (Costa & Abdalla, 2019). Lobbying and influencing practices have been increasingly explored by studies in the fields of corporate political activity (CPA) and non-market strategy (Eberlein, 2019; Black & Allen, 2010).

#### 4.2. Corporate Political Activity: non-market strategies in a metagovernance environment

It is important to demystify the role of the public agent as a passive being in the course of the social relationship; the boundaries between the private and the public sphere are constantly negotiated (Eberlein, 2019). As such, the relationship between companies and the public official exemplified in the previous section can and should be applied to a metagovernance environment. Corporate political activity is an integral part of the strategy of organizations (Baron, 1995) and will exist whenever governance mechanisms and earning opportunities exist. The non-market environment (figure 2) is where organizations can place themselves as social actors seeking political connections. In it, various political actors - government, regulatory agents, media, NGOs and activist groups, and citizens in general - can interact (Back & Allen, 2010).

Figure 6: The non-market environment



Source: Back and Allen (2010).

Non-market strategies are actions taken in a non-market environment to create value by increasing the organization's overall performance (Baron, 1995). When developing non-market strategies, organizations want to positively influence their performance, seeking to: i) minimize the impact of regulation; ii) open up opportunities; iii) minimize market uncertainty (Baron, 1995; Qian, 2010). One goal of a non-market strategy is to shape the firm's market environment (Baron, 1995). Financing political campaigns, employing a media discourse, and lobbying are examples of tools used to achieve this goal (Loch & Gunther, 2013).

But how would this dynamic take place in a metagoverned environment? As already mentioned, metagovernance deals with the involvement of various political actors in the decision-making process of an environment (Bogason & Musso, 2006; Sørensen & Torfing, 2009). The first impression is that such governance model would have much to contribute in mitigating the risk of the public agent, since the active participation of various actors could inhibit a bad decision by the public administration. However, we need to take a deeper look into the complexity that surrounds this arena.

Metagovernors use policy instruments to govern networks, which in turn govern society (Gjaltema, Biesbroek & Termeer, 2019). And there is nothing to guarantee that metagovernors will not be co-opted or influenced to make decisions that are not necessarily democratic. Corporations in the past have used the non-market environment to formulate governance structures aligned with their goals (Barley, 2010). NGOs and civil society actors may not be profit-driven, but they can also manipulate states and market actors to further their own agendas (Banerjee, 2014).

Within the metagovernance model, social actors could co-opt each other through the non-market environment: one can consider the possibility of coalition building around key actors (Morgan, 2019). In this scenario, already predicted in Public Choice theory, decisions would have nothing democratic about them; they would become an intense competition for power (Campos, 2008).

It is well known that organizations can make governance contributions through multiple stakeholders, playing the roles of surrogate public actors, or even develop voluntary standards of conduct, pressured by stakeholder scrutiny; however, engagement can be quite selective (Eberlein, 2019). Effort may be limited to commitments that fit within the business model (Porter & Kramer, 2006), or focused only on areas that come under more pressure from external actors (NGOs, media, class representatives), thus reducing material and reputational risks (Eberlein, 2019). In this scenario, the decisions made would meet the most immediate pressures of certain actors in the network, however they may not be the most democratic.

This happens because of the complexity of the governance environment, with the proliferation of informal rules and non-state actors that express multiple expectations of conduct, creating strong uncertainties in decision making (Eberlein, 2019). Actors with more influence in the network may seek shortcuts aimed at filling regulatory gaps that are more relevant - or that are closer to their interests - co-opting each other in the decision-making process. One can project the meta-governed environment, then, as a complex environment, and when evaluating decision making in this environment, one must also analyze the interactions among the actors involved in the decision making process.

In this sense, another consideration must be made in relation to the meta-governed environment: how national culture affects the strategic thoughts and actions of decision makers (Hofstede, 2001; Barron, 2010, 2011). Actors' formulation of strategy can vary, reflecting national cultural references and the nature of the relationship between people (Schneider, 1989). As such, culturally transmitted non-democratic political practices provide an institutional environment that is more vulnerable to the formation of crony capitalism, in what appears to be the case in developing countries (Verma, 2016). Scholars have already examined corporate political activity from the perspective of interest groups (Dahl, 1961; Masters & Keim, 1985).

Third, it is necessary to reinforce the problem of the complexity of the governance environment (Eberlein, 2019). The greater the amount of actors involved in the decision-making process of a meta-governed environment, the greater the pressure and the level of expectations for conduct. The possibility of conflicts due to divergent interests then increases. As a practical example, let's analyze the decision to install a nuclear industry in a certain region. In a traditional model of governance, the decision-making process is simplified: government representatives make decisions on behalf of society. The same decision-making process would face more difficulties in an environment where NGOs, media, and regulators exert influence on the decision. What is the social cost of making this decision process stifled?

### **4.3. Social cost and the decision-making process**

The social cost problem was presented by the institutionalist school and analyzes the impact of transaction costs - the cost of drawing up contracts and ensuring their effectiveness - in the face of the optimal allocation of resources in the market (Coase, 1960). Coase's theorem proposes that in an environment without transaction costs and with well-defined property rights, welfare losses due to externalities would be internalized by the actors in direct negotiations. Such a scenario would indicate the inefficiency of regulation in hypothetical markets without transaction costs (Coase, 1960). However, markets without transaction costs would be utopian (Coase, 1960); these are inherent to markets (Zerbe Jr & Mccurdy, 1999) and approach zero when property rights become more extensive and complete (Zerbe Jr & Mccurdy, 1999).

In turn, in a scenario where there are high transaction costs, the optimal allocation will only occur when the increase in the value of production, acquired through rearrangement, is greater than the costs incurred to do so. When it is lower, such a scenario may result in the discontinuation of an activity or the discouragement of starting it (Coase, 1960). Therefore, in choosing certain social arrangements, it is necessary to know that change in the existing system will lead to improvement in some decisions, but may well lead to worsening in others (Coase, 1960).

It is necessary, then, to look more deeply at the impacts of changing the social arrangement-from government to metagovernance-from the perspective of transaction costs. There is an inherent risk of governance failure within networks, as actors may continue to remain in conflicting postures without reaching any agreement (Jessop, 1998, Verma, 2016). Such a scenario makes it more costly for the meta-governor to participate in seeking network consensus and avoiding opportunistic behavior.

Analyzing within a metagovernance scenario, one can have a series of transaction costs derived from the network of metagoverned actors. This is because any attempt or action aimed at reducing transaction costs among network actors incurs high transaction costs to establish and maintain such metagovernance measures (Ge & Brewster, 2016). Drawing a parallel with transaction costs mentioned by New Institutional Economics theorists (Williamson, 1985) a comparison can be drawn for the metagovernance environment:

**Table 3:** Transaction costs applied to the meta-governance environment

<b>Transaction Cost</b>	<b>Happens When</b>	<b>Momentous</b>
Costs of obtaining the correct information	The meta-governor must have all the information to decide with the network.	Ex-ante
Trading costs	The meta-governor needs to get consensus in the network.	Ex-ante
Costs incurred from failure to align the agreement	The meta-governor cannot reach consensus and must deal with dissatisfied parties.	Ex-post
Bargaining costs to correct distortions after the decision	The meta-governor needs to deal with unforeseen collateral impacts before the decision-making process.	Ex-post
Costs of setting up and maintaining management structures that manage the actions	The meta-governor needs to monitor and control the implementation or enforcement of decisions made in the network.	Ex-post
Costs required to make a secure connection	The meta-governor needs to create guarantees that there are no opportunistic intentions after the decision is made.	Ex-post

**Source:** Own elaboration, based on the concepts presented by Williamson (1985).

Since transaction costs are inherent to the market, New Institutional Economics theorists have proposed a change in the focus of governance, no longer focused on market intervention, but rather focused only on strengthening private property (Coase, 1960; NORTH, 1981, 1989) and eliminating transaction costs (Zerbe Jr & Mccurdy, 1999).

From these concepts, the "Hands-off framing of self-governance" or non-intervention conception of governance draws attention: the way in which governors merely define the goals and the overall policy budget, leaving the concrete policy formulation and detailed financial priorities to the autonomous actors (Sørensen, 2006). Although this model alone does not guarantee the democratic legitimacy of the network, it can be improved through greater citizen involvement and by improving transparency and control mechanisms of the networks (Holmen, 2011).

Structures based on participatory democracy and e-government, and technological innovations such as blockchain can contribute to increasing democratic accountability within networks. Such a format may provide for a greater number of actors to exercise different dimensions of political authority, making the model more robust and reducing the notion of a zero-sum concept (Eberlein, 2019) that the model may initially suggest. Therefore, it should be better studied in practice to assess its ability to reduce transaction costs and also public agent risk.

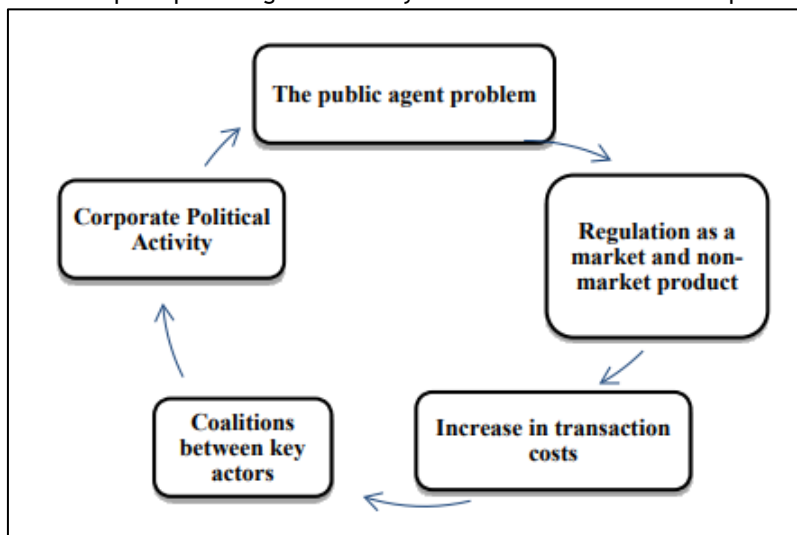
#### 4.4 Demonstration of Applied Concepts

Figure 3 below presents an articulated map of concepts discussed in the previous sections and how they converse within metagovernance systems. Meta-governed systems involve the participation of several players and groups, who will almost always not be in full agreement about the decisions to be made. Such difficulty in reconciling players raises transaction costs within the metagovernable environment, both ex-ante - when the meta-governor needs to achieve consensus in the network - and ex-post - when the need arises to create mechanisms to deal with any disgruntled players.

Such a scenario can motivate key actors to effect coalitions to 'narrow the road' to their own interests. These coalitions - already active in the market environment - practice corporate political activity by also acting in the non-market environment to influence decision making within the meta-governed arena. The actions coming from these coalitions will

possibly focus on impacting directly or indirectly the public agent designated as metagovernor, so as to influence possible changes in the environment - regulation - thus forming a cyclical process that can feed back.

**Figure 7:** Articulated Concept Map - Metagovernance systems as environments of corporate political activity



Source: Prepared by the authors

The public agent problem is the starting point of this articulated map. It is through the agency problem inherent in it that regulation can become a market product - via legislation or coercion - or a non-market product - in particular, in metagovernance systems, through the influence of network arrangements. The metagovernor's decision here enters into debate, since he can make wrong decisions, based only on bounded rationality or on opportunistic actions of market players - or even make less democratic decisions, aiming at the interest of private agents or networks, in exchange for political support. Therefore, a metagovernance environment may not represent an increase in democratic legitimacy.

With regard to the institutional environment, such a cycle is most evident in developing countries, which tend not to resist the willful capture of metagovernance by ruling elites interested in political patronage (Rasheed, 2020), and which flaunt damaging governance decisions in favor of personal interests, despite the dissatisfaction of stakeholders.

#### 4.5 International Context

International context. In transnational approaches to metagovernance, the idea has been formulated that states and intergovernmental organizations should take the lead by institutionalizing a governmental authority capable of fostering the articulation environment (Boudewijn & Glasbergen, 2014). It is notorious, for some years now, the creation of several governance bodies at the global level, especially in developed democracies (Rasheed, 2020), with impact and influence to modify decisions in the international sphere (CURI, 2019). The breadth and importance of this environment, as well as the influence of its actors, reinforces the extreme relevance of the issues discussed by these organizations. For this very reason, this environment is also susceptible to non-market strategies.

At the exact moment this article is being written, an international meeting of an important organization that has influence in the global meta-governance system is taking place. In it, the president of a major European nation speaks out against the fires in the Amazon, shortly after his trading bloc decides on a free market agreement with Brazil (Mendonça, 2019). The event takes place in his country, and the region chosen to host it has relevant participation in the national agricultural and livestock production. Rural producers have strongly protested the trade agreement because of competition from Brazilian products (Fernandes, 2019) including vandalizing politicians' offices (Kar-Gupta & Trompiz, 2019). And, well, national elections are coming up.

The importance of taking care of the Amazon is not being discussed here, but rather the timing, the place, the intensity, and most importantly, the form of communication of the exemplified discourse. It is necessary to investigate how discourses have been used to shape power relations and influence social change (Fairclough, 2001), especially after theories

inspired by social constructivist thought presented the possibility of performing metagovernance through narratives - shaping images and visions of past and future - in order to construct social meanings and identities (Sørensen, 2016).

Such a form of metagovernance can be extremely dangerous if used to make undemocratic decisions within metagoverned environments. Especially with today's informational speed, further study is needed on how Hands-off storytelling is applied, as well as the types of instruments used by this type of metagovernance in networked coordination systems. Likewise, studying discourse strategies in metagovernance systems can bring understanding of the motivations behind storytelling, and how it can be used for private strategies of actors at the global level.

## 5. Conclusion

This theoretical essay aimed to demonstrate why metagovernance may not be efficient in increasing the democratic legitimacy of governance networks. Metagovernance systems were presented as arenas of corporate political activity, in particular non-market strategies. A new perspective on metagovernance systems was discussed from the theoretical framework developed by various schools of thought. Concepts were presented that relate to the proposed systematization of governance presented in recent discussions (Sørensen; 2006; Bogason & Musso, 2006; Sørensen & Torfing, 2009; Banerjee, 2014).

Theoretical essays have the characteristic to make provocations and provide reflections, instigating the reader to make their own conclusions (Meneghetti, 2011); for this very reason, this article is delimited to the theoretical field, proposing new research paths based on the approached perspective. We are aware of the important limitations we faced in proposing this line of research, which will still be addressed in later works. From the legitimacy perspective, it is necessary to understand how the outcome of networked decision-making can become more democratic, thus providing greater satisfaction to all stakeholders.

Clearly, the challenge is to understand how metagovernance systems can become less susceptible to harmful corporate political activity, especially in less developed institutional environments. Studies on metagovernance have been much more frequent among developed countries; there is a need to understand how such systems apply in developing democracies. They may present an environment with weak formal and informal institutions (North, 1990) and non-democratic political practices that are culturally transmitted (Rasheed, 2020), which makes the process presented in the conceptual map of this essay much easier. Developing democracies tend not to resist the willful capture of metagovernance by dominant elites interested in political patronage (Rasheed, 2020).

Another possibility that opens up involves studies on metagovernance mechanisms at the local level. There is considerable local scientific production for developed countries, yet very little on developing countries. Especially in periods of uncertainty, as now in the COVID-19 pandemic, local decision-making on governance regulation has been shared by local public authorities with private actors. Such a scenario is fertile ground for investigating the structure and functioning of local metagovernance systems through coalition among actors, and their impact on stakeholders.

A third line of research involves analyzing strategic practice of organizations in governance systems of developing countries. Especially in Brazil - the authors' home country - 90% of firms are small and medium-sized (SEBRAE, 2017), many of which are the livelihoods of individuals and their families; under these, a high governance structure looms: high volume legislation, excessive bureaucracy, and social pressures. The rules are the same or even worse for large companies, which, however, find it easier to act through market and non-market practices, sometimes combining the willingness of state agencies and nongovernmental organizations (Banerjee, 2014), thus managing to relieve pressures and rules through intense corporate political activity.

The perspective that organizations are political actors with their own interests in governance cannot be ignored (Eberlein, 2019). For this very reason, the importance of studying strategic practice of organizations within metagovernance systems increases when it comes to the international sphere. Decisions made at the global level strongly impact the way of life of societies and the consumption habits of markets. For this very reason, an agenda has already been proposed to assess the behavior of the globe's most important companies (Whittington, 2012). What is suggested here is that the same should be proposed to assess the behavior of the other global players.

A fourth path involves the study of active citizenship as and its impact on the outcome of networks. Little attention has been paid to civic engagement (Ayres, 2013); the contribution of information and communication technologies (ICTs) may have important contribution to the evolution of metagovernance models by increasing stakeholder participation (Eberlein, 2019), and raising the democratic legitimacy of decisions. A field of practical studies involving participatory democracy through e-governance is opened up, with support from new technologies such as blockchain.

The public agent problem is the starting point of this essay. Through it, regulation may come to be treated as a market or non-market product, either from a supply perspective - in the case of a public meta-governor - or from a demand perspective - in the case of a private meta-governor or network leader. For this very reason, another field of opportunity opens up for the study of metagovernance formats that minimize the participation of public actors; on this topic, academia already presents scientific production (BOUDEWIJN & GLASBERGEN, 2014). Systems with this characteristic, by reducing the

risk of the public agent, should be better studied, since they may have the ability to contribute to the improvement of formal government structures, or in the development of mechanisms that limit the power of their rulers.

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