Theoretical Framework for the Functional Mechanism of Sustainable Urban Governance

By Parisa Toloue-Hayat-Azar

Abstract
An important factor in defining a framework is assessing exactly which elements are involved and how they can interact with each other. Throughout the academic literature, a lot of governance modes have been suggested, based on case study articles that have taken into consideration the governance of different cities based on their characteristics. However, there is a lack on convergence on the frameworks that each of these studies have used, which makes the comparison between the different studies arduous. Furthermore, these modal classifications cannot really demonstrate their ability in solving economic, social and environmental concerns that cities are trying to solve. This article aims to analyse the governing elements of each mode through the introduction of a unique framework for future urban governance studies and by studying the development of different modes of governance throughout the historical period involved.

Keywords: Governance, Activity Theory, Sustainable Development

1. Introduction

The frameworks used by scholars for studying governance are based on either hierarchical, or top-down, and vertical, or inside-out, classification of modes of governance, or on the technical characteristics of good governance, such as control, accountability, political power and coordination. (Jordan, 2008; Pattberg & Widerberg, 2015; van Zeijl-Rozema, Cörvers, Kemp, & Martens, 2008) Without knowing the elements involved in the governance process and their interactions, one cannot solve today’s complex urban and national issues. No two different cities in today’s complex world can be compared based on these qualitative frameworks. The aim of this article is that of introducing a unique framework for governance based on its functioning elements, that will have the capability of explaining different modes of the governance and their characteristics.

A recently growing research field consists of assessing the social and environmental impact of businesses, which are an essential pillar for the economic prosperity of cities, on citizens’ lives and the finding ways of fostering and encouraging partnership of corporations with government and other organizations to solve current social and environmental challenges. In Triple Bottom Line, the top-down and inside-out approaches to sustainability have been discussed; whereas the “top down” approach stresses management and control, “inside out” emphasizes change and innovation via relationships and connectedness. Governance in top-down systems regulates corporate sustainability, but an inside-out approach leads to self-organizing alliances between government and non-government stakeholders (Henriques & Richardson, 2004, p. 16). On the one hand, sustainability reduces the chances of unforeseen risks for businesses,
and therefore, investors are willing to pay a premium for it. For businesses, the idea of engaging in Corporate Social Responsibility (CSR) activities in this context is a rational decision. This ultimate profit oriented rationality drives innovation and collaboration to solve the problems, and therefore promotes inside-out governance. On the other hand, there is also a moral side to CSR, whereby companies’ actions are controlled by people’s and government’s expectations. Theories behind taking the voluntarily steps of CSR practice vary from issues of gaining legitimacy, concern for ethics, accountability to the market, and aspects of political economy. (Fernando & Lawrence, 2014, p. 152) (Bebbington, O’Dwyer, & Unerman, 2007, pp. 19-36) Studies have shown that these non-purely economic theories share the viewpoint of considering organizations as an important part of a wider social system. (Fernando & Lawrence, 2014, p. 167)

The question here is where do the inside-out or top-down modes stand in the governance puzzle, and what elements are required for governance and how they interact with each other? While seeking a holistic framework that can explain interactions of different governance elements, this paper explains development of different modes of governance throughout the history, with focusing on a theory that developed in late 19th century for behavioral study and then further developed up to now and is named Cultural Historical Activity theory. Different sections of this article will try to clarify where different governance tactics and elements, by comparing the governance modes against the related development-stage of Cultural Historical Activity theory.

2. Mediator Artefacts

Governance is a collaborative project, and studying collaborative projects started with Hegel and Marx’s work on social philosophy. Later, using the same concept, the Russian psychologist Lev Vygotsky (1896–1934) studied the project as a unit of analysis in his Activity Theory. He introduced mediated action as a concept to explain the process that enabled development of human consciousness through interaction with artefacts. In this interaction, individuals are not passive participants, they learn and modify the activities while seeking a meaning for the worldly surroundings, hence triggering transformations of and creation of artefacts. Therefore, mediated artefacts could change over time, and contribute to a new social formation and human consciousness. (Yamagata-Lynch, 2010, p. 16) In Vygotsky’s units of analysis, the mediated artifacts can be either tools, such as the existence of certain design or infrastructure that influences behaviour of others, or knowledge. (Blunden, 2014)

![Figure 1. Vygotsky's basic mediated action triangle (Yamagata-Lynch, 2010, p. 17)](image-url)
During the process of top-down governance the state is in charge of devising the necessary and required mediating artefacts, and society are governed by people understanding exactly how they are supposed to utilize the mediating artefacts provided for them. In this system cultural institutions, such as churches or state schools, have the responsibility of maintaining cultural unity. In this system decision on providing tools and infrastructure for public and private sectors are something that not only reliant on available resources but also norms. (Committee, 2015) This type of governance is combination of group of decision makers and their selective choices. This type of urban governance has been named as Urban Regime where only a small selection of societal and political elites form a regime and only consult with senior figures from major knowledge institutions (Hendriks, 2014, p. 561). Because the ordinary citizens are being ignored in the process of decision making, this type of governance lacks social and political legitimacy. Although, this method of governance used to be productive, the trend of globalization that began in the 19th century made state’s control on provision of knowledge and tools difficult.

3. Division of Labour

A.N. Leontiev (1904–1979), a student of Vygotsky, who took the Activity Theory into a second phase, believed that meanings naturally exist within an activity and there is no need that they always be prescribed as a mediating artefacts within a society. Through his concept, the Vygotskian method of Activity Theory analysis does not adequately address cultural evolutions. According to Leontiev, tools can drive automated operations and assist setting goals; it is then personal or group goals that drive actions. These actions may vary from one to another, but they pursue the objective of an activity; for example, in the activity of hunting, actions may differ between chasing and hunting the animals. (Blunden, 2014) Leontiev sets a clear distinction between object-oriented activity and goal-directed actions, and sees goal-directed actions as a step that subjects take in the process of participating in an object-oriented activity (Yamagata-Lynch, 2010, p. 17-21).

Based on Leontiev’s theory, all these goals and the tools created to achieve them would rationally follow the ultimate objective of the activity: in another words, society can be governed from by inside-out mode. In the pursuit of individual goals and motives, the era of neo-liberalism carried the promise of bringing about opportunities for businesses and individual people to follow dreams without obligation to follow strict gridlines. The idea of neoliberalism started in 1938, although it was put into fuller practice since the 1970s. The influence of businesses on governance, however, has a much longer history than neoliberalism. This private sector influence first started the with philanthropic support by businesses of government projects; this led the way for further interactions between the private and public sector that gradually has increased over the last 200 years (Seitanidi & Ryan, 2007, p. 249).

When the neo-liberalism era began, its principles were based on making profit and giving people choice on what commodities to buy or sell. This type of governance does not directly control people and provides them with an opportunity to choose, and therefore, govern the system from inside-out. In a market-like governance, which in
urban governance has been also been referred to as the Urban Market, the public domain is viewed as a marketplace, where the citizen is the central demanding actor, and based on demands, the market makes selective choices. Individual choices of this type are not free of socioeconomic pressures; and the urban market tends to be selective rather than comprehensive (Hendriks, 2014, p. 560).

However, a good functionality of this system heavily relies on available resources. Therefore, when the provision of cheap oil was stymied by Middle Eastern political crises, the international economic crisis of 1974 occurred. To boost the economy again, new regulations were then set in order to standardise systems of mass production and distribution of goods and services, based on the Keynesian welfare state’s fiscal and social consumption policies. In practical terms, the emphasis of this system consisted in the promotion of innovation in production by labour market flexibility, and state restructuring that transfers political and administrative decision making upwards, towards supranational organizations (e.g., the European Union, NAFTA, World Bank, IMF) and downward to urban and regional governing systems.(Digaetano, 2003, p. 358) This new form of neoliberal governance paved the way for a new actor within the division of labor, which is the “third sector”. For the first time, the term “third sector” was used by Etzioni (1973) and it meant a third alternative sector between state and market. (Evers, Evers, Laville, & Laville, 2004, p. 12)

New regulations set in the 1970s gave rise to establishment of and Non-Governmental-Organizations (NGOs) and Non-Profit-Organizations (NPOs), with many different work orientations, from business and religious to environment and research, etc. One of the main interests of NGOs were to act as intermediaries for democratic interests. Democratic changes were implemented generally due to external pressures from international organizations. When this movement started in Europe in 1974, with Portugal, there were only 40 democratic countries present worldwide; however, today there are over 120 democratic governments.(Evers et al., 2004, p. 64) The rise of the “third sector” also started to change the mode of urban governance from Urban Market to Urban Trust, where governance decisions where being made with more interactive approach between decision-making elite and trusts that were supporting different rights of civilians. According to this type of governance, civilians remained in the background, although interests of different groups were being discussed. Examples of Urban Trust governance consist of the SPCs (Strategic Planning Committees) developed in a city like Dublin, Ireland, where they work for various purposes (economic development, transport, housing, environmental and general services); however, they are composed of political representatives and representatives of various social interests (Hendriks, 2014, p. 562).

Encountering conflicts of interest is inevitable within a developed society. Edward Freeman, an American philosopher who is well known for his work on stakeholder theory, mentions that creating value for stockholders creates value for shareholders (Freeman, Wicks, & Parmar, 2004, pp. 364-369). However, then the same theory classifies stakeholders into first and second class. The stakeholder theory has become very popular due to the recognition provided to different stakeholders and their associated interests with an organization; however, this theory has failed to take a leading role in sustainable governance due to the fact that it tends to follow the wishes of the
most powerful stakeholders. Besides this issue, another gap that resulted in failure of this governance mode in 2008 was that over the period of time, the methods businesses used to help support community issues shifted from those of a more philanthropic nature to more of a transactional nature. Business contributions to communities started with donations that created limited publicity for them; soon these contributions took the form of benefaction and patronage with intention of subtle publicity. Subsequently, sponsorships developed with potential for sales promotion in mind; cause-related marketing subsequently increased, again linked to sales tactics (Seitanidi & Ryan, 2007). The efforts by governments to empower the “third sector” by encouraging the private sector to contribute to community interests through the introduction of tax relief, also resulted in failure and the tarnishing of the reputation of the “third sector”. (Kasum, Idowu, Mermod, & Books24x, 2014, p. 69)

Although there have been efforts to address social issues, such as poverty and cultural segregation, and environmental issues, such as resource depletion, through the “inside-out” approach of authentic trusts and charities set up by NPOs and NGOs, their demands did not usually receive fair and equal treatment. This focus on short term profits resulted in the recent collapse of the financial markets, which constituted a wake-up call leading to a re-structuring of the way institutions were managed. It was soon after the market collapse of 2008 that scholars once again started to work on the concept of ‘collaborative’ governance, on how different sectors should form partnerships and work towards one objective and solve problems. Porter and Kramer even proposed guidelines on how to achieve the holistic concept of Creating Shared Value (CSV). According to their articles in the Harvard Business Review, there are three district guidelines for Creating Shared Value: 1) Reconceiving products and markets by offering essential products and services, such as health and housing, at reasonable prices to disadvantaged communities, thus fostering their inclusion within the formal economy. 2) Redefining productivity in the value chain by actions such as sustainable supply chain, carbon trading and waste treatment. 3) Building supportive industry clusters at the company’s locations through local development. (Crane, Palazzo, Spence, & Matten, 2014, p. 132).

In general, the experience of neo-liberal, inside-out governance showed that there is a need for a much stronger leadership to make sure that all voices within society are being heard and everyone is participating towards a set objective. In this new neo-liberal leadership, the focus should not be just focused on economic goals, but the ultimate objective of the collaborative activity of governance should be the much bigger picture of sustainable development.

4. Rules and Community

The idea of Sustainable Development was established for the first time at political level during the United Nations’s Earth Summit in Rio de Janeiro in 1992, as a guiding principle for society as a whole related not only to economic aspects, but also to ecological and societal concerns (Preuss & Lienhard, 2014, p. 42). Following the Earth Summit, the UN took a leadership role in promoting sustainable development. It started to develop new standards, which were fit for sustainable development purposes. Initially, the role of business with regards to sustainable development was discussed in terms of a
‘responsibility’ to society. Responsibility here is taken to mean the need to eliminate negative effects of business (Baumgartner, 2014, p. 2). However, there were no clear guidelines on these responsibilities. In 1992, the British Standards Institution (BSI) published the world's first environmental management systems standard, BS 7750, which then became a template for the ISO 14000 series developed in 1996. Businesses were then encouraged to work in partnership with NPOs and NGOs as part of their Corporate Social Responsibility and to document their CSR activities. With the help of inter-government and non-government organizations the UN also developed a framework to guide nations on sustainable development. The different indicators of this sustainable development framework organized in the chapters of Agenda 21, including the need to pay attention to cultures and importance of education. National governments were then advised to work with all stakeholders in their respective countries in order to gather data and to test the indicators. Due to the fact that the concept of sustainability varies between different communities and can change over time, the Commission on Sustainable Development (CSD) recommended that each country should develop a national coordinating mechanism or rules, based on their initial findings that would help to address the missing links that may exist (Henriques & Richardson, 2004, p. 52).

The culture of community is a basis of social and political identity and affects their actions. (Digetano, 2003, p. 359) Under the sustainable development thought process, people need to learn that they also need social security and stability, and clean natural environment as well as material goods. Introduction of the idea of sustainable development initiated research interests on cultural analysis of urban politics, and comparative cultural studies. (Clark, 2000; Ramsay, 1996) The age of globalization and connectedness began since the adoption of Convention on Access to Information in 1998. Based on this Convention on Decision-making and Access to Justice in Environmental Matters, citizens must have access to information and be entitled to participate in decision-making and have access to justice in environmental matters. ("Convention on Access to Information" 1998) Internet, mobile communication, digital and social media and a variety of social software have influenced the roles of citizens all over the world, and have opened door for new form of governance. The access to information has created a new market demand which is not based on material goods, but on norms and values; and it is in this market that the idea of CSR, based on moral obligations, can work and we can see a real partnership and integration between businesses and communities, not the same relationship that needed to prove economic benefits for corporations (Seitanidi & Ryan, 2007, p. 249).

The emergence of these new ideas can again be traced to the development of the new version of Activity Theory. Yrjö Engeström in 1987 further developed the analytical methods of Activity Theory and took the theory to its third phase through the introduction of Activity Systems analysis. Engeström extended mediated factors in the model of human activity in a way that could describe socio-political situations (Baumgartner, 2014; Cole, 1996) by mapping the co-evolutionary interactions between individuals or groups of individuals and their environment, and studying how they affected one another. He introduced the Activity Systems model by adding rules, community, and division of labour into the components of Vygotsky’s original mediated action triangle. Engeström defined the rules as formal or informal regulations that can
constrained or used to liberate activity and to provide guidance on correct procedures and acceptable interactions which need to be taken with community members; the Community, as a social group with which the subject identifies while participating in the activity; and the Division of Labour, as the way in which tasks are shared within the community. (Yamagata-Lynch, 2010, p. 23).

![Engeström’s activity system](image)

**Figure 2. Engeström’s activity system (Yamagata-Lynch, 2010, p. 2)**

The new Information and Communications Technology (ICT) possibilities has increased the reach of rules and guidelines to an immense number and variety of actors. The hierarchical mode of governance, driven by leadership still exists. This role in the current globalized world is being played by formal international institutions, such as the United Nations and the European Union. On the one hand, they try to encourage taking action and adopting the rules from inside-out by raising awareness, providing technical knowledge, allocating resources and funding (Anguelovski & Carmin, 2011, p. 169). Defining values for Good Democratic Practice, such as participation, responsiveness, efficiency and effectiveness, openness and transparency, rule of law, ethical conduct, and accountability…, has raised awareness among people in knowing what to expect from a good governance. Moreover, access to information and communication technology has empowered people to verify whether these rules are being followed by different sectors; and has therefore enabled them to contribute in governance. This new form of governance opportunity for cities is called Urban Platform. The Urban Platform emphasizes integration and deliberation with a strong focus on ordinary citizens in neighborhoods and the city at large. An example of Urban Platform governance is action can be seen on the Planning Wiki website of Melbourne, where using new web-based technology and social media has been used as an attempt to generate wider public input and creativity in urban design (Hendriks, 2014, p. 563).

5. **Discussion**

Globalization has been conducive to the emergence of new forms of collaboration between public authorities and businesses, and has given birth to new forms of urban and metropolitan governances. Several factors, including the demands and values, and economic competition on the international geo-political chessboard, have resulted in changes in roles and responsibilities of central governments. Particularly since the 1970s, when the Keynesian mode of regulation has been introduced in order to
increase the flexibility and the competitive advantages of national economies, there was a major transformation in the role of governments. (Fontan, Hamel, Morin, & Shragge, 2009, p. 378) This resulted in a period of gap in proper leadership, a period that businesses and corporation took a great advantage of. There have been, however, different waves of social and environmental activism throughout this period. On the environmental side, the first wave brought attention to the environmental impact and natural resources; then later introduced the idea of the necessity for a new approach towards production and technology in order to achieve a sustainable future. Finally, this activism focused on the recognition of Sustainable Development. (Henriques & Richardson, 2004, p. 7)

Functionalism is based on the notion that all of the elements that collectively compose a society are inter-connected. When talking about sustainability, governance is the activity system which incorporates environmental, social, and economic objectives. The common shortcoming in sustainability frameworks is that of focusing on governance from a structuralist, rather than functionalist point of view. The reason for this is due to the fact that, up to now, top-down and inside-out (or collaborative and self-regulating), structures have been defined as different governance modes or structures; however, in reality today’s governance is an activity that facilitates the function of both these modes. Structuralism deals with institutions and institutional alliances that carry particular roles within a system, while functionalism focuses on the overall ability of the system to work effectively (Dale, p. 165). Functional elements of governance give insight into how the system is working through and around the people and institutions (structures) that carry out particular systemic roles. The qualities of these connections between structures influence system outcomes or the overall success of governance activity. In another words, both modes of top-down and inside-out governance should work in harmony with each other in order to make governance activity a success.

Leadership is not just about setting rules and making sure they are being followed, but also it is about understanding others’ way of thinking and trying to find a common ground between different people with different interests, in order to facilitate collaboration towards an ultimate objective. In order to enable people to adopt values that have been regulated, some mediated “artifacts” are necessary. These can be “hard” or “soft” infrastructures. Whereas “hard” infrastructure refers to physical networks necessary for functioning of a modern nation, “soft” refers to all the institutions which require to maintain culture, economy, health and social standards.

6. Conclusion

Vygotski’s work on human activity as a topic of study in psychology introduces analytical categories for the examination of interactions between the organism and the environment. Leontiev later provided frameworks for identifying bounded contexts in which the object-oriented activities and goal-directed actions could describe both individual and group actions. Engeström took Activity Theory further towards Cultural Historical Activity Theory by using socio-cultural analysis; this enhanced Vygotski’s initial model to be integrated into the Activity Systems model and by doing so introduced a theoretical base that provided a framework for investigators to study the
function of activities. Although cultural Historical Activity Theory has been developed to study the elements that have an impact on the behaviour of individuals or group of individuals, and is mainly being used for educational studies, this paper has found a clear link between the development of Activity Theory and the different methods of governance found at the same time.

This and the history behind the development of governance modes through-out this historical period enables us to suggest a framework which can demonstrate the integration relations between different elements of governance. The artefacts that control and impact the system can be divided into two different categories or infrastructures. The first category tries to foster inside-out governance approach by influencing and also being influenced by community culture; while the second set of tools have a more top-down controlling impact on citizens, although the provision of these tools can also be consulted with the community.

Dale and Bellamy (1998) suggested, there are three elements to be found in healthy governance. Firstly, the identification of the functional components of governance; secondly, knowledge application to improve governance systems; and thirdly, securing a connected effort within governance systems. In order for this collaborative and integrated effort to work, leadership is essential and investment is needed in order to bring together system connectivity (Dale, p. 170). Studying contemporary governance shows that organizations such as the United Nations and the European Union are showing leadership initiative in setting rules for sustainable development, and even handing over funds for different educational and infrastructural projects that are aligned with these rules.

National and local governments set their rules based on both these international guidelines and their own national and local assessments; however, when it comes to investment in sustainable development in developed countries, the role that businesses can play is greater than governments and NGOs (Henriques & Richardson, 2004, p. 3). In the present-day world, communities have become increasingly reliant on businesses and their partnerships with other organizations in order to achieve the required infrastructures needed for prospering. During the World Summit on Sustainable Development which took place in 2002 in Johannesburg, corporations were considered as part of the solution to problems, rather than being their cause (Preuss & Lienhard,
The majority of these partnerships nowadays are usually focused on raising cultural awareness and education within communities. Education and raising awareness has become today an important infrastructure necessity for governments in order to develop social intangible resources such as social cohesion and common values. Nowadays different organisations, which can be public, private, non-governmental or non-profit, can play a leading role in implementing and promoting the international environmental, social and cultural guidelines. Although the role of the public sector is more obvious in this regard, due to the fact that it has the authority to institutionalise these international guidelines at the local and national levels, third and second sectors can also be leaders within their respective communities through the raising of awareness among people and showing them how things should and can be done. The growing trend in recognition of best case studies, qualifications and achievement certificates are strategies that corporations use in order to raise awareness and showcase their leadership on important national and international matters.

The existence of soft and hard infrastructures and the quality that they deliver has a significant impact on the type of decisions that communities make in today’s inside-out democratic systems. Providing the necessary infrastructure for the public in a globalized world is not just the responsibility of the public sector, but requires collaborative work between the three different sectors that can play a leadership role. To conclude, this article hopes to have introduced a framework for problem-solving oriented studies through the introduction of a framework which can enable researchers to look at the governance issue from a much broader, and more analytical, perspective.

7. Acknowledgments

I would like to thank Professor Adrian Pitts for his evaluable feedback on earlier versions of this paper.

References


Henriques, A., & Richardson, J. (2004). *The triple bottom line, does it all add up?: assessing the sustainability of business and CSR.* Sterling, VA;London;: Earthscan Publications.


