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## On the Social Conditions of Governance

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Social Capital and Governance in Areas of Limited Statehood

Johannes Kode



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## On the Social Conditions of Governance: Social Capital and Governance in Areas of Limited Statehood

*Johannes Kode*

### **Abstract:**

Unlike what Hobbesian theories argue, the provision of governance is not necessarily undermined by a lack of statehood. Empirical findings show that – contrary to many voices in current debates on weak, failing, or failed states – various (non-state) actors provide governance even when statehood is limited. This paper addresses the puzzle of how to account for cases where governance exists although the state cannot or does not provide it. Transferring insights from political sociology to the analysis of such “governance without the state,” the paper holds that the way societies manage their affairs critically depends on social conditions, which are captured here following social capital theory. Working toward a political sociology of “governance without a state,” this paper links social capital, resulting in interpersonal trust, to social coordination underlying the provision of governance. In this context, governance is interpreted as a collective action game (“governance game”), in which socially embedded (collective) actors are seen as players whose behavior (in particular their decisions to cooperate) depends critically on their social capital endowments. The main argument is that specific types of social capital endowments facilitate – and, thus, explain – specific modes of social coordination in areas of limited statehood. Explorative in nature, conceptual and theoretical arguments will be developed that offer new perspectives to explain the variance and mechanisms of governance outside the OECD world.

### **Zusammenfassung:**

Im Gegensatz zu Hobb'schen Argumentationen ist die Bereitstellung von Governance nicht notwendigerweise an starke Staatlichkeit gebunden: Empirische Belege zeigen, dass verschiedene (nicht-staatliche) Akteure Governance-Leistungen trotz zumindest begrenzter Staatlichkeit bereitstellen – entgegen vieler Stimmen in zeitgenössischen Diskursen zu schwacher und gescheiterter Staatlichkeit. Der Aufsatz geht der Frage nach, wie die Fälle erklärt werden können, wo Governance erfolgreich bereitgestellt wird obwohl der Staat entweder keine Governance-Leistungen erbringt oder erbringen kann. Im Rahmen des Transfers von Forschungsergebnissen der Politischen Soziologie in die Analyse von „Governance ohne Staat“ geht der Aufsatz von der Annahme aus, dass Art und Weise wie Gesellschaften sich organisieren maßgeblich von deren sozialstruktureller Bedingtheit abhängen. Diese spezifiziert der Aufsatz mithilfe des Sozialkapitaltheorie. Auf dem Weg zu einer Politischen Soziologie der „Governance ohne Staat“, stellt der Aufsatz die Beziehung zwischen Sozialkapital, vor allem in seiner Ausprägung als interpersonelles Vertrauen, und sozialer Handlungskoordination als Grundlage von Governance her. In diesem Kontext wird die Bereitstellung von Governance als Spiel kollektiven Handelns verstanden („Governance Game“), in dem das Verhalten sozial-eingebetteter (kollektiver) Akteure (und insbesondere ihre Kooperationsentscheidungen) maßgeblich von dem Umfang ihres Sozialkapitals abhängen. Das zentrale Argument des Aufsatzes ist, dass spezifische Typen von Sozialkapital bestimmte Modi der sozialen Handlungskoordination in Räumen begrenzter Staatlichkeit ermöglichen und entsprechend erklären. Im Rahmen eines explorativen Zugangs werden konzeptuelle und theoretische Begründungen vorgebracht, die bei der Erklärung der Varianz und der Prozesse von Governance außerhalb der OECD-Welt neue Perspektiven eröffnen.

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## 1. Introduction

„Communities that have been cut off from an effective state authority – whether out of governmental indifference to marginal frontier territories, or because of protracted warfare, or because of vested local and external interests in perpetuating conditions of state failure – consistently seek to devise arrangements to provide for themselves the core functions that the missing state is supposed to assume, especially basic security“ (Brynen 2008, 75).

The challenges associated with failing or failed states – or “limited statehood” (Risse and Lehmkuhl 2006, 9ff.) – are perceived as domestic as well as international issues of immense policy importance (e.g., Fukuyama 2005, xiii-xx). “Areas of limited statehood” are understood as states or parts of states

„in which central authorities (governments) lack the ability to implement and enforce rules and decisions or in which the legitimate monopoly over the means of violence is lacking, or both, at least temporarily. The ability to enforce rules or to control the means of violence can be restricted along various dimensions: territorially; sectorally (i.e. with regard to specific policy areas); socially (i.e. with regard to specific parts of the population); and temporarily“ (Börzel and Risse 2010, 118-9).

Robert Rotberg sums up the implications well: “the existence of these kinds of countries, and the instability that they harbor, not only threatens the lives and livelihoods of their own peoples but endangers world peace” (2002, 128). In response to state failure, externally-led state-building projects have aimed at (re)building OECD-like effective and legitimate state institutions, which have become the conceptual blueprint for statehood around the globe (Brinkerhoff 2005; Fukuyama 2005). The goal is to build stable and democratic states (Grimm and Merkel 2009; Ottaway 2002), especially in post-conflict contexts (Paris and Sisk 2009, 2ff). Many share the opinion that “functioning and effective state institutions are a prerequisite for sustainable development” (Boege, Brown, and Clements 2009, 13).

Gaining particular momentum from 2004 onward, state building has also become part of current academic discourses: Francis Fukuyama, Simon Chesterman, James Fearon, David Laitin, Stephen Krasner, Roland Paris, and others have each recently put their own spin on the debate asking why building states is of great importance both domestically and internationally (cp. Paris and Sisk 2009, 8-9).

While a strong state is often seen as necessary, a close look at the empirical reality on the ground calls into question the state’s role as a necessary precondition for security, peace, development, and, more broadly, the provision of public goods. Countries without strong state institutions are seldom void of *governance*: “Weak or limited statehood does not automatically translate into

weak governance. ‘Governance without a state’ (Risse & Lehmkuhl 2007; Risse 2010) appears to be an empirical reality in many parts of the world” (Börzel and Risse 2010, 120).

In order to conceptually capture “functional equivalents of statehood” (Draude 2007), previous work has adapted the concept of governance, specified as “institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods” (see e.g. Mayntz 2009 and Risse 2010, 8). This approach provides an alternative to state-centered “OECDism” (for a critical discussion of the state preoccupation in social sciences, see e.g. Ferguson and Mansbach 2004, 107ff.). Furthermore, the concept of governance allows research to see the state as “only one collective actor” among others (Ferguson and Mansbach 2004, 108). It focuses on the empirical question of “who engages in what kind of coordination to provide security, order and welfare for a community” (Börzel 2010, 21), placing it at the center of analysis.

The observed forms of governance without the state stand in opposition to the Hobbesian argument, which is broadly echoed in current debates on weak, failing, or failed states; the absence of the state’s monopoly on violence does not necessarily imply an uncooperative natural state in which the *bellum omnium contra omnes* prevails and life is “solitary, poor, nasty, brutish, and short” (Hobbes 1651 [1986], 186). Thus, governance without the state forces us to recast our conceptual apparatus, as Boege et al. have already stated: “there is a need to develop alternative non-state-centric approaches to governance, the control of violence, peace-building, and development” (Boege, Brown, and Clements 2009, 14).

### **Political Sociology**

Political sociology, developed in the context of strong state institutions, has stressed throughout its history that the way societies manage their affairs is critically dependent on underlying social and cultural factors. From this perspective, political institutions are seen as embedded in society and its social structures, often shaped by cultural meaning. The way political institutions are created and maintained is linked to various social conditions. During the last three decades, political sociology has often conceptualized these conditions as “social capital,” comprised of norms, interpersonal trust, and networks (for an overview, see Field 2003). The concept of social capital has been linked to various social phenomena, ranging from the functioning of democratic institutions (Putnam, Leonardi, and Nanetti 1993), transitions to democracy (e.g., Badescu and Uslaner 2003), economic development (Annen 2003; Knack and Keefer 1997; Solow 1999; Woolcock 1998; Woolcock 2001), and, negatively, to corruption (Harris 2007). Furthermore, it is seen as being closely linked to vibrant civil societies (e.g. Fukuyama 2001).

According to Elinor Ostrom and T. K. Ahn, social capital “helps to synthesize how cultural, social, and institutional aspects of communities jointly affect their capacity to deal with collective-action problems” (Ostrom and Ahn 2003, xvi). While political sociology has often analyzed governance by the state, the discipline has rarely been applied to non-Western forms of governance outside the OECD context.

This working paper strives to transfer insights from political sociology to the analysis of governance without the state. It addresses the question of whether different types and endowments of social capital can partially explain different modes of coordination as an important dimension of governance in areas of limited statehood. Working toward a political sociology of governance without the state, I will conceptually link aggregated social capital to the ways in which actors engage in the provision of governance. Explorative in nature, conceptual and theoretical arguments will be developed that help to explain the variance of governance outside the OECD world. Finally, I will propose corresponding paths for future research. Where necessary, arguments will be illustrated by empirical data as a “plausibility probe” (Eckstein). At the core of this paper lies the attempt to outline micro–macro linkages using different theoretical models as a multi-method approach (cp. e.g. George and Bennett 2005, 34f.).

Throughout this paper, governance is seen as the outcome of collective action, since different actors have to coordinate their behavior to set up and institutionalize modes of interaction for the provision of binding rules and public goods. In this somewhat Hobbesian view, the state –with its monopoly on violence paired with its ability to enforce binding rules – is a functional solution to the essential problems of collective action and, thus, to the problem of coordination. As Elinor Ostrom states, “the theory of collective action is ... the core of the justification for the state” (Ostrom 1998, 1). States with “domestic sovereignty” (Krasner 1999, 4) facilitate collective action by effectively enforcing rules that regulate interaction and hierarchically coordinate actors’ behavior to provide public goods.

Analyzing governance beyond the state requires addressing the question of what can substitute for the state to facilitate a Hobbesian “Leviathan.” Circumscribed domestic sovereignty raises the question posed by Douglass C. North: “Under what conditions can voluntary cooperation exist without the Hobbesian solution of the imposition of a coercive state to create cooperative solutions?” (1990, 14). The empirical reality of non-state governance presents a puzzle for the largely state-centered governance discourse in this regard, which has largely ignored North’s central question thus far. Börzel and Risse rightly ask: “Why does governance research in Western developed countries show that ‘new’ modes of governance require consolidated statehood and a strong shadow of hierarchy, while ‘governance without a state’ appears to be widespread in areas of limited statehood?” (2010, 120).

This working paper argues that social capital enables actors to overcome collective action problems and subsequently to coordinate their behavior in the absence of statehood as the “Leviathan.” In particular, it will be argued that high levels of interpersonal trust – the outcome of high aggregated levels of social capital (Ahn and Ostrom 2008; 2003) – change the way that actors play what will be conceptualized as the “governance game.” This working paper thus focuses on two modes of coordination (hierarchical and non-hierarchical) and analyzes their social capital prerequisites.

It will be argued that social capital is a sufficient but not necessary condition for governance without the state, as Fukuyama similarly states for coordination in general: “It is of course pos-

sible to achieve coordinated action among a group of people possessing no social capital, but this would presumably entail additional transaction costs of monitoring, negotiating, litigating, and enforcing formal agreements” (Fukuyama 2001, 10). The alternative costs of coordinated action without social capital seem especially prohibitive where the state does not enforce rules necessary for agreements.

The scope condition of my project is that different actors have incentives to provide governance in the first place. As Börzel and Risse have argued (2010, 120-21), these incentives can stem from the “risk of anarchy” that actors face, the involvement of external actors, or normative structures (where “local community norms lead to governance”). While taking for granted that actors are motivated to engage in the governance game, I will address the question of how social capital enables them to successfully coordinate without falling into what Rothstein has labeled “social traps” (Rothstein 2005).

**Chapter One** will summarize the current literature on social capital. In doing so, it will focus on what political sociology has to offer in terms of understanding (institutionalized) social coordination, and will locate the primary research gaps. The two core concepts of social capital and governance will subsequently be summarized and further specified. The remainder will address a few meta-theoretical premises as well as the theoretical framework with regard to the link between social capital and interaction.

**Chapter Two** will delineate how hierarchical and non-hierarchical coordination in areas of limited statehood are enabled by particular social capital endowments, and it will formulate corresponding propositions. Specifically, I will argue that social capital can increase the legitimacy of hierarchical coordination. Furthermore, “bridging” social capital (Woolcock 2001, 12-13) facilitates horizontal coordination by increasing the trustworthiness of actors, which reduces collective action problems underlying the provision of governance without the hierarchical enforcement of contracts and rules.

The last section of the chapter examines the role of trust networks for governance in areas of limited statehood. This section also attempts to shed light on the possible “dark side” of social capital in areas of limited statehood, arguing that it can undermine the inclusiveness of governance provision, especially if it prevails in its “bonding” type (Woolcock 2001, 12-13). The outcome is a form of “clustered governance” associated with confined and strong social networks that only provide governance in an exclusive way.

**Chapter Three** will draw conclusions from the previous chapters and discuss some limitations of the arguments presented and approaches taken. After providing thoughts on future empirical research, discussing the availability of data as well as some other empirical issues in detail, the chapter will conclude with broader theoretical and policy-relevant implications.



## 2. Setting the Stage

### 2.1 Political Sociology and Limited Statehood

Political sociology addresses the relationship between political institutions and their underlying social structures. Thus, it is about state–society relations. Most political sociologists would probably agree with James C. Scott: “Formal order ... is always and to some considerable degree parasitic on informal processes, which the formal scheme does not recognize, without which it could not exist, and which it alone cannot create or maintain” (Scott 1998, 310). Political sociology attempts to disentangle the relationships between formal (political) order and informal (social) processes.

Social and cultural factors, as many have argued, shape institutions and organizations in various ways. Moreover, they account for social interaction, collective action, and identity, among other things. Numerous approaches have been developed in the OECD context to capture these factors, ranging from Marxist accounts to new institutional economics. Scholars have argued that cultural heritage contributes to state stability, for example by providing cultural symbols for identity (Odendahl and Peters 2009); that education is likely to prevent voters from extremism and supports democratic practices (Lipset 1959, 79); that religion affects democracy (Huntington 1991; for an overview, see Weiffen 2009, 94ff.); or that class structure – bourgeoisie (Moore 1966), middle class (Lipset 1959), or working class (Collier and Collier 1991; Rüschemeyer, Stephens, and Stephens 1992) – has paved the way for democracy (cp. also March and Olsen 1984, 735). Many more interactions between social and cultural factors on the one side and state institutions on the other side have been researched (see Nash and Scott 2001). Several accounts are united around the argument that a congruence between polity and political culture is necessary but not sufficient for the consolidation of (young) democratic regimes (regarding the general role of culture, see e.g. Clague, Gleason, and Knack 2001; Huntington 1991; Inglehart 1988; Inglehart and Welzel 2005; Jackman and Miller 2004; Lipset 1959; Putnam, Leonardi, and Nanetti 1993; Pye and Verba 1965; Tessler and Gao 2008).

As March and Olsen outline, many of these accounts fall into the category of contextual accounts that claim that, “class, geography, climate, ethnicity, language, culture, economic conditions, demography, technology, ideology, and religion all affect politics but are not significantly affected by politics” (March and Olsen 1984, 735). Others are rather “reductionist,” focusing on micro-level social interactions to explain macro phenomena (cp. March and Olsen 1984, 735f.), or “institutionalist,” stressing the idea that institutions shape micro-level interactions. This latter approach often claims that the state is “not only affected by society but also affects it” (March and Olsen 1984, 738).

In the tradition of Tocqueville, the role of “civic associations,” seen as the “flipside” of democracy (van Deth 2010, 118), has gained a lot of attention. In this context, “vibrant” civil societies are seen as beneficially resulting in “accountability,” “voice and participation,” and “democratic culture,” all of which are seen as essential for the functioning of democratic institutions (Caparini

2010, 245; Fukuyama 2001; Ottaway 2000, 4; Tusalem 2007; White 1996). One way that societies organized into civic associations can benefit democratic institutions is by functioning as “schools of democracy,” in which cooperative norms are socialized (cp. Rothstein and Stolle 2008, 4).

The outcome of associational/social life has often been linked to social capital (see e.g. Fukuyama 2001; Ottaway 2000, 10) in the tradition of previous sociological work by Bourdieu, Coleman, and others (for the history of the concept see Field 2003). Social capital is often seen as resulting from social interactions and structures, the outcome of “social embeddedness” (as coined by Polanyi 1944). According to the seminal study *Making Democracy Work* by Putnam et al., social capital refers to “features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions.” It therefore leads to better “institutional performance” (Putnam, Leonardi, and Nanetti 1993, 8, 167), especially in democratic contexts (cp. also Adam 2007; Badescu and Uslaner 2003; Gabriel et al. 2002). Social capital bred in civic associations, so the core argument goes, results in and derives from civic engagement, loyalty toward the community, and compliance (Levi and Stoker 2000), which are seen as important for democratic performance (see also Fukuyama 2001). Interpersonal trust – seen as the most important manifestation of social capital, according to T. K. Ahn and Elinor Ostrom (2008) – is also considered quintessential for democratic governance (e.g. Bjørnskov 2007, 2010; Letki 2006; Newton 2006; Offe 1999; Tilly 2000).

Social capital is widely perceived as “a panacea for many fundamental problems that affect modern societies” (Radnitz, Wheatley, and Zürcher 2009, 707). Among social and cultural variables, social capital has recently received an outstanding amount of attention, lighting a “bushfire in the social sciences” (Field 2003, 1). A lot of policy makers and intergovernmental organizations have adopted the concept as well (cp. e.g. Field 2003, 9). Its researched outcomes include “well-performing democratic institutions (Putnam et al. 1993, Newton 1999b, Woolcock 2001), personal happiness (Helliwell 2002), optimism and tolerance (Uslaner 2002), economic growth (Knack & Keefer 1997, Zak & Knack 2001), and democratic stability (Inglehart 1999)” (Rothstein and Stolle 2008, 3).

Elinor Ostrom and T. K. Ahn, among the few social capital theorists who place social capital in a coherent conceptual and broader theoretical framework, have conceptualized social capital “as an attribute of individuals and of their relationships that enhances their ability to solve collective-action problems” (2003, xiv). It is a (collective) actor-level attribute, but it can also be used in its aggregated form (see Jansen 2006, 32ff.). It is “capital” in the sense that it can be seen as an asset. Actors can invest in it when expecting future benefits, as Adler and Kwon argue in their discussion on the subject:

„Through investment in building their network of external relations, both individual and collective actors can augment their social capital and thereby gain benefits in the form of superior access to information, power, and solidarity; and by investing in the development of their internal relations, collective actors can strengthen their collective identity and augment their capacity for collective action“ (Adler and Kwon 2002, 21; see also Lin 1999, 30).

Moreover, social capital is “capital” in the sense that it is “appropriable” (Coleman): “An actor’s network of, say, friendship ties can be used for other purposes, such as information gathering or advice” (Adler and Kwon 2002, 21). It is also “convertible” like other forms of capital (ibid.).

According to Ostrom and Ahn’s theory, social capital resolves collective action dilemmas by increasing interpersonal trust amongst actors that facilitates coordination. This account connects social capital theory conceptually with research on trust in various organizations (Dirks and Ferrin 2001; Kramer 1999). Moreover, social capital allows us to link social conditions to meso and macro social phenomena as outcomes of social interaction (Field 2003, 7; Jansen 2006, 27).

Instead of focusing on the beneficial outcomes of associational membership (Putnam, Leonardi, and Nanetti 1993), this paper adapts the broader concept of social capital from Ostrom and Ahn, who define it as the outcome of trustworthiness, social networks, and formal as well as informal institutions (Ostrom and Ahn 2003). This concept seems more appropriate when transferring the theory of social capital to societies without centuries-long traditions of civic associations. It circumvents the link between social capital, democratic institutions, and “political trust” – a link that has often been made but, even in the OECD context, lacks empirical evidence. Before elaborating on the social capital concept at the root of this paper, however, it is important to discuss some general aspects of the social capital theory.

### ***Does Social Capital Support Democracy?***

During its heyday following Putnam et al.’s study in 1993, social capital was sweepingly interpreted as beneficial to democratic regimes in general. Studies about aspects of social capital and democracy mushroomed. However, severe critique has been leveled against the methodologies often employed to show the beneficial effects of social capital (e.g., Jackman and Miller 1998; 2004). In particular, scholars have called into question one of the core arguments stating that associational membership automatically translates into higher levels of interpersonal trust and cooperation. According to Rothstein and Stolle, “members become purely more trusting of their fellow members and they cooperate more for group purposes only” (Rothstein and Stolle 2008, 5); they do not develop increased trust or cooperate beyond the context of the group. Moreover, theories that link social capital to trust in political institutions and to attitudinal support for democratic institutions have been critiqued on the grounds of contrary empirical evidence (Ciftci 2010; Jamal 2007, 127ff.). In Jamal’s empirical study on social capital in the West Bank, for instance, the author shows that social capital’s relationship to civic engagement and support for democratic institutions is largely contextual. It depends on the particular political context and on how the civic organizations are organized themselves (2007, 80). Jamal also offers evidence that social capital works differently in contexts where formal democratic state institutions and social capital have not evolved interdependently over the course of centuries. Further empirical studies that correlate associational membership with social capital indicate that there is not a straightforward causal link. According to Rothstein and Stolle,

„Generally, the struggle to distinguish between ‚the good, the bad and the ugly‘ in the world of voluntary associations underlines the lack of theoretical parameters that define a micro-theory of social capital. Our conclusion from this research is that the use of membership in adult voluntary associations as a measurement of social capital should be handled with great caution, and that its use as a producer of social capital is in all likelihood misplaced“ (2008, 6).

Because of the unclear role social capital plays for democratic institutions, I will focus on the more promising link between different kinds of social capital and the general ability of societies to overcome collective action problems.

### ***Is There Only One Type of Social Capital?***

In the social capital literature, a distinction is made between *bonding*, *bridging*, and *linking* social capital (see Field 2003; Woolcock and Narayan 2000). Bonding types refer to social capital within socially confined groups and networks that maintain strong, in-group loyalty while often reinforcing specific (exclusive) identities. It has been associated with Granovetter’s concept of “strong” network ties (Granovetter 1973, 1983; Lin 2003). Bridging social capital refers to a larger radius of trust and cooperative behavior that reaches out to people who share only some similarities (cp. Fukuyama 2001; Putnam 2000, 22ff.; Woolcock 2001, 71-72). It has often been the subject of social capital analyses on the state level. It can broadly be identified with “weak” ties in Granovetter’s network theory (Granovetter 1973) and is rather “inclusive” compared to bonding social capital. Linking social capital, so far the least theoretically developed concept, refers to a vertical dimension consisting of “relationships up and down the social and economic scale” (Field 2003, 66), including trust toward formal institutions.

In the OECD context, bridging social capital is seen as complementary to formal state institutions, for it enables collective action regardless of the actors’ particular social positions. It facilitates cooperation across the society. In contrast, bonding social capital is often thought to undermine democratic institutions (Woolcock and Narayan 2000, 237-8). Strong bonds may lead to exclusive, in-group provisions of club goods and to burdening societies with negative externalities. For instance, solidarity among gang members undermines general security (cp. Putnam 2000, 315-316). Bonding social capital can also potentially encourage rent-seeking (cp. Olson 1982) by various groups. It undermines state-level efficiency by exclusively using network resources and bolstering corruption (Harris 2007), as well as by creating clientelistic structures (Jamal 2007).

### ***Social Capital and Governance: Source or Outcome?***

The transfer of social capital theory to areas of limited statehood faces the problem of endogeneity: If social capital is the outcome of effective governance provision (including an environment for peaceful social interactions), social capital cannot be used as an explaining variable for governance (cp. on this problem Börzel 2007, 55). A lot of thought has already been

dedicated to the question of whether social capital is an exogenous (“culturalist”) or endogenous (“institutionalist”) variable (see e.g. Hooghe and Stolle 2003; Jackman and Miller 1998).

Some argue that social capital is exogenous when analyzed in the context of political institutions. They argue that social capital originates in culture, historical experiences, and collective memory (e.g., Fukuyama 1996; Guiso, Sapienza, and Zingales 2008; Putnam, Leonardi, and Nanetti 1993; Rothstein 2005, 148ff.), or even in religious traditions (see various contributors in Smidt 2003). Most of the corresponding accounts would likely agree with Eric Uslaner’s general claim that “the roots of trust are not institutional” (2003, 173).

Meanwhile, other theorists have stressed that social capital depends on its institutional framework and should therefore be treated as an endogenous variable (Freitag 2006; Jackman and Miller 2004; Letki 2006; Newton 2006; Radnitz, Wheatley, and Zürcher 2009; Rothstein and Stolle 2008, 34). In this somewhat Hobbesian view, political institutions in place are seen as a *sine qua non* for social interaction, which then generates social capital endowments: only states create the environment in which actors can prosperously cooperate. Especially the new economic institutionalism (cp. Coase 1937; Williamson 1975) regards the enforcement of property rights as crucial for the trust necessary for (market) interactions (cp. e.g. Arrow 1972, 357; Freitag 2006, 138; Fukuyama 2005, 43; Levi 1996, 51).

Adapting Ostrom and Ahn’s concept of social capital as consisting of three dimensions – trustworthiness, social networks, and institutions (Ahn and Ostrom 2008; 2003) – this paper positions itself on the middle ground between the “culturalists” and “institutionalists.” Social capital and institutions are seen as partially interdependent (regarding the interdependence between democratic institutions and social capital, see Paxton 2002). My point of view is somewhat similar to Granovetter’s work on the reciprocal relationship between small-scale interactions and large-scale social patterns (Granovetter 1973). Although the provision of governance facilitated by social capital certainly entails various feedback loops, social capital includes further norms and networks that cannot sufficiently be understood as merely the outcomes of governance. These sources of social capital are independent of the provision of governance in place. Thus, it does not seem redundant to use social capital as an explaining variable despite its partially endogenous character. While the relationship between social capital and governance is generally seen as interdependent, this paper limits itself to analyzing the role that social capital plays for the provision of governance (regardless of existing feedback loops).

### ***What Has Not Been Done?***

Social capital theory has previously been applied to social processes outside the OECD context. Some authors have drawn a connection between social capital, as a dimension of the broader concept of social cohesion, and violent conflict (see Brinkerhoff and Brinkerhoff 2002, 518; Colletta and Cullen 2000, 12ff.). Brinkerhoff and Mayfield, for example, argue that social capital has played an important role in post-war state building in Iraq (2005). Interpersonal trust as an outcome of social capital has been linked to interethnic cooperation (Fearon and Laitin

1996; see also Pickering 2006) and to development and poverty reduction in general (see e.g. Balamoune-Lutz and Mavrotas 2009; Fukuyama 2001; Krishna 2002; Narayan 1999; Richards, Bah, and Vincent 2004; Woolcock 1998; Woolcock and Narayan 2000; World Bank 2011). Social capital has also been linked to (post-Soviet) democratic transitions (Adam 2007; Badescu and Uslaner 2003; Kaminska 2010; Roßteutscher 2010) and to governance in communities that “can sometimes do what governments and markets fail to do because their members, but not outsiders, have crucial information about other members’ behaviours, capacities, and needs” (Bowles and Gintis 2002, 423). However, these accounts have not addressed the general puzzle of governance without the state:

Under which conditions is social coordination possible in the absence of strong state institutions and their shadows?

That it is possible at all seems undisputed: In areas of limited statehood, decisions and rules are enforced (see e.g. Raeymaekers 2010) and public goods provided (Menkhaus 2007) by non-state actors, for instance in the field of security (cp. Baker 2002). The following examples further illustrate some of the empirical findings for governance in the absence of statehood. Governance structures include

„state actors such as higher and lower echelon bureaucrats, political parties, customary authorities, professional associations, trade unions, neighbourhood and self-help organizations, social movements, national and international NGOs, churches and religious movements, but also guerillas, warlords, ‚big men,‘ businessmen, multinational corporations, regional and international (government) institutions and foreign states“ (Hagmann/Péclard 2010, 546f).

A concrete example of their engagement is provided by Raeymaekers, who outlines his empirical findings in the Democratic Republic of Congo. In terms of non-state governance, he cites

„Butembo’s businessmen in the performance of several ‚state-like‘ functions, such as the financing of schools and hospitals, the construction and maintenance of roads and bridges, the provision of local electricity, and even the construction of a local airport. This non-state governance often included the direct transfer of state authority to private bodies, in a process one could describe as ‚governance without government‘ ” (Raeymaekers 2010, 547).

Raeymaekers concludes that

„state collapse does not necessarily have to be associated with the end of governance: despite high levels of insecurity and uncertainty, people continue to seek answers to the intractable problem of order and the organization of political life, especially where state power is either weak or (theoretically) absent” (2010, 580).

Renders and Terlinden provide another illustration of governance in the absence of statehood, describing the situation Somaliland:

„The local and national authorities who took over after the collapse of the Somali regime included the actors of war, that is primarily the Somali National Movement (SNM), a number of smaller clan militia groups and their leaders. But they also included traditional authorities, religious groups, strong businessmen, remnants of the former state administration and, not least, the aspiring new government of the self-declared republic. Individually and collectively, these actors exercised authority in various ways“ (2010, 724).

As stated in the Introduction, areas of limited statehood, though often seen as sanctuaries of anarchy and conflict, are not void of governance structures and processes – but circumscribed state institutions are bystanders rather than part of the governance solutions. Functions commonly associated with the OECD-style state are provided by various actors engaged in various processes of coordination. In order to analytically capture who (structure) is involved in such “functional equivalents” (Draude 2007) and how (through what processes), some (e.g., Sonderforschungsbereich 700 2005) have adapted the concept of “governance” from largely OECD-centered research on network-like forms of coordination (Powell 1990; Scharpf 1993) and international relations theory (Rosenau and Czempiel 1992). In this context, governance (in areas of limited statehood) has been defined as institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods (see e.g. Mayntz, 2009; Risse, 2010).

Despite rather isolated attempts to use social capital to explain various social phenomena outside the OECD context, social capital has not been linked to governance in areas of limited statehood thus far. This is striking, for linking social capital to “social coordination underlying governance without the state” offers a potential way to address the puzzle resulting from governance without the state. Such an attempt could provide further insights into the social conditions that influence the ability of governance actors to solve collective action problems associated with different modes of coordination. Before discussing potential mechanisms in further detail, however, a few conceptual clarifications seem necessary.

## **2.2 Conceptual Clarifications**

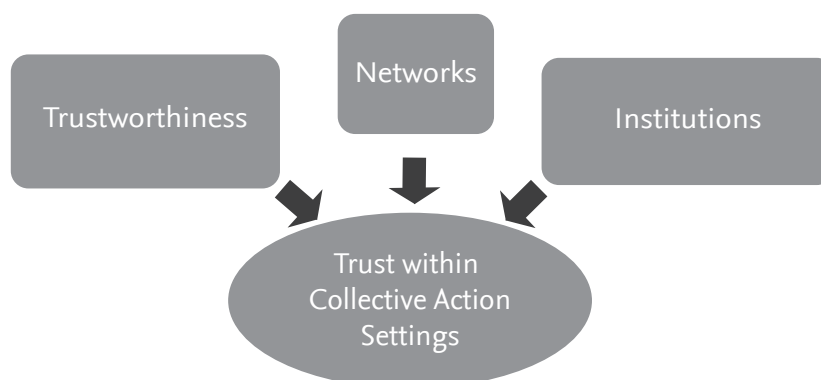
### **2.2.1 Social Capital**

Social capital as defined by Elinor Ostrom and T. K. Ahn (2008; 2003) is well-suited to exploring collective action in relation to different modes of coordination. Social capital is generally understood as an asset of individual and collective actors (cp. Adler and Kwon 2002, 21). It can be analyzed on different levels of aggregation (Jansen 2006, 32ff.). Social capital results from the social embeddedness of actors (cp. *ibid.*, 27) and can broadly be seen as a “set of prescriptions, values, and relationships created by individuals in the past that can be drawn on in the present

and future to facilitate overcoming social dilemmas” (Ahn and Ostrom 2008, 73). The concept contains three dimensions, specified as *trustworthiness*, *social networks*, and *formal and informal rules or institutions* (ibid., 73; Ostrom and Ahn 2003, xiv). Social capital facilitates collective action when these three dimensions “enhance trust among people and, thus, breed cooperation in a collective-action situation” (Ostrom and Ahn 2003, xv; cp. also Scharpf 1997, 137-8). Trust itself has long been associated with facilitating market transactions and social interactions of all kinds (see e.g. Braithwaite and Levi 1998; Fukuyama 1996; Gambetta 1988; Kramer and Tyler 1996; Misztal 1996). On the most general level, trust is “a solution for specific problems of risk” (Luhmann 2000, 94). Risk undermines cooperation in general and coordination in particular. In restraining actors from abandoning cooperation because of a lack of trust, social capital incorporates a “complex configuration of various factors” and determines “the success and failure of collective action” (Ostrom and Ahn 2003, xvi). In his work on “trust networks,” Charles Tilly provides illuminating examples in which interpersonal trust has mattered for cooperative behavior, including “cohabitation, procreation, provision for children, transmission of property, communication with supernatural forces, joint control of agricultural resources, long-distance trade, protection from predators, maintenance of health, and collective response to disaster” (Tilly 2004, 13). “Trusting someone” essentially refers to an actor’s belief in the trustworthiness of others (Ahn and Ostrom 2008, 72; Gambetta 1988, 217-218; cp. also Scharpf 1997, 138). Game-theoretic models best exemplify how trust increases cooperation. Taking the Prisoner’s Dilemma as an archetypical collective action situation, cooperation pays off for both players – although it is not their dominant strategy. However, trust changes the actors’ strategies and consequently the outcome of the game: if both actors believe in the trustworthiness of the other, both actors are more likely to cooperate and ultimately profit from cooperation.

So-called “trust games” (cp. Ahn and Ostrom 2008, 81) are similarly good examples. These are game theoretical situations in which one actor first decides about an investment, while the ultimate outcome depends on another actor’s subsequent decision to reciprocate or not (Chapter 3.3 will discuss this in more detail). Social capital endowments matter for the action of all actors involved: “The three forms of social capital we propose – trustworthiness of people, social networks, and institutions – are three primary reasons for a Trustee to behave reciprocally, as well as for a Truster to believe that the Trustee would reciprocate” (Ahn and Ostrom 2008, 82). The following section will further elaborate on the underlying mechanisms.

**Figure 1: Dimensions of Social Capital**





### ***Trustworthiness***

A trustee is trustworthy if he exercises a preference to reciprocate. While preferences depend on the particular incentive structure, they are not solely the product of selfish, utility-maximizing behavior. Preferences also depend on culture, values, and social norms (cp. Fukuyama 1996). Trustworthiness is thus linked to the “logic of consequence” as well as to the “logic of appropriateness” (cp. March and Olsen 1998). Ahn and Ostrom place trustworthiness in the framework of “second-generation collective-action theories,” which “acknowledge the existence of multiple types of individuals as a core principle of modelling human behaviour” (Ahn and Ostrom 2008, 79; see also Ostrom 1998). I will follow this meta-theoretical approach, viewing trustworthiness neither as the outcome of purely utility-maximizing strategies nor as something entirely distinct from utility-maximizing reasoning. Important is that social factors feed into the individual’s choice to reciprocate or not, and they do so in the form of trustworthiness.

### ***Social Networks***

Social networks increase interpersonal trust by providing information (cp. Granovetter 1973) about an actor’s past behavior, especially about past opportunism (see also Milgrom, North, and Weingast 1990). Since social networks consist of repetitive social interactions, they also change actors’ incentive structures by increasing the role of anticipation of future interactions (cp. Axelrod 1981). Ahn and Ostrom elaborate: “The Trustee embedded in a network ... knows that it is in her interest not to exploit, but to reciprocate and to keep the relationship going. Following a reciprocal course of action would generate a stream of income into the future, which is greater than the gains from immediate exploitation” (Ahn and Ostrom 2008, 83). Networks generally play an important role in knowledge transfers (see e.g. Djelic 2004; Inkpen and Tsang 2005), which are important factors of coordination. Coleman gives an example of the network–collective action mechanism in reference to the behavior of buyers and sellers in London’s diamond district (which he adopts from Wechsberg):

„Men walk around Hatton Garden with a hundred thousand pounds worth of diamonds that were handed over to them in trust. In a dingy office a man shows another man a number of stones that cost him a fortune, and then goes away while the buyer inspects them carefully. No contracts are made. Nothing is written down. All deals are settled verbally” (Wechsberg 1966, p. 83). The high level of trust manifested here stems from the fact that “the reputation for trustworthiness is of central importance ... because that reputation is quickly communicated among all those on whom the trustee depends for future business, that is, for future placement of trust” (Coleman 1990, 109; see also Jackman and Miller 1998, 53).

Here, the social network (as a dimension of social capital) effectively transmits information about actors’ behavior (i.e., reputation) within the group of businessmen and thus supports trustworthiness; this, in turn, ensures that agreements are kept, since defection would cost the dealers a fortune.

### ***Formal and Informal Institutions***

Following North, institutions regulate social behavior (1990). In doing so, they largely affect interpersonal trust – especially as formal institutions, often within legal systems (cp. Stoker 1998, 17). They include sanctions for opportunistic behavior: “Effective laws and rules create mechanisms that may reliably generate information and/or reliably punish *exploitation* of others in a given trust situation and thus increase the likelihood of collective action” (Ahn and Ostrom 2008, 84; cp. Levi 1996). However, such (formal) institutions are often absent in areas of limited statehood. While some scholars have seen social capital’s relationship to formal institutions as analytically problematic in the absence of statehood (cp. e.g. Börzel 2007, 55), the social capital concept used here is broader. It includes other institutional factors that cannot be subsumed under formal institutions, for example informal institutions, international standards, and custom and convention (cp. Jensen 2008). It entails first and foremost institutions that are independent of state institutions, which by definition are missing in areas of limited statehood. Moreover, while areas of limited statehood are not void of institutions that regulate behavior, these often cannot be categorized as either formal or informal (cp. e.g. Renders and Terlinden 2010, 726). Even if this were resolved analytically, as Renders and Terlinden state, “one could even argue that the exact definition of these boundaries would anyhow be more or less irrelevant, because they are so porous” (ibid.).

All three dimensions of social capital – trustworthiness, networks, and institutions – increase trustworthy behavior and lead to higher levels of trust (see Ahn and Ostrom 2008; 2003). However, they are far from being determinants of the trustee’s behavior: Given high levels of social capital endowments, trustees can still behave opportunistically. This might occur if the relevant incentives are strong enough. Thus, it is not surprising that a lot of the related mechanisms have been observed empirically on the aggregate level but not necessarily on the individual level (see e.g. the analysis of social capital and democracy by Newton 2006). Social capital should rather be seen as a condition that increases but does not determine causally collective action.

#### **2.2.2 Governance in Areas of Limited Statehood**

While the concepts of “governance” and “areas of limited statehood” have been extensively introduced and defined elsewhere and in this paper, this section summarizes the main points and interprets governance for the first time as a “game.”

Areas of limited statehood can be found in states where governments “lack the ability to implement and enforce rules and decisions or in which the legitimate monopoly over the means of violence is lacking, or both” (Börzel and Risse 2010, 118-9; cp. Sonderforschungsbereich 700 2009, 10). The absence of a hierarchically enforced legal environment conducive to solving collective action dilemmas raises the question: Under what conditions does the necessary social coordination to provide governance take place? In this context, governance is understood as institutionalized modes of social coordination to produce and implement collectively binding rules, or to provide collective goods (see e.g. Mayntz 2009; Risse 2010). Social coordination

generally takes place along the continuum between more institutionalized, hierarchical modes of coordination on the one end and “anarchic fields” on the other, where only unilateral action is possible (Scharpf 1997, 97ff.). The following chapters focus on two ideal-typical modes, namely hierarchical and non-hierarchical coordination among different kinds of (collective) actors (cp. Sonderforschungsbereich 700 2009, 17, 24). Both “modes” of interaction have been empirically observed independent of state institutions.

In order to conceptually strip away the state-centered bias in much of the governance research, reflected in the widely used state/non-state dichotomy (cp. Draude 2007; Risse and Lehmkuhl 2007, 26), the state will merely be interpreted as one actor among others. States interact with various other actors hierarchically (e.g., by hierarchically steering when its capacity to enforce decisions is not circumscribed) as well as horizontally (e.g., in the form of public-private-partnerships). Hierarchical coordination, can also be found on different sub-state levels (e.g., Menkhaus 2008), in international protectorates (Risse and Lehmkuhl 2007, 18), and in the colonial administrations of earlier times (ibid.).

Horizontal coordination can often be observed where negotiation is necessary for the collective provision of governance. Renders and Terlinden exemplify this in reference to the formation of sub-state statehood in Somaliland: “The evolution of Somaliland’s statehood must be understood as a parallel process of negotiation between state-associated and clan-associated political actors on the one hand, and the national centre and the clan-based constituencies on the other hand” (Renders and Terlinden 2010, 727).

### ***The Governance Game***

Actors with incentives to provide governance have to coordinate their behavior (e.g., when setting up community councils to regulate societal issues). However, engaging in the provision of governance is associated with various costs to the actors involved. Governance as a collective good makes so-called “free-riding” and opportunism generally attractive. In consequence, coordination processes are generally burdened by well-known collective action problems, in which actors face the challenge “of overcoming selfish incentives and achieving mutually beneficial cooperative ways of getting things done” (Ostrom and Ahn 2003, xiv).

Although this paper will not generate formal game-theoretic models, the provision of governance can be cast in game-theoretic language: Governance provision is the outcome of successfully played collective action games, in which different (collective) actors need to coordinate their behavior when setting binding rules (e.g., agreements) and administrating/organizing (e.g., financing). In order to engage in the provision of governance, actors need to have trust in other actors’ communicated intentions to engage and not to act opportunistically. Games are generally qualified by multiple players, each of which “has a set of alternative choices governed by the rules of the game; s/he can select a strategy (a plan of her/his sequential choices or moves) to arrive at the outcome of the game.” (Scharle 2002, 236) Governance games may vary, for they take place in different “institutional environments” (North 1990, 3).

### ***Actors in the Governance Game***

The collective action theory has traditionally conceptualized actors as purely utility-maximizing in the narrow sense – as “rational” (e.g., Hardin 1968; Olson 1965a, 1965b). The “core of the first-generation theories of collective action is an image of atomized, selfish, and fully rational individuals” according to Ostrom and Ahn (2003, xv). Corresponding “first-generation” research often argues that collective action is not likely to occur, even though its outcome may be in the best interest of the actors involved. However, empirical research (often associated with behavioral and evolutionary game theory) has provided other results, as Elinor Ostrom notes:

„After all, many people vote, do not cheat on their taxes, and contribute effort to voluntary association. Extensive fieldwork has by now established that individuals in all walks of life and all parts of the world voluntarily organize themselves so as to gain the benefits of trade, to provide mutual protection against risk, and to create and enforce rules that protect natural resources“ (2000, 137-138).

Other accounts have concluded that there are multiple types of actors (cp. Ostrom 1998; also Scharpf 1993, 151) with preferences that are endogenous (cp. Güth and Kliemt 1998). “Second-generation collective-action theories” (see Ostrom and Ahn 2003, xivf.) enable research to conceptualize actors and their behavior as dependent upon social capital in the form of institutions, norms, and networks. These theories include actors who follow March and Olsen’s “logic of consequence” and the “logic of appropriateness” (1998).

This theoretical framework also enables research to investigate micro–macro linkages between social conditions and governance through social capital in collective action settings. It can therefore be used to address the puzzle raised by the observation, “that citizens in some countries, regions, cities or villages are able to trust each other and thereby solve many of their collective action problems while others are not, [which] turns out to be one of the most interesting puzzles in the social sciences” (Krishna 2002; see also Ostrom 1990; Rothstein and Stolle 2008, 4).

Social capital fulfils a similar role for actors’ behavior as institutions in Scharpf’s actor-centered institutionalism:

„Once we know the institutional setting of interaction, we know a good deal about the actors involved, about their options, and about their perceptions and preferences. An institutionalist framework, in other words, provides a halfway position between a theoretical system that, like neoclassical economics, substitutes universal and standardized assumptions for empirical information on the one hand and purely descriptive studies of individual cases on the other“ (Scharpf 1997, 41).

„Although institutions constitute composite actors, create and constrain options, and shape perceptions and preferences, they cannot influence choices and outcomes in a deterministic sense. Institutionalized rules, even if they are completely

effective, will rarely prescribe one and only one course of action. Instead, by proscribing some and permitting other actions, they will define repertoires of more or less acceptable courses of action that will leave considerable scope for the strategic and tactical choices of purposeful actors“ (Scharpf 1997, 42).

Different types and endowments of social capital affect the *choices* made by actors, but they do not determine micro-behavior in the strict causal sense. In short, social capital does not prohibit actors from exercising opportunism, but it facilitates trust amongst actors and changes the way they play the governance game. In short, social capital is of structural origin and has structural consequences – without neglecting agency.

### 2.3 Social Capital and Action

Social capital affects the logic of expected “consequences,” of “appropriateness,” and of “arguing” (March and Olsen 1998; Risse 2000), which are ideal types as “interpretations” of action (March and Olsen 1998, 949). According to the logic of consequence, actions are “‘explained’ by identifying consequential reasons for them” (March and Olsen 1998, 950). This logic follows from the idea that “action by individuals, organizations, or states is driven by calculation of its consequences as measured against prior preferences” (ibid.). In this context, social capital may be a reason within a utility-maximizing strategy to act in a trustworthy way, as the following quote by Jackman and Miller demonstrates: “the structure of the situation (i.e. the large long-term costs associated with a short-term breach of trust) creates incentives for individuals to be trustworthy” (1998, 53). Thus, social capital can be seen within an expected-utility framework. Ostrom, Ahn, and others have convincingly argued, however, that in the rather dogmatic rational choice view, “trust and trustworthiness are redundant concepts that can be readily explained away by incentives and their behavioral effects on self-interested actors” (Ostrom and Ahn 2003). Opposing this point of view, they conclude: “It is essential to couple social capital to the second-generation theories of collective action that regard heterogeneous preferences seriously” (Ostrom and Ahn 2003, xvi). This “motivational heterogeneity implies that individuals differ in regard to values or social orientations” (Ahn, Ostrom, and Walker 2003, 295).

This view refers to the logic of appropriateness, according to which “action involves evoking an identity or role and matching the obligations of that identity or role to a specific situation” (March and Olsen 1998, 951). Social capital can be associated with this logic because it consists of social institutions similar to the “rules and practices that are socially constructed, publicly known, anticipated, and accepted” (March and Olsen 1998, 952). The logic of appropriateness becomes relevant as soon as “strong trust” results from social capital. Following Scharpf,

„[S]trong trust implies the *expectation that alter [the other] will avoid strategy options attractive to itself that would seriously hurt ego’s interests* and that in case of need help can be counted on even if it entails considerable cost to the helper. In terms of the mixed-motive games discussed earlier, the implication is that exploitative strategies will not be used, and hence need not be guarded against, in the Prisoner’s

Dilemma and in Chicken games. In other words, strong trust can be equated with some degree of a solidaristic interaction orientation“ (1997, 138).

Socially constructed identities and endogenous preferences, which lie at the heart of the logic of appropriateness, derive from the social embeddedness of actors, which is – at least to a certain degree – a synonym for social capital.

However, social capital also relates to the communicative aspects of social interaction: Within social interactions, trustworthiness implies the “expectation that information communicated about alter’s own options and preferences will be truthful, rather than purposefully misleading, and that commitments explicitly entered will be honored as long as the circumstances under which they were entered do not change significantly” (Scharpf 1997, 137).

Social capital can be seen as enhancing trust necessary for communicative action, which is linked to the “logic of arguing” (Risse 2000). It increases the trustful relationships that are a prerequisite for successful arguing (Habermas 1992). Speakers have to trust the authenticity of their correspondents (Risse 2000, 10) – or according to Hobbes: we trust in the speaker “whose word we take” (1651 [1986], 130). Moreover, social structures embodied in social capital relate to a “common [social] lifeworld,” which is another precondition for communicative action (Habermas 1992; Risse 2000, 10). This might be case when “trust networks” are built upon similar experiences of migration, for example (Tilly 2004, 52ff.).

Far from being conclusive, this section aimed at tentatively sketching a few arguments for the far-reaching influence of social capital on action in general and interaction in particular. From the rational choice perspective, social capital is incorporated into functions of expected outcomes, able to alter actors’ choices within the governance game. At the same time, social capital captures factors that influence action according to the logic of appropriateness, for example by including norms of reciprocity, informal institutions, and rules and practices diffused in social networks. Finally, social capital facilitates communicative action by increasing interpersonal trust – a *sine qua non* for the “logic of arguing”. If actors were to always be cautious because of a fundamental uncertainty about the truthful intentions of others, “they would destroy all opportunities for social cooperation and profitable exchange” (Scharpf 1993, 149; see also Luhmann 2000). As Scharpf infers, “there is thus a huge premium on the capacity for trustworthy communications and commitments among interdependent actors.” He adds elsewhere that “the successful joint search for better overall solutions requires creativity, effective communication, and mutual trust” (Scharpf 1997, 124; cp. also Risse 2000, 21).

The general aim of this chapter was to further the understanding of how social conditions affect the capacity of different (collective) actors to successfully play the governance game. “Conditions” are understood as (structural) factors influencing actors’ behavior and thus the performance and outcomes of governance processes. They are not causal explanations: they may be necessary but are certainly not *sufficient* in explaining (inter)action. Various other factors play equally important roles and may even degrade the social conditions of the processes to minor

factors. Social conditions do not directly relate to the intention of different actors to engage in governance processes; this intention is often motivated by “risks of anarchy” and “externally generated shadows of hierarchies by international organizations or other states as well as market pressures or community norms that induce non-state actors to participate in governance and the provision of common goods” (Börzel and Risse 2010, 126-7). Social conditions in the form of social capital relate to *how* actors engage and not *whether* they engage.

### 3. Social Capital in the Governance Game

This chapter links different types of social capital to the facilitation of social coordination within the governance game in the absence of statehood. The previous chapter has already introduced social capital as a facilitating factor for collective action in general, primarily by increasing trust among the actors. The process dimension of governance – “modes of coordination” – has been associated with the collective action problem. This chapter aims to link different types of social capital to different modes of coordination within the governance game and introduce what I will call “clustered coordination.”

#### *Modes of Coordination*

Three ideal-type categories of coordination have previously been identified: While economists have often conceptually grasped them as “hierarchies,” “markets,” and “networks” (see e.g. Powell 1990), much of the governance literature simply conceptualizes them in a binary way as “hierarchical” and “non-hierarchical/horizontal” (the latter containing both markets and networks). Charles Tilly has introduced another terminology that is particularly useful for the analysis of governance without the state and will also be referred to in the following sections: “Humans have repeatedly devised three different ways of creating collective benefits: authoritative organizations, collaborative institutions, and trust networks” (Tilly 2004, 38). According to Tilly, they all rely to a different extent on “coercion,” “capital,” or “commitment” (Tilly 2004, 30; see also Tilly 2004, 45). I argue that “commitment” broadly reflects the essential idea of social capital. Tilly defines it as

„means relations among social sites (persons, groups, structures, or positions) that promote their taking account of each other. Shared language, for instance, powerfully links social sites without any necessary deployment of coercion or capital. Commitment’s local organization varies as dramatically as do structures of coercion and capital. Commitments can take the form of shared religion or ethnicity, trading ties, work-generated solidarities, communities of taste, and much more. To the extent that commitments of these sorts connect rulers and ruled, they substitute partially for coercion and capital“ (2004, 31).

Institutionalized modes of social coordination are independent of the state/non-state dichotomy often used in the governance literature (cp. Boege, Brown, and Clements 2009; Draude 2007; Risse and Lehmkuhl 2007, 26f.). Using these “modes” makes it possible to analyze

how different actors coordinate the provision of governance – without referring to the status of actors within the political system (cp. Risse and Lehmkuhl 2007, 27). Different actors can be engaged in different types of coordination simultaneously. State institutions, for instance, may utilize their means for coercion within hierarchical structures, while at the same time being part of horizontal collaborative institutions, for example in form of PPPs, and participating in trust networks (e.g., within neo-patrimonial structures or clientelistic networks; cp. Jamal 2007).

### 3.1 Hierarchical Coordination

„If a Covenant be made, wherein neither of the parties performe presently, but trust one another; in the condition of meer Nature, (which is a condition of Warre of every man against every man,) upon any reasonable suspicion, it is Voyd: But if there be a common Power set over them both, with right and force sufficient to compel performance; it is not Voyd. For he that performeth first, has no assurance the other will performe after; because the bonds of words are too weak to bridle mens ambition, avarice, anger, and other Passions, without the feare of some coercive power“ (Hobbes 1651 [1986], 196).

States depend on hierarchies, but hierarchies do not depend on states. Areas of limited statehood are not void of hierarchical coordination. This includes “shadows of hierarchical authority” (Scharpf 1993, 13; cp. Börzel and Risse 2010), as capable as hierarchies of changing actors’ preferences. While the lack of domestic sovereignty prohibits state institutions from hierarchically coordinating the provision of governance, “authoritative organizational principles” (Tilly) can be found on various levels. They are involved in the provision of non-state governance, ranging from hierarchical coordination exercised by actors above the state (e.g., international protectorates in Kosovo, Afghanistan, and Iraq) to sub-state governance actors. The former are functional equivalents of states in that they include many state functions such as law enforcement, delivery of services, and coordination of foreign aid (cp. e.g. Reno 2008, 143). Tilly names “warlords, landlords, lineage heads, ethnic leaders, or religious magnates” as hierarchical/authoritative examples on the sub-state level (2004, 35), which can be found in areas of limited statehood as well. Furthermore, hierarchical coordination can occur within most conventional organizations, including business firms, churches, and households (Tilly 2004, 40).

Hierarchies are functional solutions to the problem of collective action, as many have argued since Hobbes and his famous quote at the beginning of this chapter. Incidents of hierarchical coordination have in common that they create “collective benefits through top-down application of incentives: coercion, capital, and commitment” (Tilly 2004, 40). They may form “polities” as well, as understood by Ferguson and Mansbach, which are quite distinct from the Westphalian state but make up part of the institutional landscape of governance in areas of limited statehood: “A polity (or political authority) has a distinct identity; a capacity to mobilize persons and their resources for political purposes ... and a degree of institutionalization and hierarchy” (1996, 34; cp. Kassimir 2001, 94).



Many examples of hierarchical coordination in areas of limited statehood are not related to the comprehensive governance provision in consolidated states: They are, for instance, rarely capable of implementing collectively binding rules outside their confined constituencies and often provide “club goods” instead of inclusively providing “public goods.” Even if they provide public goods, this can often be attributed to externalities rather than to the *intentional* provision of governance (regarding the requirements of intentionality, see Risse and Lehmkuhl 2007). However, these cases raise the fundamental question of which features ultimately distinguish the state from other organizational structures that act like (small and circumscribed) states: states also provide collective goods limited to defined constituencies (in this context, citizenship can be interpreted as equivalent to membership). One example is the case of Somaliland vs. Somalia (Menkhaus 2008).

Hierarchical organizations that provide governance can be categorized along the governance continuum spanning between the most and least inclusive provision of governance – that is, between the provision of goods for the whole society (e.g., international protectorates in Iraq and Macedonia; see Risse and Lehmkuhl 2007, 18; Reno 2008, 143) and exclusively for confined social groups (e.g., exclusive clan-based authorities in Somalia; see Menkhaus 2008).

This section argues that even though hierarchical coordination is a functional solution to collective action dilemmas in the Hobbesian perspective, it often requires a minimum of voluntary cooperation. This cooperation, as it will be argued, is linked to certain social capital endowments. Hierarchical coordination can, in a Hobbesian way, be interpreted as a lack of self-regulation: “where there is not sufficient social capital for such decentralized collective self-regulation, so that hierarchy is necessary” (Taylor 1996, 19; see also the argument made by Gellner 1990). However, this does not imply that hierarchies work without any cooperative behavior. Moreover, charismatic authority resulting in hierarchies, as Coleman argues, can be seen as a lack of social capital as well: “It appears, in fact, to be precisely the desire to bring into being the social capital needed to solve common problems that leads persons under certain circumstances to vest authority in a charismatic leader” (Coleman 1990, 313).

The argument stands in opposition to the conventional idea that states holding a monopoly on violence are able to effectively enforce rules across the entire territory as a component of governance provision – without further requirements in terms of cooperation. I argue, however, that hierarchical coordination without any voluntary cooperation is unlikely to be efficient or effective (which does not mean that every actor has to cooperate). A growing body of literature links effective policing to legitimacy and trustworthiness (for a brief overview, see Hawdon 2008), which points in the same direction.

### ***Social Capital Literature***

A great deal of the social capital literature has already been devoted to trustful relationships between citizens and power holders and/or political institutions. A lot of the corresponding

research in the tradition of Tocqueville has focused on democratic contexts, where associational life is seen as promoting “bridging” social capital, which then improves the performance of formal political institutions, particularly by increasing “political trust” and supporting vibrant civil societies. However, quantitative evidence for this standard argument is rather weak (see Newton 2006). In a large quantitative analysis, Letki comes to the conclusion that “generalized trust is irrelevant for predicting civic morality” (2006, 320). Some have also argued that the concept of “trust in government” is flawed, because actors do not have the necessary information to trust institutions and power holders (see e.g. Hardin 1998; cp. also the critique by Rothstein 2004).

Other have stressed the importance of “linking” social capital, especially for development (Woolcock 2001, 13). This refers to the vertical dimension consisting of “relationships up and down the social and economic scale” (Field 2003, 66). Moreover, as Grootaert et al. argue, linking social capital connects “people to key political (and other) resources and economic institutions – that is, across power differentials” (2004, 4). Instead of drawing on the civil society/political trust argument, the following section adopts Field’s basic concept of linking social capital and presents arguments for why and how it matters in areas of limited statehood.

### ***Why Can’t Hierarchy Renounce Non-coercive Cooperation?***

Max Weber already argued that coercive means alone are not sufficient to sustain legal order: “Only a limited success can be attained through the threat of coercion supporting the legal order ... Even the most drastic means of coercion and punishment are bound to fail where the subjects remain recalcitrant” (Weber 1978, 334; see also Hurd 1999, 385). This argument can be applied to hierarchy in general. Hierarchical coordination even in the context of other formal institutions needs actors on the lower levels to cooperate. Formal hierarchical steering in itself may not be sufficient, as James C. Scott shows in a different context: In work-to-rule actions (*grèves du zèle*) trade unions call on their members to “begin doing their jobs by meticulously observing every one of the rules and regulations and performing only the duties stated in their job descriptions. The result, fully intended in this case, is that the work grinds to halt, or at least to a snail’s pace” (Scott 1998, 310).

The following quotation from Scharpf can be seen as another example of the necessity for cooperation: “Hierarchical coordinators ... must be able to base their decisions on information that is initially available only in decentralized form at the lower levels of hierarchical organizations” (1993, 131-2). Hart also acknowledged in his seminal work on authority that most people comply willingly and that this very fact makes it possible in the first place to employ the available resources for effective coercion against whatever disobedient actors are left (1961, 196). Fukuyama ultimately concludes that “organizations are pervaded by norms and other a-rational sources of behavior, which has important behavioral consequences” (Fukuyama 2005, 105). Many of these factors can be subsumed under social capital: “Social capital – norms that promote cooperative behavior ... substitutes for elaborate formal incentive systems” (Fukuyama 2005, 85). Hierarchical organizations, as Fukuyama outlines, face the problem that “all formal organizations are overlaid with informal groups, which sometimes correspond to the formal

organization's boundaries ... and sometimes cross these boundaries" (ibid., 86). Thus, effective and efficient organizations have to acknowledge "that it is ultimately the informal norms and group identities that will most strongly motivate the workers in an organization to do their best" (ibid.). From a theoretical perspective, the difference between organizations (e.g., business firms) and other instances of hierarchical coordination is not important.

In the following sections, I will argue that the necessary cooperative behavior across power differentials can be tied to *linking* social capital, which allows us to see cooperative behavior and, as it will be argued, legitimacy as outcomes of norms, networks, and trustworthiness.

### ***Formal and Informal Institutions***

In the context of hierarchical coordination, formal and informal institutions – as a dimension of linking social capital – matter most if they include hierarchical structures (e.g., organizations), for they are linked to actors' perceptions of legitimacy of hierarchies. Cooperation within hierarchies depends on legitimacy, a norm that determines whose preferences are to be followed. Legal systems enable social coordination as well by regulating behavior (cp. Jamal 2007, 130). According to Ian Hurd, there are three "generic reasons" explaining why actors comply within hierarchies: "(1) because the actor fears the punishment of rule enforcers, (2) because the actor sees the rule as in its own self-interest, and (3) because the actor feels the rule is legitimate and ought to be obeyed" (Hurd 1999, 379). The dimension of "institutions" in the social capital concept includes factors that affect whether actors indeed see hierarchies as legitimate. Here, legitimacy is understood according to Suchman, as a "generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman cited in Hurd 1999, 387). These norms are (discursively) maintained within certain social structures (e.g., religious communities) that can be captured by the social capital approach. However, linking social capital shows that institutions and networks are intertwined because institutions that matter for cooperative behavior in hierarchies are often also related to corresponding social structures (captured as networks in the social capital theory).

Writing on state building in Afghanistan and Somaliland, Debiel et al. sum up their research, referring to the importance of legitimacy in areas of limited statehood: "A sociopolitical order can only be sustained as long as it is regarded as legitimate or as immutable" (Debiel et al. 2009, 39; cp. also Papagianni 2008). While legal authority (e.g., as exercised by the international community or any remaining state institutions) often lacks the necessary connection to informal structures reflected in social capital; the boundaries of traditional authority are often identical with the boundaries of social capital endowments, making their hierarchical coordination more effective and legitimate in the eyes of the respective community. Local embeddedness is often a discursive reference point for legitimacy. Lund writes, for example: "Actors and institutions often claim legitimacy with contradictory reference to 'locality.' Eligibility to leadership often, maybe even increasingly often (Geschiere and Gugler, 1998), depends on successful claims of autochtony and belonging" (Lund 2006, 693). Lund goes on: "Legitimation of public authority

takes many forms, but it would seem that territorialization by delimitation and assertion of control over a geographic area offers a particularly potent language" (Lund 2006, 695).

### **Networks**

Traditional authority can often be found on the local level in areas of limited statehood (e.g., local chieftaincies in many African states that strive for public authority and political control; cp. Lund 2006). They are often dependent on religiously or ethnically defined social structures/networks, which are confined by exclusive social capital and share certain social norms. If the governors and the governed are members of the same community and thus united by the same stocks of exclusive social capital, it supports the effectiveness of hierarchical coordination. Effective hierarchical coordination increases when the governors and the governed are bound by networks that facilitate cooperation. Jamal points out:

„In an environment such as the West Bank, where associational life is structured along vigorous pro- and anti-PNA dimensions, associations that were clients of the state reproduced vertical ties between their members and the state. Once absorbed into the whims of the governing power, those associations most benevolent in form and purpose became hierarchically structured, clientelistic sites. Pro-PNA association members joined to obtain service and fulfill needs, to ‚help out,‘ in some form“ (2007, 129).

The prevalence of neo-patrimonialism in areas of limited statehood is a powerful example of effective hierarchical coordination that relies on kinship ties (Clapham 2004, 48), which are associated with bonding social capital (social capital within confined social structures) However, corruption emerges within hierarchical organizations when thick social networks undermine effective hierarchical coordination for the provision of governance (Harris 2007). Networks can also undermine hierarchical coordination in general when loyalty toward actors outside the hierarchical structure – for example, to family networks – prevails, decreasing the hierarchy's effectiveness. To illustrate how bonding social capital –is used to support authoritarian rule, a look at Iraq is quite telling. Brinkerhoff and Mayfield describe the situation as follows:

„Authoritarian states have limited vertical linkages (primarily downward for control and repression) and often use a perversion of bonding social capital to maintain power by favouring particular social groups (based on kinship, ethnicity, religion etc.) over others. The imposed surface cohesion is inherently unstable; if and when state control weakens and the ability to reward the favoured groups slips, the society disintegrates into conflict and in some cases violence. With respect to bridging social capital, the absence of social networks across groups can lead to tension and distrust among ethnic groups (Fearon and Laitin, 1996; Wimmer, 2003–04) ... The regime suppressed or destroyed social relations other than those integral to the Ba'athist system of state domination; ethnic divisions were exploited and traditional tribal groups were enlisted for purposes of social control. The use

of executive and judicial agencies for selective service delivery and for repression of those deemed disloyal built a distorted form of bonding social capital among those privileged groups co-opted into the system“ (Brinkerhoff and Mayfield 2005, 62).

### ***Trustworthiness***

On the most basic level, actors have to trust other actors not to abuse their power in hierarchies, to use hierarchical coordination for the interests of a constituency as a whole rather than for their personal interests. Anything else would undermine legitimacy and, as a consequence, the stability of organizational structures (cp. Scharpf 1993, 132). Trust(worthiness) as an outcome of iterative social interaction links social capital to the effectiveness and legitimacy of hierarchical coordination. The degree of social capital within a hierarchical context has an impact on the hierarchy's performance. Letki cites studies that offer evidence that “citizens who believe that legislators and administrators fulfill their obligations are significantly less likely to disobey the rules and cheat financially, i.e. evade tax or claim benefits illegally” (Letki 2006, 309). Actors also have to have trust in procedures and institutions (e.g., the rule of law). Moreover, social capital in the form of trust has an impact on the organizational design itself (Creed and Miles 1996, 23ff.; for an overview of the corresponding organizational behavior theory, see Kramer 1999; see also other contributions in Kramer and Tyler 1996).

Instead of looking at political trust, which has yielded contradictory results (see above), it seems beneficial to focus future research on trust/social capital within concrete contexts of hierarchical coordination in areas of limited statehood, which has not been done thus far.

### ***Summary***

This section outlines the hypothesis that linking social capital, related to social structures across power differentials, is important for hierarchical coordination in areas of limited statehood. The main argument is that hierarchical coordination to provide governance relies to a certain degree (depending on other factors such as coercion and capital) on voluntary cooperation. This cooperation is more likely when linking social capital endowments connect the rulers and the ruled. In this context, linking social capital can be seen as functionally similar to what Tilly understands as commitments:

„Commitments can take the form of shared religion or ethnicity, trading ties, work-generated solidarities, communities of taste, and much more. To the extent that commitments of these sorts connect rulers and ruled, they substitute partially for coercion and capital“ (Tilly 2004, 31).

This Tillyean view explains in part why traditional authority is often observed in areas of limited statehood instead of hierarchical coordination on the state level. Limited statehood often results from a lack of coercion (state monopoly on violence) and capital (underdevelopment), so state

institutions are often limited because of a lack of legitimacy and cooperation. This situation results from a lack of bridging social capital on the state level. The same can be applied to the hierarchical coordination exercised by the international community, a substitute for state authority in this context. Sub-state hierarchical coordination, in contrast, is more effective, for it can draw on the cooperation of community members induced by social capital.

This theoretical approach could help explain why traditional authority in areas of limited statehood is often more effective than hierarchical coordination by actors that cannot draw on social capital endowments. The former can rely more effectively on kinship groups and their social capital endowments, including institutions that support hierarchical steering, networks that maintain certain concepts of legitimacy, and trust built by iterative interaction between the rulers and the ruled. The long list of failed peacekeeping missions in areas of limited statehood reveals how often hierarchical coordination fails when it is not built on social sources of cooperation (cp. Boege, Brown, and Clements 2009). It shows that peacekeepers or institutions operating in the context of state building are likely to fail as governance actors if they are not in tune with local social conditions.

When analyzing hierarchies in areas of limited statehood, it is important keep the context of the argument in mind: empirical analyses of legitimacy and effectiveness in the context of hierarchical coordination should not be confused with international standards and theories of democratic legitimacy. This section has provided a way to empirically analyze under which social conditions hierarchical coordination works, and when it is seen as legitimate by local standards. This does not mean that the outcomes are necessarily desirable from a normative perspective.

This section has left the relationship between social capital and power distributions within hierarchies untouched. Social capital reflects the hierarchical status of actors and actor groups (for an overview, see Adler and Kwon 2002, 27; cp. Lin 2003). However, it would be a promising path for future research to look at the unequal distribution of social capital and its impact on emergence, effectiveness, and reproduction of hierarchies.

### **3.2 Horizontal Coordination**

Collaborative/non-hierarchical institutions rely on horizontal modes of coordination. In areas of limited statehood, such institutions can be found in the context of public private partnerships (PPPs), policy networks, and, more generally, wherever different actors horizontally cooperate to provide governance without superior hierarchical coordination. One example is the collaborative establishment of sharia courts in Somalia, where “a coalition of clan elders, intellectuals, businesspeople, and Muslim clergy” was built “to oversee, finance and administer a sharia court.” (Menkhaus 2008, 195). In this context, Menkhaus also describes the way in which nongovernmental organizations (NGOs), clan elders, and businesspeople have successfully created municipalities as part of sub-state governance (Menkhaus 2007, 86). Common pooled resources (CPRs) are another example of collaborative institutions and business networks, for

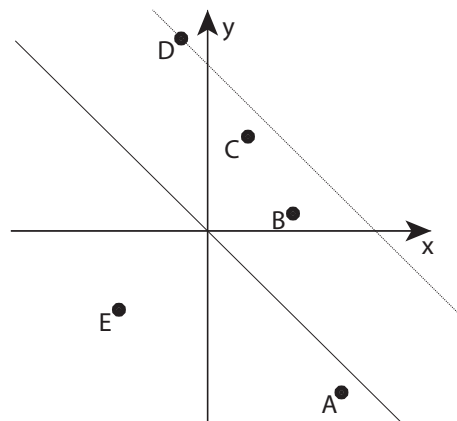
example networks of cross-border traders (Raeymaekers 2010). CPRs horizontally coordinate behavior for the sake of providing collective goods (Ostrom 1990, 211).

This section will outline how *bridging* social capital endowments enable effective social coordination without the state. Horizontal coordination depends on actors' ability to coordinate their behavior without resorting to hierarchical solutions (as discussed previously). The absence of hierarchical coordination in the form of state institutions enforcing binding rules and decisions makes studying horizontal coordination in areas of limited statehood particularly puzzling. For instance, actors cannot build their cooperation upon legal systems.

Governance entails institutionalized modes of coordination with the outcome of providing binding rules and public goods. The underlying problem of coordination is illustrated in Figure 2 (adapted from Scharpf 1993, 128). This simple model pinpoints the coordination problem by presupposing that only two actors (x and y) have five options (A-E) with different individual outcomes. Actors can be NGOs, state institutions, sub-state polities, warlords, chieftaincies, firms, and so on. Even if we presuppose the actors' interest in providing governance, they still have different priorities because the different governance outcomes have different consequences for each of them (logic of consequence). Some actors may be primarily interested in the provision of binding rules for efficient economic activity, while others prefer the provision of security or the provision of welfare. The corresponding utility for each actor is represented by the positions of the dots along the Y- and X-axis. Furthermore, we can assume that the community has a general interest in the most comprehensive provision of governance in form of public goods. Thus, the community's utility function equals  $U_x + U_y$ . All outcomes along the axis crossing D are most preferable for the community.

D can be seen as a particular governance outcome at the maximum level. However, D is disadvantageous from the perspective of x, while A is to the disadvantage of y. A hierarchical coordinator would choose D and hierarchically coordinate its realization. Thus, hierarchical coordination – at least in this model – is able to realize the maximum governance outcome for the community when it is not dependent on x.

**Figure 2: The Problem of Coordination**

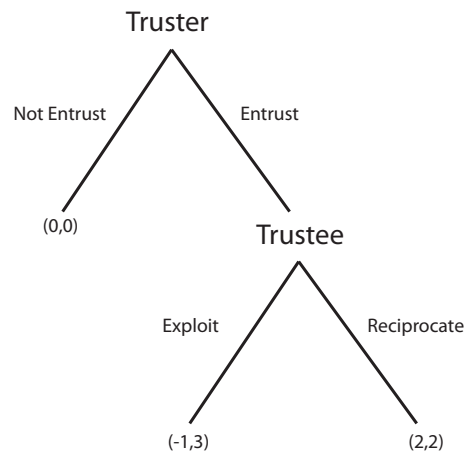


In the absence of hierarchical coordination, however, the actors  $x$  and  $y$  face the problem of how to horizontally coordinate their behavior. When negotiating,  $x$  will prefer  $B$  while  $y$  will prefer  $C$ . Thus, as Scharpf argues, “the aggregated welfare maximum that can be achieved through negotiated coordination will usually be lower than the maximum achievable through hierarchical coordination.” (Scharpf 1993, 129). When actors negotiate, they also face various problems, for example related to transaction costs and the risks of free riding. Generally speaking, horizontal coordination is a collective action dilemma. Both actors could negotiate to realize  $D$ . However, this would imply that  $y$  splits the outcome with  $x$ .  $X$ , however, would presumably anticipate defection by  $y$  and would not agree. Hierarchical contract enforcement within legal systems would decrease the probability of defection from  $x$ 's perspective. Limited statehood, however, is characterized by its lack of such hierarchically enforced legal frameworks, which is one reason why self-coordination is seldom found empirically (cp. Börzel 2007, 47). Hierarchical coordination (or its shadow) has consequently been seen as a prerequisite for self-coordination (cp. *ibid.*, 45ff.). This section outlines how social capital serves as a substitute for hierarchical coordination and a precondition for horizontal coordination. In particular, this section argues that social capital solves collective action dilemmas and thus improves non-hierarchical self-coordination.

Although actors have an interest in coordinating themselves in order to provide public goods, they often face “social traps” (Rothstein 2005). Collective action dilemmas underlying horizontal modes of coordination have been studied extensively across the disciplines. Many of them have been cast in game theoretical models or similar language, without referring to mathematical modeling. Usually based on rational choice approaches, most of these analyses conclude that collective action often fails because rational actors opt not to engage in cooperative behavior due to their utility-maximizing strategies. The Prisoner's Dilemma has become the epitome of the collective action dilemma. Imperfect knowledge and the resulting uncertainty leads two actors, let us call them Ms. Bonnie and Mr. Clyde, to not cooperate although both would be better off if they did—that is, if they coordinated their behavior. The problem is that neither one trusts the other to cooperate if opportunism implies better payoffs.

In order to link social capital to a potential cooperative behavior between Ms. Bonnie and Mr. Clyde, I will use a so-called trust game (Figure 3). The provision of governance is represented by a payoff of 2 to each party (2,2), putting both the truster and the trustee in a better position. If the truster does not trust in the first place, however, the status quo remains intact (0,0) – for example, the lack of security in areas of limited statehood. If the truster trusts but the trustee does not reciprocate, the trustee is better off (3) while the truster loses (-1). When trust is matched with reciprocal action, both parties benefit and emerge better off than under the previous status quo. The trust game illustrates the general problem of transactions of all types that profit from social capital breeding trust(worthiness). As Kenneth Arrow points out, “virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time” (Arrow 1972, 356-7, 345). Arrow sees trust as one of the important “virtues” underlying economic life.



**Figure 3: Trust Game (Ahn and Ostrom 2008)**

The trust game serves as basic model for the remainder of this section, whose main question will be how the social embeddedness of actors and, more specifically, the resulting social capital increase trustworthy behavior and, as a result, interpersonal trust. The basic assumption is that actors possess only limited information: actors “have no direct access to others’ intentions” (Scharpf 1993, 148-149), that their choices are limited by institutions (North 1990), and that they follow logics of appropriateness (March and Olsen 1998) and logics of arguing (Risse 2000). This section thus presupposes that actors are not universally selfish (see Ostrom and Ahn 2003, xiv-xv).

In areas of limited statehood, the risk of anarchy and the shadow of hierarchy “from afar” motivate actors, following a logic of consequence, to contribute to governance (Börzel and Risse 2010, 120). This incentive-based motivation, however, does not automatically translate into a solving collective action problems that actors face independent of their intentions. The same holds true for actors that are motivated to play the governance game by their normative environment (logic of appropriateness). It may be the “right thing to do” for a multinational firm to adhere to certain standards or to fund health institutions. However, this does not change the collective action dilemma the firm faces when engaging with other actors in the provision of governance. Schneckener and Zürcher exemplify this claim by writing that transnational security governance in areas of limited statehood depends on the “quality of coordination” amongst NGOs, INGOs, IOs, local stakeholders, and state institutions in place (Schneckener and Zürcher 2007, 218). Raeymaekers provides a concrete example, writing on non-state governance in the Democratic Republic of Congo:

„A remarkable initiative of the local entrepreneurs, for example, was their financing of the city council building, which stands several floors high on Butembo’s highest hilltop. In the middle of the war, Butembo’s traders also financed the construction of a local electricity plant, which was eventually abandoned because of a lack of commitment of their South African partners“ (Raeymaekers 2010, 576).

Social capital as trustworthiness, networks, and institutions directly affects how the governance game is played: “The economic and political performances of societies, from villages to

international communities, depend critically on how the members of a community solve the problem of collective action” (Ostrom and Ahn 2003, xiii). Social capital is just one factor among many that change collective action settings, but it seems to capture what matters most; collective action is determined “by a complex configuration of various factors that we categorize as forms of social capital” (ibid., xvi).

### ***Trust(worthiness)***

If actors share an interest in providing public goods, they ought to invest in cooperation (e.g., regarding time and other resources when participating in negotiations or funding local administrations). Fundamental uncertainty about the preferences of the other actors (and their corresponding action), however, often turns coordination into a series of trust games that depend on the trust actors have in each other. Interpersonal trust, in turn, depends on several factors, for example on knowledge about the potential trustee and on the normative structures in which both actors are embedded.

Interpersonal trust is a function of the trustor’s belief in the trustworthiness of the trustee. The trustor’s heuristics are mainly based on information about the trustee and the trustee’s preferences. Information about the trustee’s past interactions is crucial, for reputation is one of the main sources of trust. As experimental research on iterative forms of the Prisoner’s Dilemma shows (Ostrom and Ahn 2003, xvii), trustees have incentives to reciprocate as long as interactions are repetitive. If they do not reciprocate, they risk positive outcomes from future interactions. At the same time, information on the trustee’s incentive structures is of great value for the subjective assessment of trustworthiness. Legal systems and their enforcement play an important role in this context. Expected punishment for defection affects the incentives structure of the trustee known to the trustor.

The trustee’s trustworthiness, however, is not only a function of his/her incentives structure but also of what s/he regards as “appropriate” behavior. Social norms contained in social capital affect trustworthiness beyond the pure utility-maximizing behavior sketched above. Socially shared norms of reciprocity have an impact on the average trustworthiness of communities. This does not mean that everyone in the respective community can be trusted, but that the likelihood of reciprocity is higher where norms of reciprocity prevail (cp. Putnam, Leonardi, and Nanetti 1993, 171ff.) Social norms of cooperation are, moreover, “an independent input to the trustor’s probability assessment when faced with an anonymous individual or individuals in a collective-action situation” (Ostrom and Ahn 2003, xx). These social norms may be derived from culture and other values (cp. Fukuyama 1996) but also from iterative interactions, as Putnam et al. have argued: “repeated exchange over a period of time tends to encourage the development of a norm of generalized reciprocity” (Putnam, Leonardi, and Nanetti 1993, 172).

Following the arguments presented here, “traditional” normative structures should at last partially account for cooperative behavior by actors in areas of limited statehood. Studying norms shared by communities in areas of limited statehood should help future research

understand the success of non-hierarchical coordination – especially in the absence of an effectively enforced legal framework for transaction. Trustworthiness increased by social norm can be measured as “generalized trust” within social entities, which is, as Scharpf e.g. argues, “enormously advantageous.” However, it is “easily destroyed by the pursuit of self-interest at the partner’s expense” (Scharpf 1993, 153).

### **Networks**

Cooperation is embedded in social structures (cp. Scharpf 1993, 147ff.). Social capital has captured this structural component by including social networks in its concept (see e.g. Field 2003, 44ff.; Putnam, Leonardi, and Nanetti 1993, 171ff.; Woolcock and Narayan 2000). James C. Mitchell has defined social networks as a “specific set of linkages among a defined set of persons, with the additional property that the characteristics of these linkages as a whole may be used to interpret the social behavior of the person involved” (Mitchell 1969, 2).

Among other goods and resources, network members share information, including information about opportunistic behavior on the part of others, which in consequence may damage certain actors’ reputations. Moreover, networks include repetitive interactions, which “provides incentives to individuals to build a reputation of being trustworthy” (Ostrom and Ahn 2003, xvii). The interactions also “encourage the development of reciprocity norms through the transmission of information across individuals about who are trustworthy and who are not” (Ostrom and Ahn 2003, xxii).

In the Tocquevillian tradition, many scholars have outlined that membership in associations (which I see as a specific kind of network) increases cooperation when actors “learn” cooperative behavior through socialization. This is seen as being advantageous for the whole society beyond the specific network’s boundaries. Putnam et al. name four beneficial outcomes of networks:

- Networks of civic engagement increase the potential costs to a defector in any individual transaction. ... Networks of civic engagement, in the language of game theory, increase the iteration and interconnectedness of games.
- Networks of civic engagement foster robust norms of reciprocity. ...
- Networks of civic engagement facilitate communication and improve the flow of information about the trustworthiness of individuals. ...
- Networks of civic engagement embody past success at collaboration, which can serve as a culturally-defined template for future collaboration..” (Putnam, Leonardi, and Nanetti 1993, 173-4)

However, a democratic bias looms large in scholarship on the role of associations. Social capital is often analyzed with regard to the functioning of *democratic* institutions. Not only are parts of the methodologies employed in this context seen as “flawed” (Jackman and Miller 1998, 60), but the overall argument does not seem wholly transferrable outside of democratic structures

in consolidated states. One reason is that the outcomes of network-based social capital seem to depend largely on their social and political conditions (van Deth and Zmerli 2010). Outside the democratic context, networks may do little more than serve the reproduction of non-democratic state institutions (see e.g. Jamal 2007). Moreover, taking economic performance as an indicator of the positive outcomes of social capital endowments, Knack and Keefer find that trust and civic cooperation are positively correlated with economic performance, but associational membership (often equated with networks) is not (1997). Therefore, looking at areas of limited statehood, it should not simply be assumed that networks in the form of associations contribute to a more democratic governance provision per se. However, when networks include different actors in the governance game, they should have a positive impact on the actors' ability to overcome collective action dilemmas within horizontal modes of coordination. The stronger the network ties between different actors, the lower the risks of opportunistic behavior when they coordinate. Thus, effective horizontal cooperation can be expected where social networks link actors with the incentive to coordinate their behavior for the provision of governance.

### ***Institutions***

Institutions, as rules of the games, are, following Douglas C. North, the “constraints that shape human interaction.” They “include both what individuals are prohibited from doing and, sometimes, under what conditions some individuals are permitted to undertake certain activities. ... [T]hey therefore are the framework within which human interaction takes place” (North 1990, 3-4). Formal institutions in the form of written laws, for instance, often determine how actors interact. When they are not enforced, however, custom and convention can substitute as informal institutions (Jensen 2008). They order behavior to the advantage or disadvantage of cooperation.

Legal systems include many formal institutions such as written laws, court decisions, and so on. If they regulate cooperation (e.g., by providing contract enforcement or securing property rights), they assist horizontal cooperation by being “important sources for self-governance.” Ostrom and Ahn therefore argue that “a rule of law, a democratic atmosphere, and a well-structured government (if these exist) are valuable social capital for any society” (Ostrom and Ahn 2003, xxii). These factors support the trustworthiness of actors by punishing and penalizing opportunism. Moreover, they provide the framework for self-governing and for the development of working rules that structure social interactions (Ostrom and Ahn 2003, xxiii-xxiv).

Areas of limited statehood are not void of institutions. Moreover, actors find themselves in situations of “legal pluralism” (see e.g. Kötter and Schuppert 2009), where a variety of institutions make up the rules of the game. When looking at how social capital facilitates horizontal cooperation, formal and informal institutions are relevant that are related to the social structures in which actors operate and build their social capital. Formal institutions such as the right to assembly and the right to private communication bolster social interactions that lead to higher levels of social capital. Parboteeah et al. confirm this in their cross-national

quantitative analysis, concluding that higher levels of political democracy (including basic rights) create “an environment conducive to volunteering” (Parboteeah, Cullen, and Lim 2004, 438).

Radnitz et al. did not conceptualize institutions in their quantitative research as a dimension of social capital in the same way as Ostrom and Ahn. However, they found that political institutions indeed account for the quantitative level of interactions, stating that “a more liberal regime leads to more networking” (2009, 722) while repressive state institutions inhibit the development of networks (as in the case of Uzbekistan compared to Kyrgyzstan). However, it is important to note that some institutions can also undermine social capital, since “institutions are not necessarily or even usually created to be socially efficient; rather they, or at least the formal rules, are created to serve the interests of those with the bargaining power to devise new rules” (North 1990, 16).

### ***Bridging versus Bonding Social Capital***

As outlined above, much of the literature distinguishes between bonding and bridging social capital. Bonding social capital refers to network ties that can be seen as corresponding to Granovetter’s concept of “strong ties” (Granovetter 1973), characteristic of families and kinship networks, for example (Ostrom and Ahn 2003, xxii). Bridging social capital represents rather “weak ties” (ibid.) that link actors in a looser ways. While bonding social capital can be associated with easier horizontal cooperation within confined social structures, bridging social capital seems to be of particular importance for country-wide horizontal coordination aiming at the provision of governance across different groups and (collective) actors.

### ***Summary***

In this section, horizontal cooperation has been associated with the fundamental problem of trust under uncertainty, especially regarding the intention of others to cooperate. The trust game served as game theoretical example showing that trust leads to collective action with beneficial outcomes. In areas of limited statehood, it is not sufficient for actors to have a shared interest in coordinating their behavior to provide public goods. Coordination in the absence of hierarchical steering requires trustworthiness and trust, both of which are increased by (bridging) social capital. Generalized trust levels are increased when social capital endowments are higher. Norms, networks, and informal institutions lead to higher levels of trustworthiness and trust, which translates into higher levels of cooperative behavior. (Bridging) social capital endowments should account for some of the variance in terms of where and to what extent horizontal coordination takes place: levels of governance provision should be lower where horizontal cooperation cannot draw on high levels of bridging social capital.

### 3.3 Clustered Coordination

„Ethnic, religious, linguistic, regional, functional, and class identities have created solidarities that do not coincide with nation-state boundaries“ (March and Olsen 1998, 946).

“Trust networks” do not directly fit into the dichotomy of horizontal/hierarchical coordination, since they can rely on either structure. What distinguishes them from the other modes is that they are built exclusively on bonding social capital and consequently consist of coordination limited to confined social networks. These networks often compensate for the lack of governance by providing collective goods (e.g., caring fraternities) but often exclusively to their members (“club goods”). This chapter argues that trust networks make up a third mode of social coordination, which I will label “clustered coordination” or “clustered governance.” Trust networks can be seen as one end of the governance continuum (cp. Risse and Lehmkuhl 2007, 28): the least inclusive provision (e.g., welfare services by sodalities for their members). On the other end is the most inclusive provision of public goods (e.g., in OECD states with their impartial provision of governance). There are many examples of trust networks as part of the governance landscape. Among others, they include ethnically defined social groups (e.g., clan structures in Somaliland; Menkhaus 2008, 196), clientelistic networks, and various kinship groups.

Most of the previous quantitative research on social capital presupposes that aggregate levels of trust are a solid indicator of social capital endowments (cp. e.g. Adam 2006; Harris 2007; Knack and Keefer 1997, 1255; Parboteeah, Cullen, and Lim 2004). However, this is at odds with the insight that social capital is often created by social networks through iterative social interactions and shared in-group norms. If social capital is confined to particular social networks where it bonds actors together, the increased ability to coordinate is also limited to the particular social network. Thus, the provision of governance becomes “clustered.” March and Olsen describe a situation that exemplifies this use of the term “clustered”:

„At the end of the twentieth century, many states show symptoms of incoherence and disintegration somewhat reminiscent of an earlier time when political life involved confusing, overlapping, and conflicting demands on individual allegiances; and when polities were organized around emperors, kings, feudal lords, churches, chartered towns, guilds, and families“ (March and Olsen 1998, 946).

This environment of clustered governance often includes governance actors such as “warlords and their militias in outlying regions, gang leaders in townships and squatter settlements, vigilante-type organizations, ethnically based protection rackets, millenarian religious movements, transnational networks of extended family relations or organized crime, or new forms of tribalism” (Boege, Brown, and Clements 2009, 16). For these types of actors, bonding social capital is an asset just as bridging social capital is an asset for consolidated states. In areas of limited statehood, bonding social capital, often related to ethnic identities, is often employed

by militias that “mobilize networks of ethnic solidarities to fight enemies during war” (Reno 2008, 144).

The main problem in this context is that social capital generated in exclusive social networks does not necessarily translate into bridging social capital aside from further bolstering exclusive social identities and collective action among the respective constituencies. Social capital in this context relates to “strong trust” (Scharpf 1997, 138) or “unconditional trust” as understood by Luhman:

„Unconditional trust is generated in families and small-scale societies and cannot be automatically transferred to complex societies based on the division of labour. Trust, then, needs for its reconstruction special social institutions; friendship networks and patron-client relations are examples for this adaptation“ (Luhmann 2000, 94).

If levels of trust are community- or rather network-specific, members of the respective social structures will cooperate among themselves. Moreover, as Field writes on the “dark side” of social capital: “Cooperative actions that benefit the participants may produce undesirable effects for the wider society” (Field 2003, 72). Thus, as he acknowledges, “we need to understand the extent to which all may gain access to its benefits, and it therefore serves as a public good, or, on the contrary, whether groups may control and deny access to its benefits, in which case it may correspond more to what some have called a ‘club good’” (ibid.). Trust networks are a powerful example of this “dark side” of social capital. They can be defined as “ramified interpersonal connections, consisting mainly of strong ties, within which people set value, consequential, long-term resources and enterprises at risk to the malfeasance, mistakes, or failures of others” (Tilly 2004, 12). Tilly has argued that trust networks can undermine state governance by competing with other (state) actors:

„Over thousands of years, nevertheless, ordinary people have committed their major energies and most precious resources to trust networks – not only clandestine religious sects, to be sure, but also more public religious solidarities, lineages, trade diasporas, patron-client chains, credit networks, societies of mutual aid, age grades, and some kinds of local communities. But trust networks often compete with rulers for the same resources, for example such basics as money, land, and labor power. Rulers have usually coveted the resources embedded in such networks, have often treated them as obstacles to effective rule, yet have never succeeded in annihilating them and have usually worked out accommodations producing enough resources and compliance to sustain their regimes“ (Tilly 2004, 6).

Trust networks work because: Actors that are willing to cooperate face the risk of losing if they trust others who are not trustworthy. Actors embedded in strong networks have incentives to cooperate with their peers rather than with outsiders. Strong and small networks transmit information about opportunistic behavior more efficiently than large ones. Thus, actors have

strong incentives to behave in a trustworthy manner, especially if the costs of exit are relatively high (Tilly 2004, 42-43). One reason for the high costs of exit is that people rely on strong interpersonal connections when it comes to high-risk collective action, as Tilly outlines:

„cohabitation; procreation; placement of children; stigmatized pleasures; sharing of esoteric knowledge, including heretical beliefs; barter; credit; private warfare; long-distance trade in goods with high value for weight and bulk; pooled water control; and finally, provision for illness, madness, and old age” (2004, 43).

Actors are dependent on the trust network and therefore face high costs of being expelled when they defect from the norm of trustworthiness. This holds especially true where actors rely on the welfare function that confined social structures provide. Maintaining membership is thus a necessity for many where welfare is not provided by the state. Boege et al. describe this situation in their account of hybrid political order: “The most fundamental and reliable social safety net is often provided by kin groups, based on customary norms of reciprocity and sharing. Civil society institutions, most notably churches or other religious institutions, play an important role in providing basic public goods such as health and education in hybrid political orders” (2009, 19).

At the same time, networks are often formed around common beliefs that feed into norms of solidarity and reciprocity among members. Following the logic of appropriateness, trustees often behave in a trustworthy way, which reinforces trust in repetitive interactions. Not all of the functions of trust networks are governance, but the networks matter in two ways: First, they substitute for governance by providing security, welfare, and other public goods to their members. Second, trust networks have incentives to cooperate with state institutions and other actors to efficiently coordinate their behavior to provide public goods (cp. Tilly’s work on the integration of trust networks; 2004, 100ff.). If social capital is limited to confined social groups, it increases the ability to coordinate among the members exclusively. In the absence of governance and more bridging forms of social capital, these trust networks undermine the inclusive provision of governance by providing governance equivalents only to their members. Exclusive bonding social capital accounts for in-group provision of governance along ethnic, religious, or familial lines and other boundaries.

Confined social structures can weaken any remaining state institutions when these networks overlap with them as “societal structures,” as Volker Boege et al. suggest:

„Traditional societal structures – extended families, clans, tribes, religious brotherhoods, village communities – and traditional authorities such as village elders, clan chiefs, healers, big men, and religious leaders determine the everyday social reality of large parts of the population in so-called fragile states even today, particularly in rural and remote peripheral areas. Moreover, state institutions are to a certain extent “infiltrated” and overwhelmed by these “informal” indigenous societal institutions and social forces that work according to their own logics and rules within the state structures“ (2009, 15).



Menkhaus, who has analyzed non-state governance in Somaliland, illustrates how the provision of governance is often confined to certain social structures. Menkhaus has observed that the “most visible manifestations of subnational governance in Somlia are the formal, self-declared administrations” (2008, 193). These “polities” have emerged after the UNOSOM operation in March 1995. While their functional capacities and duration have varied enormously, “most of these regional and transregional polities are or were essentially clan homelands. ... Even authorities that appear to be based on aprewar regional unit are often thinly disguised clan polities” (ibid.).

Subnational governance, it can be argued, often relies on trust among kinship groups. In Somali “clanustan,” actors cooperate to provide the rule of law (often through Sharia courts founded by local coalitions), but the institutionalized modes of governance are confined to the social capital within clans: “These sharia court systems remained eminently local in nature, rarely able to project their authority beyond a town or district level or to exercise jurisdiction over clans that are not parties to the court administration. They thus offer rule of law within, but not between, clans” (Menkhaus 2008, 196). Nonetheless, some of them have still been successful as local polities in that they “have managed to provide some basic services, operate piped water systems, regulate marketplaces, and collect modest levels of taxes and user fees to cover salaries” (Menkhaus 2008, 196). This could be seen as positive externalities of bonding social capital (similar to positive effects of some gangs; see e.g. Campbell 2001). Sodalities that provide security in Sierra Leone are further examples of bonding social capital in the context of non-state governance (see Richards, Bah, and Vincent 2004, 10).

The puzzle is why actors in areas of limited statehood coordinate their behavior not on the most effective level but along the lines of socially defined groups. I argue that actors that are members of trust networks are motivated by the shadow of anarchy to effectively play the governance game. In areas of limited statehood, where state institutions cannot effectively enforce an institutional environment for cooperation, trustworthiness (including norms) and networks are more important than in situations where formal institutions facilitate cooperation. Social capital as a source of trust thus becomes especially relevant where actors are coordinating in an environment of near anarchy—if hierarchical organizations do not solve the coordination problem in a Hobbesian way. If members of trust networks commonly share the incentives to provide governance, these networks might substitute for functions otherwise provided by more inclusive forms of governance (e.g., when large families provide welfare services to their members).

Social capital, however, is often only available in defined groups where information about members’ past opportunism is available and shared normative beliefs effectively regulate behavior and interaction. Previous conflicts and a lacking history of inter-group cooperation enforce social divisions: “Fragile states have citizens who are polarized in ethnic, religious, or class-based groups, with histories of distrust, grievance, and/or violent conflict. They lack the capacity to cooperate, compromise, and trust” (Brinkerhoff and Johnson 2009, 587). There is evidence of a correlation between ethnicity and certain types of trust (cp. Clague, Gleason, and Knack 2001; Glaeser et al. 2000, 193-194; Jackman and Miller 2004; Zakaria 1997, 35). This

is of particular relevance for the provision of governance in areas where socially constructed ethnicity largely structures social networks and thus accounts for the endowments of bonding social capital.

Social capital may also be detrimental “because group solidarity in human communities is often purchased at the price of hostility towards out-group members” (Fukuyama 2001, 8). Solidarity among gang members does not necessarily contribute to the emergence of civil society associations that, for example, monitor state actions (cp. Putnam 2000, 315-316). Brinkley has described how parochial communities may foster an inward-looking, segregating type of culture (Brinkley 1996). Furthermore, groups united by strong bonding social capital may become “rent-seekers” (cp. Olson 1982) and undermine efficiency by exclusively using network resources while bolstering corruption and creating clientelistic structures (Jamal 2007).

Much of the social capital literature takes a generally positive tone toward its consequences. This may partially be attributed to the OECD-centered research, where the negative effects of social capital – for example in the form of networks of corruption – are balanced by strong state institutions. However, in areas where the state does not enforce institutional orders to regulate trust networks, the dark side of social capital can become even darker.

#### **4. Conclusion**

OECD states hierarchically enforce rules and decisions and provide other public goods. In the Hobbesian tradition, their role is often legitimized with reference to the human inability to fulfill these functions commonly in a supposedly anarchic state of nature. The state can be seen as a functional solution to the problem of collective action. Empirical findings, however, have shown that many functions that the OECD state provides can also be found in areas of limited statehood, where states are weak due to a lack of domestic sovereignty. This paper attempts to conceptually address this puzzle.

According to political sociology, (political) institutions always rely on underlying social conditions. This paper argued that social capital, resulting from actors’ social embeddedness, influences how actors interact and coordinate their behavior—on both the individual and the aggregate level. The paper broadened and transferred some of the main arguments from social capital theory to areas of limited statehood, while striving to conceptually explain the puzzle of governance without a state. Arguing that the provision of governance confronts various actors with collective action problems, a “game” metaphor was used to describe the problem of social coordination in the absence of domestic sovereignty. Interpersonal trust and trustworthiness – as primary outcomes of social capital – have been linked to how (collective) actors coordinate their action without falling into the social trap of collective action.

The main scope condition of this argument is that actors fundamentally intend to engage in the “governance game” but face social traps if they cannot draw on social capital endowments as a source of interpersonal trust. Successfully playing the governance game thus requires social

capital to substitute for the state as a facilitator of collective action (e.g., by contract enforcement and sanctions for opportunistic behavior). Drawing on Elinor Ostrom and T. K. Ahn's concept, this paper framed social capital as consisting of institutions, networks, and trustworthiness.

Different modes of social interactions (hierarchical and non-hierarchical coordination) in the context of governance provision each require certain social capital endowments. Aggregated bridging social capital, for example, facilitates non-hierarchical coordination across social boundaries: if actors share high levels of bridging social capital, they are capable of resolving collective action issues more easily. In addition to the two modes cited above, this paper introduced a third mode of coordination within confined social networks, called "clustered coordination." The analysis of clustered coordination shed some light on the "dark side" of social capital.

#### **4.1 Limitations and Unresolved Questions**

Explorative in nature, this paper has not only attempted to resolve a few broad questions but has also generated many more – likely even concerning the limitations of its own argument. I will therefore discuss some of the major limitations here and propose some points for future research.

##### ***Conceptual Caveats***

The definition of social capital as resulting from trustworthiness, social networks, and formal and informal institutions, adapted from Ostrom and Ahn (2003), is a double-edged sword. On the one hand, it is comprehensive enough to capture social conditions beyond the influence of formal institutions, making it appealing to the issue at hand: It enables scholars to incorporate social conditions on different level of analysis that are independent of their political context (e.g., kinship social networks). On the other hand, such a broad definition risks becoming an analytically imprecise catchall concept. In this case, social capital can be an omnibus concept referring to different social phenomena that might not even covary (with regard to empirical findings, see e.g. Radnitz, Wheatley, and Zürcher 2009, 718). Moreover, the borrowed conceptualization of social capital incorporates social norms of reciprocity under the dimension "trustworthiness." At the same time, however, norms of reciprocity can also fall under the dimension "informal institutions" – an issue that should be treated with caution. This also holds true for certain aspects of trustworthiness and social networks, which may turn out to be two partially overlapping dimensions.

Although elegant in nature (the broad conceptualization circumvents the critique that social capital ignores the institutional dimension in which it is created), the third dimension "institutions" partially undermines the concept's ability to capture social conditions as variables independent/exogenous of institutions. Social capital instead becomes a conceptual expression of interdependence by incorporating institutions. It is important to distinguish between the institutions as a dimension of social capital and the institutions explained by the concept. The

concept of social capital should therefore be specified very precisely to be employable in future empirical research.

In future empirical research, the institutional sources of social capital seem to be a useful endeavor (cp. also Freitag 2006, 145; Radnitz, Wheatley, and Zürcher 2009; Rothstein and Stolle 2008, 3). When treating social capital as an endogenous variable as this paper has done (cp. also Jackman and Miller 1998), future analysis should pay more attention to feedback loops going from the provision of governance to the creation of social capital. At the same time, economic and other contextual factors should be included to single out the effects of social conditions from other intervening and independent variables.

### ***Functionalist Fallacies?***

Ultimately, this paper has followed a functionalist trajectory. It has implicitly presupposed that the provision of governance will be effective as long as collective action problems are settled by the actors who have incentives to engage. However, institutionalized modes of coordination and well as particular governance structures (actors) are not merely effective solutions to functional demands; they also reflect power differentials. Like institutions in general, governance is always a reflection of power (Huntington 1968, 11; North 1990, 16). The fallacy of functionalist approaches to the analysis of governance (cp. brief discussion in Börzel and Risse 2010, 117; cp. Mayntz 2001; 2004, 71) is one of this paper's blind spots. Incorporating power would have required employing a much more sophisticated theory of social capital that relates social capital endowments not only to actor, group, and state/society levels of analysis but also to hierarchical levels within defined social structures (cp. e.g. Lin 2003). While including such an approach would have extended the scope of this project, it would be fruitful to address the issue in future research.

### ***Alternative Variables***

Equifinality “challenges and undermines the common assumption that similar outcomes in several cases must have a common cause” (George and Bennett 2005, 161). Governance in areas of limited statehood is a multivariate phenomenon that may be facilitated by different sufficient but not necessary conditions. This paper has presupposed that social capital can be a functional equivalent for the hierarchical enforcement of rules by states to facilitate collective action. However, there may be alternative variables whose influence should be measured in multivariate data analyses. Potential variables that may influence the role of social capital, add to its coefficient of determination, or even serve as alternatives include: organizational legacies and cultures, institutional path dependencies (cp. e.g. Krasner 1984, 240; Thelen 1999), different cultural variables (Harrison and Huntington 2000) “amoral familism” (Banfield 1958), and symbolic capital in the context of horizontal coordination (Leutner 2007).

## 4.2 Future Research

This project has offered arguments and propositions that need more conceptual and theoretical research. First, the main concepts need more specification and more elaboration with regard to the theory proposed. The limitations discussed offer some direction for such future research. Second, hypotheses need to be derived from the propositions outlined. Subsequently, empirical research should follow providing evidence for the claim that social capital partially explains some of the variance of governance in areas of limited statehood. One of the main tasks will be to collect sufficient empirical data. One of the problems in this context is that social capital “is not directly observable. We can measure only its manifestations or behavioral consequences” (Radnitz, Wheatley, and Zürcher 2009, 712). Future research has to follow an operationalization strategy to derive proxy indicators and measurements for social capital. Most of the previous empirical research on social capital has relied on cross-national survey data, mainly on the World Values Survey (World Values Survey Association 2009). The survey includes responses by individuals about their social and political opinions, which are then widely used to measure indicators of social capital (Adam 2007; Fukuyama 2001, 15; Gabriel et al. 2002). Quantitative survey data on social embeddedness and on interpersonal trust as an outcome of social capital offer a promising starting point in this regard. However, data on lower levels of aggregation (e.g., community level/organizational level) are necessary to measure different types of social capital in relation to particular instances of governance in areas of limited statehood (see e.g. World Bank 2011). Another way to measure social capital by proxy is empirical network analysis and other empirical data on organizations and their members (cp. Fukuyama 2001, 14ff.). When linking social capital to different types of non-state governance, measuring the dependent variable poses the greatest challenges. Ursula Schröder, outlining how governance in the security sector can be measured by different indexes, pinpoints the main problem, which can be applied to non-state governance more broadly:

„None of the available indicator sets sufficiently takes the role of non-state actors in security sector governance into account. The rising influence of armed non-state security actors such as militias, rebels, clan chiefs or warlords in areas of limited statehood strongly influences both security delivery and the quality of security sector governance (see further Schneckener, 2007) ... Since available indicators focus primarily on the characteristics of state institutions and actors, however, the impact of private security actors on security sector governance remains inadequately reflected in available datasets“ (Schröder 2010, 31-2).

## 4.3 Policy Lessons for Institutional Transfers

Institutional transfers within international state-building endeavors have yielded mixed outcomes. Despite various forms of “governance without the state,” there is no feasible alternative to state institutions, especially concerning inclusive democratic institutions. Yet, the mixed outcomes suggest that transferring institutions depends on variables that have not sufficiently

been explored thus far. Political sociology has always argued that state institutions in the OECD world have a social context. This paper has provided some arguments for why this is also the case for governance without the state. It seems more than likely that transferred institutions are no different, since they also depend on particular social contexts while generating new kinds of social capital. This argument is not new to state-building discourse (see e.g. Chandler 2007). Focusing on social capital, however, puts a slightly different spin on the issue. Since social capital is partially dependent on institutional contexts, it can be created by institutional change (Fukuyama 2001, 17ff.; Levi 1996; Radnitz, Wheatley, and Zürcher 2009) that is “vital to the proper functioning of formal public institutions” (Fukuyama 2001, 12). However, if certain types of social capital endowments promote non-state or even “clustered” governance, as this paper argues, rather than promoting the functioning of transferred institutions, the outlook for institutional transfers of formal institutions looks particularly dim.

Corruption fostered by bonding social capital (Harris 2007) is only one problem that arises in this context. If social capital endowments are not clocked with transfer outcomes, formal institutions have to be merged with other institutions sustained by certain social capital endowments in place. Here, one of Boege et al.’s conclusions becomes particularly relevant: “On many occasions, the only way to make state institutions work is through the utilization of kin-based and other traditional networks” (Boege, Brown, and Clements 2009, 16). Tilly outlines that democracy is affected by the role of trust networks:

„The future of democracy, for example, depends on connections between trust networks and political regimes; extensive withdrawal of trust networks from public politics, when it occurs, damages democracy“ (Tilly 2004, 11).

This paper has offered insights for future analyses of the social conditions underlying prospects for social change in many parts of the world.

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## The Author



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## Research Framework

Governance has become a central theme in social science research. The Collaborative Research Center (SFB) 700 *Governance in Areas of Limited Statehood* investigates governance in areas of limited statehood, i.e. developing countries, failing and failed states, as well as, in historical perspective, different types of colonies. How and under what conditions can governance deliver legitimate authority, security, and welfare, and what problems are likely to emerge? Operating since 2006 and financed by the German Research Foundation (DFG), the Research Center involves the Freie Universität Berlin, the University of Potsdam, the European University Institute, the Hertie School of Governance, the German Institute for International and Security Affairs (SWP), and the Social Science Research Center Berlin (WZB).

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