



## WORKING PAPER 2016-01

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### **CORRUPTION IN PUBLIC PROCUREMENT: ENTREPRENEURIAL COALITION BUILDING**

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**Abstract:** This article presents a comprehensive theoretical approach to the study of procurement corruption. It argues that corruption in public procurement can be explained by the creation and development of “corrupt procurement coalitions” (CPCs). Functioning as a network built by corruption entrepreneurs seeking to “milk” the procurement process, a CPC must accomplish three interrelated tasks to succeed: 1) identifying which members to include and organizing interactions of said members, 2) generating and redistributing benefits, and 3) evading internal and external control. CPCs are structured in an inner/peripheral configuration, where the inner network controls the core activities, and the peripheral networks can be activated at will when illegal tasks need to be externalized.

**Keywords:** Procurement; corruption; coalitions; networks; entrepreneurship.

**Funding:** Pierre-André Hudon received a Postdoctoral Fellowship from the Social Sciences and Humanities Research Council (SSHRC) of Canada. The authors would like to thank the SSHRC for making this research possible.

# CORRUPTION IN PUBLIC PROCUREMENT: ENTREPRENEURIAL COALITION BUILDING

## 1. Introduction

Although government corruption can take place at many levels, it is especially rampant in the area of infrastructure procurement due to the complexity of projects, a high sensitivity to politicization, frequent interactions with the private sector, and the sizeable amounts of money at stake (Søreide, 2002; Moody-Stuart, 1997). Corruption can be “hard”, when it results in kickbacks, or “soft”, when relationships are established with elected officials, civil servants, and political party employees.

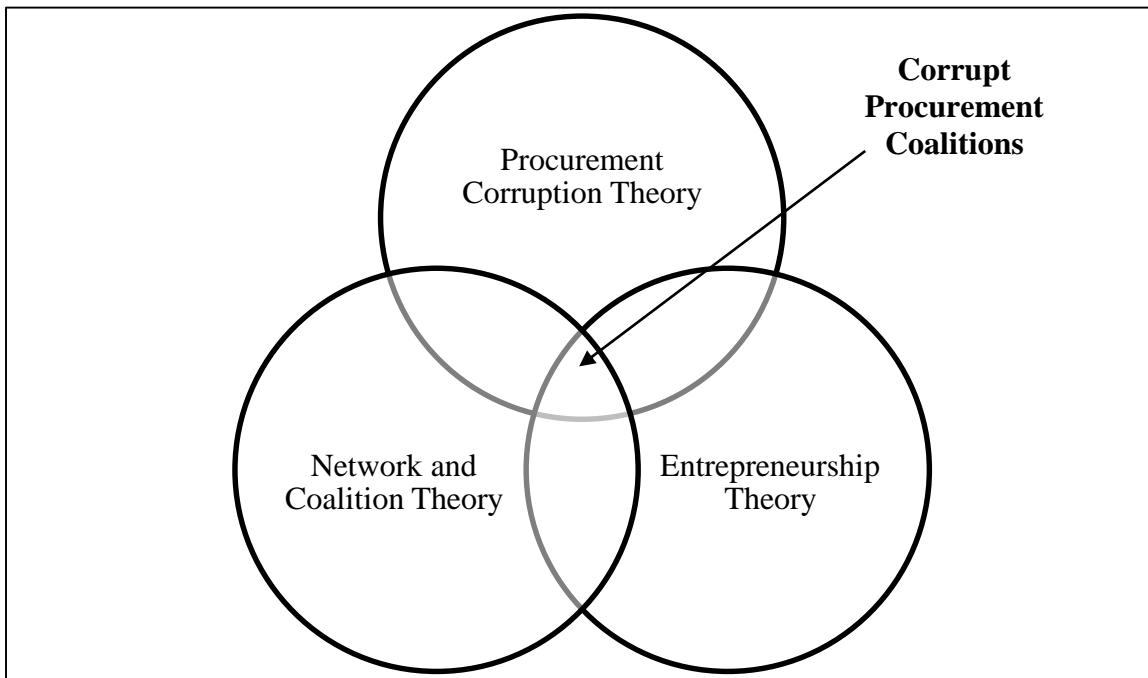
In Quebec, many elected and public officials who testified before the *Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry*<sup>1</sup> (the Commission from hereon) explained how the “system” worked: municipal governments award contracts to construction companies who, in turn, illegally finance political parties through a straw-man scheme. In order to generate the profits needed to make these political contributions, construction firms use many collusion and corruption strategies: they collude to increase the base price of contracts; they also engage in corruption to lead authorities to favor some projects over others, make lucrative contract modifications, or influence members of the selection committee.

Using the Quebec example as an illustration, this article presents a comprehensive theoretical approach to the study of procurement corruption. It argues that corruption in public procurement can be explained by the creation and the development of coalitions that bring together elected and public officials, political party employees and private sector representatives. The coalitions are constituted of a few key individuals acting in a concerted manner, independently of the formal procurement process, and who coordinate their actions through networks mechanisms. They are constructed through an entrepreneurial logic, where dominant actors realize that “milking” the procurement process will require concerted action and complex arrangements going beyond isolated corruption and collusion. Corruption entrepreneurs identify opportunities, gather the necessary resources (technical knowledge, influence, etc.) and assign obligations and benefits to the members of the network.

This article contributes to the theory of corruption networks by building upon existing literature

on illegal networks and hidden coalitions. Rather than focusing on the power, rationale and interests of networks members, the theoretical approach of corrupt procurement coalitions looks at internal structures, coordination mechanisms and specific tasks to be performed in order to conduct “successful” procurement corruption. Providing explanations of *how* corruption in public procurement happens instead of *why* it happens represents an original approach in the study of corrupt behaviours as it contributes to bridging the gap between corruption network analysis (Cartier-Bresson 1997; Jancsics and Jávor 2012; Lambsdorff 2002) and more technical analyses of the mechanics of procurement corruption (Søreide 2002; Compte, Lambert-Mogiliansky, and Verdier 2005; Burguet and Che 2004). In order to explain how corruption happens in procurement process, the article also introduces the notion of criminal entrepreneurship. Taking from the criminology literature (Gottschalk 2009; Gottschalk 2010), corrupt actors are shown as coalition-builders exhibiting much of the same qualities as entrepreneurs: taking measured risks, identifying opportunities and leveraging external competencies. Figure 1 shows where the concept of “corrupt procurement coalitions”, presented in this paper, fits in the current literature.

**Figure 1. Theoretical Contribution**



The article uses the Commission’s testimonies to illustrate our theory-building model. Methodologically, it follows a common trend in corruption research where empirical examples come from secondary sources including testimonies and court documents. This methodology has

been used successfully in classics of the genre, including Boulton (1978), Clinard and Yeager (1980) and, more recently, Della Porta and Vannucci (1999; 2013). This is necessary as direct observation of corruption phenomena is almost impossible. Even without direct observation, testimonies of corrupt behaviours are fairly rare, when available at all. The wealth of testimonies presented at the Charbonneau commission therefore constitutes an extremely rich portrait of procurement corruption, drawn by the perpetrators of corruption themselves. As Yin (2009) argues, a single-case study design method may be used

*when an investigator has an opportunity to observe and analyze a phenomenon previously inaccessible to social science inquiry. [...] When other investigators have similar types of opportunities and can uncover some prevalent phenomenon previously inaccessible to social scientists, such conditions justify the use of a single-case study on the grounds of its revelatory nature. (Yin 2009, 48–49)*

As such, the article alternates between discussions of network, coalition and procurement theories and “revelatory” (Yin 2009) empirical illustrations of coalition building and corrupt behaviours.

This article is structured in the following way. Section 2 discusses procurement corruption and reviews the literature on procurement corruption, corruption networks and criminal entrepreneurship. Section 3 introduces the concept of the “corrupt procurement coalition” (CPC) and describes its functioning, focusing on the entrepreneurial tasks to be performed. Finally, section 4 discusses the contribution of the CPC approach to the understanding of procurement corruption and explores avenues for future research.

## **2. Corruption in Procurement**

As the literature on corruption is already abundant, we focus on presenting its core elements. We use the most widely accepted definition of corruption: the diversion of public funds towards private interests (Sherman 1980). However, in an environment as strongly controlled and monitored as public procurement, the mechanics through which procurement monies can be diverted toward private interest are often complex: information must be dissimulated and control mechanisms must be circumvented.

Furthermore, in highly controlled environments, network-style relations are increasingly seen as the most effective way of coordinating corrupt action, as they are better at dissimulating information and at permitting deniability (Cartier-Bresson 1997; Raab and Milward 2003; Milward

and Raab 2006; Jancsics and Jávor 2012; Jávor and Jancsics 2013).

## **2.1. The Mechanics of Corruption in Procurement**

A procurement process is essentially the implementation of a political decision related to infrastructures, which allows building to go forward. The British Association for Project Management (2011) defines procurement in the following way:

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

Procurement must therefore be understood as a process that includes legal, administrative and political elements, and that brings together many private and public sector actors (Roman 2014; Thai 2001). Schapper et al. (2006) offer an interesting characterization of the environment within which this process takes place. The problem of procurement requires the reconciliation of three broad types of considerations, which are often incompatible: budgetary performance, due process, and policy coherence. The structural tension that exists between these objectives (which are all part of good governance when looked at individually) forces governments to act as the arbitrator of different considerations. For example, acquiring materials from a local company may be very effective from the point of view of economic development, but not very economical if this company sells its materials at a higher cost. Similarly, a road destroyed by a natural catastrophe may lead a government to contract directly with a subcontractor (which is normally proscribed by procurement regulation), rather than launch a lengthy call for tenders. This arbitration power provides elected and public officials with significant leeway in moving away from the ideal procurement process. Elected officials generally intervene in the early stages, during the strategic planning phase and in the decision to launch (or not) a call for tenders. Conversely, civil servants usually become involved in the later stages of the process, during the contract awarding and management phase. However, this separation is not perfectly airtight: civil servants can influence strategic planning, whereas elected officials can also intervene in procurement by authorizing some aspects of due process to be circumvented.

Departures from the ideal process can take place for legitimate or illegitimate reasons: for example, while it may be perfectly legitimate to authorize a modification to a contract to add a needed bike path on a road already being built, changes that are only geared toward generating additional

revenues are illegitimate. Corruption can breed within these discretionary power interstices. Deliberate changes that move away from formal procurement objectives and favor private interests constitute corruption.

In his seminal work, Klitgaard (1988) identifies three necessary conditions of corruption: 1) the ability to generate an economic rent, 2) agents possessing discretionary powers, and 3) a general lack of accountability. In governmental procurement, these three conditions take on a specific meaning: an economic rent can be generated through an undue inflation of the contract's value, via *ex ante* (price fixing) or *ex post* (contract modification) manipulations; discretionary power can be used to circumvent the ideal procurement process; and a lack of accountability can be observed in the silence and lack of questioning over cost overruns or illegal electoral financing, as well as in the complicit solidarity of actors involved in the fraud.

Based on Klitgaard's (1988) model, Table 1 presents some examples of the actions used by corrupt actors during the procurement process. Governmental prerogative and discretionary powers can take on various forms during the different stages of the procurement process.

**Table 1. Key areas of corruption in government procurement process**

Factors favoring corruption identified by Klitgaard (1988)	Interpretation in a governmental procurement process context	Examples of actions developed by corrupted actors
Possibility of an economic rent (+)	Generating surpluses from contracts	Inflating contract values through collusion; Negotiating lucrative modifications to contracts after they have been signed.
Discretionary powers (+)	Authorizing departures from the ideal procurement process without the principal's knowledge.	Selecting projects or using selection criteria that benefit some bidders over others; Sharing privileged information with some bidders; Authorizing unjustified contract modifications; Failing to launch a call for tenders without justification and signing a contract.
Accountability (-)	Not questioning controversial decision-making or the use of illegal practices by elected and public officials.	Manipulating auditing mechanisms (e.g. cost benchmarks); Rubberstamping overruns

The examples presented above do not constitute a complete list of manipulation strategies, but are intended to show how corrupted bureaucrats and elected officials must be active on many inter-related fronts to be effective. For example, they must be able to create an economic rent by inflating

prices, they must manage this rent by defining contributions and retributions of each actor; and they must manipulate information in such a way as to make corruption undetectable. This constitutes a complex activity that need to be carried out by multiple actors and at different levels. Corruption in procurement process requires convergent actions and coordinated efforts: corrupt actors willing to go above simple dyadic corrupt exchanges and perpetrate more systemic corruption must be able to standardize their actions and define their roles.

## **2.2. Corruption in Procurement as a Network Phenomenon**

Actors (and organizations) working together to achieve a common objective may organize their relations in many ways: through negotiation, through formal structures and hierarchies, or through looser, informal linkages based on reciprocity. The latter category is often referred to as network governance (Provan and Kenis 2008). The coordination of the action of multiple actors through networks indeed rejects the classic market-hierarchy dichotomy (Williamson 1975). As such, network governance can explain the existence of systems where relations are neither transactional negotiations nor the result of specific hierarchical demands but, rather, are governed by a logic of reciprocity (Granovetter 1985) or clan-like solidarity (Ouchi 1980). For O'Toole, “networks are structures of interdependence involving multiple organizations or parts thereof, where one unit is not merely the formal subordinate of the others in some larger hierarchical arrangement” (O'Toole 1997, 45).

Not all networks are illegal; many are perfectly legitimate and are generally seen as very effective at solving complicated problems and at fostering cooperation between eclectic groups of actors. Sabatier and Jenkins-Smith (1993) show, for instance, how the main actors of public policy manage can regroup based on their beliefs and interest regarding a certain problem. However, there has recently been a growing concern with “dark” networks (Raab and Milward 2003; Milward and Raab 2006), i.e. networks whose activities are inherently illegal and that try to remain as invisible as possible. These networks are shown to favor covertness over efficiency (Raab & Milward, 2003) and, consequently, dedicate considerable resources to remaining undetected. They have also been shown to need to cultivate relationships with other dark networks to carry on their activities. Raab and Milward (2003), for example, show that diamond-smuggling rings are often linked to arms dealers, as the latter often need to find simple means of transferring money (using diamonds) to pay for the goods provided (the weapons). Dark networks concern activities that are inherently

illegal, such as drug trafficking or terrorism. In corruption phenomena, however, networks have the particularity of existing within a legal context (procurement, for example). This means that they cannot be consider a dark network in the traditional sense, but share with them a concern for remaining undetected.

Cartier-Bresson (1997) postulates that corruption networks act to standardize practices in intrinsically informal activities. They do so by establishing a market of reciprocal obligations which will be “reimbursed” in the medium to long term, and by limiting the possibility of whistle blowing by making all members accomplices in one degree or another. Choi (2007) also demonstrates how corruption networks can be reinforced in a sociocultural environment where public-private proximity is the norm.

Jancsics and Jávor (2012) show that, in order to succeed, a corruption network must be able to identify a “cash cow” (i.e. a node in the network that generates money and that can be exploited) and must succeed in deactivating external and internal controls. In another article, Jávor and Jancsics (2013) describe the institutional dynamics at play within corrupt organizations, at three different hierarchical levels. At the bottom level (low-level and clerical employees), only isolated corruption exists and does not interplay with larger schemes of grand corruption. At the middle level (middle management and professionals), influenced by hierarchical demands, specialists “technicize” illegal actions in order to make them appear normal. Manipulating different elements of organizational technology such as engineering, economic, administrative and legal processes, corrupt actors are able “to hide an illegal or informal deal and present it as [if] it was in accordance with organizations’ normal operation, internal and external regulations and requirements” (Jávor and Jancsics 2013, 16–17). The middle level also shows some level of self-corruption in the sense that it does not only “cover up for the elite”, but also strikes self-interested ad hoc corruption deals when the conditions are right. Finally, at the top level, the dominant coalition is able to turn off inside and outside controls. This is done respectively by controlling supervision and audit mechanisms and by putting political pressure on the various external actors such as prosecutors, investigators, etc.

Network theory suggests that systemic corruption in procurement processes takes the form of interdependent structures involving multiple actors without pre-existing subordination links. Network structures and activities constitute the mechanism through which corrupt actions are

standardized and reciprocal obligations are established. Without networks relationships, corruption in procurement processes would remain an isolated and uncertain transaction. As procurement regulation and control increases, covert network structures become the only way of maintaining stability in a corrupt system. Furthermore, because of their strategic role in rent-seeking, manipulation and dissimulation activities, the middle and top managers of corrupt organizations are the most important actors in the network structure.

### **2.3. Coalition-Building as an Entrepreneurial Endeavour**

Entrepreneurs discover opportunities, evaluate them, assess their risks level, and decide whether or not to exploit them (Symeonidou-Kastanidou 2007). They do so in a contingent way, which varies according to the nature of the opportunity and the individual involved (Shane and Venkataraman 2000).

While most of the literature has presented entrepreneurship as a desirable phenomenon, criminology has also looked at entrepreneurship within organised crime (Gottschalk 2009; Gottschalk 2009). Entrepreneurship is presented as a cornerstone of organised criminal activity, where individuals must innovate to grow a business. As such, those individuals must exhibit behaviours that are in line with entrepreneurial activity:

*Five major dimensions underlie the values and behaviors that are necessary for entrepreneurship: autonomy, innovation, risk taking, proactiveness, and competitive aggression. (Bernier and Hafsi 2007, 489)*

In procurement corruption, autonomy and risk taking can be seen in the need for individuals to act outside the normative and ethical frameworks of their organizations, while innovation and proactiveness can be observed in the constant struggle to use technical means to remain undetected. Finally, competitive aggression can be interpreted as the necessity to “protect” one’s system, by impeding denunciation and whistleblowing and by avoiding audit and control. To reduce the risk of being caught corrupt activities “must be hidden while it must appear as if the rules have been respected” (Søreide, 2002, p. 14).

Procurement corruption in a network setting is an inherently entrepreneurial activity. Moving beyond a “one-shot deal”, transactional type of corruption means that actors realize the need for risk-taking and proactive behaviors. For the sake of effectiveness, corrupt network structures could

for example need to expand their reach beyond government procurement organizations. They could also, in order to avoid audit and control, chose to use intimidation and retaliation to prevent denunciation. These constitute behaviours that a passive network of corruption opportunists would not undertake.

### **3. The “Corrupt Procurement Coalition” and its Functioning**

Inflating contract values and circumventing control and monitoring processes require the collaboration of individuals from many different organizations acting in a concerted manner outside legal and regulatory frameworks. This behaviour is composed, on the one hand, of *hard* elements such as focus-oriented actions and the clear definition of roles and disciplinary rules and, on the other hand, of *soft* elements like discreteness, adaptability and malleability. The concept of coalition (Stevenson, Pearce, and Porter 1985) is well suited to describe these kinds of interaction. Halfway between stable, organized networks and transactional, bilateral dyads, coalitions are managed through implicit rules, but also through negotiations and transactions. Stevenson et al. (1985) define coalitions thusly:

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

Since public procurement is a formal process with clear rules and formal objectives, coalition theory is particularly useful at capturing the tacit, informal agreements and interactions between corrupt members, as well as their overall rationality. Lemieux (1997) also points out that in coalitions adherence is voluntary as that members are technically able to leave at any time. The network structure is the best for unstable coalitions.

Central to the concept of coalition is the idea of agency: coalitions require concerted action from their membership to reach their objectives. Coalitions are also dependent on powerful actors mobilizing influences and resources to reach their objectives. Their creation are therefore encouraged by sparse external resources (Pfeffer and Salancik 2003), the existence of discretionary powers, possibilities for interaction, and coalition-building experience (Stevenson, Pearce, and Porter 1985). Coalitions survive through the perception their members have of coalition membership as more advantageous than risky (Lemieux 1998).

While coalitions can be created to reach objectives that are parallel to those of more formal organizations, they are not always corrupt. A coalition becomes corrupt when its members abuse public resources in a way that benefits private interests (themselves). Corrupted coalitions will seek to “milk” (i.e.: generate an illegal rent out of) public resources and redistribute them to their members. Since this is an illegal activity, they must therefore circumvent control and monitoring mechanisms to avoid detection. This illicit coordination constitutes the coalition’s principal *raison d’être*: it must be able to identify and co-opt useful members of organizations involved in public contracting to reach its objectives, understand the loopholes in the procurement process, and select the best manipulation and influence tactics.

The coordination mechanisms of coalitions are well known and have been the subject of many robust empirical and theoretical analyses (Gamson 1961; Schofield 1995). However, in the case at hand, two elements make the functioning of coalitions more complex: the secrecy and illegality of their activities, and the fact that the governmental procurement process is highly regulated.

The origins of coalitions can be traced back their members’ perception of the necessity of working together to achieve their objectives, rather than those of the formal organizations they work for (Cyert and March 1963). The existence of systemic corruption that results from its perpetrators’ agreement that concerted action is necessary to achieve their goals. Here, the complexity of rent-generating activities comes into play: because of asymmetrically dispersed knowledge across economic and political actors (Zander 2007), the coalition must, in order to generate an economic rent, go through a long manipulation process involving the contracts themselves, as well as the procurement rules and regulations. Without the participation of members belonging to all the sectors involved in the procurement process (political, governmental, private), corruption would be defeated or rapidly discovered.

In the context of procurement, the actions undertaken by corrupt coalitions will therefore take on a specific form, which can be characterized by the “corrupt procurement coalition” (CPC) presented and illustrated below using the City of Montreal’s example. Like other kind of coalitions, CPC operates in an organic fashion, outside of formal rules. At the beginning of their formation process, CPCs lack structure. But since hijacking a procurement process demands a complex arrangement, the CPC’s central task is to configure an appropriate network-like structure.

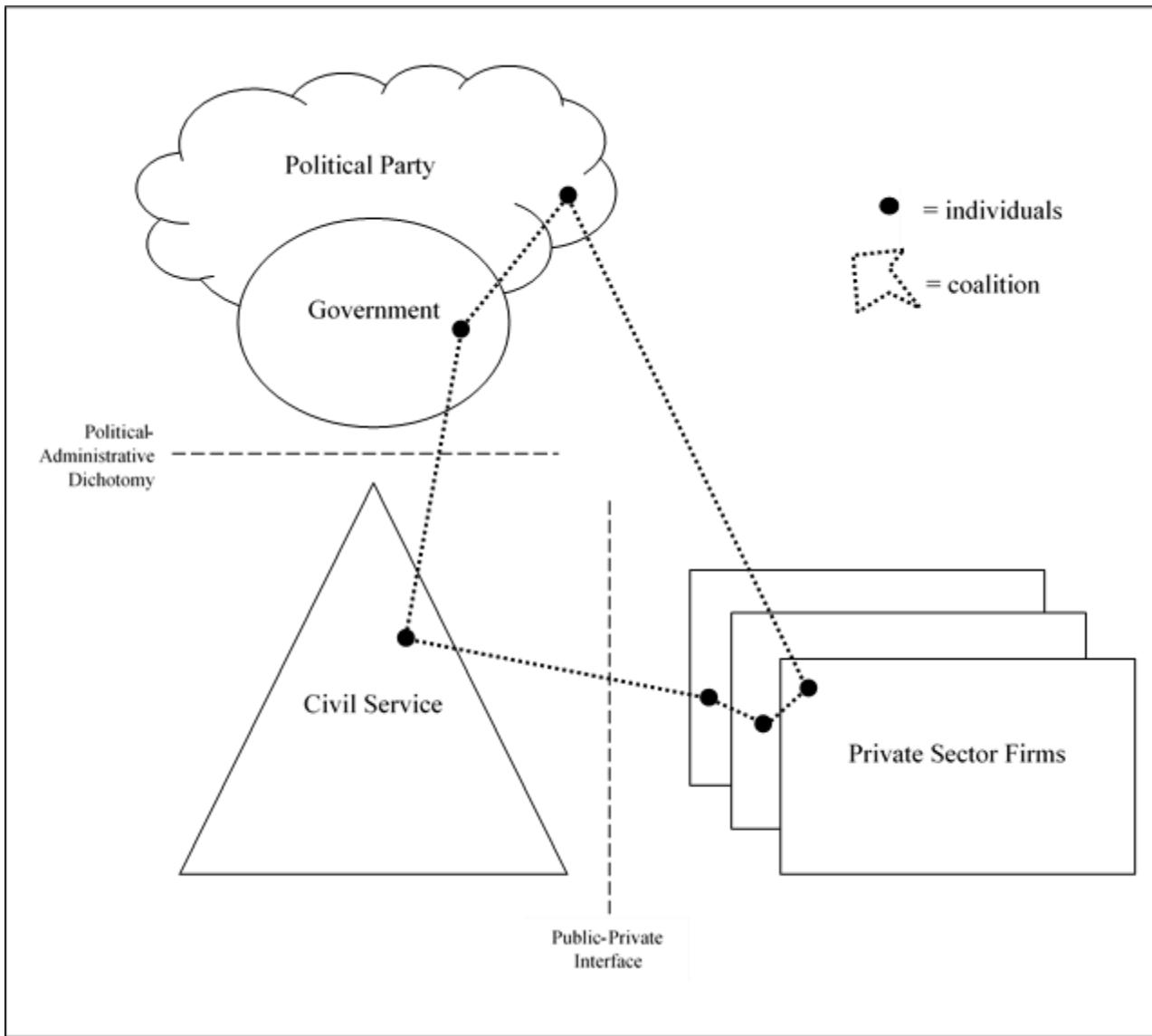
### **3.1. Definition**

A CPC is as a group of individuals belonging to the different organizations involved in the procurement process (elected officials, political party employees, civil servants, private sector representatives and lobbyists), who come together informally to circumvent the government's objectives. The CPC will reach this goal by illegitimately inflating the value of contracts to generate an economic rent; redistributing this rent to its members in the form of bribes, profits, or electoral resources; and by working around lobbying, tendering and electoral financing regulations. By engaging in various specialized activities concerned with the identification, evaluation and exploitation of opportunities to divert public funds for private profit, the CPC's action can be said to be entrepreneurial.

As the basis for an analytical framework, the concept of CPC must be understood as a group of individuals (the coalition members) who are more or less independent from their formal organizations, and have little regard for laws, regulations and management frameworks. This detachment is necessary to maintain the secrecy of the CPC's activities and enable its members to deny any wrongdoing. Politicians in particular play a dual role: first, they bear responsibility over public organizations (and the procurement process) as the proverbial buck ultimately stops at them; second, they are also important actors within their political party and are highly involved in its financing.

Networks are the organizational form used to coordinate and control the activities of the CPC. Thus, members of the CPC are related each other by a first level –or inner– network, where the CPC members are the nodes of the inner network. Figure 2 presents the CPC network schematically.

**Figure 2. The Corrupt Procurement Coalition's Structure**



For instance, the Commission hearings that focused on corruption at the City of Montreal offered a great demonstration of how a CPC was organized<sup>2</sup>.

Early into the testimonies, Bernard Trépanier was heard by the Commission. An ex-fundraiser for the mayor of Montreal's political party, Trépanier admitted he was an entrepreneurial man used to playing many roles at once: on top of fundraising, he was chief campaign organizer for Frank Zampino (the City's second-in-command), as well as a "business developer" for Dessau, a large engineering consulting firm frequently hired by the City of Montreal. Dessau would hire Zampino as CFO when he would leave politics a few years later (CEIC 2013d).

With Zampino, the coalition reached into the political level of the city's government. As a political organizer and fundraiser, Bernard Trépanier served as a link between politicians, private sector engineering firms and construction contractors. Indeed, Michel Lalonde, CEO of a second-tier engineering firm, revealed in his testimony that he was approached by Trépanier to become the "coordinator" of collusion (Normandin 2013). Lalonde would be in charge of communicating with Trépanier in order to know which infrastructure contracts were to be awarded. Trépanier would receive this information from high ranking civil servants and would then decide which of the many firms would get which contract. Lalonde, once he knew who the winner of each contract was going to be, was in charge of fixing the bids by calling his competitors and instructing them to bid at a higher price than the pre-determined winning price (Myles 2013c).

In order to belong to the select group of firms able to win city contracts, their executives had to make electoral contributions –which ranged from \$100,000 to \$200,000– to Trépanier, in addition to paying the party a 3% "tax" on contracts obtained. The same situation was then repeated with the contractors in charge of building the public infrastructures. In order to generate sufficiently high profits to make financial contributions to political parties and corrupt public officials, contract costs were inflated through collusion and unnecessary contract modifications that were approved by public officials. To get around the procurement monitoring system, firms would corrupt officials on the selection committees, who in turn, would approve overruns.

### **3.2. Coordination within the Coalition**

To ensure proper functioning, the CPC must therefore accomplish three differentiated but interrelated tasks: 1) identifying which members to include, and organizing their interactions, 2) generating and redistributing benefits by abusing the procurement process, and 3) evading internal and external control. Creating network-like organizations is necessary to coordinate and control these activities.

***Identifying and Organizing Members.*** The first step in the formation of a CPC concerns its very birth. CPCs arise from the need to go beyond isolated corruption and collusion in order to achieve its goals. The dominant actors in CPCs behave like entrepreneurs, identifying an opportunity in a process they do not fully control (Shane and Venkataraman 2000). As such, they need to identify members that could be useful within the organizations – those with discretionary powers that could be used toward increasing economic rents or evading control, and that are least fazed by unethical

conduct. They also need to determine the contributions expected from participation in the collusion scheme and develop strategies to manipulate information and circumvent rules. Finally, they need to ensure that the internal functioning rules are respected, mainly by pressuring unruly members through discussion, financial penalties or even intimidation.

At that moment, building the inner network is the CPC's priority. Socialization opportunities are often used as catalysts of collusion, namely annual industry meetings and networking events. One witness at the Commission explained how annual meetings were the perfect occasion for "organizing corruption" as they gave colluding an easy way to communicate without suspicion. At the local level, most construction cartels are oligopolies, thus making coordination fairly easy.

The Commission hearings illustrated in great detail how the CPC's inner network was formed in Montreal. In his testimony, Michel Lalonde describes how he was contacted by two corrupt entrepreneur, Rosaire Sauriol, head of Dessau, and Bernard Trépanier, political donation collector:

*Of course, for all of this to be operational, Mr. Trépanier asked me to be the spokesperson to all the firms. [...] Obviously, I was interested, as I could get contracts and progress [in my relationship] with the City of Montreal. I had even spoken to Rosaire Sauriol from Dessau, who told me "Listen, Michel, I spoke about you to some colleagues and we all agreed you should be the spokesperson because you are well known." I had developed business relations with the other firms, through consortiums for example, and I respected people and I think people appreciated my relationship building. (CEIC 2013b)*

Lalonde went on to explain that Trépanier put him in charge of communicating with the other firms to develop a price-fixing scheme for all the engineering contracts awarded by the City. Bernard Trépanier knew of the contract schedule because he received it from corrupt civil servants within the department of public works, with whom he was in contact (CEIC 2013b). Building the inner network is a socially embedded process where the entrepreneur's business and personal relations of become intertwined (von Lampe 2007).

**Generating and Redistributing Benefits.** The second task that the coalition needs to accomplish is generating and distributing benefits. Jancsics and Jávor (2012) and Klitgaard (1988) respectively talk about identifying a cash cow and generating an economic rent. Again acting as entrepreneurs, the members of the CPC must then seize opportunities for generating surpluses. In order to do this, they must have technical knowledge of existent zones of ambiguity (price control mechanisms, bid selection criteria, possibilities for contract modifications, selection committee members, etc.),

as well as a capacity to secretly transfer resources (through, bribes, political contributions, gifts, fake jobs, professional fees, lending out of material and human resources, etc.).

In the City of Montreal example, price fixing was only one of many ways to increase contract prices. Another common way to illegally generate surpluses was to get contract modifications approved. Commonly known as “extras”, those contract modifications were approved civil servants with technical expertise. Some “real extras” were paid out to contractors to cover unforeseen expenses during the carrying out of a contract (excavating soil that was harder than previously thought, for example), but “false extras” also existed. Indeed, it was common practice to make up fake expenses in order to spend the remainder of the emergency reserve fund of a project. At that moment in the process, a new node had to be added to the inner network: fake expenses could only be “invented” when supervisors and professionals knew which types of expenses would be difficult to detect and could be buried amongst the legitimate expenses. Supervisors in charge of approving those false expenses were reported to take a cut on the amounts they approved. Lino Zambito, an important contractor, explained how he managed to reap extra benefits from contracts by bribing a civil servant to approve fake extras:

*François Thériault was someone that I saw a few times on projects, and he was someone that worked within the scheme. [...] He was a construction site supervisor. At his level, he was able, on the construction site, to authorize extras, as he was in charge of the operations diary. [...] To my knowledge, since I've lived it, he charged an amount of 15% on all [false] extras [he] approved. (CEIC 2012)*

Identifying opportunities for generating surpluses is but one part of the task at hand: the CPC must also use the inner network as a marketplace or, at least, as a redistribution mechanism where what everyone is entitled to is defined and negotiated. For example, Bernard Trépanier was the one who defined the expected contributions of the engineering firms to the electoral fund. When the firms' managers started to complain that Trépanier's financial demands were too high, the coalition negotiated an agreement to reduce them (CEIC 2013c).

Redistribution of benefits does not always obey a transactional logic – the CPC's network cannot always be seen as a market in which members are selling and buying bribes and favors. Sometimes, interactions based on solidarity and reciprocity is the way exchanges are made. As Cartier-Bresson (1997) mentions:

*The [corruption] network plays a role of a translator of interests, creating an informal standard of measure (a kind of informal equivalent or exchange rate) for*

*widely diverse goods and objectives. [...] It makes room for the addition of things that are not normally associated without necessarily reaching the stage of monetization (bribes); it also authorizes delays in time. In other words, the resources exchanged are diverse (economic political social, symbolic and so forth) and in order to avoid waiting and transaction costs linked to barter (problem of double coincidence), measurement and compensation systems become necessary.* (Cartier-Bresson 1997, 474)

The network-like interactions within the CPC therefore act as a buffer, where services rendered can be paid later and through other means. Long-term relationships become the preferred vehicle to accomplish such a task: through the establishment of close ties –sometimes even friendships– between private sector actors and public officials, redistribution of surpluses can be conducted in a soft way. In such a context of public-private proximity, the case of civil servants is particularly interesting. Since their behavior is regulated by strict rules, a robust control apparatus and a clear code of conduct, it should be difficult to co-opt them. However, due to their discretionary power and technical knowhow, these public officials are absolutely essential to the efficient functioning of the CPC and are thus frequently contacted in the hopes of getting them on board.

During the Commission hearings, a testimony provided by Luc Leclerc, an official at Montreal's public works, was especially telling. He admitted to receiving over \$500,000 in bribes from business owners in the construction industry and even went on vacation to the Caribbean with some of them (Normandin 2012b). To him, these relations were normal; he argued they made him more aware of the contractors' preoccupations, which in turn allowed him to better accomplish his job (Lévesque 2012). Similarly, the mainstream media (La Presse, Le Devoir, Radio-Canada/CBC, The Gazette, etc.) devoted much attention to the story of elected officials spending time in the Caribbean on Tony Accurso's yacht. Accurso was a highly influential entrepreneur with a large network of friends in the construction industry. Questioned as to the possibility that his yacht might have served as an instrument of influence or bribery, he offered this response: "How is it that in life, everyone is allowed to have friends, but I am not allowed to have friends, and I am not allowed to invite them?" (CEIC 2014). This is coherent with de Graaf and Huberts's (2008) analysis that showed that material gain was not always the main motivator for becoming corrupt, but that friendship could also play a part in the phenomenon.

**Evading Control.** The third task the CPC has to accomplish is evading control. For Jávor and Jancsics (2013), this is done in different ways. Within the public organization, "technicization"

plays an important role. At inter-organizational level, evading control becomes more of a political endeavor, whereby dominant actors use their influence to thwart detection efforts.

To hide corruption in the key stages of the procurement process, corrupt actors in the inner network need to be able to exert influence or control over technical tasks, such as estimating costs, supervising construction sites, making contract modification, producing accountability reports, etc. For example, the Commission identified that computer hacking was used to inflate cost benchmarks thus rendering collusion undetectable (Normandin 2012a). But dominant members of the CPC will also need to reach control beyond their inner network. In Montreal, Frank Zampino, the mayor's right-hand man, was blamed for having used his political influence to defeat an anti-collusion initiative (Myles 2013a). During the Commission hearings, Serge Pourreux, the civil servant in charge of the project, explained that he and his boss were forced to resign by Zampino because they were adamant on seeing the project through (CEIC 2013a). Coordinating action with external and peripheral networks is therefore another strategic task of the CPC members. This is usually done using technical means that require know-how and an understanding of the business of corruption.

### **3.3. Choosing Strategies for Externalization**

From previous analysis, it was shown that CPCs could rely on a wide range of strategies to achieve their goals. A non-exhaustive list has already been presented in Table 1. The previous subsection also gave concrete examples of how the CPC working inside Montreal's procurement system functioned. The coalition's *modus operandi* is to choose, amongst a wide variety of strategies, the most appropriate to realize the three interrelated tasks of identifying and organizing members, generating and redistributing benefits, and evading control.

A great number of strategies are available to the coalition, but not all of them will necessarily be "activated" at all times. Surpluses may be generated through price fixing, fake extras or both, depending on the situation. Similarly, control may be evaded by forging documents, hacking computers, or forcing honest and suspicious people to resign. The members of the coalition are also chosen on the same basis: in a contingent way based on the opportunities to seize and the resources they control.

The entrepreneurial logic also dictates that some activities necessary to the functioning of the

coalition can be procured externally when necessary. Von Lampe (2007) finds that, as the stakes increase, corrupt actors increasingly rely on people from outside their immediate social milieu. Raab and Milward (2003) show that dark networks often need to interact with one another in the carrying out of their activities. Referring to “emerging corruption networks”, Jávor and Jancsics (2013) mention:

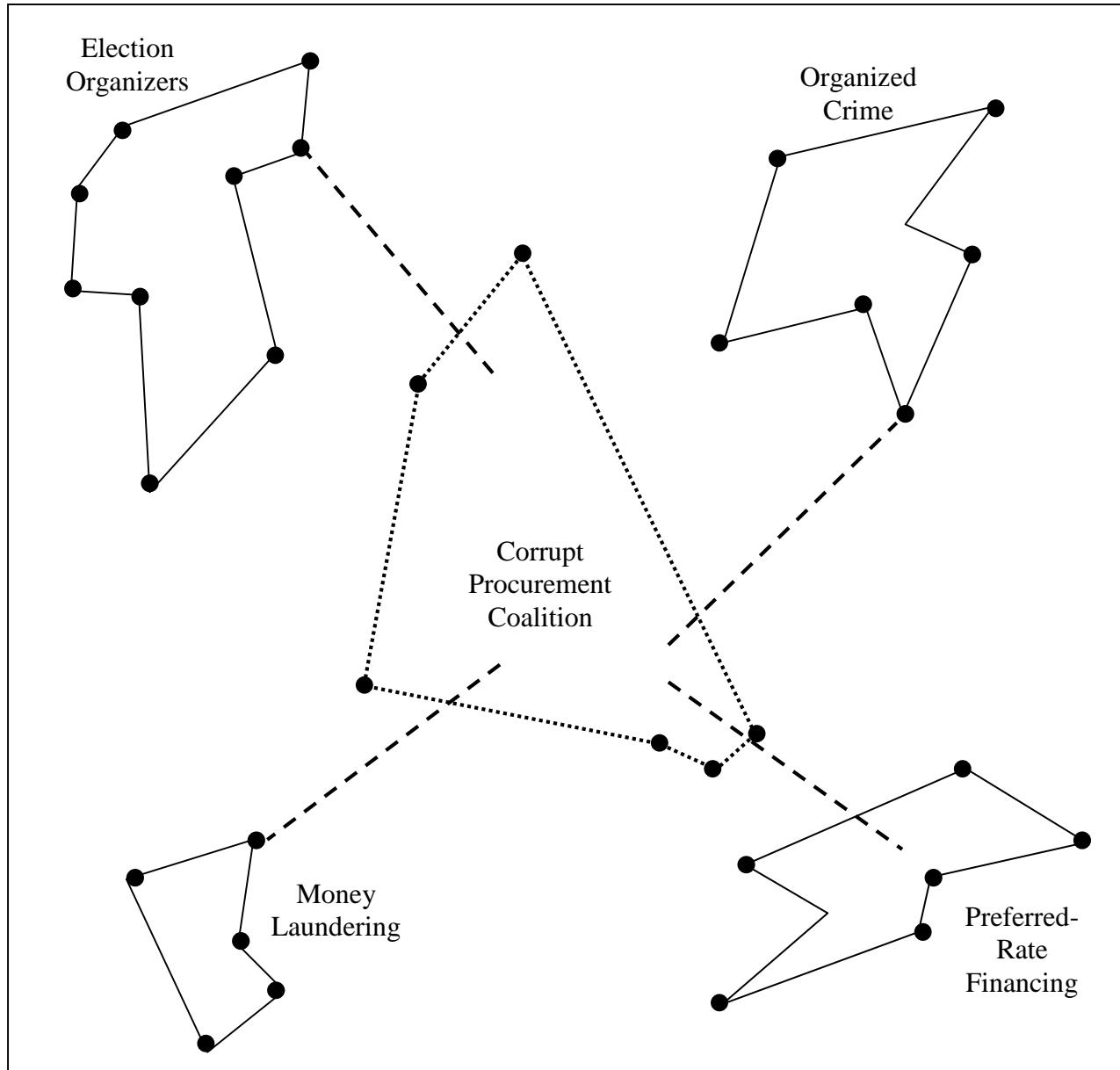
*We discovered that an elaborate and time-tested corrupt network could be adapted to facilitate many corrupt deals; indeed, the network can be thought of as selling corruption services to clients as easily as a finish product. Actors who buy the services of a corruption network obtain a complete social system with trustworthy personal ties, corruption legalizer functions, and inactivated control mechanisms. There are no further costs of partner searching, trust building and problem management. (Jávor and Jancsics 2013, 22)*

This can be explained easily. First, externalizing tasks to peripheral networks helps reduce costs, as specialized entities can accomplish these activities more efficiently. Second, relationships with external corrupt networks are transactional and, consequently, expendable. Third, they do not rely on personal ties which require significant resources and risks. As such, efficient, expendable and transactional relationships significantly reduce the risk of being caught.

CPCs behave in a similar fashion. Indeed, the Commission hearings revealed that Montreal’s corrupt coalition sporadically relied on other illegal networks. For example, in order to contribute to the electoral fund of Trépanier and Zampino’s party, the engineering firms had to find important amounts of cash in order to avoid detection. This was done by a fake invoice scheme whereby the firms would give out false contracts to networks of empty shell corporations that would return the payment in the form of cash after taking at 10%-15% cut (Myles 2013b). The shell corporations were not part of the coalition *per se*, but were sometimes called upon to accomplish specific tasks. Organized crime played a similar role. Indeed, it is well documented that the CPC called on the Sicilian mafia to intimidate undisciplined members. Lino Zambito, for instance, explained that he was summoned to a meeting with Vito Rizzuto, head of the Montreal mafia, in a restaurant owned by Tony Accurso. The purpose of the meeting (which Accurso denied has ever happened) was to convince Zambito not to bid on a contract that was intended for one of Accurso’s companies (Bisson 2012). Other incidents of intimidation have also been reported, notably by sidewalk and paving contractors (Blais 2012; La Presse canadienne 2013a). The illegal networks that the CPC can delegate activities to are extremely varied and can include turnkey election organizing

services, or even preferred-rate financing of construction projects. Figure 3 schematically shows that these peripheral networks can be activated at will by the CPC in order to obtain secondary services.

**Figure 3. The Corrupt Procurement Coalition's Potential Interactions with Peripheral Networks**



By relying on contingent actions by its members to seize opportunities using a wide array of strategies, the CPC approach can explain the diversity of corruption systems. Some strategies used in Montreal may not be useful in different contexts, where rent generating opportunities are different and where control mechanisms are more or less developed. Similarly, some members of

the inner network could, in a different setting, want to avoid participating in corrupt behavior because of greater risks or different ethical positions.

#### **4. Discussion**

Coalitions are issue-oriented concepts, where members focus on purposeful action. Networks, on the other hand, can be conceptualized as arrangements or mechanisms used to coordinate and control activities where transactional or hierarchical configurations fail. We argue, therefore, that coalitions organized as networks constitute a powerful tool for explaining how corrupt action unfolds in public procurement. Instead of focusing on the respective interests and rationales of corrupt actors in an illegal network, the CPC approach concentrates on explaining the mechanics of corrupt behaviour. Indeed, the CPC fills a theoretical void in the corruption literature by combining political economy approaches with network theory. They explain how economic rents are generated, how control and monitoring mechanisms are circumvented, and how illicit activities are coordinated.

The inner network of the CPC offers stability and predictability since members share interests, common perceptions and an absolute need for secrecy. In this context, social ties based on reciprocity and solidarity become the preferred form for efficient relationships between members. However, in order to successfully swerve the public procurement process away from its original objectives, the CPC also has to organize, coordinate and control large quantities of activities. Externalizing some of the tasks seems to be the most efficient approach in accomplishing this. Because they provide professional, efficient and low-risk services, peripheral networks reduce transactions cost for the CPC. Their expendability also provides the flexibility and adaptability necessary to evade control and keep high levels of secrecy. The inner/peripheral configuration of the CPC enables a more contextualized analysis that accounts for contingent circumstances. While the conceptual framework it offers may not be applicable to all corrupt systems, it does allow for certain generalizations with regards to corruption linked to public contracting in liberal democracies. Inner/peripheral configuration also suggests new insights on the question of longevity in corrupt systems. The Commission showed that corrupted systems in the Montreal city procurement process have been the norm for many years. Our approach suggests that inner/peripheral configuration of the CPC offer an interesting dosage between stability and flexibility and, therefore, could explain the extraordinary resilience of the phenomenon. Empirical

research is necessary to clarify these questions. Although the City of Montreal's example constitutes an excellent revelatory case (Yin, 2009), testing using other cases of well-documented corruption (like Brazil's *Operação Lava Jato* [Ministério público federal do Brasil, 2014] or the Dutch parliamentary inquiry on corruption in the construction industry [Van Den Heuvel, 2006]) could enable us to refine the CPC model.

The question of the genesis of the coalition also needs to be addressed. Our hypothesis, which remains to be tested, is that CPCs are a fairly advanced form of corrupt arrangement that has evolved from simpler configurations such as transactional corruption or basic collusion (cartels, price fixing, etc.). Through the effect of entrepreneurial behavior from the dominant actors, simpler forms of corruption gradually consolidate into a coalition when the presence of new actors is required within the inner network, either to seize new opportunities for rent generation or to procure new competencies for evading control or hiding incriminating information. Following this logic, we could also argue that the CPC is not the most evolved form of corrupt arrangement and that it could eventually evolve into a full-blown criminal network if the capture of the procurement apparatus were to be total. At that stage, the coalition would have effectively transformed into a criminal organization with a more formal structure and better defined rules.

## 5. Conclusion

In Montreal, in the early 2000s, Bernard Trépanier, Frank Zampino, Michel Lalonde, Tony Accurso and Luc Leclerc represented the inner network nodes of a CPC that brought together many other public officials, politicians, political party employees and private sector representatives. The members of this coalition, who had different roles and levels of influence, all contributed in their own way to the manipulation of the city's procurement process. Behaving as entrepreneurs, they consolidated a network of corruption that had ramifications well outside the public works department.

In Montreal, the value of infrastructure contracts was reduced by 20%-33% as early as 2012, when the first arrests were made. This suggests that the dissolution of a CPC can have immediate effects. In 2013, tenders were actually 10% lower than the city's estimates. As for the process of awarding public contracts, many witnesses who testified at the Commission stated they had been aware of collusion for a long time. Their perception was that Montreal represented a closed market

dominated by an irremovable cartel. Representatives of the private sector perceived that political financial contributions were required to access the public works market –a requirement imposed by politicians and their entourage (CEIC 2014; La Presse canadienne 2013b). Similarly, many small business owners even reported having felt that collusion was the *modus operandi* of the construction industry.

We have suggested here that thinking CPC action as entrepreneurship behavior allows a new understanding of corruption in the public procurement process. This approach is coherent with Gottschalk's (2009; 2010) assumption that concepts from management and enterprise theory may be successfully applied to organized criminal behavior. As such, this article contributes to the body of knowledge on corruption by linking entrepreneurship to coalition building and by revealing corrupt and illegal aspects of entrepreneurial behavior. Understanding the CPC's activities as illegal entrepreneurial enterprises opens up research to new insights and promising developments. The CPC approach could help understand the structure of the corruption network at play in public procurement and, consequently, points towards policy solutions that match the complexity of the arrangements that are built by corruption entrepreneurs. Procurement corruption therefore must be fought using multiple strategies that include contract design and management that limit opportunities for rent-generation, governance frameworks and professional codes of ethics that reduce collusion opportunities and incentives and accountability and audit mechanisms that increase the likelihood of detection.

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## **End Notes**

<sup>1</sup> The Commission was created in 2011 by the government of Quebec after two years of media allegations of widespread corruption in public procurement at the municipal and provincial level. Its mandate was to examine public works contracts awarded by municipalities and provincial departments and to unveil schemes of corruption and collusion. The Commission was also explicitly mandated to explore the possibility that corruption schemes might be related to illegal party financing and to inquire into the possible presence of organized crime in the construction industry. Its mandate covers a fifteen-year period from 1996 to 2011.

<sup>2</sup> Almost all illustrations used in this article are based on testimonies given under oath to the Commission. Others sources (journalistic, for example) are duly mentioned. Nevertheless, we feel it is important to remind our readers that the people involved in these allegations have not been found guilty by a court of law and should therefore be considered innocent until proven otherwise.