Social Construction of Rational Self-Interest:

The Case of Business Improvement Districts

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Abstract

Everybody – or at least every policy analyst – knows that the logic of collective action is such that individuals' self-interested rationality inevitably leads to collective irrationality: Dominant individual strategies in collective-action settings lead typically self-interested individuals to defect rather than cooperate. As Elinor Ostrom has pointed out, however, "The fact that something is widely believed does not make it correct . . ." (2000b, p. 33). In fact, her own empirical work of the past two decades (Ostrom, 1990, , 1995, , 1998, , 1999, , 2000a; Ostrom, Gardner, & Walker, 1994) identifies a puzzle: individuals frequently cooperate voluntarily, in both laboratory and field settings, when the rules of individual rationality apparently dictate that they should not. Self-governance appears to be highly effective as an instrument for achieving collective rationality, to a degree that appears to be at odds with the accepted wisdom about rationality, institutions, and collective action. This paper uses evidence from a comparative analysis of two self-governing and two externally governed business improvement districts (BIDs) in the U.S. to propose at least a partial solution to Ostrom's puzzle: that self-interested, economic rationality is socially constructed, and so can be reconstructed to foster cooperation rather than defection.

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> Self-evident truths are frequently invoked when scholars and policymakers propose political reforms. We often hear: "It is obvious that X is true, therefore we need to do Y." The implication of this assertion is that common sense dictates our understanding of the problem and the solution. But is it really the case that X is true? And is Y really the best response? The fact that something is widely believed does not make it correct. . . . (Ostrom, 2000b, p. 33)

Among the truths we as policy analysts hold to be self-evident is the proposition that in the absence of coercive institutions of governance, individual rationality will lead us to collective irrationality. This is one of the fundamental premises that constitute the "nuts and bolts" of contemporary social science (Elster, 1989), and so it has informed the design of policies and institutions intended to enhance collective rationality from Hobbes's *Leviathan* to Olson's *Logic of Collective Action* and the contemporary apparatus of econometric policy analysis and design. The prescription typically calls for some combination of coercive institutions and expert-designed policies that seek to constrain and/or manipulate self-interested individual rationality in order to achieve the collective rationality that would be impossible in a state of nature. We render the design problem tractable by constraining the set of variables to be considered. One way to do this is to assume a model of individual motivations that is grounded in a stylized combination of narrow self interest and calculative ability and that can be taken as a given, exogenous to the institutional arrangements and policy solutions being contemplated.

Counterbalancing this, however, have been the observations of scholars concerned with the limits to individual calculative abilities (Simon, 1978) or with unpacking the biases that inform policy designs and understanding the potential for assumptions about selfish or passive individual behavior to become self-fulfilling (Ostrom, 1990, , 1998; Schneider & Ingram, 1993). The careful empirical work of Elinor Ostrom and colleagues on institutional design is firmly grounded in the rational-choice paradigm, although acknowledging the boundedness of rationality, but finds consistently that individuals are motivated to cooperate when prevailing theories of rational action predict they should not (Ostrom, 1990, , 1995, , 1998, , 1999; Ostrom et al., 1994). Uncoerced cooperation was observed in a variety of experimental and field settings, especially in self-governing regimes for managing common-pool resources. This leads to a conundrum, because given the conventional assumptions of self-interested rationality and their institutional implications, it is difficult ". . . to understand how self-organized . . . regimes frequently outperform . . . regimes that rely on externally enforced, formal rules" (Ostrom, 2000a, p. 148).

Somewhat more radically, given the prevalence of the exogenous-preferences assumption, psychologists and sociologists have suggested that the basic elements of the standard, *homo-economicus* model of rationality—individuals' preferences and their beliefs about how they can most effectively satisfy those preferences—may in fact be endogenous, varying in response to framing effects and the influence of social institutions in constituting the identities, interests, and beliefs of groups and individuals (Bowles, 1998; Friedland & Alford, 1991; Slovic, 1995; Tversky & Kahneman, 1981). This leads to a reformulation of Ostom's question, as: Which came first, the institution or the form of rationality? It also suggests a hypothesis to explain Ostrom's and others' persistent empirical results, albeit not one that she—

committed to a rational-choice perspective—has offered herself: that self-interested rationality is socially constructed, and so can possibly be reconstructed to foster cooperation rather than defection. Perhaps self-governance can lead to the (re)constitution of participants' taken-for-granted understandings of the nature of their self-interest and/or how best to advance that self-interest.

This paper uses evidence from a comparative analysis of two self-governing and two externally governed business improvement districts (BIDs) in the U.S. to propose at least a partial solution to Ostrom's puzzle. BIDs are institutional arrangements designed to finance and organize collective action among a variety of stakeholders, toward the revitalization of business districts. Common wisdom among BID practitioners is that the distinctive institutional design of BIDs allows them to be more effective than other arrangements for business-district revitalization, because it combines coercive finance through special assessments, rather than voluntary contributions to merchants associations or chambers of commerce, with governance by assessment-paying stakeholders themselves, rather than by a general purpose municipality. The first prescription is consistent with an Olsonian logic of collective action. The second is often portrayed as reflecting the inherent superiority of business and/or nonprofit organizations to government. I will argue below that much of the apparently greater efficacy of self-governing BIDs has to do with their solving, through that combination of coercion and self-governance, the problem of affirmative or "consummate" (Williamson, 1975) cooperation.

Based on a qualitative analysis of the business rationales and private- as well as collective-action practices of participants in four New Jersey downtown revitalization efforts I argue that the reconstruction of self-interested rationality is at least part of the basis for the distinctive effectiveness of the archetypal BID design. Through repeated personal interactions and participation in activities of governance and cooperative service provision, participants in self-governing BIDs have come to take it for granted that pursuing affirmatively cooperative activities, beyond simply paying mandatory assessments, is a necessary and routinely appropriate means of pursuing their private business interests. Coercive finance provides a reliable supply of resources and an initial incentive to participation, and the institutional and policy design of BIDs fosters the co-production of place. This points in the direction of a solution to Ostrom's puzzle, grounded in what Elkin (1985) has termed the constitutive properties of institutions, and reinforces the importance to institutional and policy design of understanding policy as being produced as well as consumed by its stakeholders, even as it raises further questions concerning the precise mechanisms by which beliefs about self-interest are institutionalized.

Institutions and Rationality: Which Comes First?

Social scientists argue endlessly about (among other things) individual rationality, collective rationality, institutions, and the inter-relationships of the three. What are they, exactly; how compatible are they with one another; which comes first in the "real" world; and which should come first in terms of scholarly attention? My focus here is primarily on the second and third of these four bones of contention. With respect to the matter of primacy for the attention of researchers, I believe the claims I advance in this article about the mutual constitution of rationality and institutions render it to some degree moot: It makes little sense to treat either individual rationality or social institutions in isolation from the other, at least for social scientists and policy analysts. At the same time, the scholars on whose insights I base this assertion include a number whose work in the late twentieth century represented an effort to swing the pendulum toward restoring institutions as a central focus for the social sciences. In this section I will first briefly discuss some requisites of individual rationality, without stipulating a formal definition. The bulk of the section will then be devoted to discussing selected theoretical and empirical perspectives on the role of institutions in shaping collective behavior and rationality.

Rational Decision Making

I will follow Barry's (1991) concise summary of the broad meanings of rationality and rational action. While what constitutes collective rationality may be subject to debate, individual rationality, particularly insofar as it is concerned with the pursuit of self-interest, is less controversial at least in outline. Instrumental, self-interested "rationality in action" is generally accepted to involve an individual actor's (3) actually performing the action "recommended" by a deliberative process that (2) identified an option with the best likelihood of achieving a specified end desired by the actor, based on (1) "rational beliefs . . . about the situation and the nature of the available alternatives" (p. 420). Rational beliefs are those a person can explain by reasons, and which he "is prepared to reassess . . . in the light of arguments against it" (p. 420). Barry notes that rationality is not a guarantee of success, nor does it constitute an endorsement of the factual correctness of beliefs. Rather, rationality has to do with the way in which beliefs are held and combined in order to make choices, and the extent to which actions are pursued consistent with those decisions and reasons.

In terms of the psychology of decision, rational decision can be understood to involve problems of choice and judgment, grounded in alternative logics of consequences and/or appropriateness and subject to challenges of ambiguity and uncertainty. Thus,

> Judgment involves arriving at some understanding of situations, probabilities, causes, and consequences—"the psychological appraisal of information" (Goldstein & Hogarth,

> 1997, p. 9)—and implicates problems of knowledge, learning, and the discrepancies between the objective environment and human perceptions of those objective conditions (also see Simon, 1997, Ch. 3). Preferential choice involves the selection of courses of action, whether in order to achieve some expected utility or consequences in accordance with given preferences and an instrumentally rational “logic of consequences,” or else the selection of a course suggested by a less instrumental “logic of appropriateness” which emphasizes the inherent rightness of choice over calculations of consequences (March, 1978, , 1994). (Justice & Miller, in press)

As March points out, choices and judgments about means to ends and states of the world are subject to uncertainty: our knowledge of the present is imperfect and of the future even more so, so that we cannot be completely certain of the outcome of a given choice. More problematically for the decision maker, the ends themselves are subject to ambiguity: we cannot know absolutely that we will want in the future what we want today (or in the extreme, even what it is exactly that we want at present and whether we have achieved it or not).

Rationally self-interested behavior thus requires making judgments about one's values, desires, and tastes, both now and in the future; forming beliefs, or judgments about states of the world, causality, and the array of alternative actions available; and making choices among alternative courses as well as choosing whether to seek maximization of the desired values or simply to "satisfice," or simply to act appropriately. While Barry describes rational decision making as a deliberative process, the notion of rational decisions as those for which the actor can offer reasons suggests that we might also interpret decisions based primarily on logics of appropriateness as rational, to the extent they are consistent with a coherent set of beliefs about reality and about what is appropriate. Thus self-interestedly rational decisions might be made, and actions selected, on the basis of relatively rote as well as calculative processes of judgment and choice (Table 1). Note that there is no intention here to challenge the premise that individual self-interest is a central motivation or end of rationality. I am concerned here simply with examining how that self-interest and the means for achieving it are defined or discerned.

In the social science literature generally, three broad models of self-interested rationality include that of the so-called *homo economicus*, bounded rationality, and a more contextually derived model. Homo economicus is utility-maximizing, purely self-interested, largely amoral, and possessed of boundless calculative ability as well as a keen knowledge of probability theory—a useful set of assumptions for many approaches to modeling economic behavior but not generally considered an accurate description of actual individual decision makers. The concept of bounded rationality articulated most famously by Herbert Simon retains in many of its versions the narrowness and amorality of self-interest, and the invariance of preference exhibited by homo economicus, but also makes more reasonable assumptions about the limits of the decision maker's attention and cognitive capacity. Thus, where homo economicus explores all possible alternatives and chooses the one that maximizes her preferences, boundedly rational decision makers satisfice—they engage in limited search, terminate searches for alternatives once they find one that meets a particular level of aspiration—and they can make errors of judgment. Finally, as will be treated further below, a number of perspectives on rationality understand it to be a product of socially constructed identities and knowledge. In this view, our beliefs about our interests and how to advance them are at least in part the products of social institutions.

Institutional Design

At least partly in reaction to the post-World War II enthusiasm for social-science research that emphasized the study of individual behavior over attention to the study of social institutions, the last quarter of the twentieth century saw a resurgence of scholarly interest in the roles and functions of social institutions. That "new institutionalism" may no longer be so new, but its concerns remain relevant and many of the debates among competing new institutionalist viewpoints have yet to be conclusively resolved.

One central controversy has been between those W. R. Scott (1995) identified as social realists and those he termed social constructionists. Scott's social realists take a homo economicus model of narrowly self-interested instrumental rationality as given and invariant, except to the extent it may be bounded rather than comprehensive. From this perspective, the role of institutions is to foster collective rationality by constraining behavior to prevent free riding, shirking, and other forms of opportunism. Social constructionists, by contrast, argue that institutions *precede* the individual values, beliefs, and understandings that constitute rationality, and are in fact constitutive of individuals and their preferences and beliefs. Individual rationality then would be understood as a socially constructed phenomenon rather than as an exogenously determined and invariant characteristic of the individual. Further, decisions might as often be grounded in logics of appropriateness as in logics of consequences.

I argue here that—as in the case of the nature-nurture debate, and perhaps most social-research dichotomies—there is ample reason to treat the two broad perspectives as complementary rather than mutually exclusive. Social realists and rational-choice scholars have produced an extensive analytic and prescriptive literature of institutional design, but empirical work has led to some puzzling findings that hint at the descriptive incompleteness of their perspective in certain settings. In particular, Elinor Ostrom and colleagues have repeatedly documented that individuals cooperate voluntarily with greater regularity than is consistent with *homo economicus* rationality. This research has also found that self-governance fosters cooperation to a greater degree than normally predicted by conventional social-realist models and assumptions, which normally prescribe a Leviathan design over self-governing or self-organizing forms (Ostrom, 1990). Social constructionists offer less in the way of design-oriented prescription, but do provide a potential solution for the empirical puzzles. Further, they offer a potentially useful way to understand, inside the black-box of social relations, how institutional design can address problems of achieving uncoerced cooperation in joint production.

Social-realist perspectives. Social-realist perspectives offer fairly satisfying explanations of the response of homo economicus, even with bounded rationality, to the market-failure problems of joint consumption and institutional responses—coercion and economic incentives—thereto. The clarity of social-realist explanations provides for clarity in the prescription of institutional designs to "reconcile rationality on the part of individuals with rationality on the part of society" (Bates, 1988, p. 387). Social realists are somewhat less satisfying in their explanations of empirically observed voluntary cooperation in the face of collective goods and their prescriptions for solving problems of joint production. The discussion below treats briefly two classic analyses of problems of joint consumption, an influential treatment of problems of joint production, and a body of empirical work that has problematized the rational-choice framework within which it has been pursued.

One of the nuts and bolts of the social sciences since 1965, Mancur Olson's (1971) *Logic of Collective Action* diagnoses and prescribes a solution for the problem of public goods.[1] Except in very small groups, homo economicus will fail to supply public goods unless institutional arrangements compel contributions and/or provide selective incentives to induce contributions. The logic is simple: each individual calculates that he will be better off if others pay the full cost of collectively consumed and inexhaustible goods, so that he can enjoy the full benefit while shouldering none of the cost. Since each individual has similar incentives to free ride, nobody will voluntarily contribute to the costs of such collectively consumed goods. Thus, coercive finance or other forms of incentive are needed if the collective irrationality arising out of unconstrained individual rationality is to be prevented.

The *Tragedy of the Commons* (Hardin, 1968) diagnoses the problem of common-pool resources (congestible or exhaustible public goods). Here, as with pure public goods, non-payers cannot be prevented from exploiting the resource, but in this instance the good is not inexhaustible—it has only a limited capacity. This gives each rational individual an incentive to consume it without restraint, since she can enjoy the benefit of as much as she can consume, while bearing only a small fraction of the cost of the inevitable exhaustion of the resource due to uncontrolled consumption. Coercive regulation or the creation and assignment of individual property rights—as occurred in the case of the enclosures of the European common grazing areas referenced by Hardin's title—are two commonly prescribed institutional solutions.

[1] Public goods are those which are neither exhaustible in consumption nor price-excludable. That is, they can be consumed by many individuals without being diminished in their availability to others, and once provided for one they are available to all regardless of whether the additional consumers have paid for the privilege. Because of the resulting infeasibility and undesirability of using pricing to ration these goods, they are considered instances of arket failure. A common illustration of a public good is national defense; a common illustration of a common-pool resource is fish in the ocean. By contrast, private goods are those for which markets work well, such as candy bars, which much be purchased and which are not usually available for enjoyment beyond the first consumer.

Both the logic of collective action and the tragedy of the commons describe problems associated with joint *consumption* only. The initial formulation of the transaction costs approach (Williamson, 1975) addresses problems of joint *production*. Williamson based his analysis explicitly on a model of bounded rationality and provided an analysis of the joint implications of that boundedness, opportunism (the readiness of individuals to act deceptively in the service of self-interest), information asymmetry, uncertainty, and small-numbers bargaining. Under this analysis, a spot-contracting model of joint production is often prone to failure at worst, and inefficiency at best. It is impossible, or at least prohibitively costly, to specify a contract so complete as to leave no scope for opportunistic behavior, especially in the form of shirking through "perfunctory cooperation"—"job performance of a minimally acceptable sort" (p. 69) rather than the full use of a producer's abilities and skills through "consummate" or affirmative cooperation. Feasible external monitoring and enforcement, especially in cases of highly specialized or complex work, will generally fail to elicit affirmative cooperation.

Williamson's solution—the use of the "incomplete contract" of an employment rather than contracting relationship for interdependent production activities—is however as incomplete as the contract it describes. The means by which this produces the desired cooperative result is effectively a black box somehow associated with the nature of a hierarchical employment relation. While Williamson does identify "atmosphere" as a "quasimoral" element in individual decision making (pp. 37-38), he does not elaborate on it. This failure to articulate a convincing rationale for why and how a hierarchical or employment relationship is expected to improve cooperation by comparison with other forms of relationship was part of the basis for Granovetter's (1985) critique of the transaction costs framework. Subsequent elaborations and extensions of the transactions costs have moved at least somewhat in the direction of explanation and Granovetter's proposed social "embeddedness" approach by suggesting that the quality and longevity of personal interactions and relationships are key variables in determining whether more than minimally enforceable cooperation will be forthcoming (e.g. Hindmoor, 1998).

The empirical work of Elinor Ostrom and colleagues, although explicitly identified as based on a rational-choice approach to political economy, has highlighted some weaknesses in the ability of models of narrowly self-interested rational choice to account for individual and group behavior responses to social dilemmas. Subjects in experimental settings tend to cooperate voluntarily more and more often than predicted by conventional economic models of rationality, whether complete and thin or bounded and thick (Ostrom et al., 1994). In case studies, self-organized and self-governing institutional arrangements have proven more effective for protecting common-pool resources and maintaining sustainable levels of joint production than is consistent with the assumptions that lead Olson, Hardin, and Williamson to prescribe one form or another of hierarchy (Ostrom, 1990; Tang, 1992).

Alternative explanations for the efficacy of self-governance, while retaining the idea that individual rationality is exogenous to institutions, include the building of social capital through long-term bargaining (Ostrom, 1995); the mutually reinforcing properties of norms of reciprocity, reputation, and trust, facilitated by small group size, face-to-face communication, memories of past interactions and shared norms (Ostrom, 1998); and the existence in addition to the conventional "rational egoist" of rational choice models of at least two kinds of "norms-using players"—"conditional cooperators" and "willing punishers"—whose interactions with other individuals can give rise to the creation of cooperation and institutional innovations (Ostrom, 2000a). In all, the empirical regularity with which the "zero-contribution thesis" of neoclassical economic analysis is violated by actual behavior calls for the development of "second-generation models of empirically grounded, boundedly rational and moral decision making" (Ostrom, 1998, p. 15).

Social-Constructionist Perspectives. Alternatively, from a social-constructionist perspective on the relationship between self-interest and institutions,

> Institutions are seen as constituting the rules, defining the players, and framing the situations. The interests and identities of the principal actors are socially defined and expected to vary across place and time. (Scott, 1995, p. 137)

Thus the judgments and choices on which rational decisions are based might all be subject to the influence of institutional arrangements and the human interactions that occur within them. Further, to the extent that the social construction of knowledge through institutionalization (Berger & Luckman, 1967) serves to simplify individuals' decision problems by providing a set of routines, typifications, or logics of appropriateness that conserve scarce attention (see Simon, 1978) by prescribing actions through simple logics of appropriateness rather than more laborious logics of consequences, doing what is "right" or "good" in a situation may be a taken-for-granted response rather than the result of a calculation.

Within a social constructionist perspective, then, rationality itself can be seen as an institutionally specific social construct, based on actors' identities and interests which are themselves constructed within particular institutional arrangements. Thus alternative institutions may have distinctive rationalities associated with them. At one level, this yields an argument that familiar rational choice models are relevant only within the subset of institutional systems "that constitute individual social actors as possessing private interests and the capacity to take action to protect them” (Scott, 1995, p. 140). For example, Jessop (1998) suggests that self-organized governance, as a form of social coordination distinct from markets and hierarchies, is associated with a “reflexive rationality” which can build solidarity among participants, and so reduce transaction costs and opportunism compared to the other forms.

At a more specific level, a constructionist view of rationality might also lead to the proposition that different institutional designs for local collective action—such as external versus self-governance—might also create distinctive local models of rationality. Network structures at a local level have been associated with increased goal congruence (Ouchi, 1991) and broadened conceptions of self-interest (Powell, 1991) among interdependent actors. Might part of the solution to Ostrom’s puzzle, then, be that self-governance causes rationality and self-interest to be defined in a way that promotes consummate rather than perfunctory cooperation?

A mixed model. The social-realist, design-oriented frameworks for analyzing institutional arrangements have considerable descriptive and prescriptive value. The applications by Elinor Ostrom and colleagues of their institutional analysis and development framework (IADF) also identify a relationship between self-governance, but appear unable to account for it. Williamson’s (1975) discussion of vaguely specified human factors and atmosphere, and Ostrom’s recent (1995; 1998a; 2000) formulations of trust, norms, and social capital, could be seen as suggesting that a more constructionist perspective may be needed if we wish to explain such phenomena as consummate cooperation and the efficacy of self-organization. Approaches to institutional analysis which incorporate the cognitive and normative elements of institutions illustrate the relationship between social coordination and the social facts and actors’ identities generated by institutionally-governed interactions, but are less concerned with identifying design principles for the prescription of institutional configurations.

An alternative, synthesizing approach to institutional analysis, explanation, and design thus might consider the complementarity of the normative and cognitive elements and effects of particular institutions in addition to the regulative features of institutional design. That is, we might look toward cognitive and normative implications of self-governance as explanations for the apparently greater efficacy of self-governance as an institutional design strategy in collective action settings. Perhaps the quantitatively and qualitatively distinctive participant interactions and obligations associated with self-governance have consequences for the identities and rationalities of the actors, and the deliberative and practical logics that drive decision and behavior. A number of examples may be cited of analyses that provided satisfying explanations of behavior by allowing for the possibility both of externally derived, self-interested rationality and calculative logics and of institutionalized values and beliefs (DiMaggio, 1991; Galaskiewicz, 1991; Klijn, 2001; Searing, 1991).

Scott (1994) proposed a synthesis of competing approaches to the analysis of institutions, which incorporates normative and cognitive rules in addition to the regulatory or “enforcement mechanisms” analyzed by the IAD framework. In this synthesis, institutions shape behavior, action, and social action by “defin[ing] a common meaning system and giv[ing] rise to distinctive actors and action routines” (p. 68). They do so by means of representational rules, constitutive rules, normative rules, and enforcement mechanisms. Enforcement mechanisms here are both formal and informal, involving monitoring and the application of incentives and sanctions for behavior (regulative and normative). Representational rules (cognitive) employ “shared logics or modes of reasoning that help to create shared understandings of reality that are ‘taken for granted’” (p. 67). Constitutive rules (cognitive) define social actors and identities, and their interests and capacities. Normative rules “stipulate expectations for behavior that are both internalized by actors and reinforced by the beliefs and actions of those with whom they interact” (p. 67).

Scott’s proposed synthesis suggests that the multiple, analytically distinguished elements of institutions are in practice intertwined and interdependent, and that strategic rationality and practical action are also part of the configurations of institutional properties that are relevant to structuring processes, behavior, and results. In addition to the rules (enforcement mechanisms) specified by the IADF, then, a design-oriented attempt to analyze the cognitive and normative as well as regulative components of institutions should also take into consideration the institutionally-shaped construction by actors in a collectivity of their identities and interests, normative expectations for behavior, and taken-for-granted beliefs about reality. The scope of analysis would include the actors’ normative deliberation and non-deliberative logics of appropriateness; cognitive constructions of reality, decision framing, and automatic as well as deliberative cognition (DiMaggio, 1997); as well as the more regulative and structural characteristics of institutional design, as parts of the overall institutional configuration to be examined.

Reconstructing Rationality on Main Street

Efforts to revitalize older downtown and neighborhood commercial districts introduce a variety of collective action and coordination problems in the course of attempting to adopt some of the place–management techniques and competitive advantages of the single-owner shopping center or office park to multi-owner locations (Table 2). Tasks of revitalization include providing organization as well as services such as security, sanitation, design, promotion, marketing, and economic restructuring. These are aimed at achieving both what we might describe as "hygiene factors"—the perceived safety, orderliness, and cleanliness of an area—and "motivators" such as visual attractiveness, convenience, agglomeration or "gravity," and the perception among consumers or potential office tenants that a place is a destination worth traveling to. Figure 2 provides a schematic representation of some of the activities by each set of participants and by the revitalization organization (or other coordinator) that contribute to the management of place.

<Table 2 about here>

<Figure 1 about here>

<Table 3 about here>

This involves four types of collective action problem for the interdependent business-sector (property owners, merchants, office tenants, etc.), and public-sector stakeholders and contributors to the creation and management of place. Table 3 summarizes the collective action concerns. Many of the physical and perceptual qualities of place that allow businesses to attract employees and customers, and landlords to attract tenants, are local public goods, jointly consumed and (at least up to the point of congestion) not subject to exhaustion., as is the revitalization organization and the collective services it provides. Security and sanitation services provided to public spaces are examples. The market demands for goods and services and for commercial space are jointly consumed but exhaustible and so analogous to a common-pool resource (CPR). This requires the pursuit of efforts to expand market areas and demand for space but also the management of business mix, merchandise selections, and the supply of building space. Generally speaking, a regulatory, Pigovian-tax, or property-rights solution may be considered to solve CPR problems in an abstract, neo-classical framework.

There are also two classes of problems of joint provision of place involved in revitalization: coordinating individual operators' and owners' practices and securing their involvement in collective activities. Examples of the problem of coordinating individual practices of production include the coordination of business opening hours in order to reach a threshold needed to attract people to a retail destination[2] or encouraging business operators and property owners to maintain visually attractive building facades and display windows. Finally, there is a collective provision problem that involves jointly produced goods such as involvement in revitalization planning and participation in special events.

In single-owner places, all four forms of coordination are typically achieved through uniform ownership and by contract. Lease terms require financial contributions to common area maintenance (CAM) costs, regulate merchandising and advertising practices, and dictate the appearance of windows, signage, and facades. A single owner further has control over the amount of space constructed and leased. In traditional, multiple-owner business districts, however, neither the contractual nor property-rights solutions are typically available on a place-wide basis. The use of special assessments can provide a coercive solution to the problem of financing jointly consumed local public goods, and adept zoning could conceivably address some aspects of the CPR problem by limiting the volume of space of particular types, but it is less clear what local governments could do to solve the problems of joint provision, since they are less amenable to coercive finance or regulatory solutions.

The use of business improvement districts (BIDs) is one possible institutional design for solving all four components of collective action for business district revitalization. BIDs typically combine the coercive financing of special assessments with non-governmental

[2] This particular example can also be understood as a kind of network externality problem from the perspective of individual business operators. If only one or two businesses open in the evening, for example, it is unlikely to draw many shoppers or visitors, and those consumers will go elsewhere.

governance and implementation structures (nonprofit corporations are common). Practitioners generally describe this combination of self-governance with coercive finance as the explanation for the popularity and presumed effectiveness of BIDs in revitalizing business districts. Coercive finance is plainly a solution to the free-riding problem associated with the Olsonian logic of collective action, solving the problem of local public goods. Most BID practitioners and stakeholders are conscious of this aspect of the BID design. It is not an institutional design intended to solve problems of market exhaustion or joint production, however. Perhaps we can turn to the self-governing aspects of the BID design as a solution to those problems.

Explanations for the presumed efficacy of self-governance in BIDs often rely on the presumed inherent superiority of business and nonprofit organizations to governments. Thus for example, one Manhattan BID director described BID managers recruited from government jobs as “pod people” incapable of thinking creatively or entrepreneurially and therefore unfit to manage BIDs (personal communication, 1998). As we have noted, however, the administrative organization and staff of BIDs cannot by themselves solve all of the collection action problems associated with the management of commercial districts. In the absence of additional forms of regulation or allocations/reservations of property rights, solving these additional problems will require some measure of uncoerced cooperation, beyond mere contributions to the purchase of collectively consumed goods is required.

An alternative hypothesis—for which I argue here—is that the use of self-governing arrangements facilitates additional affirmative or "consummate" cooperation by at least some stakeholders. Such an effect would be consistent with Elinor Ostrom's empirical findings, and with the models of institutionalization advanced by social-constructionist perspectives. Specifically, we can hypothesize that the interactions and practical experience associated with participation in self-governance as well as exposure to the propaganda typically generated by BIDs and other business- or community-led revitalization efforts lead stakeholders—business operators and property owners in particular—to form judgments—about their identities, interests, situations, and causality—that increase the degree to which they understand affirmative cooperation as instrumental or appropriate to the pursuit of self interest. A complementary hypothesis is that the use of coercive finance conserves active participants' time and attention, and establishes an objectively and subjectively different cooperative environment which is more conducive to stakeholders’ making uncoerced contributions.

Self-Governance, Collective Action, and Individual Rationality in Four BIDs

To test the hypothesis that self-governing business improvement districts cause stakeholders in effect to “think different,” I use data collected in 2002 and 2003 for a comparative case study of four BIDs in New Jersey. The four BIDs were selected to be similar to each other and reasonably close to statewide and national medians in BID founding dates, geographic scope, number of business stakeholders, and budget. All could appropriately be classified as “Main Street,” rather than “corporate” or neighborhood, BIDs (see Rogowsky & Gross, 2000). They differed, however, in their forms of governance. New Jersey law permits broad discretion on the part of municipal governments concerning the designation of BIDs and the designation and form of the district management corporations (DMCs) that administer BIDs. Thus the sample of BIDs included variations of both self-governing and externally governed cases. Table 4 summarizes selected characteristics of the cases. Data collection encompassed organizational and governmental records, documents, artifacts, direct observation, secondary sources, and personal interviews (see Yin, 2003). The study was a voluntary-response design at both the case and individual-respondent levels of observation.

<Table 4>

For present purposes, I will rely most heavily on analysis of 55 in-depth, semi-structured interviews conducted with 52 respondents (some interviews involved more than one respondent; some respondents were interviewed more than once), especially the interviews with 38 business stakeholders across the four BIDs. Table 5 summarizes selected characteristics of the interview respondents. Potential respondents were identified through a referral method as well as through the researcher's observations and review of records and documents. The intentional selection of interview respondents emphasized stakeholders who were or had once been salient in their support of or opposition to the BID-centered revitalization efforts, with greater emphasis on revitalization participants. Of 140 potential respondents in the full sample frame constructed for selecting interviewees, 58 of 64 specifically targeted individuals were successfully contacted. Of the 58, 49 consented to in-depth, face-to-face or telephone interviews, most of which were tape recorded and later transcribed, while three cooperated with briefer interviews. All interviews were confidential as defined by the sponsoring university's institutional review board.

<Table 5>

Identities and Interests

Part of the difference between the self-governing BIDs F and R, and the externally governed BIDs S and U was in the way business people articulated their conceptions of themselves and their interests as operators of businesses and owners of property. In all four BIDs, the dominant business stakeholders were self-consciously independent business people, and typically not residents of the towns in which their businesses were located. Revitalization participants and observers in F and R, however, recounted that participatory governance, task-oriented interactions in volunteer activities, and systematic outreach associated with the campaigns to create the BIDs all caused stakeholders to understand their interdependence and to reconceptualize their roles and interests. Similar effects were apparent among the much smaller groups of active revitalization participants in S and U, as well. Thus many stakeholders adapted their self-conscious independence to accommodate or embrace interdependence and shared understandings.

Independent business people. The great majority of business stakeholders—merchants, professional-services providers, landlords, and others—in the four studied BIDs were independents. There were very few chain stores, and nearly all commercial landlords were entirely local, even those with substantial holdings in a single BID. Although their educational and experiential backgrounds varied considerably, most of the business operators described themselves and were described by others as independent-minded “entrepreneurs.” One participant summed up the typical orientation this way:

> What you’re talking to is entrepreneurs. You are talking to people maybe who are second and third generation in the business. And nobody told their father what to do, and nobody told their grandfather what to do, “and you’re not telling me.” They’re independent store owners. If they weren’t so independent, they’d be in the mall. (Respondent #15)

Several business operators volunteered that they and others in the CBD chose their occupations, and the downtown rather than mall location, in large part seeking to enjoy greater independence and occupational self-determination. "I don't think you can dictate" specific business practices such as hours of operation to businesses, said a participant in BID R, “It’s not a mall. Everybody’s an independent” (Respondent # 32). This was true of property owners as well: “In [district S], you have all these landlords, and every one is an individual. They’re concerned about their particular properties, [and] not the whole picture" (Respondent #13). In fact, many of the newer generation of business operators in all four towns had some professional experience working in larger organizations, but had selected the more autonomous role of independent business operator. Several respondents, including those deeply involved in cooperative revitalization and business development efforts, were at pains to assert to the interviewer their independence of behavior and public speech.

Merchants don't vote. Further, it is a truism in small-town and suburban New Jersey that "merchants don't vote." Many business people reside in one of New Jersey's 566 municipalities but have their commercial interests, whether as landlords or business operators, in a different town or towns. Additionally, all of the cases studied here serve regional markets, drawing significant trade from beyond the borders of the municipalities in which they are located. While the immobilization of their capital might foster local dependency (Cox, 1993), therefore, it would not necessarily in and of itself lead to a normative or emotional commitment to place.

Co-investment, consensus, and cooperation. There would appear to be every reason to consider the actors in these business districts unlikely to cooperate or contribute voluntarily, based on these identifications and self-identifications of independence and dissociation from place. Yet most of the active revitalization participants interviewed in all four BIDs described strong attachments and loyalty to place and identifications with a place-based group. A number of them recounted processes of transformation in their own and/or others' conceptions of self and interests, arising from repeated interactions associated with BID governance and operations. According to one of the early activists in BID F, "You know we all had invested. . . . It just moved forward, we got more people interested, and involved, and there was a real good camaraderie going about it" (Respondent 18).

In all the cases, business people formed much of their understanding of their businesses' operating environments, their own identities and interests, and the appropriateness of revitalization strategies and individual business practices through face-to-face interactions. These interactions were more intensive and more widespread in the self-governing districts, where task-oriented DMC committee work and deliberation over revitalization strategies were important settings for interaction and the development of shared understandings and identities among activists and other stakeholders, and where awards and recognition were used as non-material incentives to cooperate. In these BIDs particularly, revitalization activists tended to express bonds of loyalty, identification, and "camaraderie" with other activists that grew out of their repeated deliberations and task-oriented interactions.

This redefinition of identity and interest was encapsulated by an informant's observation that structured interactions among participants in self-governing BID F had led to widespread agreement on goals and strategy, as well as to new understandings by participants of their interests and identities as business people:

> "Consensus is a matter of . . . learning how to do it. . . . If you don't have some kind of an organized approach, when you're making decisions as a business person, your interests are totally selfish interests. You're totally within yourself . . . . I find that now, when people are talking about doing building improvements, they want to get into joint advertising programs—like the restaurants here now, instead of each one of them competing against each other, they realize the more people they bring downtown the more business they all do, and so you have restaurants in town who are looking out for other restaurants, to see that they're successful, to help them along with their advertising—they actually help each other. I mean. You wouldn't have that without some kind of a group feeling . . . (Respondent #18)

The construction of shared identities and frames of reference in the self-governing cases did not necessarily produce complete agreement on revitalization strategy and procedures, however. Every case, including Freehold and Red Bank offered evidence of past and present disagreements, often rancorous, over what to do and how to do it. Strategic choices, the selection of events and activities, and governance procedures were all matters of at least some dispute in every instance. The self-governing DMCs, however, showed more evidence of success in incorporating dissenting individuals into constructive engagement with the collective enterprises.

I've taken it much more seriously than I thought I would. This remark was offered as a bemused confession at an annual meeting by BID R's board chair, a highly sophisticated owner and manager of numerous commercial properties in fully managed shopping centers in New Jersey and other states, as well as in this downtown. This individual certainly required no education in the facts of retail and commercial real estate, and was unable when interviewed to recall a single item of general craft knowledge learned locally. He did, however, in an interview and in other contexts reveal—mostly indirectly—that he had developed a strong loyalty to place in the form of an attachment to community beyond any local dependency that arose from the immobilization of his and his partners' capital on the main street. For example, one of his initiatives as chair had been to get volunteers from the business community involved in efforts to aid the municipality's public school system. Although he had after investing in the town become a resident and parent there, there was no reason to believe that he or the primarily wealthy customers of his tenants were particularly dependent on the public schools, since they could easily afford to send their children to private schools. Similarly, many of the active participants in district F expressed ardent commitment to the larger municipality surrounding the BID as their "hometown." This included even those who formerly but no longer lived there and some who had never lived there at all.

How to Succeed in Business

The elements of collective action for revitalization include payment for jointly consumed benefits, participation in collective production of jointly consumed benefits, and pursuing individual practices that are complementary to the efforts of other individuals or the group. The case studies here turned up evidence to support the hypothesis that the repeated interactions associated with participation in revitalization planning and implementation fostered a belief in the necessity of collective production to private interests. There was less evidence, however, of widespread effects on behavior, especially when cooperative behavior would bring with it significant costs.

A corollary to participants' understanding that their identities were appropriately those of co-owners, co-investors, and co-producers—rather than consumers—of a healthy downtown was their belief in the necessity and efficacy of actively participating in collective activities. Asked to identify important requisites to success in business, informants in the self-governing BIDs were more likely to identify participation in organized collective action and informal networks of cooperation. Within the interview referral networks in R and F, business people who didn’t accept the place management premises tended to be singled out as unusual by the others. Informants from BIDs R and F frequently seemed embarrassed about their non-participation (or even reduced participation) in collective efforts, and tended to volunteer explanations for their divergence from an implied or expressed norm of cooperative action. In the externally governed BIDs, respondents appeared to experience doing business as a more individual endeavor. In BIDs S and U, non-participants were on average more matter-of-fact and unapologetic about not contributing to collective efforts.

Voluntary contributions by stakeholders to revitalization efforts were notably greater in the self-governing districts. Sponsorship levels, contributions to the maintenance of planters, and contributions of stakeholder time and attention for BID governance, collective projects, and monitoring the work of contractors and other stakeholders were greater in the self-governing BIDs. The self-governing BIDs also showed greater movement toward joint purchasing, tenant referrals, and other forms of direct inter-business reciprocal cooperation among participants. This cooperation grew out of the interactions and relationships associated with BID projects, according to informants in BIDs F and R.

On the other hand, costly participation in events and activities, hours of operation, sidewalk sweeping, and landlords' tenant recruitment practices were less obviously associated with governance. Rates of participation in street fairs, cooperative advertising, and extended business hours were somewhat higher in the self-governing SIDs, but appeared to respond primarily to factors other than governance. Discounts and subsidies were used to increase event and advertising participation rates in both self-governing and externally governed SIDs. Widespread adoption of uniform evening and Sunday operating hours by non-restaurant businesses was evident only in R, and informants described this pattern as being largely driven by market conditions and tenant turnover rather than by changes in the beliefs of established business people. No gross visible differences in sidewalk cleaning by merchants were evident among the places studied, although merchants in the self-governing BIDs were more likely to express a belief that they and their neighbors ought to be sweeping and cleaning, compared to respondents in the externally governed BIDs. Landlord cooperation in efforts to recruit complementary or CBD-enhancing tenants was reported to be very limited in every case, driven primarily by economic circumstances and individual landlords' business models. Uncooperative parking behavior by business owners and employees was reported to be fairly widespread everywhere.

In every case, the tendency to cooperate was strongly associated with active participation in DMC governance and activities. Even in the externally governed SIDs, board members described feelings of obligation or commitment, and demonstrated observably cooperative behavior. Some explicitly remarked that as a result of their positions they felt obligated to lead by example, and so engaged in more cooperative behavior than they otherwise would have. The self-governing SIDs did appear to produce somewhat greater degrees of spillover of cooperative action from activists to others, however, probably as a result of their larger numbers of activists.

Narratives of transformation. One striking difference between self-governing and externally governed cases was in the widespread dissemination of common narratives of causality and agency among stakeholders in the self-governing SIDs. In both R and F, participants offered accounts that varied in their details but consistently embodied the same major themes of cooperation, renewal, innovation, self-efficacy, solidarity, pride in place, and pride in both collective and individual accomplishments. In each case, the narratives explained how business-led, government-facilitated cooperative efforts succeeded in saving the town by bringing independent competitors together to work toward the common good. Each narrative incorporated three core elements: that business people and other stakeholders were understood to have faced a shared problem in the form of actual or imminent harm to the downtown; that those stakeholders then worked together to solve the problem and save the downtown; and that learning how to work together and how to adopt new, contemporary models of individual and collective business practice were important mechanisms of transformation. No such narratives were in evidence among informants in the two externally governed BIDs.

The new ways of doing business implicated in these explanatory narratives were largely premised on a taken-for-granted acceptance of the premises of a place-management model of downtowns and doing business in them, and the assumption that place creation and management are responsibilities shared by business actors and local governments. While business people often emphasized their independence and entrepreneurial outlooks, interview evidence revealed that they also tended in the self-governing cases to understand their business-related identities and interests as bound together with a place-based collective identity and the responsibilities that implied. Some activists in the self-governing BIDs related personal histories in which they explicitly described being transformed from isolated individual business operators into members of a larger business community through their participation in revitalization activities.

Learning to Look Out for Number One

Where does economic rationality come from? Do individuals innately have both a consuming desire to maximize profit and the knowledge of how to realize that end? Revitalization activists and other salient stakeholders tended to evince great interest in and enthusiasm for their own businesses, and nearly all interviewees happily talked at length about their ideas concerning their own specific businesses (and the many excellent qualities thereof!) and business in general. “I always wanted to be in business,” said one (Respondent #44). Business actors also consistently emphasized that “commitment,” “passion,” and willingness to work hard were fundamental requirements for success in the “total burnout business of retail” (Respondent #31; Respondent #48; Respondent # 46). One explained that the kind of effort associated with seven-day workweeks and long hours is part of the job description: “If you want to be in business, that’s what you have to do. . . . If you’re a sole proprietor, and you’re successful, you're not normal" (Respondent #44). Interviewees who were uninvolved and even hostile to the BID organizations and activists were no less likely to demonstrate pride and enthusiasm in explaining how they did business and what was important to them as business people.

However, the individual enthusiasm and pride shared by many of the business people in the sample is not by itself sufficient to ensure success in business. For those of us who are members of or have contact with schools of management, it should be no surprise to hear the assertion that business rationality is at least in part learned, rather than instinctual, even for many business people. One member of the committee supervising the Ph.D. thesis on which this piece is based was incredulous when I explained to her that the mom-and-pop business people who dominated the business districts in my sample might often need to be coaxed or convinced to open evenings and Sundays, or to engage in other practices designed to improve their own returns from business operations. Wouldn't rational business people seek to take advantage of opportunities to increase profit, even if they were satisficers rather than single-minded, ruthless maximizers? As luck would have it, another of her students was present, who happened to be the manager of a New York City BID. "Merchants!" he exclaimed, shaking his head.

In fact, consultants, volunteers, and retail district managers tend to find that independent retailers have historically been slow to adopt place management concepts and even many professionalized approaches to retail management, such as opening for the evening and Sunday hours when a majority of retail sales are made in the U.S.[3] Thus a number of merchants are not fully rational to the extent that economic rationality is defined by the more or less systematic

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[3] In all of my cases, as well as in the business press at the time, observers were commenting on the generational changes among independent merchants, however. Small-scale retail was apparently changing in at least some markets from a business for those discriminated against by corporate employers or unwilling to work to others into a business pursued by entrepreneurs who were interested in retail as a preferred occupation. This newer generation of retailers displayed greater enthusiasm and attention to systematic management of their businesses.

pursuit of profit maximization, even insofar as relatively narrow self-interest is concerned, let alone problems of collective action. One of the common activities of commercial revitalization efforts therefore is to teach business people to be more "businesslike"—more motivated to increase profits and more capable of forming more effective judgments about how to accomplish that end. This can and often does take the form of structured training sessions and educational materials. It often occurs more subtly and more effectively, however, through peer interactions and mutual observation. The work of creating and maintaining self-governing BIDs can foster increased levels of this institutionalization of economically rational beliefs and practices among participants both by promoting extensive peer interactions and by conserving and directing the attention of participants.

Hitting the Mule with a Stick

The elements of coercive finance and self-governance in the BID design are complementary in at least three ways. First, the mandatory payment of a special assessment even when relatively modest in amount (see Table 4) directs the scarce attention of the business people and landlords liable for payment toward the BID and its activities. "It's like hitting the mule with a stick, you know?" (Respondent #15). This creates an opportunity for engagement potentially leading to the reconstruction of rationality. Second, solving the basic collective-action problem of financing joint consumption in this way frees up the attention of volunteer activists or staff for strategy and persuasion rather than fundraising. Finally, since "nobody wants to be a sucker" (Ostrom, 1990), the evident fairness and reliability introduced to the situation by coercive finance will influence the judgments actors make about the situation and the likely behavior of interdependent others.

Come put your mouth where your money is. In BID F (self-governing), participants in the revitalization effort described a self-conscious process of building shared understandings through goal- as well as task-oriented dialogue and practice. Participants who had been involved in the early days of the BID recalled in interviews their efforts to recruit their most vocal antagonists onto the DMC board. In at least a few cases they took advantage of the fact that the imposition of mandatory assessment payments had got stakeholders' attention.

> But initially, yeah, we had people who were opposed to it because they had to pay extra taxes, how was the money [going to] be utilized. And that in itself generated interest. Some of the people got on the board who were opponents . . . and they were there to make sure that we didn't do anything wrong. Most of them either . . . dropped off the board after a couple years, because they realized nothing bad is happening, or they stayed on and became advocates. (Respondent #18)

> Our biggest critic, when we first started, we put on the board of directors. . . . one of the two people that instigated a lawsuit against the SID . . . . We said—soon as we got it passed, we said, "Fine. You're an intelligent person. You be on the board. Come put . . . your mouth where . . . your money . . . is." And he accepted. Within six months, he was our biggest advocate. He was able to see how it—and he was the one we would send out to other towns, when they asked for a representative, because he had seen it from both sides of the fence. Here, his name was on the lawsuit trying to prevent it, and now he's vice president of the organization. (Respondent #10)

Activists in BIDs F and R described the central importance of consensus and of the deliberations that help to form that consensus, in a way that suggested that face-to-face deliberations promoted the development among participants of shared depictions of reality and of their mutual interests.

> You know, consensus is a very important thing in the development of an area. You have to get people all looking to accomplish the same thing. They may have different ways of getting there, they may rate things differently as to what's most important and all that, but at least you wind up with a pecking order of five or ten objectives that are doable, if you get behind them. And if you get everybody behind them, they're gonna happen. It's gonna happen. One way or the other, it's gonna happen, because people believe, they make it happen. And consensus is very important. (Respondent # 18)

Nobody wants to be a sucker. Recalling the early history of creating a BID in the wake of competing voluntary associations, participants in BID R (self-governing) explained that the voluntary associations had been weakened not only by lack of funding, but also by the resentment of free riders by those contributing time and money, which left them feeling like suckers and “ready to kill. . . . Wars, personality battles. They would hate it” (Respondent #31). The SID provided a more equitable distribution of the financial burden, and through its participatory structure linked the ability to influence decisions to additional contributions of effort. “Nothing is totally idyllic, but I think it’s the closest we’ll ever see to it” (Respondent #30).

The case studies suggest that self-governing BIDs are in some ways distinctively effective institutions of collective action for CBD revitalization, not only because they overcome free-riding by rationally self-interested actors but also because they stimulate interactions and understandings that can transform individual rationality. In addition to mobilizing a basic level of resources through special assessments imposed on benefitted business interests, they cause participants to develop understandings of themselves, their interests, and their situations that lead them to greater cooperation. Through more intensive, widespread, purposive, face-to-face interactions, participants in self-governing SIDs constructed understandings of their identities and interests that made cooperation both a natural-seeming way to serve their own interests and an inherently rewarding activity. These self-understandings were reflected in the language of commitment, investment, pride, loyalty, and camaraderie, and were both expressed and reproduced through explanatory narratives of self-organized revitalization. Self-governing BIDs empowered stakeholders to achieve generalized collective benefits not only by requiring compliance in order to mobilize resources for the provision of collective goods, but also by reconstituting and mobilizing self-interested rationality toward affirmative cooperation in the production of collective rationality.

Limitations

How confident can we be that reconstruction of rationality fostered by interactions associated with self-governance was a determining factor in creating cooperation among stakeholders in the cases? A few complementary and potential alternative explanations are worth discussing at this point. These include the potential influence of distinctive local cultures and participants and boundary rules at several levels of analysis.

As a post-test-only design, the comparative case study here is subject to the possibility that causality in the cases might conceivably have run from local culture and individual predilections to institutional form, rather than vice versa. Pre-existing common understandings about participants' identities and interests might have led to the choice of self-governing SIDs in R and F. While this possibility cannot be ruled out with perfect certainty, there are some good reasons to argue that even if it does hold, it does not disprove the premise that self-governance promoted cooperation. First, previous business activism in the cases was not directly tied to institutional design: business people organized the self-governing SID in F, but S had a long history of business associations that did not result in a self-governing form, and R's self-governing SID arose out of an initially government-organized initiative. Second, participants' accounts consistently described alterations of beliefs and behaviors following involvement in deliberations and activities structured by the self-governing SIDs. Finally, in light of considerable business turnover over time in every district, some mechanism of reproduction would be required to sustain any distinctive local culture by indoctrinating new entrants, so that even if the institutions were not responsible for initial production they would have to have reproduced the cooperative, self-help culture in order to sustain it up to the time of observation.

In all four cases, both default and constructed boundary rules at multiple levels appear significant in shaping CBDs and their cultures. The entry of entrepreneurs into downtown property development and visitor-oriented lines of business is governed largely by a default, or institutionally exogenous, rule. A number of observers have remarked that the last decade has seen the entry of a new generation of more sophisticated and more aggressive retail and restaurant entrepreneurs (Berne, 2003; Martin, 2003; R. Reenstra-Bryant, personal communication, August 5, 2002). Second, even in the cases where DMCs are active in business recruitment, businesses' entry to and exit from specific CBDs is powerfully influenced by property markets and demographics. Rents and market demographics can create differential attraction of innovative, aggressive, and cooperative entrepreneurs to CBDs. Within CBDs, however, boundary rules governing entry to and exit from institutional participation were observed in the cases here to be critical determinants of the extent to which available human capital is exploited, reproduced, and used to generate social capital. All of the districts had solid pools of entrepreneurial talent and enthusiasm, but the self-governing districts were more effective in capitalizing on those resources by maximizing inclusion and by linking the local social status associated with insider positions to productive contributions.

Additional limitations to the case studies involve their representativeness, both with respect to BIDs as a category of institutional arrangement and with respect to institutions of collective action more generally. All four BIDs were Main Street BIDs situated in affluent suburban market areas. The operational contexts and implications of neighborhood BIDs and corporate BIDs are significantly different, and the largest BIDs in particular may have different operational requirements for the production of collective benefits. Additionally, the study was designed to test the responses of business stakeholders to institutional arrangements, and did not attempt to examine directly the important questions of power, accountability, and equity raised by BIDs and other forms of government-supported self-organization of particular interests.

Additionally, the setting for the cases also involved collective action involving the livelihoods of small business people, who could be expected to have relatively homogeneous interests and to be immediately conscious of the costs of failure and the benefits of success. Efforts to achieve cooperation among more diverse actors with more contested goals and a less immediate sense of the material consequences of their collective response (public education might be one such setting) might be less responsive to institutionalization. Even in the small and homogeneous settings examined in this research, informants consistently pointed out that the door-to-door recruitment necessary to organize and maintain self-governing SIDs was exhausting and that the time demands of continuing face-to-face interactions could be difficult to sustain even when inherently pleasurable.

Conclusion: Reconstructing Rationality

One way of solving the riddle of the efficacy of self-governance is to accept rationality as being at least partly endogenous. Even though my research subjects were business people, their initial rationalities—even their judgments about ends—were hardly uniform. But participating in governance and in planning and executing collective activities, and for non-participants being exposed to peer pressure, influenced the self-interested rationality of a non-trivial number of stakeholders. Individuals came to understand their own identities and interests differently and to form different judgments about the desirability of ends and the usefulness of alternative means to those ends. In particular, they formed understandings that tended to foster cooperation. At the same time, however, social realist explanations can account for many of the observed effects of the BID cases. Both the coercion prescribed by social realist approaches and the institutional influence on individual understandings of self and external reality influenced individual and collective beliefs and behavior in the cases examined.

Inside the Black Box

The social realist perspective helps to identify the regulative effects of the self-governing SIDs in promoting collective rationality by reducing uncertainty. Through repeated face-to-face interactions and communications, participants in institutionally structured deliberations and activities developed trust. Familiarity reduced uncertainty in individual decision making for stakeholders, who became more confident in their ability to predict others' behavior. Participants' accounts of developing trust through participating in institutionally structured deliberation and other interactions in the self-governing cases described a process of mutually reinforcing trust, reputation, and reciprocity similar to the one posited by Elinor Ostrom (1998).

Also in keeping with Ostrom's findings, business people in all four cases displayed a strong preference for and attentiveness to direct, face-to-face communications. Information from other sources, such as flyers or informational letters, tended to be discounted if it was attended to at all. In the externally governed SIDs, face-to-face communications occurred on the basis of relatively fragmented proximity- and affinity-based interactions. In the self-governing SIDs, participation in CBD-wide deliberation and activities promoted broader and more systematic face-to-face interactions. Thus, actors' mutual familiarity and trust extended more widely, and the spread of information was broader, more consistent, and less subject to the distortion caused by indirect transmission through sequential relays.

The mandatory assessment feature common to all of the SIDs further reduced uncertainty for decision makers, of course, and promoted collective rationality in keeping with the classic logic of collective action. Resource availability was greater and more reliable, and contributors no longer had to fear that they would be “suckers” for contributing time and money. This was particularly evident in the accounts of long-time activists in Red Bank, who uniformly recalled both the pre-SID unreliability of purely voluntary financial contributions and the bitterness and anger engendered by widespread free riding there.

A constructionist perspective on institutions and practice helps to elucidate processes of cognitive and normative institutionalization that operated in tandem with the regulative effects by reducing ambiguity for decision makers. Participants in the self-governing SIDs constructed—and then further disseminated through further interactions with other stakeholders—cognitive rules that constituted knowledge about revitalization technology and its relationship to their individual and collective identities and interests. This generated what might be called “spatial capital” (Blau, 2000), as participants came to take for granted as an objective reality a conception of themselves as members of groups identified by and sharing interests defined by place. The basic premises of place marketing were accordingly established as defining an approach that would serve the interests of both the group as a whole and its members individually. Narratives that described how the participants saved their (down)towns through self-help and cooperation served both to make sense of these processes retrospectively and to reinforce the logics associating cooperation with collective and private benefits.

Systematic, direct interactions in self-governing SIDs further generated cognitive and normative rules that served to define inherently appropriate conduct for downtown business people and other actors. Thus participants in the self-governing SIDs developed loyalty to place, to the group, and to other individual participants that led them to contribute to group efforts and direct mutual assistance, because that was simply what they should be doing. Pitching in to group efforts, or offering aid to another business person, might be rationalized after the fact as interest-serving, but accounts strongly suggested that cooperative behaviors often responding to more automatic logics of appropriateness. Similarly, business and government participants formed accepted understandings of their respective positions and appropriate responsibilities. Again, the collective narratives played a role, serving not only to describe and explain, but also to perpetuate the agreed-upon and taken-for-granted values, in a cycle of externalization, objectivation, and internalization (Berger & Luckman, 1967).

Informants' accounts of how business practices were learned illustrated the interaction of calculative and practical reasoning in guiding action. While many of the newer business people in particular identified professional training or prior research as sources of at least some of their business knowledge, most subjects reported that they had learned to manage their businesses primarily through practice and by imitating others. Virtually all knowledge of how to work cooperatively for revitalization was gained by practice rather than calculation, although practically acquired knowledge usually was later reconstructed and justified from a rational interest-maximizing perspective as well. Similarly, accounts of how businesses came to adopt practices such as evening hours included calculative rationalizations based on making money, but also revealed processes of mimetic and normative isomorphism (DiMaggio & Powell, 1991) at work. Stakeholders adopted new business practices in simple imitation of apparently successful neighbors, or in response to the examples and exhortations of other actors encountered in casual or institutionally structured interactions.

These mimetic processes appear to be the basis for self-governing-SID activists' tendency to talk about the broad "spirit" that had been achieved in their CBDs. Activists came to adopt new practices reflecting beliefs acquired through participation in the revitalization efforts. More instrumentally, some stakeholders made facade and signage improvements in response to incentive programs. These practices were then spread to some extent by less systematic means, through normative isomorphism advanced in extra-institutional networks of affiliation and through simple observation and imitation of apparent business success. Thus cooperative practices can spread beyond the ranks of direct participants in institutionally structured activities, but the extent of the diffusion will still be in large part a function of the number of direct institutional participants.

Implications

The present study is more suggestive than conclusive. Its limitations point to a number of directions for future research, including investigations of other types of BIDs, BIDs in other national contexts, and institutions other than BIDs; investigation of corollary questions of power, accountability and equity related to BIDs and other polycentric and partnership forms; and longitudinal studies designed to determine causality more conclusively. It nevertheless has some immediately useful implications.

The malleability of self-interested, economic rationality has implications for institutional research and practice. In the academy, social-realist explanations are powerful, parsimonious, and lend themselves to use in an extensive prescriptive and design-oriented literature of institutional analysis. Social constructionist perspectives add descriptive accuracy but at the cost of muddying up the models, and have not generally been used to articulate prescriptions for institutional design. Mixing the two approaches is perhaps the science of "undisciplined mongrels" (Rodgers & Rodgers, 2000), but the mix offers a plausible solution to the riddle of self-governance, and so may be useful for carrying forward the craft of institutional analysis and design.

Coming full circle to the work of Elinor Ostrom, this perspective on rationality and self-interest underscores the relevance of concerns about that a self-fulfilling prophecy is enacted by institutional designs that limit the activities of citizenship to those of consumers and subjects rather than presuming citizens to be co-producers of governance (Ostrom, 1998). Among the four cases, the sponsors of BIDs S and U did not systematically seek broad consensus or participation by stakeholders either initially or in operation. This was not the result of a conspiracy of autocrats: under the applicable statute and in their particular operational contexts, the creation of the financing and administrative mechanisms and the provision of basic collective goods did not require participation and surely it seemed easier just to get the job done without stirring people up unnecessarily. The majority of stakeholders in response largely adopted a consumer role rather than a co-investor role, and this affected their understanding of themselves, their interests, and how to advance those interests. In the setting of small-town business districts, this shirking of collective responsibility by business people is not really catastrophic. In other contexts, with other stakeholders, the consequences of such neglect might be less benign.

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Table 1

Rational and other motivations informing decisions and action

Mode of Decision	Reasons for Decisions and Actions
Self-interested, consequential: Deliberative rationality and action	1. Instrumental, based on calculations of anticipated personal utility maximization or satisficing, “subjectively instrumental” action in E. Ostrom’s [1998] terms); 2. Intrinsic utility derived from a certain action; 3. Responsive to coercive authority or incentives, in order to gain offered benefits, avoid costs, or both;
Self-interested, appropriate: Practical rationality and action	4. Because it’s the good, right, appropriate thing to do; 5. Because it’s how things are done here, a natural result of who we are, or who I am; 6. Because I am, or we are, not aware of any available, appropriate alternative;
Other modes: Not rationally self-interested (prudent) as usually understood	7. Pure altruism, based on calculation of gain for others independent of consequences for oneself; 8. Genuinely irrational, meaningless (unreasonable) behavior, rather than action based on decision logics of consequences or appropriateness.

Table 2

Activities of commercial revitalization and place creation/management

	('Hygiene Factors')			('Motivators')		
	Safe	Clean	Attractive	Convenient	Gravity	Destination
Security	X					
Sanitation		X	X			
Design			X	X		
Promotion				X		X
Restructuring				X	X	X
Organization	Structures governance of the planning and implementation of revitalization					

Figure 1. *Stakeholder interdependency and the co-production of commercial districts*

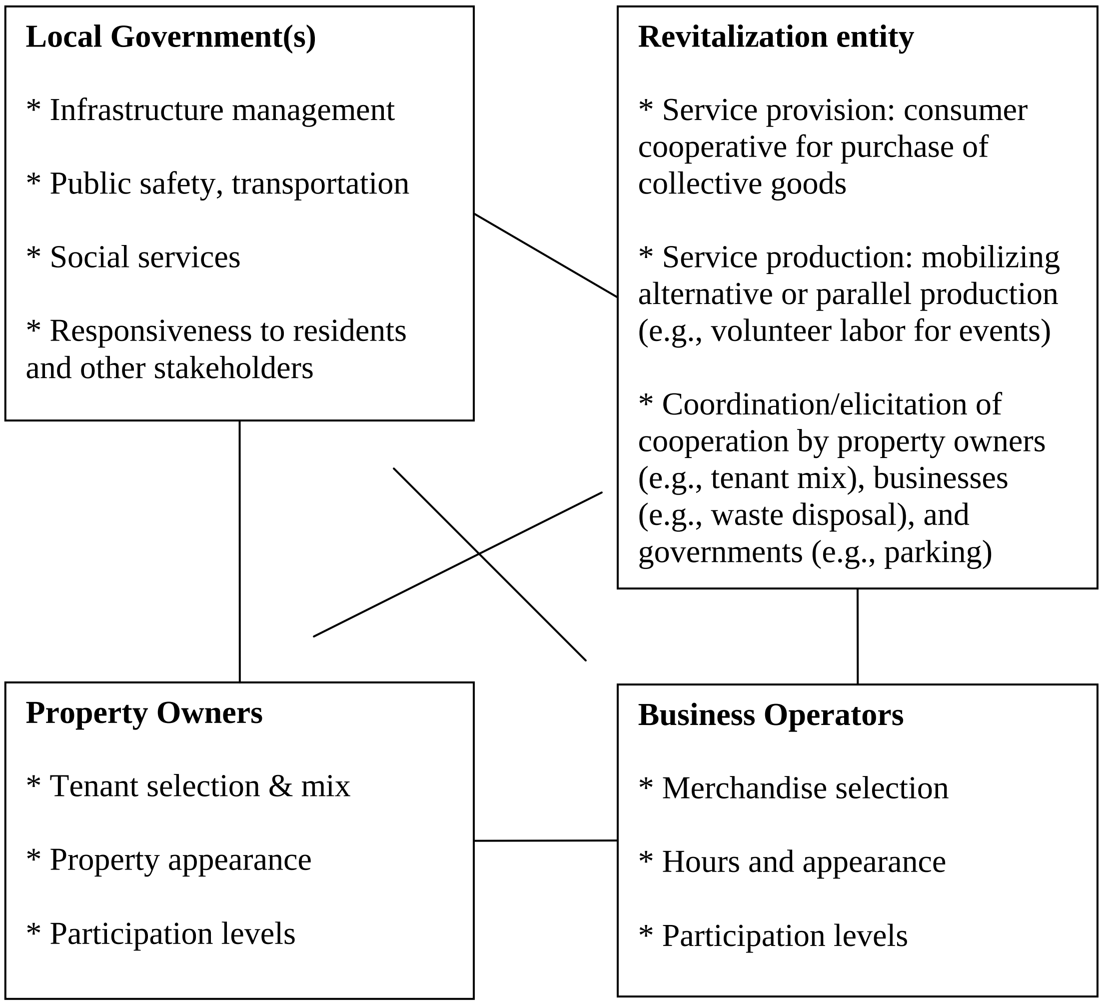

Table 3

Collective Action Problems of Commercial Revitalization

Type of Problem	Examples	How a BID may be a Solution
Joint consumption: Local public goods and the logic of collective action	Sidewalk improvements, district-marketing campaigns, CCTV surveillance	Coercive finance of jointly consumed goods
Joint consumption: Common-pool resources and the tragedy of the commons	Exhaustible trade-area demand for particular goods, trash disposal by customers (especially fast food wrappers)	Affirmative cooperation in tenant or merchandise selection, supply and service of adequate waste receptacles
Joint provision: Individual production	Window displays, storefront appearance, sidewalk sweeping	Affirmative cooperation in individual business practices with spillover aspects
Joint provision: Collective production	Revitalization planning, participation in events	Affirmative cooperation in collective activities

Table 4

Selected characteristics of four New Jersey BIDs

	F	R	S	U
Year established	1991/1992	1991	1988	1993
Organizational form of DMC	Membership-controlled, IRC 501(c)(4)	Membership corporation, IRC 501(c)(3)	Appointed municipal commission	Appointed board, IRC 501(c)(3)
Number of business establishments	110 retail 150 offices	350 retail 200 offices	180 retail 170 offices	120 retail 140 offices
Total estimated BID business stakeholders[a]	350	650	450	320
Total estimated active participants in BID	40 to 50	60 to 80	10 to 15	Under 10
Total budget (2002)	$ 249,300	$ 435,800	$ 236,672	$ 157,000
Budgeted assessment	$ 164,300	$ 400,000	$ 236,672	$ 143,000
Assessment/business	$ 619	$ 727	$ 676	$ 550
Assessment per $100 equalized taxable AV	$ 0.239	$ 0.268	$ 0.269	$ 0.254
Other comments	High proportion of owner-occupants	Landlords dominate DMC governance	Board and staff overlap with business assoc.	Low proportion of owner-occupants

Note. (a) includes retail and similar businesses, professional offices, and landlords

Table 5

Summary of interview respondents in four BIDs

	F	R	S	U	Total
Commercial tenants	2	4	6[a]	3	15
Commercial landlords	1	3	2	2	8
Commercial owner-occupants	9[a]	3	4	0	15
Subtotal business stakeholders	12	10	12	5	38
DMC staff and consultants	2	3	2	1	8
Municipal officials and residents	3	1	2	1	6
Total respondents	17	16	16	6	52
DMC participants/volunteers	13	7	7	3	30
Ground floor occupants	11	7	10	3	30
Retail businesses (NAICS 44-45)	4	5	6[a]	3	17
Eating and drinking (NAICS 722)	5	2	2	0	9
Others (NAICS 31, 54, 81)	2[a]	0	2	0	4

Notes. (a) includes two partners in a single establishment. NAICS = North American Industrial Classification System.