



## 15<sup>th</sup> Conference of the Association for Heterodox Economics

### *Economy and Organisation*

**Related Conference Theme:**

The Limits of Mainstream Economics: Lessons from Organization Theory and Management Theory

**Type of paper:** Non refereed paper

**Title of paper:**

Remediable institutional alignment as a causal mechanism of water sector reform

**Author:**

Emanuele Lobina

Principal Lecturer, PSIRU, Department of International Business and Economics,  
Business School, University of Greenwich

[e.lobina@gre.ac.uk](mailto:e.lobina@gre.ac.uk)

**Submitted:** 4<sup>th</sup> July 2013

PSIRU, Business School, University of Greenwich, Park Row, London SE10 9LS, U.K.

Website: [www.psiru.org](http://www.psiru.org) Email: [psiru@psiru.org](mailto:psiru@psiru.org) Tel: +44-(0)208-331-9933 Fax: +44 (0)208-331-8665

Prof. Stephen Thomas, David Hall (Director), Jane Lethbridge, Emanuele Lobina, Vladimir Popov, Violeta Corral, Sandra van Niekerk

## Abstract

This paper aims to lay the foundations for a heterodox and critical realist theory of the firm moving from an open-system ontology. It does so by developing the concept of remediable institutional alignment as the fundamental causal mechanism underpinning the outcome of water service reform. Remediable institutional alignment consists in the discriminating alignment of: actors' motivation; actors' power; and, the institutions in which operators are embedded. Highly remediable institutional alignment is more conducive to sustainability-oriented change. Lowly remediable institutional alignment is less conducive to sustainability-oriented change. In the water sector, where services are delivered under natural monopoly conditions aiming to achieve sustainable water development, remediable institutional alignment challenges the consensus of mainstream economics. Remediable institutional alignment undergirds the comparative advantage of public over private operations, as more ample opportunities are provided for compliance, allocative efficiency and adaptive performance. Institutions supporting public operations should therefore be strengthened, not weakened.

**Keywords:** Heterodox theory of the firm; comparative institutional analysis; causal mechanism; water service reform; public enterprise performance.

**JEL Codes:** L33; L210; L380.

## 1. Introduction

What is the appropriate role of government in the provision of essential public services such as water supply and sanitation? The theoretical debate around this all-important question has been largely influenced by orthodox or mainstream economics, leading to partial and under-developed answers. Rational choice theories such as public choice and property rights have dominated scholarly discourse and informed policy in the last few decades (Peters, 2005; Self, 1993). These strands of thought argue for the superior efficiency of the private sector in the provision of water supply and sanitation (Renzetti and Dupont, 2003; Boyne, 1998), and have inspired the Washington and Post-Washington Consensus insistence on private sector participation (PSP) and marketization in the water sector (Bayliss, 2006, 2001). The World Bank and other international organisations insist on promoting PSP despite lack of evidence of superior private sector efficiency, widespread social resistance against PSP, and a growing body of evidence on successful in-house restructuring (Bel et al., 2010; Lobina and Hall, 2009, 2008; Hall et al., 2005). As the intellectual hegemony of rational choice remains unchallenged (Crouch, 2007; Fine, 2009), our understanding of water service reform remains inadequate and important social needs are left unattended. This calls for new theoretical accounts to shed light on how to harness the developmental potential of public water operators without resorting to PSP or inducing them to behave like private operators.

Oliver Williamson's work on transaction cost economics and comparative institutional analysis has contributed important theoretical advances in the field of economic organisation. Nonetheless, his contributions do not provide a definitive answer to the question of whether or not the private sector is more suitable than the public sector to operate water supply and sanitation services. In fact, Williamson (1997) expects comparative quantitative studies of enterprise performance to offer this answer. In addition, Williamson's (2005) claim that his approach to transaction cost economics represents a departure from mainstream economics, as it employs the lens of contract rather than the orthodox lens of choice, is disputed by heterodox observers. While Dugger (1983) contends that Williamson's work complements rather than replaces received neoclassical theory, Dugger (1990) argues that his "new institutional economics" might be new but not institutional as it is not informed by an ethical mission to benefit all mankind. Indeed, heterodox and critical realist microeconomics is an emergent discipline (Lee, 2011) and this explains the absence of an established heterodox theory of the firm. This paper is based on the assumption that the integration of the Williamsonian tradition and critical realist perspectives bears the potential to contribute to heterodox microeconomics.

The aim of this paper is to contribute to a heterodox theory of the firm alternative to public choice and property right theory, offering a critical realist account of the social process of public service reform. I set out to do so by revisiting the Williamsonian tradition of transaction cost economics, and by developing a

comparative institutional analysis of feasible and alternative organisational forms in the urban water sector. The objective of my inquiry is to identify the fundamental causal mechanism underpinning the outcome of water service reform in different institutional settings. This requires ascertaining the regularities produced by different reform options as organisational modes interact with the broader institutional matrix in which operators are embedded. It also implies explaining the occurrence of private sector inefficiency and ineffectiveness and public sector efficiency and effectiveness, which are largely ignored by rational choice theory. I expect this causal mechanism – which I suggest is Lobina's (2013) concept of remediable institutional alignment – to be a core component of a prospective heterodox theory of the firm.

Remediable institutional alignment consists in the discriminating alignment of: a) actors' attitudes (derived from the actors' own beliefs, interests and calculation); b) actors' power; and, c) the institutional matrix in which operators are embedded. It is the normative coherence of remediable institutional alignment to the intended reform outcomes that explains whether institutional alignment is highly or lowly remediable and adaptive. In other words, whether institutional alignment is more or less conducive to desired courses of action and whether it is less or more difficult to rectify institutional trajectories. Reflecting the duality of agency and institutions, remediable institutional alignment reveals that institutions do not cease to produce their effects after the ex-ante allocation of resources and definition of incentives but continuously define the possibilities of agency. This capability to account for circular, cumulative, and ultimately path dependent causation in complex open systems makes remediable institutional alignment part of a quintessentially heterodox project refuting the deterministic linearity of rational choice narratives and their closed-system ontology.

Drawing on 15 years of empirical research conducted by PSIRU, qualitative case studies from developed, transition and developing countries are used to illustrate the positive and normative implications of remediable institutional alignment. Complemented by a review of the quantitative literature, these case studies investigate the process and outcome of water service reform over the last 25 years. The methods chosen are thus consistent with the critical realist and heterodox preoccupation with analysing the social provisioning process as it really is rather than as it is in an ideal world (Lee, 2011). Furthermore, the collected empirical evidence covers a geographical breadth and a variety of institutional arrangements which are adequate to support the generalisation of findings. For example, Lobina (2005) looks at evidence on more than 40 private contracts in 22 countries of the global North and South, and Lobina (2013) adds further cases and countries to this list. The collected evidence also covers private contracts awarded in the absence and presence of competition for the market, private contracts subject to formal and independent economic regulation and private contracts that are not, public operators that are in-house departments of local governments and public operators characterised by different arms-length relationships with their public owners.

The paper is organised as follows. The next section provides the theoretical background to comparative institutional analysis, by situating it in the debate between orthodox and heterodox economics as competing metatheories of economics and illustrating mainstream theoretical perspectives. These include rational choice theories such as public choice and property right theory. Transaction cost economics draws on both orthodox and heterodox economics and represents an example of the porosity of knowledge and the itinerant nature of theory creation. Here particular attention is devoted to the predictive potential and limitations of the Williamsonian tradition of transaction cost economics. The third section sketches the analytical framework underpinning my inquiry, which is composed of two parts. First, alternative and feasible organisational modes are identified for the urban water sector and the nature of water supply and sanitation transactions is illustrated. Second, a socialised account of agency is offered by using structuration theory (Giddens, 1984, 1979) and the policy networks metaphor (Klijn, 1997) as a way of integrating and strengthening the explanatory clout of Williamson's method of comparative institutional analysis. The fourth section looks at the quantitative and qualitative evidence on the relative efficiency and effectiveness of public and private water operators in developed, transition and developing countries. Findings are discussed in the fifth section where I move from empirical observations to generalisation and elaborate on remediable institutional as a fundamental causal mechanism underpinning the outcome of water service reform. The paper ends with concluding remarks in section six where I identify a research agenda for the creation of a heterodox theory of the firm based on remediable institutional as its fundamental causal mechanism.

## 2. Theoretical background

Theory creation is a function of the metatheory informing the revisitation of extant theory. In fact the adoption of an overarching paradigm determines the focus of inquiry and, in turn, the content of novel perspectives (Williamson, 2005; Ritzer, 1990). It is possible to distinguish between two competing metatheories of economics: orthodox or mainstream economics, and heterodox economics.

### 2.1. Orthodox and heterodox economics

Orthodox economics embraces neoclassical notions of instrumental rationality and utility maximisation, equilibrium and mathematical formalism as its methodological foundations. This results in a closed-system ontology, the assumption of linear causality, deductivism, determinism and reductionism. The methodological foundations of heterodox economics are critical realism and institutionalism, non-equilibrium and historical modelling, and methodological pluralism (i.e. the rejection of mathematical formalism and deductivism as the only acceptable forms of reasoning). This implies an open-system ontology and the assumption of circular, cumulative, and ultimately path dependent causation (Dow, 2011; Lee, 2011; Lawson, 2006; Hodgson, 2000; Pluta, 2010). Orthodox economics has profoundly influenced rational choice theories such as public choice and property right, which assume instrumental rationality (Peters, 2005; Self, 1993; Dietrich, 1994) and whose development is based on deductivism (Hart et al., 1997; Demsetz, 1968). By contrast, heterodox microeconomics is an emergent discipline (Lee, 2011) and this explains the absence of an established heterodox theory of the firm.

### 2.2. Rational choice theories of the firm: public choice and property right

Rational choice consists in the common assumptions informing a variety of theories of the firm. These assumptions are that individuals are rational, are intrinsically self-interested, and take actions aimed at maximising their own utility (Peters, 2005; Self, 1993; Dietrich, 1994). Although these theories share assumptions, methods and explanations, I distinguish between public choice and property rights theory on one hand, and Williamson's approach to transaction cost economics on the other. The former theoretical perspectives predict government failure in the provision of water services and recommend the introduction of PSP. The latter has a less pronounced normative character in relation to the ownership of service providers.

Public choice theory contends that public service provision is intrinsically inefficient due to the self-interested behaviour of public managers who prioritise budget maximisation over the public interest (Renzetti and Dupont, 2003). This negative view of the public sector stems from four premises derived from principal-agent analysis. First, individual voters cannot control the political process, nor keep politicians accountable once they are elected. Second, interest groups manipulate the political process to their advantage. Third, elected politicians cannot effectively control bureaucracies. Finally, interest groups, politicians and bureaucrats mutually exchange favours to the detriment of voters and consumers (Self, 1993). Conversely, public choice theory predicts that competition enhances efficiency by reducing the excessive public supply of public services (Bel et al., 2010; Bel and Warner, 2008). Contracting out water supply is expected to improve performance as a result of competitive pressures (Boyne, 1998). It is also argued that insulation from self-serving political interference results in the superior efficiency of regulated private enterprises over public undertakings. This insulation arises from the fact that the institutional framework supporting privatization guarantees profitability in order to attract private investment (Willig, 1994).

Property rights theory expects the specification of property rights to induce efficient resource allocation by influencing incentives and individual behaviour (Furubotn and Pejovich, 1972; Dietrich, 1994). It posits that "private-sector owners, as residual claimants, have more clearly defined incentives to push for efficient decision-making by managers", than elected officials, senior bureaucrats and taxpayers (Renzetti and Dupont, 2003: 10-11). More precisely, the case for the superiority of private ownership rests on the "weak incentives of government employees with respect to both cost reduction and quality innovation" (Shleifer, 1998: 138). The plurality of objectives pursued by public authorities and public operators, which include social justice, also goes to the detriment of productive efficiency (Lorrain, 1997a). Premised on property rights, Demsetz (1968) argues in favour of competition for the market to select public utility operators when competition in the market is unfeasible. Competition for the market takes the form of competitive bidding for

the long term right to serve a specified area. Regulation and contractual renegotiation might be necessary to avoid excessive windfalls in cases whereby the durability of investments requires entering long term contracts (Demsetz, 1968), as is typically the case of urban water services. The so-called Demsetz competition is expected to promote the efficiency of monopolists by sanctioning poor performance through the threat of franchise termination, suspension, or non-renewal, and to mitigate the risk of regulatory capture by minimising agency discretion (Baldwin and Cave, 1999).

World Bank literature stresses the role of property rights-induced incentives in fostering the efficiency of Public-Private Partnerships (PPPs). Whether contractual options ranging from management contracts to full concessions “perform better than full provision by state-owned enterprises depends in particular on whether performance risk is effectively shifted from taxpayers to the private shareholders of the company that enters into a concession-type arrangement” (World Bank, 2002b: 23-24; Brook Cowen, 1997). Proponents of PSP also argue that due to the presence of natural monopoly, regulation in the water sector should be accompanied by competition. Regulation and competition would be mutually reinforcing as regulation is supposed to compensate for the limited possibility to introduce competition, while competitive pressures would reduce the required regulatory burden (Rees, 1998; Franceys, 2000; Lorrain, 1997b).

### 2.3. Explanatory potential of transaction cost economics

The Williamsonian tradition of transaction cost economics propounds that economic activity should be organised so as to minimise individual’s bounded rationality and to safeguard transactions from the threat of opportunism. The occurrence of opportunistic behaviour is less likely within a firm than under trading between two autonomous parties, due to the propensity of hierarchy to impose its objectives over those of individual agents. This tradition emphasises the importance of process on determining outcome. This implies a preoccupation not only with the ex ante conditions preceding a given transaction but also with how these conditions affect the ex post phase, for example the execution of a contract. High asset specificity can cause a transaction to move from a large-numbers exchange relation in the ex ante phase to a small-number transaction during contract execution. This situation is typical of the water sector and means that both buyer and seller are locked into a bilateral monopoly (Williamson, 1988, 1981; Dietrich 1994).

Williamson (1999, 1997, 1988, 1981) argues that comparative institutional analysis is required to recognise the economic institutions conducive to economising on transaction costs. According to the remediableness criterion, all feasible organisational modes - market, hybrid, private bureau, public bureau – are flawed. Therefore, the transaction costs associated with the attributes of different modes during both the ex ante and ex post phases have to be comparatively assessed in light of the nature of the transaction to be performed. Among such attributes is the intensity of incentives to appropriate net gains, distinguished between high- and low-powered incentives (Williamson, 1999, 1988, 1981).

Demsetz’ (1968) assumption of efficiency being achieved through “unassisted” competition for the market can be upset by incomplete information and uncertainty, incomplete contracts, high asset specificity and opportunism (Williamson, 1976, 1981, 1988). Williamson (1976) identifies the following problems with Demsetz competition: a) unclear award criteria; b) difficulties with auditing in case of divergence on price-cost relations; c) defective incentives; d) weak credibility of contract termination as the sanction for poor performance; e) operators’ ability to renegotiate contractual terms to their advantage; f) biased relationship between franchisor and franchisee, as political considerations override economic considerations; g) lack of a level playing field during contract renewal as the incumbent is favoured over other bidders. Furthermore, the possibility of corruption and of price transfer through the vertically integrated units of the operators’ mother company is acknowledged.

The proponents of PSP in the water sector have left Williamson’s warnings unheeded. Drawing on Coase (1937), Lorrain (1997b, 1991) maintains that multinational corporations enjoy a comparative advantage over municipal water operators as a result of vertical and horizontal integration. Economies of scope mean that operating subsidiaries would benefit from access to the group’s know-how on how to economise on the conduction of operations. Vertical integration across the production chain would allow private groups to bypass the market for the purchase of ancillary goods and services and avoid the associated transaction costs.

## **2.4. Limitations of transaction cost economics**

The transaction cost economics approach represents a departure from mainstream economics as it employs the lens of contract rather than the orthodox lens of choice (Williamson, 2005). However, Williamson's work can be criticised for adopting a conception of institutions limited to organisational structure (Scott, 2005), providing an undersocialised account of economic action which neglects the role of social relations in conditioning behaviour (Granovetter, 1985), and dismissing power as an explanatory variable (Dietrich, 1994).

## **3. Analytical framework**

### **3.1. Structuration and policy networks**

Lobina (2013) attempts to strengthen the explanatory impact of Williamson's method of comparative institutional analysis through its integration with complementary perspectives. The first perspective is the sociological distinction of institutions into rules, norms and customs (Scott, 2005), which adds depth to the understanding of how institutions enable and constrain agency beyond organisational forms and the rules of the game. Secondly, policy networks are used heuristically to investigate the process and outcome of governance. Actors in a policy network strategically interact in response to their attitudes (derived from the actors' own beliefs, interests and external incentive structures), and such interaction is informed by power and the institutional context which provides the landscape for agency (and is shaped by agency in return) (Klijn, 1997; Giddens, 1979).

### **3.2. Attributes of the urban water and sanitation sector**

Urban water supply and sanitation are essential public services satisfying basic human needs and preventing public health hazards (Heller, 2009). Access to quality water services has a positive impact on economic and social development and on poverty reduction (UNESCO-WWAP, 2006). In many transition and developing countries, access to water services remains problematic and progress towards meeting the UN Millennium Development Goals – to halve, by 2015, the proportion of people without sustainable access to safe drinking-water and basic sanitation – is erratic (WHO–UNICEF, 2010). As public water operators provide over 90% of urban water services worldwide, their reform is central to enhancing sustainable water service development (Lobina and Hall, 2008).

In the urban water sector, relevant organisational forms for comparative institutional analysis range from in-house provision to the contractual arrangements comprised in the notion of private sector participation (PSP): outright divestiture, concessions and lease contracts among others. Water supply and sanitation are essential services provided under natural monopoly conditions to achieve sustainable development objectives. Normative coherence demands that efficiency be instrumental to the achievement of effectiveness, as the ultimate objective of water service provision is the satisfaction of the developmental needs of the beneficiary communities rather than the needs of the operational process (Lobina, 2012).

### **3.3. Integrating the comparative institutional analysis method**

Interaction between actors and coalitions of actors within a policy network is assumed to be the result of interaction between different sets of incentives, resources and abilities to use underlying institutions to realise aims. This interaction represents a mechanism through which the distribution of power within a network is reproduced and altered (Lobina, 2013). Comparative institutional analysis thus consists in the discriminating alignment of the attributes of the organisational modes constituting the reform opportunity set. These attributes are compared in view of the attainment of sustainability objectives. The derived analytical framework supports historical and critical realist accounts of agency beyond instrumental and bounded rationality, the role of power beyond static resource allocation, the role of institutions beyond organisations and rules, and the mutual dependence of individual and organisational incentives, resources

and institutions. It is suitable to investigate path dependent causation in complex open systems and is therefore part of a quintessentially heterodox project.

#### 4. Empirical evidence

The following findings reflect progress in the published work of the last 15 years as synthesised in Lobina (2013). The behaviour of private managers is informed by high-powered incentives to achieve profit maximisation. While private shareholders enjoy relatively low agency costs in controlling managers, asymmetric power means that public principal-private agent relationships imply high agency costs. Opportunism under natural monopoly allows private operators to appropriate net gains when interacting with contract awarding and regulatory authorities under different institutional frameworks. If private operators obtain productive efficiency, power differentials allow them to retain rent rather than passing efficiency on to consumers.

PSP in the water sector affords flexibility to private operators' interest seeking strategies. This flexibility is due to the alignment of private operators' high-powered incentives with advantageous resource allocation and favourable institutions. If private operators' superior skills are not sufficient to solve disputes with contracting and regulatory authorities to their advantage, they can opt for exerting legal or extra-legal pressure on public authorities. Under PSP, institutional adaptability provides the conditions for the deployment of asymmetric power to achieve outcomes unaligned to reform objectives. In turn, the institutional adaptability of PSP is lowly remediable. Due to the combination of asymmetric power and institutions favouring private interests, public principals face high costs to steer private agents away from an undesired course of action. Paradoxically the institutional framework shielding private operators from non-commercial demands does not promote efficiency, as claimed by rational choice theorists, but allows private operators to abuse of their monopoly power.

The reviewed evidence also shows that public efficiency and efficacy is possible, as is successful in-house restructuring. As no organisational mode is plausible of perfection, the possibility of both efficiency and inefficiency of public operations is contemplated. Asking whether public operators have the resources and incentives to run efficient and effective operations permits the identification of four possible cases: a) the public operator has both adequate resources and adequate incentives; b) the public operator lacks adequate resources and has adequate incentives; c) the public operator has adequate resources and lacks adequate incentives; and, d) the public operator lacks both adequate resources and adequate incentives.

Scenario a) approximates the Weberian ideal type of bureaucracy and implies the benevolence of government as owner, regulator and financier of the public operator. Scenario b) differs from scenario a) in terms of the availability of resources, but the limitation of resources can be remedied thanks to collaboration with external public agencies. Capacity building can thus be achieved by public operators entering into Public-Public Partnerships which exclude profit-seeking. Scenarios c) and d) are characterised by the lack of adequate incentives to operate efficiently and effectively. However, wrongdoing in the public sector is not inevitable and institutional change can align the incentives of politicians, public managers and workers with public service objectives. Institutional realignment can be induced by the introduction of participatory and transparent decision making; and by redesigning incentive structures through in-house restructuring and human resource management.

Institutions supporting public operations are designed to facilitate the achievement of collective goals. This makes the alignment of individual attitudes, resources and institutions less resilient to sustainability-oriented change under in-house service provision than PSP – whose ultimate goal, appropriation, is divergent from the intended reform objectives. Remediable institutional alignment undergirds the comparative advantage of public water operations, as more ample opportunities are provided for compliance, allocative efficiency and adaptive performance. Remediable institutional alignment does not only explain scrupulous task execution, but also how cost savings are passed on to the served communities. In the absence of commercial imperatives, the hierarchy of public enterprise supersedes high-powered incentives and directs individual efforts towards the transfer of added value. This value is not exclusively of economic nature as it extends through the multiple dimensions of sustainability. Multiple agency and low-powered incentives are not the

cause of public inefficiency, as claimed by rational choice theorists, but the determinants of public superiority in promoting sustainable water service development.

## 5. Discussion of findings

Derived from the alignment of power and institutions with sustainable development objectives, remediable institutional alignment is the fundamental causal mechanism behind reform outcomes. Whether these outcomes are positive or negative depends on the alignment of power and institutions in a policy sub-system. The prevalence of high-powered incentives to appropriate net gain, the power to appropriate net gain, and institutions designed to facilitate the appropriation of net gain, will result in the negative outcome of water service reform. The prevalence of low-powered incentives to appropriate net gain, the power to achieve collective goals, and institutions designed to facilitate the achievement of collective goals, will result in the positive outcome of water service reform. Ultimately, it is the normative coherence of institutional design, i.e. the degree of alignment of institutions and intended reform outcomes that explains whether institutional alignment is highly or lowly remediable and adaptive. In other words, whether institutional alignment is more or less conducive to desired courses of action and whether institutional trajectories are less or more difficult to rectify. As such, remediable institutional alignment is a core component of a prospective heterodox theory of the firm. Inductively constructed and reflecting the duality of agency and institutions, this notion incorporates contingency and path dependency and reveals that institutions do not cease to produce their effects after the ex-ante allocation of resources and definition of incentives, but continuously define the possibilities of agency. It is this capability to account for circular and cumulative causation that distinguishes remediable institutional alignment from the deterministic linearity of rational choice narratives.

As a fundamental causal mechanism, remediable institutional alignment is apposite to comprehend the complexity of water service provision. At the same time, it masters complexity by synthesising combinations of relations and structure into discrete institutional outcomes assessed in light of their relative sustainability. While all-encompassing concepts like power or transaction costs explain everything and thus end up explaining nothing (Williamson, 1997), remediable institutional alignment allows for multiple alternative institutional outcomes. It does so by expounding multiple variations in agency as determined by the combination of actors' motivation and power, and multiple variations in institutions as determined by the interdependence of rules and organisations, norms and customs. In other words, remediable institutional alignment operationalizes the duality of agency and structure and accounts for a plurality of reform outcomes. As a result, remediable institutional alignment satisfies the critical realist quest for irreducible causal mechanisms (Lee, 2011) while avoiding tautologically explaining itself.

## 6. Concluding remarks

Premised on an open-system ontology, remediable institutional alignment is part of a heterodox and critical realist project (Lawson, 2006; Dow, 2011), responding to Fine's (2006) exhortation to advance critical realist economics by exposing the meaning and interdependence of structure and relation. In contrast with Williamson's (1997) disdain for the concept of power, I adopt the relational assumption of asymmetric power (Fine and Van Waeyenberge, 2006), resulting from resource mobilisation in a relational context (Lobina, 2012). According to the structural assumption of institutional ecology, institutions comprise organisations, rules, norms and customs, and the focus of analysis encompasses both the micro and the macro (Scott, 2005; North, 1993). As a causal assumption, path dependency (Pluta, 2010) reveals that institutions do not cease to produce their effects after the ex-ante allocation of resources, as implied by property rights, but continuously define the possibilities of agency.

A research agenda for the creation of a heterodox theory of the firm based on remediable institutional as its fundamental causal mechanism is to incorporate the development of the following.

- Expounding sustainable water development as the normative aim and social welfare function of water service provision.
- Elaborating on multiple actors attitudes as a behavioural assumption



- Elaborating on normative coherence as the catalyst for agency
- Elaborating on institutional ecology as a structural assumption
- Elaborating on path dependency as a causal assumption
- Assess the effect of remediable institutional alignment in public service sectors characterised by a different market structure from the urban water and sanitation sector

## References

- Baldwin, R., Cave, M. (1999) *Understanding Regulation: Theory, Strategy, and Practice*. Oxford: Oxford University Press.
- Bayliss, K. (2006) *Privatization Theory and Practice - A Critical Analysis of Policy Evolution in the Development Context*. In: Jomo, K.S., Fine, B. (eds.) *The new development economics: after the Washington Consensus*. London and New York: Zed Books, 144-161.
- Bayliss, K. (2001) *Economic Growth and Development - The World Bank and Privatization: A Flawed Development Tool*, *Global Focus - An International Journal of Business Economics and Social Policy*, 13(2): 95-104.
- Bel, G., Fageda, X., Warner, M. (2010) *Is Private Production of Public Services Cheaper Than Public Production? A Meta-Regression Analysis of Solid Waste and Water Services*, in *Journal of Policy Analysis and Management*, Vol. 29, No. 3: 553–577.
- Bel, G., Warner, M. E. (2008) *Does privatization of solid waste and water services reduce costs? A review of empirical studies*, in *Resources, Conservation and Recycling*, Vol. 52, Issue 12: 1337–1348.
- Boyne, G. A. (1998) *Bureaucratic Theory Meets Reality: Public Choice and Service Contracting in U. S. Local Government*, in *Public Administration Review*, Vol. 58, No. 6: 474-484.
- Crouch, C. (2007) *Neoinstitutionalism: Still no intellectual hegemony?*, *Regulation & Governance*, 1: 261–270.
- Demsetz, H. (1968) *Why Regulate Utilities?*, in *Journal of Law and Economics*, Vol. 11, No. 1, pp. 55-65.
- Dietrich, M. (1994) *Transaction Cost Economics and Beyond – Towards a New Economics of the Firm*. London and New York: Routledge.
- Dow, S. C. (2011) *Heterodox economics: history and prospects*, in *Cambridge Journal of Economics*, 35: 1151–1165.
- Dugger, W.M. (1983) *The Transaction Cost Analysis of Oliver E. Williamson: A New Synthesis?*, *Journal of Economic Issues*, 17(1): 95-114.
- Dugger, W.M. (1990) *The New Institutionalism: New But Not Institutionalist*, *Journal of Economic Issues*, 24(2): 423-431.
- Fine, B. (2009) *Development as zombieconomics in the age of neoliberalism*, *Third World Quarterly*, 30(5): 885–904.
- Fine, B. (2006) *Debating critical realism in economics*, *Capital & Class*, 30(2): 121-129.
- Fine, B., Van Waeyenberge, E. (2006) *Correcting Stiglitz’s asymmetric posture: From information to power in the world of development*, *Socialist Register* (Merlin Press).
- Franceys, R. (2000) *Water and Public-Private Partnerships*. Keynote Speech, Special Subject on “Water and Public-Private Partnerships”, 2<sup>nd</sup> World Water Forum (The Hague, The Netherlands, 17-22 March 2000).
- Furubotn, E. G., Pejovich, S. (1972) *Property Rights and Economic Theory: A Survey of Recent Literature*, in *Journal of Economic Literature*, Vol. 10, Issue 4, pp. 1137-1162.

- Giddens, A. (1984) *The constitution of society: Outline of the theory of structuration*. Cambridge: Polity Press.
- Giddens, A. (1979) *Central Problems in Social Theory – Action, Structure and Contradiction in Social Analysis*. Basingstoke, Hampshire and London: MacMillan Education.
- Hall, D., Lobina, E., de la Motte, R. (2005) Public resistance to privatisation in water and energy, *Development in Practice*, 15(3-4): 286-301.
- Hodgson, G. M. (2000) What is the Essence of Institutional Economics?, in *Journal of Economic Issues*, 34(2): 317-329.
- Klijn, E. H. (1997) Policy networks: an overview. In: Kickert, W.J.M., Klijn, E.H., Koppenjan, J. (eds.), *Managing Complex Networks: Strategies for the Public Sector*. London: Sage Publication.
- Lawson, T. (2006) The nature of heterodox economics, in *Cambridge Journal of Economics*, 30: 483–505.
- Lee, F. S. (2011) The Making of heterodox microeconomics. *Munich Personal RePEc Archive*, MPRA Paper No. 30907. Accessed 29 December 2011 ([http://mpra.ub.uni-muenchen.de/30907/1/MPRA\\_paper\\_30907.pdf](http://mpra.ub.uni-muenchen.de/30907/1/MPRA_paper_30907.pdf)).
- Lobina, E. (2005) Problems with Private Water Concessions: A Review of Experiences and Analysis of Dynamics, *International Journal of Water Resources Development*, 21(1): 55-87.
- Lobina, E. (2012) Water Service Governance, Technological Change and Paradigm Shifts: A conceptual framework, *International Journal of Water*, 6(3/4): 155-175.
- Lobina, E., 2013. Remediable institutional alignment and water service reform: Beyond rational choice. *International Journal of Water Governance*, 1(1-2), pp. 109-132. [www.internationalwatergovernance.com/images/stories/gratis/internationalwatergovernance/IJWG3.pdf](http://www.internationalwatergovernance.com/images/stories/gratis/internationalwatergovernance/IJWG3.pdf)
- Lobina, E., Hall, D. (2008) The comparative advantage of the public sector in the development of urban water supply, *Progress in Development Studies*, 8(1): 85-101.
- Lobina, E., Hall, D. (2009) Thinking inside the box: the World Bank position on the private and public sector. *PSIRU Reports*, March 2009 ([www.psiru.org/sites/default/files/2009-03-W-wbank.doc](http://www.psiru.org/sites/default/files/2009-03-W-wbank.doc)).
- Lorrain, D. (1997a) Introduction: the expansion of the market. In: Lorrain, D., Stoker, G. (Eds.), *The Privatization of Urban Services in Europe*. Pinter, London, pp. 1-26.
- Lorrain, D. (1997b) Introduction - the socio-economics of water services: the invisible factors. In: Lorrain, D. (Ed.), *Urban Water Management - French Experience around the World*. Levallois Perret, Hydrocom, pp. 1-30.
- Peters, B. G. (2005) *Institutional Theory in Political Science: The “New Institutionalism”*. London and New York: Continuum.
- Pluta, J. E. (2010) Evolutionary Alternatives to Equilibrium Economics - Some Suggested Applications, in *American Journal of Economics and Sociology*, 69(4): 1155-1177.
- Rees, J. A. (1998) Regulation and Private Participation in the Water and Sanitation Sector, *Natural Resources Forum*, May 1998, Volume 22, Number 2 (also published as TAC Background Papers NO. 1, Stockholm, Global Water Partnership: <http://www.gwpforum.org/gwp/library/Tac1.pdf>).
- Renzetti, S., Dupont, D. (2003) Ownership and performance of water utilities, in *Green Management International*, 42, 9-20.

- Ritzer, G. (1990) Metatheorizing in Sociology, in *Sociological Forum*, 5(1): 3-15.
- Self, P. (1993) *Government by the Market? The Politics of Public Choice*. Basingstoke, Hampshire and London: Palgrave MacMillan.
- Shleifer, A. (1998) State versus Private Ownership, *Journal of Economic Perspectives*, 12(4): 133–150.
- Williamson, O. (1976) Franchise Bidding for Natural Monopoly – in General and with Respect to CATV, in *Bell Journal of Economics*, Vol. 7: 73-104.
- Williamson, O. (1981) The modern corporation, origins, evolution, attributes, in *Journal of Economic Literature*, Vol. 19: 1537-1568.
- Williamson, O. (1988) The Logic of Economic Organization, in *Journal of Law, Economics, and Organization*, Vol. 4, No. 1: 65-93.
- Williamson, O. (1997) Hierarchies, markets and power in the economy: an economic perspective. In: Menard, C. (Ed.) *Transaction Cost Economics – Recent Developments*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Williamson, O. (1999) Public and Private Bureaucracies: A Transaction Cost Economics Perspective, in *Journal of Law, Economics, and Organization*, Vol. 15, No. 1: 306-342.
- Williamson, O. E. (2005) Transaction cost economics and business administration, in *Scandinavian Journal of Management*, 21: 19-40.
- Willig, R. D. (1994) Public versus Regulated Private Enterprise, in *Proceedings of the World Bank Annual Conference on Development Economics 1993*.
- World Bank (2002) Private Sector Development Strategy – Directions for the World Bank Group, 9th April 2002. Washington, DC: The World Bank Group.