Responsible Governance

Broadening the corporate governance discourse to include positive duties and collective action

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Abstract

Responsible governance increasingly poses a multi-sector, multi-level challenge for managers. It relates to the effective management of a large number of societal interfaces along which companies, government and civil society organizations have to develop distinct means, ways and principles for dealing with sustainability issues. Most sustainability issues supersede the boundaries of the archetypical roles and primary responsibilities of each of the societal spheres (state, market, communities) from which organizations tend to derive primary responsibilities. Hybrid organizational forms are maturing that have taken up these challenges, but these forms face sizable governance challenges as well. The corporate governance discourse consequently requires broadening and nuance at the same time. The agenda for 'responsible governance' should thereby not only deal with traditional corporate governance issues – aimed at correcting improper or irresponsible behaviour – but should also consider how to address wider issues of sustainability, aimed at driving and stimulating positive responsible behaviour. This contribution shows that this challenge requires parallel insights from two angles: a macro and a micro point of view. We construct a societally founded taxonomy of organizational forms and conceptualize four tiers of responsible governance challenges for organizations to delineate an agenda for further research.

Keywords: responsible governance, negative and positive fiduciary duty, primary and secondary stakeholders, agency, institutional logics and societal spheres, negative and positive externalities, collective action.

1. Introduction: a multi-level governance and management challenge

The management discourse on responsible governance has received input from three different streams of scientific and policy thinking: (1) the traditional focus on 'corporate governance', which emerged as an integrated field of knowledge for 'corporate control' from corporate law and corporate finance; (2) a broader discourse on 'responsible governance' that emerged out of a growing, general interest in 'good governance', stakeholder thinking and corporate social responsibility (CSR); and (3) an even wider discourse on the institutional embeddedness of various organizational forms that focuses on the societal impact of different governance structures. These three streams of thinking largely complement each other. They relate to three basic levels of responsible management learning and education (Laasch, 2016): (1) at the micro-level: ethics and compliance management; (2) at the meso-level: corporate responsible management; and (3) at the macro-level: environmental & sustainability oriented management. The first dimension focuses on relatively universal competences relevant for responsible managers. The second, more recent literature includes a wider range of responsible management practices. The third dimension contextualizes and guides strategic goal setting. To enhance the research on the nexus between Responsible Management and Responsible Governance, we need to link all three dimensions. A closer look at each of these literatures can help to further the argument and define the challenges posed to a more integrated and multi-level approach to responsible governance.

1.1 Traditional corporate governance

The traditional corporate governance discourse has largely been focused on the question whether managers lead an organization in the best interest of its owners and how to ensure that managers do so (Laasch & Conway, 2015). Corporate governance thinking is strongly grounded in agency theory (Cf. Alchian and Demsetz, 1972; Jensen and Meckling, 1976), which contends that when ownership and management become separated, interests start to diverge between the manager (the so-called 'agent') and the owner (the 'principal'). The greater the disconnect between the interests of principals and agents, the more agents may behave opportunistically, abuse their discretionary powers to serve self-interested purposes and engage in 'moral hazard' when they can do so with impunity. Corporate governance then describes the institutional framework that regulates the division and exercise of power in the corporation (Cf. Licht, 2013). It refers to the set of structures, mechanisms, relations and processes by which a company is controlled and directed, with the objective to minimize agency, goal divergence and conflicts of interests.

The conventional corporate governance literature deals with the principal-agent problem in terms of a narrowly defined scope of directly involved (primary) stakeholders. As agency is especially a problem for big and seemingly complex organizations such as joint-stock multinational companies, most agency literature centres on protecting capital providing shareholders (owners) against value destroying managers. 'Agency costs' then relate to the costs of monitoring (checks and balances), bonding costs (keeping managers aligned and accountable) and other residual costs.

The related topic of 'fiduciary duty' or 'fiduciary responsibility' centres on the special position taken by financial managers that, on behalf of others, are entrusted with handling large amounts of money. The fiduciary duty of an organization contains the trust that the organization (the agent) will loyally, prudently (with due care, skill and diligence) and transparently act in the interest of its clients and beneficiaries (principals). The more trustworthy the fiduciary relationship is, the lower transaction costs are. In the extant corporate governance literature, fiduciary duties primarily relate to market relationships, but in the CSR discourse this element becomes increasingly important for understanding the way confidence, faith, reliance and ultimately societal legitimacy of corporations and organizations develops.

A narrow interpretation of both agency and fiduciary duty defines the challenge of corporate governance as dealing with 'failure' in the operation of organizations: by preventing moral hazard, intentional misconduct by managers, and avoiding unwanted consequences arising from missing diligence in handling money (Laasch & Conway, 2015:518). In operational terms, the discussion often boils down to the practice of 'two-tier' or 'one-tier' boards of directors, and whether these structural characteristics and additional disciplinary and incentivizing mechanisms of hierarchy and control effectively help mitigate agency problems. Findings from the field of behavioural corporate finance show that managers do not always behave rationally and as a result may negatively influence strategic decisions, even if this affects their longer term survival and profitability (Malmenier and Tate, 2006; Kahneman and Tversky, 2000). Most of the traditional corporate governance literature has no reference to issues of sustainability, other than the realization that companies need 'financial sustainability' to survive and be able to innovate and scale.

1.2 Responsible governance

The responsible governance literature has broadened the topic by gradually including a wider range of (primary) stakeholders that might be negatively affected by the action of managers. The concept of responsible governance usually bears strong reference to public governance and questions of responsibility in implementing public policies. It entails rules, norms, processes and practices that incorporate *values* into administrative decisions, and combines accountability with discretionary action. Increasingly, general concepts of 'good governance' have also been applied to specific corporate governance challenges, mostly in reaction to public scrutiny of corporate practices. It constitutes a response to what is considered to be the 'crisis of shareholder governance' (Lamarche & Rubinstein, 2012). Standards introduced around the world to deal with broader corporate governance issues have started to address relational characteristics with society and longer term value creation as starting position. They increasingly recognize the vital role of employees and other stakeholders in contributing to the performance and long-term success of companies. Examples include the OECD Principles of Corporate Governance and various national governance standards and codes such as the Sarbanes-Oxley Act in the USA, the Code Tabaksblat in the Netherlands, or the European Green Paper on Corporate Governance. Many of these codes have formulated *principles* on the basis of which principal-agent relations get extended to issues like privacy, human rights, pollution, insider trading, or lay-offs. These topics refer to the negative externalities created by specific corporate behaviour. The perspective of corporate governance consequently is broadening to include relevant responsibility challenges derived from global trends like digitalization (impact on privacy), increased global dynamic complexity (impact on nationalism and populism; international trade) or various democratic tensions as a result of increased rivalry between power blocks and rival 'varieties of capitalism' (Whitley, 1998).

Responsible governance literature tends to be largely reactive. It concentrates on the way "leaders may recognize, review, unlearn old or unhelpful ways of working, to better reframe the vision and learn new ways to react to these new factors" (Cockburg et al., 2015). This approach to corporate governance shifts emphasis from controlling to steering and takes a somewhat broader and more positive view on agency by including wider stakeholder relations (Hill and Jones, 1992). It portrays the company as a multi-contract organization (Laffont and Martimort, 1997) and consequently shifts the perspective from simple principal (shareholder)-agent (manager) models to a more sophisticated model that incorporates several principals (stakeholders). Others point out that corporate governance precisely begins where contracts end – i.e. where the contract proves incomplete, information is incomplete and enforcement is unlikely – and conclude that a company is better conceptualized as a nexus of power relations (Licht 2013). According to these perspectives, new monitoring and incentive mechanisms should be implemented to protect the interests of all partners and to optimize shareholder value (Dessain, Meyer & Salas, 2008).

1.3 Macro-oriented governance

The macro-oriented, societal discourse on governance takes an institutional approach. It looks into various organizational forms and the way various organizations – at what level of intervention – can effectively contribute to the functioning of societies. Responsible governance then relates to the contribution that organizations can make to societal 'grand challenges' in general, and sustainable development in particular. The institutional perspective defines the logics that are prevalent in society, the way that they are enacted, undergo change and create certain institutional orders that lead towards a better (i.e. more resilient, sustainable, inclusive) society (Cf. Mintzberg, 2015). The macro approach thus considers the more fundamental challenge of what institutional arrangements best serve the sustainability needs of society.

Broadening the concept of responsible governance to include wider societal spheres further builds on two types of institutional research: (1) (new) 'institutional economics' and (2) 'institutional logics' thinking. Institutional economics considers the concept of institutions as the formal and informal 'rules of the game' that shape, structure and constrain social, political and economic relations (North, 1990). Institutional logics thinking takes a more organizational perspective, focusing on "socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values and beliefs, by which individuals and organizations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences" (Thornton et al., 2013: 2). This definition (Thornton & Ocasio, 1999) reflects the dual view of culture in institutions as a system of practices as well as of meaning (Sewell, 1992). Governance systems, in this discourse, provide a frame of reference in guiding actor's choices in sense-making. Combined, both discourses provide two angles for dealing with responsible governance questions: [a] an 'outside-in'–perspective which looks at sustainability issues that organizations are confronted with and the complementary roles to be played by them in addressing these issues ('societal functions'); [b] an 'inside-out'-perspective that looks at the adequate organization of various organizational forms to come up with effective contributions to addressing particular issues ('societal arrangements').

Institutions and logics delineate institutional arrangements and organizations. They create collective terms of action (Fligstein, 2001) that define what practices and governance procedures can be seen as effective and legitimate, whilst delineating who is authorized to intervene, take responsibility (Seo & Creed, 2002) or show engagement with specific social challenges (Reinecke & Ansari, 2016). Institutional arrangements thus relate to contextually embedded ways of doing things (Mair et al., 2012). Organizations then are the material expressions ('bodies') of "groups of individuals bound by a common purpose to achieve objectives" (North, 1990: 5). The macro-dimension of responsible governance depends on the context in which institutional arrangements can be linked to effective and legitimate types of action by specific organizational entities. The agency challenge can then be elaborated as the organization's positive fiduciary duty towards broader groups of primary and secondary stakeholders – now and in the future. Different organizational forms consequently derive their legitimacy from two sources: (1) from the context in which they have been created and are operating in; and (2) from the way they represent different layers of duties and responsibilities that can be attributed to them. Formal organizations representing institutional arrangements can help actors assign responsibility in ambiguous situations, as well as assist in constructing meaning and sense-making, particularly in situations in which economic, social and emotional pressure create contradictory pressures (Cobb et al., 2016).

An example of a particularly wicked governance challenge in this realm relates to the sufficient creation of so-called 'common pool resources' (Van Tulder, 2018b). The literature refers to common pool problems as the 'tragedy of the commons', a term developed as governance challenge by Ostrom (1990; 2015) who identified 'design principles' to overcome collective action and decision-making challenges for common pool problems. Additionally, a literature on so-called 'institutional voids' developed. This stream of research in particular points at governance challenges that developing countries face in the absence of vital institutional structures and weak enforcement of formal institutions. On the other hand, the void can also be considered an 'opportunity' space for companies (Mair & Marti, 2009) to help create new and more inclusive (proto-)institutions (Lawrence et al., 2002), provided that actors can come to the formulation and implementation of a new 'social contract' at the local, national and even global level (Sachs, 2015).

So taking the institutional logics and arrangements into account when considering responsible governance questions, implies that we consider different types of organizational forms and relate them to ever broader topics of organizational responsibilities: the creation of positive externalities, positive (fiduciary) duties and in general the way organizations can contribute to collective action challenges – as for instance entailed in the Sustainable Development Goals (SDGs) (Cf. Van Tulder, 2018a).

The aim of the rest of this contribution is to start filling the void that is created by the above relatively separate approaches to responsible governance questions, as well as profit from overlapping insights. We first take an 'outside-in' perspective (section 2), starting at the macro societal level, to be able to decompose the relevant institutional spheres at the meso-level of analysis that define the room of manoeuver for different organizational forms at the micro-level of analysis. Then, we turn the perspective around by adopting an 'inside-out' approach (section 3). We zoom in on the different layers of responsibility and fiduciary duty that can be attributed to various organizational forms in their relationship to the particular institutional sphere in which they materialized. The aim of this particular exercise is, firstly, to overcome some of the conceptual confusion that exists in the governance discourse around the world (strongly influenced by different governance traditions and ambitions); secondly, to delineate the responsible management challenges that can be derived from different institutional and organizational backgrounds; and thirdly, define salient research directions in the Responsible Management-Responsible Governance nexus that should be addressed in the future (section 4).

2. An outside-in perspective: dealing with organizational diversity

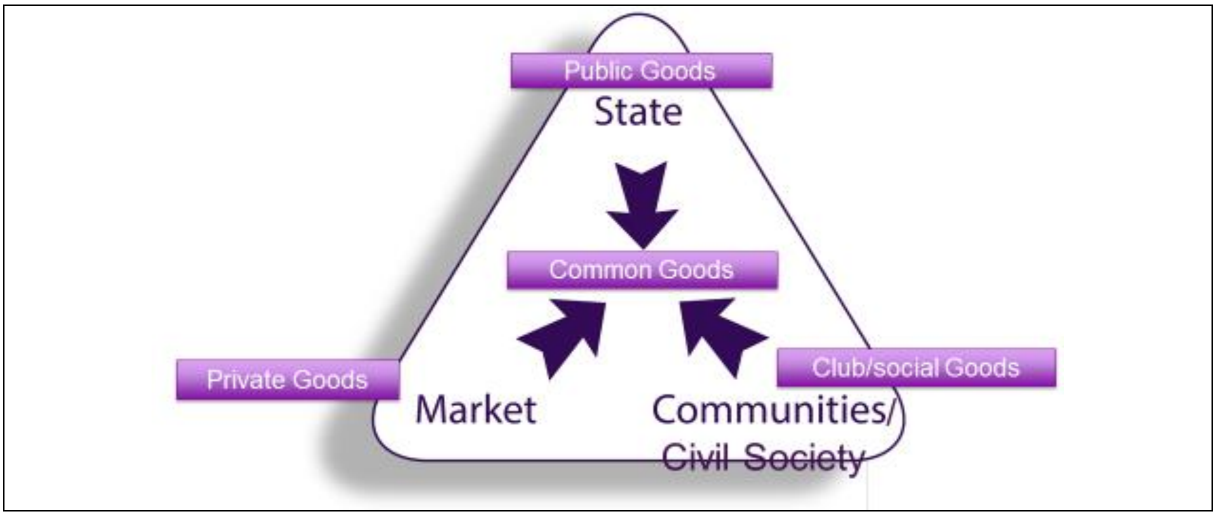
Societies around the world have adopted a large variety of organizational and governance forms. These generally represent (a combination of) a number of basic institutional characteristics: public or private, profit or non-profit, governmental or non-governmental, aimed at the provision of public or private goods or services. Each of these organizational and governance forms creates a different setting for responsible management practices. Yet considerable confusion exists about the defining characteristics, roles and sources of success of organizations in contributing to society. What to think, for example, of state-owned enterprises; do they serve the same goals as 'public' companies? What is the logic behind their existence and what societal value is created? And what is to be made of 'family-owned' firms, co-operatives, 'social enterprises' and the non-profit and informal sector? Agency and agency costs relate to many organizational forms. We therefore need to broaden the discussion on agency to cover all sorts of governance questions.

An outside-in perspective on governance questions starts with an understanding of the three basic institutional logics within society as a whole (2.1), and then tries to distinguish a number of more specific institutional arrangements (2.2) on the basis of relevant societal interfaces that define the most important organizational forms and their governance challenges.

2.1 General logics: societal triangulation and the conditions for a balanced society

Institutional theory depicts society as a triangle in which relatively separate spheres organize themselves on the basis of distinct 'rules of the game' or 'institutions'. Three primary institutions (or societal sectors) are usually distinguished: the state, market and civil society or 'communities' (Figure 1). The functioning of these societal spheres – individually and in interaction with one another – determines the manner in which a society functions as a whole. It also defines the context, in terms of opportunities and constraints, in which managers of organizations have to develop responsible management praxis.

Figure 1 The Societal Triangle



The three spheres each employ a logic, rationality and ideology of their own and essentially also occupy a different role and position in society. Through legislation, the government (state) provides the legal framework that structures society, which answers the need of society for reduced uncertainty. The market sector (market) primarily creates value and welfare for society by converting inputs into outputs within the bounds of the legal framework. In this way, business satisfies the needs of society by means of market transactions in pursuit of profit. Civil society or communities represent the sum of social relations among citizens that structures society outside politics and business. It includes the family, voluntary organizations, societal groupings, churches and trade unions. Being an organized network of citizens, civil society fulfils the need for relationships, mutual support and socialization through the development and sharing of norms (Wartick and Wood, 1999).

Societal and human relations shape a more or less sustainable society. Processes of interaction do, however, require mechanisms for coordination and regulation. The market regulates through competition, profit and rewards; the state through legislation, regulation and enforcement; and civil society through shared values and norms, participation and collective action. The sources of income of organizations within the three spheres also differ fundamentally: governments levy taxes; companies generate profits; and (non-profit) civil organizations depend on donations and other voluntary contributions (like membership fees). Further, the three societal sectors 'produce' different goods, services and values. The state specifically tends to those goods and services that would not readily be produced otherwise, given that their (marginal) returns cannot be easily distributed. This applies to so-called 'public goods' such as defence and infrastructure, which are generally funded by taxes. In the case of public goods it is not always possible to distinguish who pays and who benefits. Private goods can be sold much easier as singular (discrete) products, rendering turnover and profits. Their distribution via markets is easier to organize. Then there are a large number of goods and services that are particularly important to some groups, but which are insufficiently provided for by the market and the state. The provision of these so-called 'club goods' is the territory of the third building block, civil society. In the case of club goods, it is impossible to price the discrete units of benefits they generate, whereas some of the benefits are exclusive and accessible only by club (family, city) members. Through donations, sponsoring, contributions from members and assistance of unpaid volunteers, non-profit organizations make their contribution to the smooth functioning of this societal sphere.

Table 1 summarises the most important characteristics and coordinating mechanisms of the three societal spheres. Each of the three spheres has a primary function and related (fiduciary) responsibility: to either produce public, private or social goods, services and value. In case of failure to efficiently produce these, the sector loses legitimacy, and a basic (at tier 1, see section 3) responsible governance challenge is generated. Figure 1 also shows that a fourth area of responsibility is not covered by these institutional spheres: the creation of *common* goods and value – the infamous tragedy of the commons problem, which nowadays is increasingly taken up as a responsible management challenge as well.

Table 1 Characteristic coordination and governance mechanisms

	STATE	MARKET	CIVIL SOCIETY
PRIMARY IMPORTANCE	Political	Economic	Social
Principal (de-jure primary control):	Voters, political parties	Owners, Supervisory Board	Society, members
Agency: de facto/ informal control:	Officials, civil servants	Managers, Board of Directors	Managers, techno-crats, volunteers
Goods/value orien-tation (fiduciary responsibility):	Public goods/services and values	Private goods/ services and values	social/club goods/ services and values
Core responsibilities:	Enforcement of national standards and norms	Production of goods and services	Mutual support
Primary resources:	Legislation; regulation; police; armed forces; monopoly on violence	Financial capital, labour, natural resources	Energy of volunteers
Financed by:	Taxes and levies	Profits	Donations, contributions
Dominant organizational form:	Public; departments, ministries, local councils, provinces/ federal states	For-profit; Plc, Ltd, AG, SA	Non-profit; Volun-tary organization; Foundation; Association
Parameters	Coercion; Codification	Competition	Cooperation; co-optation
Primary weaknesses:	Rigidity and bureaucratisation	Monopoly and other forms of 'market failures'	Fragmentation
Ideologies:	Anarchy/Democracy/ Liberalism/Totalitaria nism	Market capitalism/Mixed economy	Individualism/ Collectivism

Source: based on Wadell (2000: 113), Wartick & Wood (1999: 26ff); World Bank (1997); Van Tulder with Van der Zwart, 2006.

2.2 Fine-tuning: Interfaces, Spaces and Responsibilities

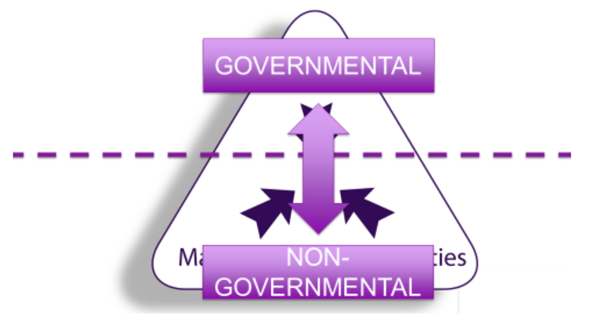
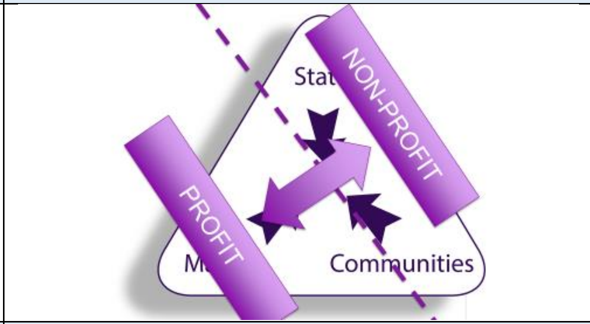
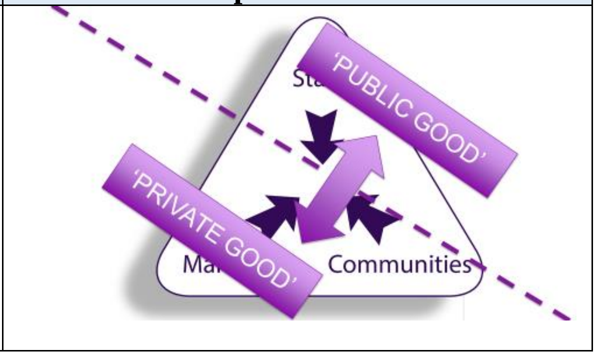
Institutional arrangements in the societal triangle are complex. None of the three institutional spheres operates in isolation of the others. Business, for instance, is grounded in society by legislation, competition and shared values and norms (Etzioni, 1988), and thus always finds legitimacy at the interface of a number of overlapping coordinating mechanisms derived from public, private and non-profit orientations. As a result, many hybrid organizational forms have developed in response to societal challenges that required a different take on the organization of primary responsibilities and related governance (and institutional) arrangements. Yet these hybrid forms face responsible governance challenges as well and have brought up questions related to the strengths and weaknesses in effectively addressing agency problems, the actual value (and side effects) created, the societal impact witnessed, and the most effective institutional arrangements and organizational forms for sustainability.

The hybridization movement has induced considerable conceptual ambiguity and confusion on the relation between societal spheres (functions), inter-institutional logics (arrangements) and different organizational forms (entities).We propose to tackle this conceptual ambiguity first and foremost as a taxonomy challenge. Our approach contrasts to the proposed ideal-types of 'institutional orders' introduced by authors in the institutional logics literature (Cf. Friedland and Alford, 1991; Scott, 2003; Thornton, 2004; 2013), which are based on a culturally oriented definition of institutions.[1] We have fine-tuned the three societal spheres into different organizational forms, based on a number of elemental societal and governance interface challenges that organizations have to address. We can consequently recompose the societal triangle on the basis of at least four basic interfaces (Figure 2) that define the organizational antecedents of responsible management challenges (Van Tulder with Van der Zwart, 2006):

1. **Organizational domain:** An organization can be identified as '*governmental*' or '*non-governmental*' (NGO). In the societal debate this distinction is considered important, but also leads to confusion. Companies for instance are 'non-governmental organizations', but are rarely considered as such. From a responsible governance point of view, the discussion on the position and legitimacy of NGOs becomes complicated, because it is difficult to derive any meaningful purpose if the identity of organization is defined by what it is not ('non-').
2. **Organizational means:** Organizations are based on *for-profit* or *non-profit* (or *non-market*) principles. In most countries communities are considered to be best represented by non-profit organizations (foundations). Yet non-profit does not really define an identity, nor an aim – witness the confusion in the hybridization debate on the status of for instance cooperatives and social enterprises.
3. **Legal form**: In most countries a distinction is made between a *public organization* and a *private organization*. The confusion here is related to agency questions in the market sphere that is split between market players with a public identity (such as joint stock companies that have shares traded around the world in the public domain), and those with a private identity (such as family owned enterprises in which the agent can also be the principal).
4. **Functional/responsibility orientation**: At the primary level of responsibility and fiduciary duty, we can make a simple separation between organizations that are aimed at the provision of *public goods* and those aimed at *private goods*. This distinction splits up the civil society sphere, in which some organizations are aimed at the provision of goods with an exclusive character (private or clubs good), and other civil society organizations (like Greenpeace of Amnesty) that aim at the provision of public goods, for instance through advocacy (Cf. Van Tulder, 2018b).

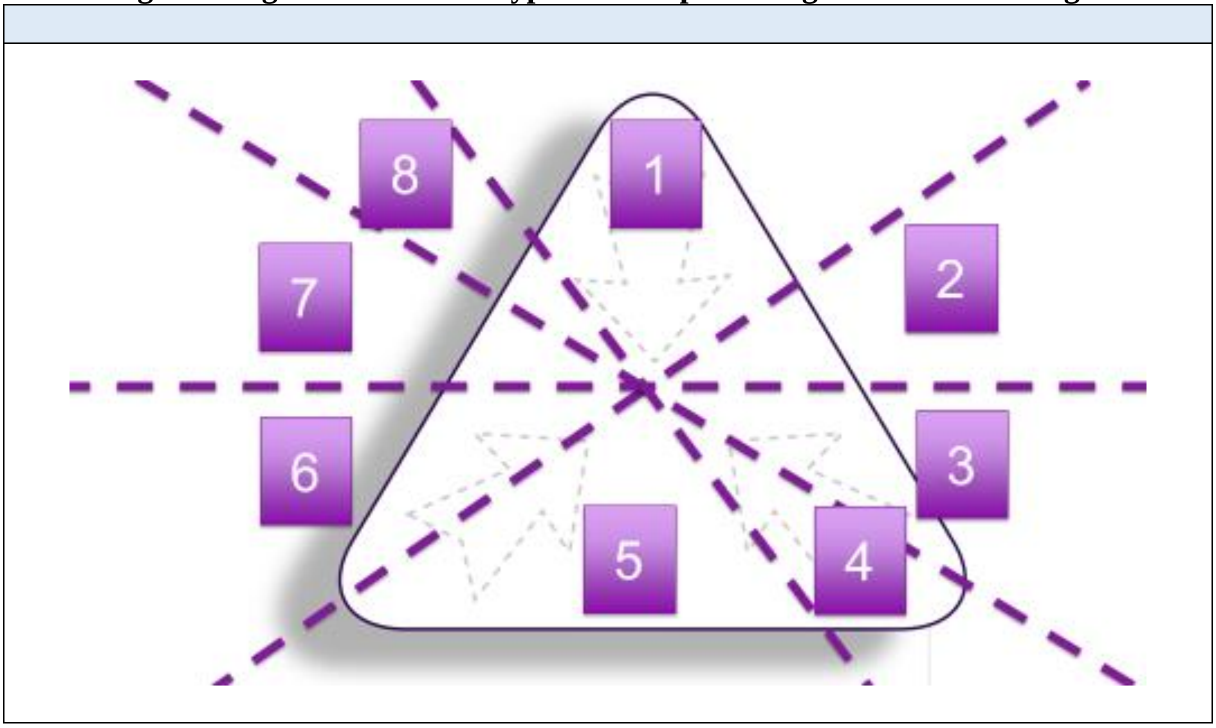
[1] Approaches within the institutional logics discourse have aimed at the creation of ideal-types – rather than taxonomies – of 'institutional orders' (Thorntonet al., 2013). The ideal-types of this exercise include state and market, but also more ambiguous ideal-types like 'corporation', 'family', 'profession' and 'religion'. The ideal-type 'family', for instance, uses the root metaphor 'family as firm' (ibid: 57) which overlaps with the institutional orders corporations and/or markets. When we want to address issues of responsible management and governance, in particular when related to the way these 'institutional orders' respond to sustainability issues, these ideal-type classifications pose many analytical problems.

Figure 2 – Four Societal Interfaces

Interface 1: governmental; non-governmental	Interface 2: profit-nonprofit
	
Interface 3: public-private	**Interface 4: public good-private good provision**
	

Combined, these four elementary interfaces present a regrouping of institutional functions and arrangements within the societal triangle. They define eight different archetypical organizational forms (Figure 3) that (a) are logically consistent, and (b) can be considered to face comparable responsible management challenges that distinguishes them – at the fundamental level of responsible governance – from other archetypical organizational forms. Some of these challenges relate to what has been defined as ideal-typical roles of the state, market and communities sectors (organizational forms 1, 3 and 6); some of these challenges relate to the 'hybridization' realm (organizational forms: 2, 4, 5,7,-8).

Figure 3 Eight societal archetypes and responsible governance challenges



- **[1]** This position represents the archetypical state role: a public organization, governmental, non-profit oriented for the provision of public goods. This is the entity most people refer to when they talk about ‘governments’ or the ‘public sector’.
- **[3]** This position represents the archetypical civil society or community role: a private organization, non-governmental, non-profit oriented, aimed at the provision of public or social/club goods. This is the entity most people would refer to when they talk about ‘NGOs’ or the ‘third sector’. The more specialised literature nowadays prefers to talk about ‘civil society organizations’ (CSOs) in order to better delineate the archetypical community-based organisation.
- **[6]** This position represents the archetypical market role on which most of the corporate governance literature is centred: a public organization, non-governmental, profit-oriented for the provision of private goods. This is the entity most people would refer to when they talk about ‘firms’ or ‘corporations’ or the ‘private sector’.

Along the four societal interfaces, five additional archetypical organization forms can be identified that have developed parallel to the others, and sometimes in response to typical governance problems that the ‘classic’ archetypical organizational forms (market, state, civil society) faced or created.

- **[2]** At the state-civil society interface, we find private organizations, non-profit oriented, aimed at the provision of public goods and (predominantly) funded by governments. We find most public universities, public policy implementation bodies and public hospitals in this category. Many of these organisations face governance challenges related to funding: how to develop business models that allow for ‘cross subsidization’ between private activities (fees, wealthy patients) and non-profit or loss-making activities.

- **[4]** At the market-civil society interface, we find private, non-governmental organizations that are *non*-profit oriented and aimed at providing private goods. Most cooperatives and most social enterprises fit this category. Both types of organisations are impact driven and have been founded in response to a societal problem (poor working and income conditions of farmers for instance). Cooperatives tend to have members rather than customers; many social enterprises are based on crowd-funding or other forms of blended finance.
- **[5]** At the market-civil society interface, we also find private, non-governmental organizations with a *for*-profit orientation, aimed at the provision of private goods. Most family owned firms appear in this category. Family owned enterprises invest and expand on the basis of own capital. This makes them grow slower than joint stock companies (archetype [3]) that have better access to risk finance, but also face greater basic governance challenges (e.g. due to opportunistic managers). Joint stock companies that decide to 'go private' often do so to regain control vis-à-vis shareholders and partly also to take more responsibility for the actions of their organisation.
- **[7]** At the market-state interface, we find public organizations that are (partly or wholly) government owned or sponsored, with a for-profit orientation, aimed at producing private goods. Most partly state-owned companies that also have a quotation on the stock exchange (and attract private money) fall into this category.
- **[8]** At the state-market interface, we find public organizations that are (partly) governmentally owned, for-profit oriented that produce a (semi) public good, such as infrastructure. We find most public-private partnerships in this category, as well as majority controlled state-owned enterprises (SOE) with either a systems or public utility functions like banking, electricity, water, rail, internet or postal services .

In the general governance and organizational literature (Cf. Herzlinger, 1996; Glaeser, 2003; Fama and Jensen, 1983; Williamson, 1983; Laasch and Conaway, 2015), each of these organizational forms has been associated with strengths and weaknesses related to largely micro- and meso-level agency problems as explained in section 1. Principal-agency, principal-principal problems and behavioural agency problems in the preferences and mind-set of the agent appear as a result of (a) the institutional environment in which the organization has to operate, and (b) the national (corporate) governance context that comprises elements of legislation, regulation, self-regulatory arrangements, voluntary commitments and business practices. From these contexts organizations have derived corporate governance principles for specific types of organizations, such as the OECD guidelines on corporate governance of State Owned Enterprises (OECD, 2015).

Annex 1 presents typical organizational strengths and weaknesses for each of these eight archetypical forms. These strengths and weaknesses can also be associated with typical agency challenges that appear as conflicts of interest between the principal(s) and the agent(s). Annex 2 lists a number of these agency challenges attributed to specific organizational forms in the general governance literature (Cf. Voorn et al, 2019; Minguez-Vera et al., 2010; Foulke, 2016; Smith et al., 2013; Milhaupt & Pargendler, 2017). Most of these challenges deal with problems related to moral hazard; averse selection; information-asymmetries; free-riding behaviour; the consequences of risk aversion; shirking on responsibilities; lacking or perverse incentives; skewed loyalties; or the effects of reputation and signalling (how the agent can credibly convey some information about itself to the principal). Overlapping agency challenges can be partly attributed to the fact that organizational forms share a number of basic institutional positions (Figure 2). Most hybrid forms represent a multiplicity of interests (principals), which on the one hand raises transaction costs, but on the other hand might increase effectiveness in addressing more complex responsibility issues, provided that related agency challenges (Annex 2) can be effectively dealt with. The volume of responsible governance research on this type of organizations has been relatively limited, which prompted us to develop the taxonomy one step further to also include various levels of responsibility, in the next section.

3. An inside-out perspective: dealing with multiple-level responsibility challenges

Agency is strongly related to the position of an organization in society, as are associated questions of fiduciary duty. In most countries, fiduciary relationships are legally defined. The exact breadth of duties defined by governance laws differs across countries and reflects more restrained or more extensive approaches to fiduciary responsibilities. A narrow definition of fiduciary duty is strongly related to a narrow view on the agency challenge, primarily confined to the relationship between capital provider(s) and the company's management. A broader approach relates to the relationship between an organization and all relevant (societal) stakeholders.

The mainstream literature on responsible governance stays relatively close to the basic sources of failure of various organizational forms. As identified in section 2, it predominately focuses on narrow agency problems related to poor management, poor representation of the interests of principals, and poor realization of the primary fiduciary responsibility towards society: i.e. to sufficiently produce that type of (public, private, club/social) goods, services and value for which they were created. 'Market failure' then exists in case firms do not supply goods and services that people want or can afford; 'government failure' exists in case governments do not provide effective laws, regulation and sufficient enforcement to make society safe and prosperous; 'civic failure' exists in case communities do not organize sufficient mutual support to make them secure and stable. We can refer to this basic level of addressing failure as '**tier one**' type of responsible governance challenges (see section 1 and Annex 2). These relate to primary responsibilities and narrowly defined fiduciary duties. Failing to abide to this basic level of fiduciary duty, in all societal spheres, contributes to low levels of societal trust.

Trust in organizations increases when a better profile towards addressing broader stakeholder concerns and societal needs can be demonstrated that goes beyond the direct sphere of solely internal operations. Responsible governance challenges then extend to addressing 'failure' at three additional levels of increasingly broader fiduciary responsibilities in response to direct and indirect stakeholder concerns, societal issues and sustainability (Van Tulder, 2018b):

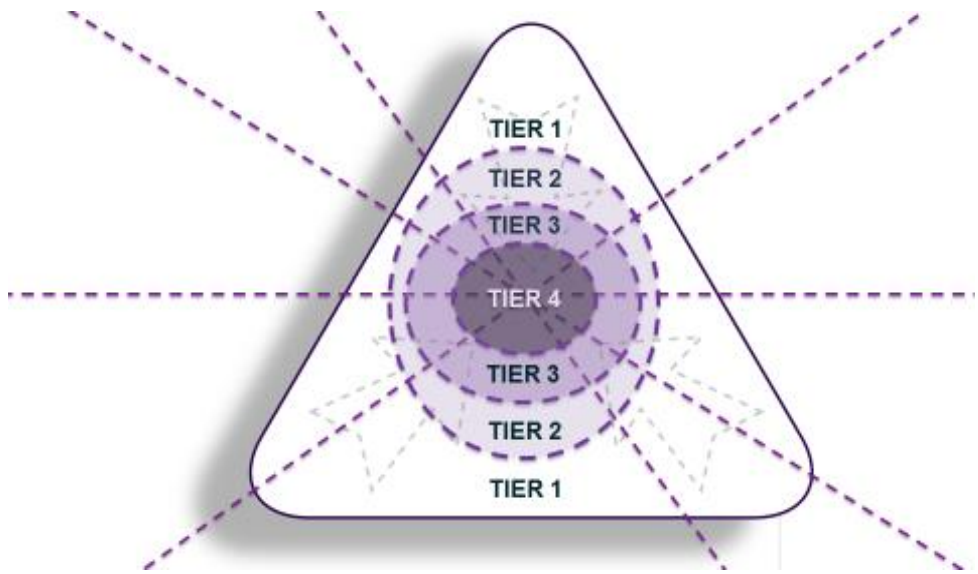
- **Tier 2**: Failure to reduce the appearance of negative externalities (e.g. pollution, corruption, unemployment[2]), and to mitigate or internalize their consequences. This level of fiduciary

[2] A separate publication explains in more detail, combined with examples, how each societal sector is faced with sources of failure at each of these four tiers. Cf. Van Tulder, 2018b.

responsibility relates in particular to affected secondary stakeholders and can be referred to as a '*failure to protect*';

- **Tier 3**: Failure to create positive externalities (such as innovation, employment, poverty eradication) that go beyond an organization's own direct interest to also benefit others. This level of fiduciary responsibility extends to a broader range of direct and indirect secondary stakeholders, and can be labelled as a '*failure to promote'*;
- **Tier 4**: Failure to actively contribute to collective action problems (e.g. climate, pensions, ecological degradation, inclusiveness) and the sufficient provision of (global) common goods towards society at large; this can be dubbed a '*failure to partner'*.

Figure 4 – Four Tiers of Societal Governance Challenges



The responsible governance challenge thus becomes a multi-layered challenge that applies to all societal spheres and all eight archetypical organizational forms alike (Figure 4). These all face universal legitimacy and fiduciary duty problems at increasing levels of societal engagement. The higher the degree of complexity of the societal problem an organization wants to address, the more the definition of what would constitute 'responsible governance' moves to higher levels of aggregation and institutional complexity. These levels are related to institutional voids, but also constitute the most logical 'partnering space' (Van Tulder, Pfisterer, 2014). Institutional voids can be filled by hybrid organizations. But in particular at tier 3 and 4, the level of institutional complexity that organizations have to address creates an explosive mix of governance challenges that go beyond the direct sphere of influence of individual organizations.

A very logical extension of the responsible governance practice (and literature) thus implies that at levels 3 and 4 of society, goal-based institutions (Cf. Van Zanten and Van Tulder, 2018) and cross-sector partnering approaches (Cf. Van Tulder and Keen, 2018) need to be considered as the most viable and effective way for addressing collective action (common pool) problems that transcend organizational boundaries and the scope of influence of individual societal sectors (Clarke and Fuller 2010; Selsky and Parker, 2005). By combining organizational identities, capacities and practices, cross-sector partnerships provide innovative approaches (Patton 2011) aimed at generating positive systemic effects (Googins and Rochlin 2000) that contribute to the forming of new proto-institutional arrangements (Cf. Lawrence, 2002) and structures of meta-governance.

One particular consequence of this multi-layered approach to responsible governance is that the general discussion on hybridization requires both extension and deepening. We need to distinguish between two types of hybridization that are linked to different tiers of responsible governance:

- *Organizational or 'horizontal' hybridization*: relates to the merging of distinct organizational forms and/or formal organizations at or along the societal interfaces, often in response to developments that require a different take on a more effective organization of primary responsibilities and related governance arrangements (see section 2). It considers challenges of bi-sectoral and inter-organizational governance (i.e. what organizational structures and governance constellation delivers the least negative externalities) and hence predominantly plays out at tier 1 and 2 of the societal triangle (see Figure 4).

- *Societal or 'vertical' hybridization*: relates to goal-oriented, goal-setting and transitional institutional arrangements that transcend sectoral boundaries with the explicit aim to address in particular tier 3 and tier 4 responsibilities. It considers cross-sectoral challenges of meta-sectoral governance (i.e. what proto-institutional arrangements create the biggest positive externalities) and the effectiveness of approaches in cross-sector partnerships to contribute to the creation of common goods. The SDG agenda is one of those areas where new forms of governance are developing around a number of common principles (people, planet, prosperity, peace and partnering) which guide companies in taking responsibility as managers.

Table 4 – Four tiers of Responsible Governance challenges

<table>
<tr><th>Responsibility tier:</th><th>Fiduciary duty</th><th>Failure to..</th><th>License to…</th><th>Prime Beneficiaries</th></tr>
<tr><td>1. Primary responsibility</td><td rowspan="2">Narrowly defined; Nega-tive duty; Having responsibility; Obligation to deliver (results-based)</td><td>… Produce</td><td>… Exist</td><td>Primary stakeholders</td></tr>
<tr><td>2. Negative externalities</td><td>… Protect</td><td>… Operate</td><td>Secondary stakeholders</td></tr>
<tr><td>3. Positive externalities</td><td rowspan="2">Broadly defined; Positive duty; Taking responsibility; Responsibility to commit (effort - based)</td><td>… Promote</td><td>… Scale</td><td>Societal (and international) stakeholders</td></tr>
<tr><td>4. Common goods crea-tion through collective action</td><td>… Partner</td><td>... Experiment</td><td>Future generations</td></tr>
</table>

Broadening the realm of relevant (corporate) governance questions thus also implies a new 'conception of control' (Lamarche and Rubinstein, 2012) that moves beyond ethics and morals, towards dealing with collective phenomena, which require both formal and informal rules that go beyond the direct sphere of influence of the company. Lamarch and Rubinstein (2012) call this the 'CSR institutionalization process'. One key of success of this conception lies in the decentralized 'production of rules which the companies help to shape' (ibid: 181).

In the legitimacy literature we can consequently add various dimensions of the 'license to operate' to the responsible governance challenge (Kraemer and Van Tulder, 2012) (Table 4). At tier 1, companies have a *'license to exist'*, provided that they produce no controversial products (tobacco) or poor services (pyramid games). In case they abuse their market power, however, they still have a fiduciary duty problem. In particular at tier 2, companies can earn their *'license to operate'*, i.e. gain legitimacy towards key external stakeholders that are faced with the negative externalities the company creates. If primary and secondary stakeholders are satisfied with the way the company handles responsibility issues (and protect their interests) the license to operate is granted and sustained. At tier 3, we can even speak about a *'license to scale'* in case the company not only limits its negative externalities, but actively promotes its positive externalities. In terms of an ethical theory of stakeholder relations, a company that produces sufficient positive externalities (or spill-over or agglomeration effects, as they are called in regional economic theory) may earn a license to internationalize and scale, even when this goes at the expense of some employment in the home base. Finally, at tier 4, a different type of license appears. We would like to call this the *'license to experiment'*. This license applies to developing new products and services for unserved needs and people. It implies that a company may initially fail in its effort to effectively create a new product or service to serve these needs, but nevertheless gains in reputation and goodwill, which in turn creates a business case for further expansion and experimentation. The license to experiment is particularly relevant for companies that embrace the ambition to contribute to common and global goods creation as envisioned by the Sustainable Development Goals (Van Tulder, 2018b). The needed innovation and experimentation then becomes an integral part of the responsible governance challenges at tier 4 levels: i.e. creating effective, cross-sectoral alliances (partnerships) with strategically, tactically and operationally 'fit' parties (Cf. Van Tulder and Keen, 2018; Van Tulder et al., 2016; PrC, 2015).

4. The responsible governance challenge - a discussion and research agenda

The organisational set-up of societies proves rather complex and diverse. Part of the complexity is caused by the large number of hybrid forms that have emerged to deal with different economic principles, as a means for escaping organizational stasis through the fusion of different institutional identities and practices (Jay, 2013; Battilana et al, 2009) or as sources for institutional and organizational change that can provide solutions for societal challenges. This contribution argued that responsible governance studies should acknowledge and address this complexity to have societal relevance. Taking the diversity of organizational forms into account, while relating them to different agency challenges and levels of fiduciary duty, delineates a most relevant agenda for further research into responsible governance and management.

Increasingly, responsible governance seems to be equated with the challenge of hybridization. There is without doubt increasing interest in how businesses can successfully hybridize in order to achieve societal impact through their commercial operations (Porter and Kramer, 2012). Legislative innovations have started to provide special legal status for hybrids in many countries, while widespread recognition of auditing and certification organizations such as B-Lab and the Global Reporting Initiative (GRI) is improving their legitimacy (Battilana & Lee, 2014). The interface of profit/non-profit is becoming more crowded than ever with the introduction of a relatively new phenomenon: the social enterprise, generally described as a hybrid between a non-profit and a 'traditional' for-profit business (Galaskiewicz & Barringer, 2012), aimed at creating both societal and financial value, yet not explicitly putting profit before all other goals (Yunus, 2007). The social enterprise has experienced significant growth in numbers as well as in popularity. These developments indicate that social-business hybrids are becoming mainstream with a promise of renewing the current debate on how businesses can address social and societal issues. But there are also concerns: is this type of hybridization – as a new governance principle – not running the risk of getting 'stuck in the middle' (Maas et al, 2019) by combining a social goal with very limited efficiency and low scaling possibilities? The danger of so-called 'mission-drift' is looming for companies that do not effectively make the transition to a financially viable organizational (governance) form (Cf. Van Tulder, 2018b).

Moreover, hybrid organisations that operate at or across the societal interfaces have traditionally been the frontrunners in the area of socially responsible business practice. Organizational forms such as cooperatives have filled the societal (institutional) space left by more simpler organizations in order to deal with some of the responsible governance challenges created by mainstream capitalism (Polanyi, 2001). Have these traditional forms of organization become obsolete? How serious should we take the initiative of large for-profit organizations that have become more involved in CSR and, in their search for 'purpose', have taken up double identities as well, by aiming at "creating shared value" for themselves and society (Porter and Kramer, 2012)? Can we expect that these developments indeed create new forms of governance that are more effective in dealing with fundamental responsibility challenges?

This contribution argued that answering this question depends on a much better understanding of the various dimensions of responsible governance. We argued in favour of a broader conception of responsible governance beyond narrowly defined fiduciary duties. We illustrated how responsible governance increasingly poses a multi-sector, multi-level challenge that requires the effective management of societal interfaces, along which companies, governments and civil society organizations have to develop distinct means, ways and principles for dealing with sustainability. The bulk of the responsible governance literature (including media attention to scandals related to ill-served fiduciary duties), however, still tends to be concentrated around a relatively basic understanding of relevant governance challenges and focused on publicly listed companies. This constitutes a clear research gap to be filled by present and future responsible management research and teaching. Taking the responsible governance challenge seriously, requires a broadening of the research agenda in various theoretical and empirical directions:

- from narrow to broad fiduciary duty approaches
- from fiduciary duty to fiduciary responsibility
- from negative duty to positive duty approaches
- from an inside-out governance perspective to an outside-in (and interactive) perspective
- from go-it-alone to going together approaches – emphasizing the role of cross-sector partnering
- from single-level to multiple-level governance structures
- from an agency approach to (also) a beneficiaries approach
- from defensive 'contingency and repair' activities for organizational deficiencies (and conflicts of interests), to the facilitation of proactive arrangements that are able to create societal value and address common needs.

New venues of research on higher levels of responsible governance in particular require research into cross-sector partnerships. This contribution also showed that societal (starting) position influences complexity in responsible governance practice. We argued that in particular the levels 3 and 4 of the responsible governance challenge are relatively poorly addressed, certainly when we want to look at the effectiveness of different partnering configurations related to the eight archetypical organizational forms that can constitute a partnership – and consequently may create new form of proto-institutions.

Finally, an important part of the responsible governance discourse should therefore be linked to broader societal themes and multi-level challenges and outcomes. In this regard, the research agenda should be more explicitly focused on the issue of 'governance coherence' and 'transitional governance'. Governance coherence relates to the effect of diverging governance interventions, in which different frameworks, capacity development mechanisms and policy instruments are put in place that may or may not pull in the same direction (ICSU, 2017). Transitional governance insights provide ways of understanding the logic and function of intermediary governance approaches – in particular in times of increased turbulence and in areas of institutional voids – to navigate change trajectories in sustainable directions (Muldoon, 2018; Van Tulder et al, 2018). Questions of both horizontal (multi-sectoral) and vertical (multi-level) governance coherence have become particularly relevant in the context of more systemic approaches to sustainability, where making full use of the potential of synergies – while minimizing inconsistencies and trade-offs – to create positive interaction effects between various organizational arrangements is considered vital. At the macro-level of analysis, the 'nexus approach' to complex interconnected economic, environmental and social sustainability issues – as provided by the Sustainable Development Goals (SDGs) – is rapidly gaining ground to inform and contribute to more integrated and coherent (global) governance strategies. An inside-out perspective on dealing with multi-level responsibility challenges (section 2.3), however, suggests that adopting a nexus approach is equally relevant for companies and organizations (at micro-level of analysis) in order to inform higher levels of governance coherence along the four tiers of societal engagement, and to realize more integrated strategies for delivering on sustainability.

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Annex 1: Governance Strengths and Weaknesses of archetypical organizational forms

Governance form	Typical strengths	Typical weaknesses
[1] STATE government	(1) coordination in public goods provision; (2) protecting public interest; (3) coercion and enforcement measures to prevent free riding, transgression, misbehaviour; (4) redistributive, allocative and, diffusing power (i.e. welfare, income, wellbeing, knowledge and information); (5) creating stability/continuity; (6) internalization of external effects.	(a) lacking efficiency: public goods provision requires a high degree of transparency, accountability and organisational bureaucracy, which increases transaction and switching costs. Increasing efficiency may compromise effectiveness, legality, (democratic) legitimacy and procedural and distributive justice; (b) the continuity of long-term programs, due to short-term electoral cycles, political opportunism; populist promises during election
[3] CSO Civil society Organization	(1) creation and coordination of social capital; (2) mutual support to cope with, mitigate, share or even out risk; (3) advocacy, voice/articulation of interest, mobilization; (4) Service-delivery: provision of social / club goods & services; (5) organisation of shared beliefs, values, norms, ideology (homogeneity in values, preference, focal point).	(a) fragmentation (due to group heterogeneity); (b) access to sufficient funding; (c) the extent to which different interests are represented / decision-making power (to prevent power abuse); (d) degree of organisational professionalism; (e) degree of efficiency in providing sufficient goods & services for members (transaction costs; difficulty of scaling opportunities); (f) span of control (when too big, cohesion declines); (g) continuity (dependency on volunteers; funds; support & goodwill, etc) (h) exclusiveness: tension between inclusion (club feeling) vs. exclusion (feeling of discrimination); (i) ownership structures /ill-defined ownership
[6] MARKET Joint stock company	(1) relatively easy access to risk-bearing capital; (2) mitigation of risk due to limited liability; (3) transferability of shares/ ownership; (4) no restriction of members; (5) flexibility; (6) efficient production & scaling; (7) creation of (new) markets; (8) competition; (9) innovation (technologies; products; processes; organisational); (10) risk taking and risk management; (11) generation of surpluses (profits); (12) generation of spill-overs by applied mode of organizing: through outsourcing, delegating, cooperating with suppliers.	(a) short term orientation (profit driven); (b) market concentration /monopoly surpluses / collusion / insider trading; (c) societal license to operate (trust; reputation); (d) too big or too diversified to create value; (e) too much risk taking: high risk = high wins or high 'penalty'; (f) capacity of internalisation of external costs; (g) global free trade excesses: 'race to the bottom', 'footloose capital', tax evasion and manipulation; natural resource exploitation; (h) abuse of information asymmetries and market power (e.g. misuse of patents on medicine, seeds).
[2] STATE-CIVIL SOCIETY	(1) quicker realization of social goals and the organization of social capital; (2) lower marginal costs of public goods, while pursuing social welfare objectives; (3) risk sharing; investment in activities/ projects that either the public authority or the third sector would be unable or unwilling, to complete alone (free riding behavior and cross-subsidization possibilities); (4) performance-based payment; (5) contractual stipulation of risk bearing/ responsiblities /performance	(a) Complexity in and duplication of steering mechanisms and monitoring; (b) goal incongruence (different masters to serve); (c) ambiguous or unclear performance criteria, due to directive ambiguity; (d) contracts /performance measures undermine autonomy, reducing short-term control over service delivery ; (e) confusion among management and employees, blame shifting and lack of real accountability; (f) inefficiency due to monitoring duplicity, insufficient

	standard; (6) access to more innovative solutions / techniques / methods (tendering selection process, market competition) (7) leveraging private finance (voluntary contributions) with public funding.	monitoring, increased coordination and transaction costs, (g) risk transferred from taxpayer to semi-public organization (such as a university or hospital) to bear residual/unforeseen liabilities.
[4] CIVIL SOCIETY-MARKET	(1) active economic participation by members; (2) solidarity / cooperation in meeting common economic, social, and cultural needs and aspirations; (3) joining of forces (against market dominance; (4) economic resilience by risk and profit sharing, and by investing part of profits back into the community; (5) voluntary, open membership; (6) democratic member control and decision-making ; (7) autonomy and independence; (8) education, training, information sharing; (9) concern for community / (ethical, social) values orientation (openness, social responsibility, caring, tradition, etc); (10) the competitive advantage of mutuals	(a) democratic decision-making (one man one vote, majority rule); (b) accountability/ responsibility towards whole membership group hampers initiative and flexibility; (c) less agile and thus less competitive; (d) portfolio risk problem: different risk aversion levels and time horizons of members; (e) shares not transferable, no or very restricted individual spread of risk possible; (f) professionalism (hiring and retaining specialized staff, e.g. administrative capacity); (g) tradition, conservatism; (h) free-rider conflicts;
[5] MARKET-CIVIL SOCIETY	(1) Trust (alignment of ownership and management); (2) stability: no shareholder influence that induces short-termism; (3) strong leadership / direct influence in decision-making enables capability to take up issues quickly; (4) flexibility (hands on mentality) and commitment; (5) long term outlook / focus on continuity reduces overambitious risk taking; (6) company interest prevails over personal gain; (7) risk aversion supports steady growth strategy; (8) (family) values oriented; (9) Family owners often have a profound emotional investment and interest in their firms, as their fortune, personal contentment, and reputation are tied to success of the firm.	(a) limited access to capital; (b) succession problem; (c) Relational aspects play an important role in decision-making (e.g. family conflict); (d) inward looking / risk of group think / lack of checks & balances;--> Some family businesses are reluctant to let outsiders into the top tier, and the result is that people are given jobs for which they lack the skills, education, or experience. (e) overly risk averse (slow growth, stagnation); (f) unstructured governance (formal decision-making; internal hierarchies; rules); (g) flexibility to internalise opportunities quickly (capacity and capabilities challenge); (h) limited external accountability.
[8] STATE-MARKET	(1) Increased efficiency / operational performance / quicker realization; (2) lower marginal costs of public goods, while pursuing social welfare objectives; (3) risk sharing; investment in activities/ projects that either the public authority or the private sector business would be unable or unwilling, to complete alone; (4) performance-based payment; (5) contractual stipulation of risk bearing/ responsibilities /performance standard; (6) access to more innovative solutions / techniques / methods (tendering selection process, market competition); (7) leveraging private finance with public funding;	(a) political interference may distorts the public mission and commercial orientation; (b) risk aversion / shirking in case of joint responsibilities or delegated (contracted) responsibilities; (c) risk bearing comes at a price: private party will ask for surplus which may make a PPP costly; (d) as it concerns public goods provision, public party still 'responsible' for realization; so considerable expense may be involved for a public authority where a project has gone wrong, or (e) risk transferred from taxpayer to private company to bear residual/unforeseen costs/contingent liabilities.
[7] MARKET-STATE	(1) deep pockets of state (financial access and continuity); (2) insider in local networks; (3) easier to make longer term planning (strategic importance in sector);	(a) bureaucracy / loss in efficiency; (b) suspicion of political agenda (industrial politics) in case of foreign activities; (c) single shareholder influence (risk of biases

	(4) too big to fail; (5) regulatory capture - big influence on national policies; (6) stable /secure job environment for employees	in decision-making due to lack of sufficient checks and balances); (d) lack of flexibility; (e) risk aversion; (f) target of political and ideological battles; (g) pressure for corruption (in case foreign influence is a focal point), rent-seeking behaviour by politicians, other non-non-pecuniary private benefits.

Annex 2: Exemplary agency challenges per organizational form

Governance form	Exemplary agency challenges
[1] STATE government	(i) government officials act in their own private interests (clientalism/power/ influence/status/job aspirations); kleptocracy/enrichment; nepotism (appointing trustees on essential positions); (ii) regulatory capture, government officials are influenced by vested interests (lobby groups, corporate interests); (iii) government officials act in accordance with own convictions, ideology, priorities (not aligned with public cause / democratic majority)
[3] CSO Civil society organization	(i) information asymmetry between managers and members (fraud, expropriation of organizational resources; unacceptable risk taking; mismanagement; moral hazard; acting in own interest/ subversion); (ii) management acts in accordance with own convictions, ideology, priorities (not aligned with values and priorities of members); (iii) agency costs: monitoring & reporting, checks on trustworthiness staff; (iv) skewed representation of interests in decision-making by management (v) dependency of members on volunteering staff and reliance on 'good intentions' can make control /sanctioning complicated (lack of effective control mechanisms); (vi) limited legal standing for members to file lawsuit against managers (lack of juridical sanctioning instruments).
[6] MARKET Joint stock company	(i) Information asymmetries: How to protect shareholders (owners) against value destroying managers (fraud; unacceptable risk taking; mismanagement/ moral hazard); (ii) 'Agency costs' relating to the costs of monitoring (checks and balances on information asymmetries), bonding costs (keeping managers aligned and accountable through contracts, profit-sharing and performance-related pay) and other residual costs; (iii) Internal control mechanisms: Decision-making and representation structures / corporate governance; (iv) External control mechanisms: public financial statements and accountancy control.
[2] STATE-CIVIL SOCIETY	(i) multiplicity in the responsibility to steer and monitor reduces (steering and monitoring overall, increasing freeriding behaviour; (ii) leads to inequity between principals – in terms of bargaining power - and may induce lobbying of the agent; (iii) conflict between principals increases the agent's autonomy: in the absence of clear directives, the agent has more freedom to choose its paths, or to play out both branches of government against each other; (iv) problems in building incentive schemes for agents when principals' objectives diverge and when there is a lack of coordination; (v) individual principals have incentives to lobby agents to pursue their individual objectives; multi-principal nature of government can start to revolve more around individual principals' power and less around cooperation (vi) leads to greater inefficiencies: lobbying increases agency costs and brings a larger wealth transfer from principals to agent than would occur under one principal; welfare loss that comes from monitoring duplicity when multiple principals do not coordinate; increased agency costs that follow insufficient monitoring; increased managerial autonomy increases coordination and accountability costs.
[4] CIVIL SOCIETY-MARKET	(i) members in the cooperative may play different roles simultaneously (owners, buyers and sellers, controllers, and beneficiaries) and thus may have very diverse objectives; (ii) multiplicity of objectives means the objectives of the organization are not well defined, increasing managers' discretion; (iii) multiplicity of objectives makes it more difficult to establish incentives and control mechanisms that minimize conflicts between members and managers; (iv) power of the cooperative managers, combined with the fact that property rights are not properly defined.
[5] MARKET-CIVIL SOCIETY	(i) conflict between owner and managers: driven by family's emotional ties to the business, shared family wealth, and nepotism; (ii) Conflict of interest between controlling (family) shareholders and non-controlling shareholders: "large family shareholders can acquire "private benefits of control" that hurt smaller non-family shareholders. These include the following: excessive voting rights or board control, entrenched family managers, mismatch of control rights versus cash-flow rights, and "tunnelling," or the "transfer of assets and profits out of firms for the benefit of their controlling shareholders." In extreme cases, when "dynasty" families control large swaths of an industry, it can lead to corruption and inefficiencies that can have implications at a macroeconomic level"; (iii) Conflict of interest between family shareholders and family outsiders: These "super-principals" may have an interest in non-financial aspects of the firm, including preserving the family's reputation and legacy, giving back to the community, or protecting the environment. Here, family

	shareholders' financial interests (e.g., maximizing the value of a share or increasing the dividend) can conflict with these objectives.
[8] STATE-MARKET	(i) transparency in light of tendering processes (information-asymmetries; information that is competition-sensitive); (ii) setting performance criteria in the light of risk sharing / risk bearing; (iii) exit option government (tax payer) is very limited as it concerns public goods/services); (iv) handling contingent liabilities (fault finding / attribution); (v) under-reporting by contractor of liabilities/unforeseen circumstances, risks; (iv) information-asymmetry in (tech) knowledge between government officials and private party / contractor.
[7] MARKET-STATE	(i) Exit options enjoyed by citizens (the UBOs behind state) are far weaker than those available to shareholders; (and, in non-democratic societies, the voice option is virtually non-existent; (ii) The lack of a clear consensus on which objectives the government should pursue—as well as on the means to accomplish such objectives—hinders the development of effective mechanisms of accountability; (iii) The absence of a market check on managerial agency costs; (iv) Implicit state guarantees undermines the threat of bankruptcy as a source of managerial discipline (v) The pursuit of social welfare objectives favours citizens (UBOs) but not shareholders; (vi) The appropriation of disproportionate financial benefits by the state (which favours citizens, but not shareholders); and (vii)The award of subsidies to SOEs, which favours shareholders, but not necessarily citizens; (vii) Allocation of responsibilities and of oversight/enforcement of duties may not be adequately separated, which may not be in the public interest (enforceability of rule of law by the public);