

Collusive Procurement Coalitions

Pierre-André Hudon

*École nationale d'administration publique (ENAP)
Montreal, Quebec, Canada*

César Garzón

*École nationale d'administration publique (ENAP)
Montreal, Quebec, Canada*

Paper presented at the:

2014 I2FC Conference

November 22nd, 2014

*Faculdade de Economia da Universidade do Porto
Porto, Portugal*

Collusive Procurement Coalitions

Pierre-André Hudon

École nationale d'administration publique (ENAP)

César Garzón

École nationale d'administration publique (ENAP)

Abstract: *This article argues that corruption, collusion and embezzlement in procurement can be explained by the creation of coalitions that bring together elected and public officials, political party employees and private sector representatives, and whose main objective is to bypass control and monitoring mechanisms. Through coordination and complex interpersonal relations, these coalitions can influence the selection of projects to be tendered, the awarding and management of contracts, as well as the integrity of the electoral process. Their creation is facilitated by the ambiguity of procurement objectives, which give public office holders significant discretionary powers, and by political parties' dependence on electoral resources provided by the private sector.*

1. Introduction

March 2013: Bernard Trépanier, ex-fundraiser for the mayor of Montreal's political party, testifies before a public inquiry commission set up to shed light on allegations of corruption, collusion and embezzlement related to the awarding of public infrastructure contracts. During his testimony, Trépanier admits he is a man of many hats. Indeed, we learn he is also chief campaign organizer for Frank Zampino (the political party's second-in-command), as well as a "business developer" for Dessau, a large engineering consulting firm that would hire Zampino when he left politics a few years later. Questioned as to why he had never received money from Zampino for running his campaign –since he had been paid illegally on a number of other occasions for similar work–, Trépanier offered these reasons: "A buddy's a buddy," "I had developed a friendship [with him]," and "it was a family thing" (CEIC, 2013a).

Trépanier and Zampino's example is emblematic of the incestuous relations that often exist in and around Montreal between political parties, specialized consulting firms, construction contractors and the public service. The system is well known: municipal governments award contracts to construction contractors who, in turn, illegally finance political parties through a straw-man scheme. In order to generate the profits needed to make these political contributions, contractors use many collusion and corruption strategies: they collude to increase the base price of contracts; they also engage in corruption to lead authorities to favor some projects over others or make lucrative contract modifications, and to influence members of the selection committee. Corruption can be "hard", when it results in kickbacks, or "soft", when relationships are established with elected officials, civil servants, and political party employees. Indeed, many elected and public officials who testified before the *Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry* (the Commission from hereon) explained they were often invited to dinners, shows and sporting events, and received gifts like trips, wine bottles... and hams! The Commission, which was created in 2011 to investigate these allegations, showed that this situation represented the norm rather than the exception, especially where municipalities were concerned. Indeed, in the Canadian province of Quebec, several municipalities (Montreal, Laval, Gatineau, Boisbriand and Mascouche, etc.) were shown to have been affected by this corruption and collusion in one way or another.

While corruption in public procurement is commonplace, its quasi-institutionalization in Quebec cannot be fully explained by a traditional transactional theoretical framework. Indeed, most corruption theories view corruption as a principal-agent problem, or as a problem linked to individual weaknesses or organizational culture (De Graaf, 2007). Considering the context provided above, these theories seem inadequate. Who is the principal of an agent like Bernard Trépanier? He simultaneously worked for the mayor's political party, was a contractual employee of an engineering consulting firm, and was friends with one of the most influential politicians in the city. How can these multiple allegiances coexist? How can a public official reasonably be expected to remain loyal to the city when he holds close ties –and even friendships– with businessmen to whom he awards contracts? And in particular, how can corruption still occur in spite of so many governmental control and monitoring mechanisms? An alternative explanation must be put forward,

one that takes into account the dynamic, fluid and informal character of public-private allegiances, as well as the capacity of actors to manipulate information to ensure their illicit activities remain undetected.

This paper argues that corruption, collusion and embezzlement in procurement can be explained by the creation of coalitions that bring together elected and public officials, political party employees and private sector representatives, and whose main objective is to bypass control and monitoring mechanisms. Using coordination mechanisms and complex interpersonal relations, these coalitions can influence the selection of projects to be tendered, the awarding and management of contracts, as well as the integrity of the electoral process. Their creation is facilitated by the ambiguity of procurement objectives, which gives public office holders significant discretionary powers, and by political parties' dependence on electoral resources provided by the private sector.

The paper is structured in three sections. First, we revisit theories related to the governance of procurement. Second, we examine the causes of corruption through the sociological lens of network and coalitions. Third, we present a theoretical model that reconciles these analytical frameworks, which we illustrate through examples of corruption in the area of Quebec municipal infrastructure procurement. In conclusion, we discuss some of the normative implications of our model for fighting corruption.

2. Institutionalized corruption and infrastructure procurement

As the literature on corruption is already abundant, we focus on presenting its core elements. We use the most widely accepted definition of corruption: the diversion of public funds towards private interests. The theoretical framework we present seeks to provide tools to better understand corruption in public procurement, which exists in a context of extreme public-private proximity.

Although government corruption can take place at many levels, it is especially rampant in the area of infrastructure procurement due to a high sensitivity to politicization, to frequent interactions with the private sector, and to the sizeable amounts of money at stake.

2.1. Regulation of public-private relations in governmental procurement processes

Public-private interactions in the area of infrastructure procurement are governed by a well regulated framework that surrounds the awarding and management of public contracts. However, these interactions are also influenced by the broader context of public decision-making. While the tendering out of contracts rests mainly on a highly technical process, the selection of projects (and, in a larger sense, the decision to invest public funds in them) is more of a political decision informed by governmental prerogatives, which are themselves conditioned by the democratic mandate given to elected officials by voters. This observation is important because it emphasizes that corruption should not only be viewed from a technical or transactional standpoint; rather, it should be studied within the wider context of lobbying and the quest for influence.

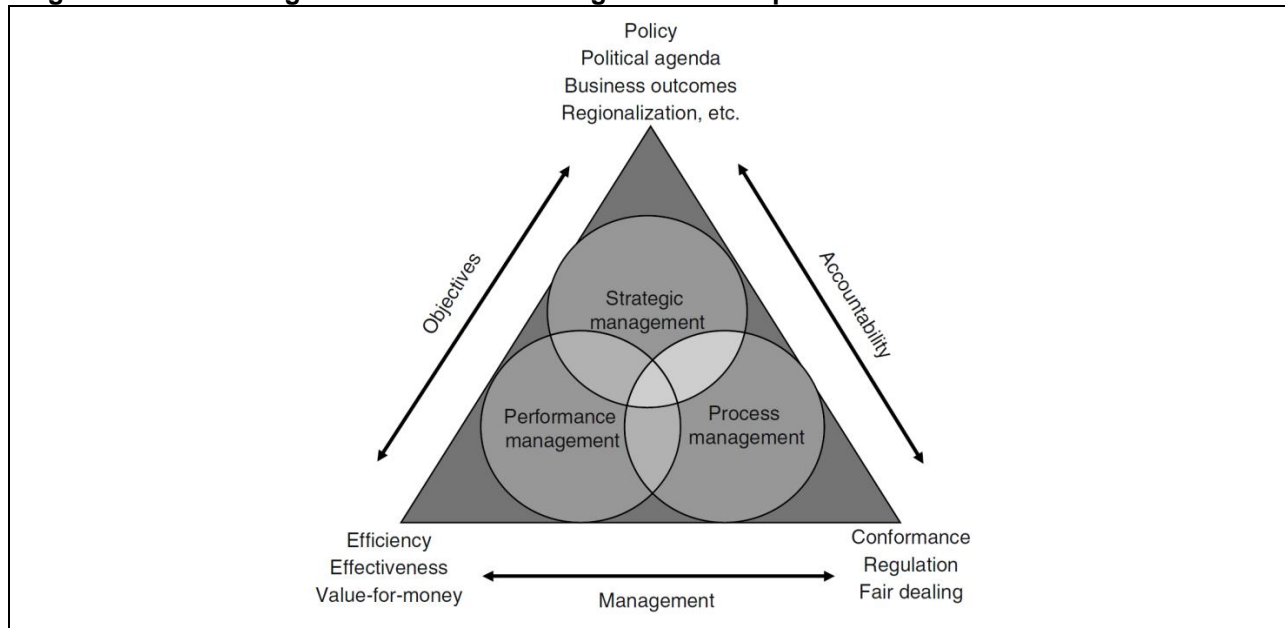
The mechanics of procurement

A procurement process is essentially the implementation of a political decision related to infrastructures, which allows building to go forward. The British Association for Project Management (n.d.) defines procurement in this way:

The process by which the resources (goods and services) required by a project are acquired. It includes development of the procurement strategy, preparation of contracts, selection and acquisition of suppliers, and management of the contracts.

Procurement must therefore be understood as a process that includes legal, administrative and political elements, and that brings together many private and public sector actors (Roman, 2014; Thai, 2001). Schapper et al. (2006) offer an interesting characterization of the environment within which this process takes place. The problem of procurement requires the reconciliation of three broad types of considerations, which are often incompatible: budgetary performance, due process, and policy coherence. Figure 1 illustrates these considerations.

Figure 1. Managerial considerations in governmental procurement



Source: Schapper et al. (2006)

First, budgetary performance is assessed according to traditional value-for-money (VFM) criteria, which include economy, efficiency and effectiveness (Miller, 1975). To these criteria, we might add affordability (i.e. that the total cost does not surpass capacity to pay). Second, governmental procurement is a highly regulated process that generally relies on its own procurement law and is overseen by numerous auditing institutions. This “due process” can be quite complex and seeks to achieve many objectives: limiting conflicts of interest, providing an equitable access to the market, ensuring process transparency, reducing risks of corruption and making the decision-making process accountable. Third, policy coherence concerns the concordance between governmental procurement and greater policy or macroeconomic objectives. Essentially, procurement seeks to acquire the necessary goods and services to reach the objectives that are dictated by the government’s democratic mandate.

The structural tension that exists between these objectives (which are all legitimate when looked at individually) forces governments to act as the arbitrator of the different considerations described above. For example, acquiring materials from a local company may be very effective from the point of view of economic development, but not very economical if this company sells its materials at a higher cost. Similarly, a road destroyed by a natural catastrophe may lead a government to contract directly with a subcontractor (which is normally proscribed by procurement regulation), rather than launch a call for tenders. Furthermore, the innate incompleteness of complex contracts (Maskin & Tirole, 1999) can force civil servants to make *a posteriori* modifications to contracts when construction is already underway or completed.

This arbitration power therefore provides elected and public officials with significant leeway in the procurement process. Elected officials generally intervene in the early stages, during the strategic planning phase and in the decision to launch, or not, a call for tenders. Conversely, civil servants usually become involved in the later stages of the process, during the contract awarding and management phase. However, this separation is not perfectly airtight: civil servants can influence strategic planning, whereas elected officials can also intervene in procurement by authorizing some aspects of due process to be circumvented.

Governmental prerogative and civil servants’ and elected officials’ discretionary powers can take on different forms during the different stages of the procurement process, as illustrated in Table 1.

Table 1. Stages of a classic government procurement process, discretionary powers and risks

	I	II	III	IV
Stage	Planning	Call for tenders	Bid evaluation and selection	Contract management
Activities	<ul style="list-style-type: none"> Deciding which projects to undertake Undertaking technical and financial feasibility studies Selecting projects Approving plans and specifications 	<ul style="list-style-type: none"> Launching a call for tenders Visiting potential infrastructure sites Answering bidder questions 	<ul style="list-style-type: none"> Creating a selection committee Evaluating bids Signing the contract 	<ul style="list-style-type: none"> Commencing construction Managing contracts Supervising construction
Governmental prerogative and elected and public officials' discretionary powers	<ul style="list-style-type: none"> Selecting strategic projects Granting subsidies 	<ul style="list-style-type: none"> Signing contracts by bypassing the call for tenders step by identifying exigent circumstances (economic benefits, emergency situations, etc.) 	<ul style="list-style-type: none"> Authorizing cost overruns 	<ul style="list-style-type: none"> Approving contract modifications Approving additional budgets
Risks of collusion and corruption	<ul style="list-style-type: none"> Selecting/ financing projects that do not correspond to actual needs Pork-barreling 	<ul style="list-style-type: none"> Collusion among bidders Establishing biased selection criteria Not launching a call for tenders under false pretenses Sharing privileged information with some bidders 	<ul style="list-style-type: none"> Overestimating costs Corruption of the selection committee 	<ul style="list-style-type: none"> Overpayments through non-justified contract modifications

Thus, at the planning stage, the governmental prerogative is mostly related to the selection of projects to invest in, emanating from the strategic planning put in place by the public service. In the subsequent stages, civil servants' discretionary powers consist of the capacity to authorize departures from the "ideal" procurement process¹. These departures can take place for legitimate or illegitimate reasons. For example, while it may be perfectly legitimate to authorize a modification to a contract to add a needed bike path on a road already being built, changes that are only geared toward generating additional revenues are illegitimate. Corruption can breed within these discretionary power interstices, which emanate from the multiplicity of procurement objectives. These second order departures –those that move away from procurement objectives and enrich private enterprise and interests– constitute corruption.

Table 1 also identifies the risks of corruption and collusion, which are present at every step of the process, and shows how they are almost always associated to an abuse of discretionary power². In this context, elected and public officials accountability becomes very important, especially where justifications for the use of discretionary power are at stake. Indeed, the power to derogate from certain process requirements are pivotal at the stage of contract management, where the desire to develop and maintain long-term relationships with contractors can lead to too much proximity between elected officials, civil servants and private sector representatives. When this proximity is abused, corruption will arise.

¹ An "ideal" process can be described in the following way: plans and specification that reflect actual needs, competitive procurement process, bid selection based on objective criteria, and sound contract management.

² Except for the risk of collusion among bidders and the risk of selection committees becoming corrupted, which tend to have exogenous causes.

The quest for influence

Public-private proximity in decision making and policy implementation is not a new topic. Fifty years ago, Cater (1964) talked about the “iron triangle” in which elected officials, the bureaucracy and interest groups work together toward the elaboration of public policy. Many authors have also shown how networks are an important part of the policy formulation process (Börzel, 1998; Rhodes & Marsh, 1992; Sabatier & Jenkins-Smith, 1993, 1999). Furthermore, it is well established that New Public Management reforms increased the role of the private sector in policy implementation (Aucoin, 1995; Lynn, 2006; Pollitt & Bouckaert, 2004).

The private sector’s greater influence on governmental affairs is not necessarily unjustified or illegitimate: lobbying activities, as well as interactions between public and private actors, are highly regulated. However, when the private sector is able to exert pressure on public officials in such a way as to lead them to abuse their authority, this influence can rapidly become corruption. The literature generally describes two distinct types of corruption: grand corruption and administrative corruption (Rose-Ackerman, 1996). Grand corruption results from illegal lobbying, which can lead to State capture. It mostly relates to the private sector’s capacity to influence political decisions (Hellman, Jones, & Kaufmann, 2003). However, reciprocal obligations that come from the interaction between corrupting and corrupted actors are not defined in clear transactional terms. For instance, a large electoral contribution is not provided in exchange for the awarding of a specific contract; rather, it is viewed as a vague promise for future benefits. Administrative corruption, on the other hand, mostly concerns the relations between the private sector and civil servants. It is generally more transactional in nature and can be observed at all levels of the public administration hierarchy (Rose-Ackerman, 2007).

Nonetheless, this distinction between grand and administrative corruption is too simplistic. For instance, transactional corruption can take place at the seat of power, with elected officials. Conversely, capturing the bureaucracy can also require the establishment of long-term relations at lower levels of the hierarchy, with employees who are responsible for the mechanics of the tendering process and the management of contracts. Within the bureaucracies of developed countries, the need to create these close ties can be explained by the presence of extensive control and monitoring mechanisms and a greater respect for the politics-administration dichotomy. Indeed, in such a context, elected officials –even corrupt ones– do not always have the necessary clout to pressure members of the administrative structure in order to achieve their goals. The private sector’s ability to influence the public sector therefore rest on various contingent corruption methods, which affect all levels of the state hierarchy, as well as all the steps involved in the procurement process.

Large-scale corruption must then be seen as an on-going process that relies on the collaboration of multiple actors. Three categories of actors –governmental, political and private– depend on each other to be successful in a highly regulated and monitored environment. Essentially, the creation of a corruption network makes it possible to diminish the risks associated to that environment, through its informal code of reciprocity and long-term mutual obligations (Cartier-Bresson, 1997).

2.2. A theory of corruption adapted to the context of governmental procurement

The following section assesses the causes of corruption within the context of a public infrastructure procurement process. In presenting these causes, we seek to address criticisms that have been made against previous corruption studies, which are said to be too general and not sufficiently concerned with context (De Graaf, 2007).

The political economy approach and conditions linked to corruption

Many theories treat corruption from a political economy perspective, specifically as a principal-agent problem (Rose-Ackerman, 1978, 1999; Cartier-Bresson, 2008; etc.). Banfield’s (1975) classic analysis was the first to move beyond this perspective and view corruption as a problem indeed involving a principal and an agent, but also a third actor, whose responsibility is supervising the process. Tirole (1986) complemented this analysis by pointing to the importance of information manipulation in corrupt relationships. He also introduced the notion of coalition, which, when established between a supervisor and an agent, can be detrimental to the principal through a manipulation of information that can lead to the capture of his resources. If the supervisor and agent are complicit, they can provide the principal with false information, which can generate an economic rent that will be shared between the both of them.

Similarly, Klitgaard (1988) identified several necessary conditions of corruption: the ability to generate an economic rent, agents possessing discretionary powers, and a lack of accountability.

In the governmental procurement process, these three conditions take on a specific meaning: an economic rent can be generated through an undue inflation of the contract's value, via *ex ante* (collusion) or *ex post* (contract modification) manipulations; discretionary power can be used to circumvent the ideal procurement process; and a lack of accountability can be observed in the silence and lack of questioning over cost overruns or illegal electoral financing, as well as in the complicit solidarity of actors involved in the fraud. Table 2 presents some examples of the strategies used by the actors during the procurement process.

Tableau 2. Key areas of corruption impacted by information manipulation

Factors favoring corruption identified by Klitgaard (1988)	Interpretation in a governmental procurement process context	Examples of strategies developed by corrupted actors
Possibility of an economic rent (+)	Producing higher surpluses from contracts, which fund electoral contributions, bribes and other benefits	<ul style="list-style-type: none"> • Inflating contract values through collusion • Negotiating lucrative modifications to contracts after they have been signed
Discretionary powers (+)	Member of the coalition authorizing departures from the ideal procurement process to generate an economic rent without the principal's knowledge	<ul style="list-style-type: none"> • Selecting projects or using selection criteria that benefit some bidders over others • Civil servants authorizing unjustified contract modifications • Failing to launch a call for tenders without justification and signing a contract
Accountability (-)	Not questioning the use of discretionary powers by elected and public officials	<ul style="list-style-type: none"> • Manipulating auditing mechanisms (e.g. cost benchmarks); • Members of municipal councils rubberstamping overruns.

The examples presented in Table 2 do not constitute a complete list of manipulation strategies, but are intended to show how corrupted actors must be active on many inter-related fronts to be effective. They must create an economic rent by inflating prices; they must identify members likely to use their discretion to favor the generation of this rent, they must define what the contribution of each member is; and they must manipulate information in such a way as to make corruption undetectable.

In a complex environment such as Quebec's construction industry, where actors and allegiances are numerous and oversight mechanisms omnipresent, the political economy notion of coalition (Tirole, 1986) must be widened to incorporate more intricate coordination strategies (Cartier-Bresson, 1997).

Networks and coalitions

Circumventing the control and monitoring processes related to contract tendering, lobbying or electoral financing through the manipulation of information requires the collaboration of many individuals acting in a concerted manner outside legal and regulatory frameworks. The social sciences have long used two concepts to describe these arrangements, which follow a logic of concerted action, but function outside formal rules and institutions: networks and coalitions.

The coordination of governance through networks (Börzel, 1998), which rejects the classic market-hierarchy dichotomy (Williamson, 1975), can explain the existence of systems where relations are neither transactional nor the result of specific instructions but, rather, are governed by a logic of reciprocity (Granovetter, 1985). In assessing organized corrupted networks, this approach is useful because it enables an analysis of exchanges that takes into account the complexity of human relations.

However, while the concept of network can explain the institutionalization of reciprocal obligations within corrupt networks (Cartier-Bresson, 1997), this explanation remains too general and fails to address the intricate coordination processes that are also at work. Cartier-Bresson (1997) himself seems well aware of this problem:

In cases where the situation is characterized by an integration of entities into a network of activities (e.g. politician, civil servant, managers belonging to the same political party) one must study the principles of intra-organization coordination and its consequences on profit-sharing between the party and the individuals. [...] The image of a purely market mode of coordination is in this case a deformation of corruptive reality. This image must be replaced by the principles governing constructions of this authority and hierarchy in the network. (Cartier-Bresson, 1997, p. 476)

The concept of coalition (March & Simon, 1958; Cyert & March, 1963; Stevenson, Pearce, & Porter, 1985; Lemieux, 1998) is better suited for this purpose, as it explains how a corrupt group of actors can impose its objectives on the procurement process, generate the necessary resources for its survival and coordinate its actions. Moreover, the notion of coalition has the added advantage of describing how these schemes operate within an inter-organizational context. This is relevant to the study of procurement processes that rest upon contractual mechanisms and regulated interactions between public and private organizations.

In comparison to networks, the concept of coalition is more restrained, dynamic, and ephemeral. Halfway between stable, organized networks and transactional, bilateral relations, coalitions are managed through implicit rules, but also through negotiations and transactions. Stevenson et al. (1985) define coalitions in the following way:

An interacting group of individuals, deliberately constructed, independent of the formal structure, lacking its own internal structure, consisting of mutually perceived membership, issue oriented, focused on a goal or goals external to the coalition, and requiring concerted member action. (Stevenson et al., 1985, p. 261)

In effect, a coalition is an informal organization that operates in an organic fashion, outside of formal rules. It requires concerted action from its membership to reach its objectives. Its creation is encouraged by sparse external resources (Pfeffer & Salancik, 1978), the existence of discretionary powers, possibilities for interaction, and its members' coalition-building experience (Stevenson et al., 1985). Coalitions survive through the perception their members have of coalition membership as more advantageous than risky (Lemieux, 1998). Coalitions are relatively unstable and can be made up of subcoalitions that are more or less influential (Thompson, 1967; Sabatier & Jenkins-Smith, 1993, 1999).

While coalitions can be created to reach objectives that are parallel to those of more formal organizations, they are not always corrupt. A coalition is corrupt when it attempts to appropriate public resources for its members' interests. Corrupted coalitions will seek to generate economic rents from public resources and redistribute them to their members. Since this is an illegal activity, they must therefore circumvent control and monitoring mechanisms to avoid detection. This illicit coordination constitutes the coalition's principal *raison d'être*: it must be able to identify and co-opt useful members of organizations involved in public contracting to reach its objectives, understand the loopholes in the procurement process, and select the best manipulation and influence tactics.

3. The “collusive procurement coalition” and its functioning

In the context of procurement, the actions undertaken by corrupt coalitions will take on a specific form, that can be characterized by the “collusive procurement coalition” (CPC) presented in the section. The concept of CPC enables an understanding of procurement corruption within a context of close ties between public and private actors, and of political parties' dependence on electoral resources. The term “collusive” is meant to express the idea of a tacit agreement to modify the original objectives of a procurement project in order to serve the coalition's interests.

3.1. Definition

A CPC is as a group of individuals belonging to the different organizations involved in the procurement process (elected officials, political party employees, civil servants, private sector representatives and lobbyists), who come together informally to circumvent the government's objectives. The CPC will reach this goal by illegitimately inflating the value of contracts to generate economic rents; by redistributing

these rents to its members in the form of bribes, profits, or electoral resources; and by working around lobbying, tendering and electoral financing regulations.

As the basis for an analytical framework, the concept of CPC must be understood as a group of individuals (the coalition members) who are more or less independent from their formal organizations, and have little regard for laws, regulations and management frameworks. This detachment is necessary to maintain the secrecy of the CPC's activities and enable its members to deny any wrongdoing.

As mentioned above, the coalition is made up of civil servants, elected officials, political party employees and high-level representatives of the private sector. Politicians in particular play a dual role: first, they bear responsibility over public organizations (and the procurement process) as the proverbial buck ultimately stops at them; second, they are also important actors within their political party and are highly involved in its financing.

CPCs are characterized by the concerted interaction between these three types of actors (governmental, political, and private). Without this "iron triangle" it would be impossible to speak of coalition, or even network: relations would always be bilateral, even if they were numerous. The need for concerted action stems from the interdependence of actors in the process of generating and redistributing economic rents, as well as from the existence of control and monitoring mechanisms that must be bypassed.

3.2. The functioning of the coalition within the procurement process

The coordination mechanisms of coalitions are well known and have been the subject of many robust empirical and theoretical analyses. However, in the case at hand, two elements make the functioning of CPCs more complex: the secrecy and illegality of their activities, and the fact that the governmental procurement process is highly regulated. These elements influence the environmental conditions that lead to the creation of CPC, as well as on the way the CPC coordinates its actions.

A creation facilitated by the sociopolitical environment

The creation of a CPC is facilitated by a certain set of sociopolitical and environmental factors. First, its members must feel a sense of impunity, which is strengthened by inadequate accountability. For instance, in the context of municipal politics, which benefit from little media coverage, public infrastructure contracts are not subject to much scrutiny. In fact, it is at the municipal level that control and monitoring mechanisms tend to be the least effective (Bherer & Breux, 2010). A CPC member's sense of impunity also comes from a long tradition of close ties between private sector representatives, elected officials and civil servants. During the provincial inquiry commission testimonies, mentioned in introduction, several witnesses recounted that receiving gifts or being invited to the restaurant or on trips by engineers and contractors was perceived as normal (Normandin, 2012b). Ultimately, this attitude contributed to the creation of a climate of public-private promiscuity, which goes against the Weberian principle of neutrality of public servants.

In Quebec, as well as in several other liberal democracies, the existence of CPCs also rests on the dependence of electoral candidates towards campaign finance and expertise. Highly restrictive rules and a lack of expertise in political organizing enhance the private sector's power over political parties. Indeed, the Commission documented a well-oiled turnkey elections system, where representatives of engineering consulting firms would approach mayoral candidates from small municipalities and offer to become their political organizers. Engineering firms would provide expertise and financing, but would also take care of all electoral logistics, even going as far as selecting and preparing candidates for councillor seats. All this was done in exchange for contracts once the mayor was elected (Normandin, 2013a)³.

³ The resource dependency theory (Pfeffer & Salancik, 1978) is useful in understanding the importance of private resources in the electoral process. Organizations are seen as dependent on the resources of their environment to survive. Access to these resources thus becomes their principal *raison d'être*. They will deploy several strategies to attempt to free themselves from their dependence: avoidance, scarcity management, process adaptation, negotiation, cooptation, etc. (Sheppard, 1995). In the case of public organizations – especially in small municipalities where political parties have few means – the most important resources during electoral periods are financing and campaigning expertise. Due to electoral financing laws and limitations on spending during electoral campaigns, these resources are rare. Political parties must thus deal with a dependency. While some political parties will chose an avoidance strategy (i.e. decide to respect electoral spending limits), others will prefer negotiating with actors who possess the resources they need, such as actors in the construction industry. It should also be noted that this industry is in an ideal position to make electoral contributions. In the area of civil engineering, almost all contracts come from the public sector, which leads firms to try to maintain good relations with governments. Furthermore, considering the sizable amounts of money at stake, it is easier to

Finally, the creation of a CPC is facilitated by the more general public-private rapprochement that occurred following New Public Management reforms. An increased reliance on subcontracting, the loss of public expertise and the recourse to private sector control, monitoring and auditing mechanisms led to a rise in public-private contracts. This increased proximity between the public and private realms, which sometimes goes as far as sharing work environments (e.g. “resident” private sector experts with governmental offices, and vice-versa) has made the public sector more dependent on private resources, and made it more vulnerable to undue influence, and even full capture by private interests (Doig & Wilson, 1998).

A decisional center that enables coordination

The origins of coalitions can be traced back their members’ perception of the necessity of working together to achieve their objectives, rather than those of the formal organizations they work for (Cyert & March, 1963). In the case of CPCs, these alternate objectives represent the second order departures we outlined earlier, and aim to circumvent the ideal procurement process in the interest of their members.

The existence of a CPC that goes beyond simple, bilateral, corruptor-corrupted relations results from its members’ agreement that concerted action is necessary to achieve their goals. Indeed, a CPC will only exist in a context where simple (bilateral) corruption is no longer effective. Here, the complexity of rent-generating activities comes into play: to be able to generate an economic rent, the coalition must go through a long manipulation process involving the contracts themselves, as well as procurement rules and regulations. All this involves the participation of many actors and the circumventing of interrelated monitoring mechanisms. Without the participation of members belonging to all the sectors involved in the procurement process (political, governmental, private), corruption would rapidly be discovered. To ensure the proper coordination of its activities, the CPC therefore set up a decisional center that can impose rules and develop strategies to get around the system’s controls and regulations.

For instance, the Commission hearings that focused on collusive corruption at the City of Montreal offered a great demonstration of how a CPC was set up. Michel Lalonde, a senior executive at an engineering consulting firm, was approached by Bernard Trépanier to become the “coordinator” of collusion (Normandin, 2013b). It was revealed that in order to belong to the select group of firms able to win city contracts, their executives had to make electoral contributions –which ranged from \$100,000 to \$200,000– to the party in power, in addition to paying a 3% “tax” on contracts obtained. The same situation was then repeated with the contractors in charge of building the public infrastructures. When they started complaining that Trépanier’s financial demands were too high, the coalition negotiated an agreement to reduce them (CEIC, 2013b).

Lalonde and Trépanier took care of coordinating collusion so contractors would win projects one after the other (Myles, 2013b). In order to generate sufficiently high profits to make financial contributions to political parties and corrupt public officials, contract costs were inflated through collusion and unnecessary contract modifications that were approved by public officials. To get around the procurement monitoring system, firms would corrupt officials on the selection committees, who in turn, would approve overruns. Montreal’s Auditor General produced a report castigating Frank Zampino, the mayor’s right-hand man, for having used his political influence to defeat an anti-collusion initiative (Myles, 2013a). The level of coordination within the Montreal coalition was such that Trépanier was frequently the one to tell contractors they had been selected in the bidding process, though he was a only a political organizer and had no official role in procurement. That information was given to him by public officials with whom he was colluding (La Presse canadienne, 2013b).

To be efficient, a CPC must therefore be able to control some –or even all– of the activities of a public organization’s procurement process. To achieve this end, it must:

- Identify members that could be useful within the organization –those with discretionary powers that could be used toward increasing economic rents or least fazed by unethical conduct;
- Determine the contributions expected from participation in the collusion scheme and develop strategies to manipulate information and circumvent rules;
- Influence or exert control over the key stages of the procurement process, such as estimating

produce surpluses from gross profits without being detected through audits.

costs, supervising construction sites, making contract modification, producing accountability reports, etc.;

- Set up market-like mechanisms to negotiate and redistribute economic rents; and
- Ensure discipline within the coalition.

This description is consistent with Cartier-Bresson's analysis (1997), which showed that a corruption network can influence the pricing of reciprocal obligations and lead to the standardization of new practices. The emergence of a CPC is also promoted by the fact that it requires investments (electoral financing, gifts for public officials, etc.) that will only generate returns (contracts or lucrative contract modifications) in the long term. Network coalitions can, on the one hand, establish a market of reciprocal obligations, which will be "reimbursed" in the medium to long term and, on the other hand, limit the possibility of whistle blowing by making all members accomplices in one degree or another.

Contingent actions

A CPC's capacity to highjack the procurement process rests on its ability to circumvent the control and monitoring mechanisms that are supposed to guarantee the integrity of the process. In order to do this, it must have technical knowledge of existent zones of ambiguity (price control mechanisms, bid selection criteria, possibilities for contract modifications, selection committee members, etc.), as well as a capacity to secretly transfer resources to political parties during electoral periods (through cash contributions, creation of fake jobs, lending out material and human resources, etc.). On top of having to identify and co-opt key individuals with expertise or discretionary powers, the CPC must also have the capacity to be "creative" in the elaboration of strategies to bypass the system. For example, the Commission identified examples of collusion that involved a complex and quasi-undetectable verbal code based on fictitious meetings, which enabled coalition members to set the price of tenders (La Presse canadienne, 2013c). It was also shown that computer hacking was used to inflate cost estimates (Normandin, 2012a).

CPCs can rely on a wide range of strategies to achieve their goals. A non-exhaustive list has already been presented in the last column of Table 2. The use of these strategies is not systematic, however; a risk-benefit analysis is first undertaken, which takes into account different environmental factors.

Complex human relations

The concept of CPC also enhances the understanding of the primacy of human relations within organized systems of corruption. Considering that business relations are integrated within complex human interactions that are characterized by solidarity (Granovetter, 1985), the personal affinities and friendships that are involved in reciprocal obligations take on a whole other meaning. Anthropological analyses of corruption (Sissener, 2001; Granovetter, 2007) have shown how gift exchanges come to be seen as normal in highly socialized systems. Similarly, favors become conventional expressions of solidarity instead of being viewed as transactions.

Business relations and friendships between public officials, engineers, contractors and elected officials are well documented in the Montreal example. When Trépanier speaks of his "buddy" Zampino and claims he developed a friendship with him (CEIC, 2013a), one can see how an initially transactional relationship was transformed into one of solidarity. Likewise, media devoted much attention to the story of elected officials spending time in the Caribbean on Tony Accurso's yacht. Accurso was a highly influential entrepreneur with a large network of friends in the construction industry. Questioned as to the possibility that his yacht might have served as an instrument of influence or bribery, he offered this annoyed response: "How is it that in life, everyone is allowed to have friends, but I am not allowed to have friends, and I am not allowed to invite them?" (CEIC, 2014).

Friendship thus represents an important lever of influence, one that is very difficult to control or impede through regulation. Within a CPC, relations between contractors and public and elected officials are no longer about influence: they become integrated as social norms which can hardly be objected to. The protagonists will even often use them as alibis: they will argue that their close ties led to better contract management by permitting to resolve potential conflicts in more informal ways.

In such a context of public-private proximity, the case of civil servants is particularly interesting. As their behavior is regulated by strict rules, a robust control apparatus and a clear code of conduct, it should therefore be difficult to co-opt them. However, due to their discretionary power and technical knowhow,

these public officials are absolutely essential to the efficient functioning of the CPC and are thus frequently contacted in the hopes of getting them on board. During the Commission hearings, the testimony provided by Luc Leclerc –an official at Montreal’s public works– was especially telling. He admitted to receiving over \$500,000 in bribes from business owners in the construction industry and even went on vacation to the Caribbean with some of them (Normandin, 2012b). To him, these relations were normal; he argued they made him more aware of the contractors’ preoccupations, which in turn allowed him to better accomplish his job (Lévesque, 2012).

This proximity, strengthened by social relations presented as “natural” (Granovetter, 1985), goes against the logic of bureaucracy. Proper bureaucratic conduct presupposes that public actors have more reservations about such relationships, and even impose a distance between themselves and members of the private sector (Kernaghan & Langford, 1990).

4. Discussion and conclusion

In Montreal, in the early 2000s, Bernard Trépanier, Frank Zampino, Michel Lalonde, Tony Accurso and Luc Leclerc represented key players in a CPC, which brought together many public officials, politicians, political party employees and private sector representatives. The members of this coalition, who had different roles and levels of influence, all contributed in their own way to the manipulation of the city’s procurement process, which resulted in the creation of an illegal economic rent that was then redistributed amongst them.

Grounded in a complex system of interdependencies, this CPC influenced, cheated, corrupted, hid, and defrauded. Its preferred stomping ground was the realm of public contracting, a particularly fertile environment for the rise of deviant behavior. Indeed, the money at stake was significant; fraud was difficult to detect due to the level of expertise required to supervise the process; and the ultimate decision-makers –elected officials– were dependent on the private sector for one crucial resource: electoral financing.

The impacts of CPCs

When all is said and done, the impacts of CPCs are highly troubling. While they can succeed at inflating the value of contracts, they can also seriously affect the credibility of elected officials and of the public service.

In Montreal, the value of infrastructure contracts was reduced by 20%-33% as early as 2012, when the first arrests were made. This suggests that the dissolution of a CPC can have immediate effects (Normandin, 2014). In 2013, tenders were actually 10% lower than the city’s estimates. As for the process of awarding public contracts, many witnesses who testified at the Commission stated they had been aware of collusion for a long time. Their perception was that Montreal represented a closed market dominated by an irremovable cartel. Many small business owners even reported having felt that collusion was the *modus operandi* of the construction industry. Similarly, representatives of the private sector perceived that political financial contributions were required to access the public works market –a requirement imposed by politicians and their entourage (CEIC, 2014; La Presse canadienne, 2013a).

This situation has opened the door to another –perhaps graver and insidious– danger: the decline of the public service’s credibility. If it becomes perceived as being the puppet of the private sector, the civil service can hardly expect the population to continue viewing it as legitimate. Over time, these perceptions inform the idea that the municipal public service is inept and corrupt because it is unable to keep the private sector and political actors in check. This, in turn, lends credibility to the arguments regarding the necessity of privatizing advisory, control and auditing functions.

Normative implications for future research and policy-making

From a normative point of view, the concept of CPC has concrete and important implications for anti-corruption strategies in procurement. Klitgaard’s (1988) analysis offers an interesting lens for determining which of these could make the functioning of CPCs more difficult, costly, or risky.

Economic rent generation. The functioning of the CPC is made possible by inflating the value of public contracts. Several strategies could be adopted to make this more difficult. Better benchmarks –established not only through historical data, but also through comparative provincial and international

data— could enable a faster identification of collusive behavior. Furthermore, increasing competition by opening up the market to smaller players or foreign firms could, for example, lower the value of tenders.

Discretionary power. Limiting public and elected officials' discretionary powers during the process of awarding and managing contracts could also reduce the corrupt actors' capacity to generate economic rents. In the early planning and design stages of public contracting, this could be done by defining needs more clearly (which would limit possible departures from the ideal procurement process), or by developing clearer plans and specifications (which would lead to fewer contract modifications). In the later stages, stricter procedural rules regarding contract modifications could make it more difficult for public officials to be complacent towards their private-sector counterparts.

Accountability. Increased scrutiny on public contracting by opposition leaders, internal and external auditors and the media could increase public service accountability. Making procurement and electoral financing processes more transparent could also expose cartels and possible conflicts of interests. All initiatives that fill information gaps allow for better evaluations of elected and public officials performance and make it more difficult for coalitions to use information manipulation tactics.

In addition to these three strategies, some comments on the governance of public organizations should be made.

First, reducing political parties' reliance on electoral financing, through public financing for example, could reduce the private sector's ability to influence elected officials.

Second, retaining public expertise in strategic areas rather than relying on private sector resources would make governmental organizations harder to capture, especially in a context of high reliance on subcontracting. By putting together teams of technical experts, collusion could be detected in the earliest stages of the procurement process.

Third, a better code of conduct and a stricter adherence to the Weberian principle of neutrality by public and elected officials would seem to be an efficient way of limiting the influence of friendships on electoral and procurement processes. Elaborating control mechanisms in order reduce conflicts of interests and encouraging whistleblowing while guaranteeing the protection of those who speak up would also have a positive impact.

Lastly, one condition trumps all these strategies: a healthy democracy, where citizens vote, participate actively in public debates and remain vigilant with regards to politicians, the civil service and the private sector.

* * *

The concept of CPC fills a theoretical void in the corruption literature by combining political economy approaches with those of sociology and anthropology. It explains how economic rents are generated, how control and monitoring mechanisms are circumvented, and how coalitions coordinate their illicit activities.

Furthermore, the CPC enables a more contextualized analysis that accounts for contingent circumstances. While the conceptual framework it offers may not be applicable to all corrupt systems, it does allow for certain generalizations with regards to corruption linked to public contracting in other liberal democracies.

Bibliography

- Association for Project Management. (n.d.). About Us. Retrieved June 13, 2011, from <http://www.apmqa.co.uk/ContractProcurement/page.asp?categoryID=9&subCategoryID=146&pageID=0>
- Aucoin, P. (1995). *The New Public Management Canada in Comparative Perspective*. Montréal: McGill-Queen's University Press.
- Banfield, E. C. (1975). Corruption as a Feature of Governmental Organization. *Journal of Law and Economics*, 18(3), 587–605.
- Bherer, L., & Breux, S. (2010, November 20). L'imputabilité limitée des municipalités québécoises. *Le Devoir*. Retrieved from <http://www.ledevoir.com/politique/villes-et-regions/311369/l-imputabilite-limitee-des-municipalites-quebecoises>
- Börzel, T. A. (1998). Organizing Babylon--On the Different Conceptions of Policy Networks. *Public Administration*, 76(2), 253–273.
- Cartier-Bresson, J. (1997). Corruption networks, transaction security and illegal social exchange. *Political Studies*, 45(3), 463–495.
- Cartier-Bresson, J. (2008). *Économie politique de la corruption et de la gouvernance*. Paris: L'Harmattan.
- CEIC. Témoignage de Bernard Trépanier, § Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction (2013). Montréal. Retrieved from https://www.ceic.gouv.qc.ca/fileadmin/Fichiers_client/fichiers/Transcriptions/2013-03/Transcription_audience_CEIC_2013-03-26_diffusee.pdf
- CEIC. Témoignage de Rosaire Sauriol, § Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction (2013). Montréal. Retrieved from https://www.ceic.gouv.qc.ca/fileadmin/Fichiers_client/fichiers/Transcriptions/2013-03/Transcription_audience_CEIC_2013-03-20.pdf
- CEIC. Témoignage de Tony Accurso, § Commission d'enquête sur l'octroi et la gestion des contrats publics dans l'industrie de la construction (2014). Montréal. Retrieved from https://www.ceic.gouv.qc.ca/fileadmin/Fichiers_client/fichiers/Transcriptions/2014-09/Transcription_audience_CEIC_2014-09-05_diffusee.pdf
- Cyert, R., & March, J. G. (1963). *A Behavioral Theory of the Firm* (Prentice-Hall.). Englewood Cliffs, NJ.
- De Graaf, G. (2007). Causes of corruption: Towards a contextual theory of corruption. *Public Administration Quarterly*, 31(1), 39–86.
- Doig, A., & Wilson, J. (1998). What Price New Public Management? *The Political Quarterly*, 69(3), 267–276.
- Granovetter, M. (1985). Economic Action and Social Structure: The Problem of Embeddedness. *American Journal of Sociology*, 91(3), 481–510.
- Granovetter, M. (2007). The Social Construction of Corruption. In V. Nee & R. Swedberg (Eds.), *On Capitalism* (pp. 152–172). Redwood City, CA: Stanford University Press.
- Hellman, J. S., Jones, G., & Kaufmann, D. (2003). Seize the state, seize the day: state capture and influence in transition economies. *Journal of Comparative Economics*, 31(4), 751–773.
- Kernaghan, K., & Langford, J. W. (1990). *The Responsible Public Servant*. Montréal: Institute for Research on Public Policy.
- Klitgaard, R. (1988). *Controlling Corruption*. Berkeley: University of California Press.
- La Presse canadienne. (2013a, March 18). Commission Charbonneau – C'était «honteux et dégradant», dit le président de BPR sur le 3 % à verser. *Le Devoir*. Retrieved from <http://www.ledevoir.com/politique/quebec/373524/commission-charbonneau-c-etait-honteux-et-degradant-dit-le-president-de-bpr-sur-le-3-a-verser>
- La Presse canadienne. (2013b, March 28). Bernard Trépanier admet avoir reçu de l'information privilégiée de Robert Marcil. Retrieved October 3, 2014, from

<http://www.ledevoir.com/politique/quebec/374436/bernard-trepanier-admet-avoir-recu-de-l-information-privilegiee-de-robert-marcil>

La Presse canadienne. (2013c, September 3). Commission Charbonneau: collusion en génie avec codes et tableau à Gatineau. *Le Devoir*. Retrieved from <http://www.ledevoir.com/politique/quebec/386534/commission-charbonneau-collusion-en-genie-avec-codes-et-tableau-a-gatineau>

Lemieux, V. (1998). *Les coalitions. Liens, transactions et contrôles*. Paris: PUF.

Lévesque, K. (2012, November 2). Commission Charbonneau - La corruption, une «culture d'entreprise». *Le Devoir*. Retrieved from <http://www.ledevoir.com/societe/justice/363009/la-corruption-une-culture-d-entreprise>

Lynn, L. E. (2006). *Public Management: Old and New* (New edition.). New York; London: Routledge.

March, J. G., & Simon, H. A. (1958). *Organizations*. New York: John Wiley and Sons.

Maskin, E., & Tirole, J. (1999). Unforeseen Contingencies and Incomplete Contracts. *The Review of Economic Studies*, 66(1), 83–114.

Miller, R. A. (1975). Economy, Efficiency and Effectiveness in Government Procurement. *Brooklyn Law Review*, 42, 208.

Myles, B. (2013a, 1 mars). Commission Charbonneau – Zampino a torpillé la lutte à la collusion. Retrieved October 3, 2014, from <http://www.ledevoir.com/politique/quebec/372244/zampino-a-torpille-la-lutte-a-la-collusion>

Myles, B. (2013b, March 27). Commission Charbonneau – Confessions laborieuses de Bernard Trépanier. Retrieved October 3, 2014, from <http://www.ledevoir.com/politique/quebec/374278/commission-charbonneau-confessions-laborieuses-de-bernard-trepanier>

Normandin, P.-A. (2012a, décembre). Contrats municipaux: un logiciel controversé toujours utilisé. *La Presse*. Retrieved from <http://www.lapresse.ca/actualites/montreal/201212/11/01-4602730-contrats-municipaux-un-logiciel-controverse-toujours-utilise.php>

Normandin, P.-A. (2012b, October 31). Luc Leclerc aurait reçu au moins 500 000\$. *La Presse*. Retrieved from <http://www.lapresse.ca/actualites/dossiers/commission-charbonneau/201210/31/01-4588957-luc-leclerc-aurait-recu-au-moins-500-000.php>

Normandin, P.-A. (2013a, mai). Élections clés en main 101. *La Presse*. Retrieved from <http://www.lapresse.ca/actualites/dossiers/commission-charbonneau/201305/01/01-4646243-elections-cles-en-main-101.php>

Normandin, P.-A. (2013b, January 25). Collusion: Michel Lalonde, le chef d'orchestre. *La Presse*. Retrieved from <http://www.lapresse.ca/actualites/dossiers/commission-charbonneau/201301/24/01-4614873-collusion-michel-lalonde-le-chef-d-orchestre.php>

Normandin, P.-A. (2014, février). Contrats: les prix continuent de baisser à Montréal. *La Presse*. Retrieved from <http://www.lapresse.ca/actualites/montreal/201402/07/01-4736517-contrats-les-prix-continuent-de-baisser-a-montreal.php>

Pfeffer, J., & Salancik, G. R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper & Row.

Pollitt, C., & Bouckaert, G. (2004). *Public management reform: a comparative analysis*. Oxford: Oxford University Press.

Rhodes, R. A. W., & Marsh, D. (1992). New directions in the study of policy networks. *European Journal of Political Research*, 21(1-2), 181–205.

Roman, A. V. (2014). The Politics of Bounded Procurement: Purists, Brokers and the Politics-Procurement Dichotomy. *Journal of Public Procurement*, 14(1), 33–61.

Rose-Ackerman, S. (1978). *Corruption: A Study in Political Economy*. New York: Academic Press.

- Rose-Ackerman, S. (1996). Democracy and “grand” corruption. *International Social Science Journal*, 48(149), 365–380. doi:10.1111/1468-2451.00038
- Rose-Ackerman, S. (1999). *Corruption and Government: Causes, Consequences, and Reform*. Cambridge University Press.
- Rose-Ackerman, S. (2007). Measuring private sector corruption. Chr. Michelsen Institut.
- Sabatier, P., & Jenkins-Smith, H. C. (1993). *Policy change and learning: An advocacy coalition approach*. Boulder, CO: Westview Press.
- Sabatier, P., & Jenkins-Smith, H. C. (1999). The advocacy coalition framework: An assessment. In P. Sabatier (Ed.), *Theories of the policy process* (pp. 117–168). Boulder, CO: Westview Press.
- Schapper, P. R., Veiga Malta, J. N., & Gilbert, D. L. (2006). An Analytical Framework for the Management and Reform of Public Procurement. *Journal of Public Procurement*, 6(1/2), 1.
- Sissener, T. K. (2001). Anthropological perspectives on corruption. Chr. Michelsen Institute.
- Stevenson, W. B., Pearce, J. L., & Porter, L. W. (1985). The Concept of “Coalition” in Organization Theory and Research. *Academy of Management Review*, 10(2), 256–268.
- Thai, K. V. (2001). Public Procurement Re-Examined. *Journal of Public Procurement*, 1(1), 9–50.
- Thompson, J. D. (1967). *Organizations in Action: Social Science Bases of Administrative Theory*. New York: McGraw-Hill.
- Tirole, J. (1986). Hierarchies and Bureaucracies: On the Role of Collusion in Organizations. *Journal of Law, Economics, & Organization*, 2(2), 181–214.
- Williamson, O. E. (1975). *Markets and hierarchies, analysis and antitrust implications : a study in the economics of internal organization*. New York: Free Press.