POLYCENTRIC STAKEHOLDER ANALYSIS:
CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY UNDER VALUE HETEROGENEITY

Paul Dragos Aligica
Mercatus Center at George Mason University

Vlad Tarko
Dickinson College, Economics Department

Abstract

This paper presents a method of stakeholder analysis based on recent developments in the theory of polycentricity and co-production. A polycentric system of governance is a collection of heterogeneous decision centers acting independently, but under a common system of rules and/or norms limiting negative externalities and free riding, and the theory of co-production describes how the different stakeholders are involved in establishing these over-arching rules. We use this theory to model the interactions between different stakeholders of a corporation and the corporate management, providing a new perspective on the broad business case for corporate social responsibility (CSR). The Polycentric Stakeholder Analysis (PSA) framework accommodates stakeholders' heterogeneity of preferences, beliefs and values, and the complex nestedness of stakeholders' governance systems; it is realistic in capturing the imperfect rationality, limited information and potentially opportunistic behavior, while also preserving the key elements of the normative democratic ethos that drives CSR more broadly. We show how CSR managers can determine who the salient stakeholders are, without adopting unrealistic homogenizing assumptions about "hypernorms" or "integrative social contracts", and we provide a simple public economics model, inspired by the calculus of consent, how to allocate CSR resources efficiently.

INTRODUCTION

One of the biggest challenges faced by a stakeholder analysis of corporate social responsibility (CSR) is to accommodate the stakeholders' heterogeneity of preferences, beliefs and values, as well as the institutional diversity and complex nestedness of governance arrangements. A proper framework of analysis should be realistic in capturing problems of imperfect rationality, incomplete information and potentially opportunistic behavior, while preserving the key elements of the normative democratic ethos characterizing the CSR literature.

The CSR and corporate governance (CG) theories start from the private/corporate perspective of individual firms and their stakeholders, but end up analyzing collective action problems. This converges with the concerns of traditional political economy and institutional literature. This literature approaches the phenomenon from a public goods perspective (Ostrom & Ostrom, 1991), but, thanks to its methodological individualism, it converges with the CSR, SG and stakeholder perspectives at the foundational level, sharing a series of themes, problems, concepts, and models. This being said, in some respects, in particular with respect to the problem of heterogeneity, the political economy and institutional analysis literature is far more advanced (Ostrom, 2010, 2005; Aligica, 2013).

This paper seeks inspiration from this institutional literature to advance a possible response to the challenge of heterogeneity in the realm of CSR and CG. Within the broad range of this literature, we will focus on a relatively less known governance theory, specifically designed to cope with heterogeneity: the polycentric governance perspective developed by Vincent Ostrom in his public choice perspective on public administration (Ostrom, Tiebout, & Warren, 1961; Ostrom, 1973, 1987, 1991; Wagner, 2005; Toonen, 2010; McGinnis & Ostrom, 2012), and further advanced by Nobel Prize in Economics co-recipient, Elinor Ostrom (Ostrom, 2005: ch. 9, 2010; Munger, 2010). The key task of this theory is to elaborate the idea of democratic governance systems based on overlapping and competing jurisdictions and using diverse institutional arrangements, but operating under an overarching system of rules which constrain the interactions of social agents with heterogeneous values and preferences such that a productive social order emerges. Polycentricity can be used both as a purely descriptive tool of stakeholder analysis, and as a normative perspective for improving stakeholders-based governance systems, in line with the democratic bent and aspirations of the standard stakeholder analysis literature. The polycentric perspective provides another approach to the problem of accounting for the voice of and interests of all stakeholders, by means of procedures with a strong support from the theory of democratic governance. Along those lines, we are proposing a new framework of analysis that we call "polycentric stakeholder analysis" (PSA), and we argue that the current discussions regarding stakeholders governance systems may benefit from incorporating the Ostromian perspective in multiple ways. We show that it is possible to address the concerns of "integrative" theories (Donaldson & Dunfee, 1994; 1999) without leaving the standard individualistic, economic approach.

1. THE PLACE OF PSA WITHIN THE CONTEXT OF CSR THEORIES

Since Bowen (1953: xi) first asked "What responsibilities to society may businessmen reasonably be expected to assume?" the field of corporate social responsibility (CSR), as well as the diversity of views about CSR, have exploded (Mitchell et al., 1997; Garriga & Mele, 2004; Habisch et al., 2005; Windsor, 2006; Crane et al., 2008). In this paper, we cannot hope to address this wide diversity. We start by accepting that, as Baron (2001: 12) succinctly put it, CSR "involves going beyond what the letter of the law requires or the market demands". More specifically, we adopt Jones's (1980: 59-60) two main defining assumptions:

(i). First, we go along with the literature according to which CSR refers to responsibilities that corporations assume *voluntarily*, rather than as a result of being coerced by government policies (what is sometimes referred to as dCSR). Although this is not universally accepted (e.g. see Fox et al., 2002; Lydenberg, 2005; Moon & Vogel, 2008), it nonetheless seems to be the predominant point of view in the field, and it has been explicitly emphasized from an early stage (e.g. Walton, 1967). As Davis (1973: 313) put it, "social responsibility begins where the law ends. A firm is not social responsible if it merely complies with the minimum required of the law". Most authors on which we rely in our account accept this assumption. Husted & Salazar (2006) distinguish between three types of CSR:

strategic (as means to increase profits), altruistic (genuinely concerned with social benefits), and coerced (influenced by taxes and subsidies). We only include the first two in our discussion.

(ii). Secondly, we adopt the view that CSR is *more* than just a rhetorical and largely empty public relations device by which corporations secure higher profits (Eels & Walton, 1974; Carroll, 1979; Wood, 1991; Swanson, 1995; Harrison & Freeman, 1999; Carroll & Buchholtz, 2014). In other words, we take the view that "altruistic" CSR is real, and, hence, that there is something missing in Friedman's famous critique of CSR, according to which the social responsibility of corporate officials is only "to make as much money as possible for their shareholders" (1962: 133). Apart from its normative content (according to Friedman no less than the very survival of the free society may be at stake), his perspective has problems as a purely positive description of actual corporate behavior. For example, even in the early, 1970s most firms were engaged in activities such as minority hiring and training, ecological concerns, contributing to education and the arts, urban renewal and civil rights (Eilbirt & Parket, 1973: 11), and, more recently, the scope of CSR activities has expanded even more (Elington, 1998; Muirhead, 1999). As Mele (2008: 57) has noted, "it is hard to affirm that all practices of CSR are profitable".

This being said, our proposal can still be seen as an example of a broader business case for CSR (Kurucz et al, 2008). Although firms generally operate in a competitive environment, this environment does not force them into a strategy of profit maximization (computed based on opportunity costs), but, instead only creates a weaker evolutionary pressure towards having positive accounting profits (Alchian, 1950). Authors like McWilliams & Siegel (2001) and Husted & Salazar (2006) have noted that firms engaged in CSR experience additional costs, and, hence, should be at a competitive disadvantage. As McWilliams & Siegel (2001: 124) have put it, "[t]o maximize profit, the firm should offer precisely that level of CSR for which the increased revenue (from increased demand) equals the higher cost (of using resources to provide CSR)". But taking Alchian (1950) at face value, we can predict that McWilliams & Siegel (2001) model underestimates the level of CSR that firms can provide, and, indeed, according to the evidence (Mele, 2008), do in fact provide. This leaves more room for firms (especially large corporations) to pursue additional values apart from simply maximizing shareholders profits. This explains why, even under pure free markets, one should not expect CSR activities (going beyond profit maximization) to be entirely weeded out by competitive pressures. Thus, the observation that corporations in fact engage in various CSR activities which don't help the bottom line should not be seen as a major theoretical and empirical puzzle. It is merely a consequence of the fact that real markets rarely fit the perfect competition model; and moreover it is a reflection of the empirical reality.

Although in this paper we are focusing on the analytical side it is unavoidable to deal with the normative issues when we want to identify the distinctiveness of this approach and place it in the context of literature. Let us use as a foil the well-known Friedman's position. According to Friedman's critique, when a manager does anything which is not aimed towards maximizing profit "he is to act in some way that is not in the interest of his employers" (Friedman, 1970: 255). This, however, assumes that shareholders don't have any other values and interests apart from profit. In fact, they do, and the Alchianesque manner in which economic competition works leaves room for these additional values to be implemented and reflected in firms' activities. While it is true that principal-agent problems create difficulties for shareholders to fully control the managers (Miller, 1992; Salazar & Husted, 2008), the narrow profit maximization goal does not follow even if we abstract from this issue. This means that the business case for CSR needs to be understood in broader terms than merely that CSR helps increase monetary profit (Husted & Salazar, 2006).

According to the standard business case for CSR, firms may engage in CSR out of a variety of business reasons (this classification is inspired by Kurucz, Colbert & Wheeler, 2008):

(1) Shareholder business-case theories of CSR focus on *risk reduction* by (a) avoiding costly public relations disasters (Bowie & Dunfee, 2002), (b) facilitating marketing activities (Cornell & Shapiro, 1987; Pava & Krausz, 1996; Preston & O'Brannon, 1997), including by means of reputation-enhancing philanthropy (Frankel, 1998; Peattie, 1998; Crane, 2001), and (c) reducing the potential for costly managerial errors by getting managers out of their epistemic bubbles (Kedia & Kuntz, 1981; Lerner & Fryxell, 1988; Lankoski, 2000; Salzmann et al., 2005).

(2) Stakeholder business-case theories of CSR focus on enhancing the firm's *reputation and legitimacy* as a means to, on the demand side, (a) establish trust with potential customers and thus *expand their market share* (Barney & Hansen, 1994; Hill, 1995; Jones, 1995; Wicks et al., 1999; Kok et al., 2001; Godfrey, 2005; Storey & Price, 2006; Habish & Moon, 2006), and, on the supply side, (b) *attract talent* and increase workers' productivity

(Stigler, 1962; Riordan et al., 1997; Turban & Greening, 1997; Albinger & Freeman, 2000; Waddok et al, 2002) and (c) *secure supply chains* (Cashore, 2002).

(3) Social integration business-case theories of CSR focus on the idea that the profit of the corporation is the result of a win-win synergistic relationship with its broader social environment (Wheeler et al., 2003), for example as a result of *social learning* (Wadell, 2002) and by facilitating the discovery of its *competitive advantage* by engaging with the wider community. As Kurucz, Colbert & Wheeler (2008: 89) put it, "stakeholder demands are viewed less as constraints on organization, and more as opportunities to be leveraged to the benefit of the firm", for example discovering new opportunities for profit in developing countries (Prahald & Hart, 2002; Prahald, 2014).

Insert Table 1 about here

Building on Wilber (1998; 2000), Kurucz, Colbert & Wheeler (2008: 103) propose a general typology of business cases for CSR by means of a two-dimensional graph plotting the *locus of value* (ranging from individuals and firms all the way to holistic "value communities" and "integral commons") versus the *world view* or the type of social theory that is being used (ranging from simple individualistic and reductionist theories to integral theories of "complex emergence"). Table 1 adapts this classification, illustrating the location within the typology of the three perspectives identified above, and placing the polycentrism approach in the same conceptual context.

A polycentric system of governance is a collection of competing and cooperating decision centers acting independently in overlapping decision and jurisdiction arenas, under a common system of rules and/or norms limiting negative externalities and free riding (Ostrom, 1999; McGinnis & Ostrom, 2012; Aligica & Tarko, 2012, 2013). In our case, the "decision centers" are the group of stakeholders. The PSA framework accommodates stakeholders' heterogeneity of preferences, beliefs and values, and the complex nestedness of stakeholders' governance systems; it is realistic in capturing the imperfect rationality, limited information and potentially opportunistic behavior, while also preserving the key elements of the normative democratic ethos that drives CSR more broadly.

The aim of PSA is to capture the insights about the broad meaning and social relevance of corporate activities (specific to "social integration" CSR theories), but doing so while using the conceptual tools of the political economist. In other words, properly understood, adopting the conceptual foundation of shareholder theories in terms of assuming that only individuals have values, does *not* necessarily lead to the extreme Friedmanite position. On the contrary, it leads to a deep appreciation of the broader business case for CSR. Unlike the existing elaborate business-case theories for CSR which rely on "value communities" and "integral commons", i.e. on unrealistic assumptions or aspirations of value homogeneity at the level of communities, societies or even the Earth as a whole, PSA starts from acknowledging the existence of deep value heterogeneity. As we'll show latter, we can give a better account of corporate social integration by adopting this realistic assumption and using the theory of co-production.

Yet another distinctive feature of PSA is that, consistent with its origins in Ostroms' work, it advances a perspective that circumvents the state-market, public-private dichotomy and at the same time questions form its own potion what Feeman et al. (2010) call "the separation fallacy" regarding the chasm between ethics and business, between efficiency and morality. Friedman (1970: 133) states that "the only one responsibility of business towards society is the maximization of profits for the stakeholders, within the legal framework and *the ethical custom of the country*" (emphasis added). The last part has sometimes been interpreted as a de facto admission of CSR (Husted & Salazar, 2006). However, when applying the idea to practice, Friedman (1970) left out the part about ethical customs. For example, he stated that a corporation should not "make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation *or that is required by law* in order to contribute to the social objective of improving the environment" (emphasis added). Mele (2008: 59) pinpoints the assumption behind Friedman's perspective in that he assumes a "full separation of the functions of the public and private spheres" according to which "the public good is pursued exclusively by public servants and politicians, but not by private businesses". That is precisely the inflection point where the PSA gets another of its distinguishing features: a business case for CS that is not committed to this standard dichotomy.

Our proposal, following Ostrom's institutional theories and her emphasis of the realm "beyond markets and state" (Ostrom, 2010; Ostrom et al., 2012) is naturally skeptical of such attempt at "full separation". Moreover, the now robust literature on private governance (E. Ostrom, 1990; 2005; Cashore, 2002; Leeson, 2014; Stringham, forthcoming) shows that public issues are in fact often addressed by private actors and by private collective associations (such as clubs), rather than by governments. Large areas of activity are regulated by private means, such as reputation and private certification, rather than by states, and one cannot properly understand most economic activity without taking into account that the acting agents operate not only under externally provided constraints but also under internally assumed morals (Stringham, 2011). Hence, even without the emphasis and self-awareness brought about by CSR, private actors have long been engaged in social activities beyond the strict pursuit of monetary profit. To give just a simple and famous example, the lighthouse had long been held as an example of public good that could only be provided by government, but when Coase (1974) looked more closely at how lighthouses had in fact been provided historically, he found that they were often constructed by private actors essentially engaged in CSR (earning benefits in terms of reputation, rather than directly in terms of money).

To sum up: the CSR literature has already discussed repeatedly the theme. The PSA approach revisits and complements that discussion from a novel angle. To put it differently, Friedman's "full separation of private and public spheres" hypothesis comes under attack not just from the communitarian perspective ("socialist", as Friedman has labeled it), but also from the direction of the self-governance and private governance literature. While the communitarian critique makes the normative case that corporations *should* care more about the broader social environment, the latter literature makes the positive case that corporations *can* deal more effectively than governments with a wide range of social issues, and they *in fact do so* when given the opportunity. As long as we understand CSR as voluntary, the larger the scope of viable CSR is, the smaller the role of coercive government becomes. In other words, opposite to Friedman's assumption that accepting a role for CSR beyond mere profit maximization leads to "socialism", we can see that the better voluntary CSR activities work, the *weaker* the case for government intervention becomes. PSA, while building on realistic assumptions about human behavior and institutional order offers a theoretical apparatus to this alternative normative position.

2. HETEROGENEITY: ASSUMPTION AND IMPLICATION OF THE STAKEHOLDERS APPROACHES

At the core of PSA is the issue of heterogeneity. Most of its distinctive features are a result of the fact that it starts form the simple observation that most cases of CSR, governance or stakeholder analysis are placed somewhere in the middles of a continuum that has at one extreme homogeneity and another one radical heterogeneity. That in itself is sufficient to raise questions regarding the widespread "representative agent" homogenization assumption so prevalent these days in the literature. One of the most important problems in generating human cooperation, a free, peaceful and productive social order has always been the fact that human individuals have a diversity of beliefs, values, identities, preferences and endowments (Sproule-Jones, Allen & Sabetti, 2008; Aligica, 2014; E. Ostrom & V. Ostrom, 2014). This "problem of agent heterogeneity" is a key issue in the study of human cooperation, social action and social dilemmas.

When dealing with the problem, social sciences use most time by default a strategy of "homogenization" by assumption: A version or another of a "representative agent" approach is used solving thus the challenge of the heterogeneity of beliefs, preferences, assumptions etc. Implicit in this approach is the conviction that heterogeneity is a problem but, luckily, there is some deeper focal point hidden within this diversity. That focal point is identifiable by averaging out or circumventing in one analytical way or another the differences. Hence, general solutions outdoing the differences are possible because diversity, at its most basic level, can be circumvented, uncovering a basic structure of social rules, patterns and laws that generates unity in diversity (and could be the basis of the "common good").

For example, Donaldson & Dunfee (1999: chapters 3 and 5), inspired by Waltzer's (1987; 1992) idea of cross-societal norms, have proposed a process by which business ethics "hypernorms" could be identified. Donaldson & Dunfee's (1994; 1999) "integrative social contracts theory" is holistic and sociological with normative concerns operating in a top-down fashion from society upon individuals and firms: "Relevant sociopolitical communities are a primary source of guidance concerning stakeholder obligations of organizations formed or operating within their boundaries" (250), and "managers can obtain useful guidance concerning the resolution of difficult stakeholder questions" by "reference to community authentic norms" (Donaldson & Dunfee, 1999: 252). This is a more elaborate version of Friedman's reference to "the ethical custom of the country" that we have mentioned earlier.

By contrast, building on the work on value heterogeneity in the Ostroms' tradition, our PSA approach preserves individual-level heterogeneity, and the focus shifts on the process by which "sociopolitical communities" are formed. This process, and the entire discussion about normative matters, operates in a bottom-up fashion, from individuals towards overlapping collectivities of values (rather than towards a homogenized "society"). Heterogeneity and homogeneity coexist in any special group, organization or society. But the very fact of coexistence raises questions about the strategies based exclusively on homogeneity assumptions and procedures. A process or procedure is involved in which heterogeneity and homogeneity interact. Such communities cannot just be pre-supposed. Complex issues of social entrepreneurship are often involved in building them such communities out of the interplay (Boettke & Coyne, 2009a,b). Moreover, when it comes to the more normative aspect, one has to ask, who is to decide which community norms are "authentic"? It would be a mistake for managers to go by ignoring salient stakeholders simply because they have been labeled "inauthentic". Doesn't this just open the door for a convenient rhetorical strategy by which one can easily rationalize, ignoring all those with whom s/he disagrees? What are the procedures, processes, rules, heuristics by which such basic norms emerge, get validated, are legitimized or applied and amended? Donaldson & Dunfee's analysis, thus, leaves out some of the very key problems that need to be addressed by a theory of stakeholder analysis. Because obviously such processes have something to do with stakeholders operating in an institutional, collective choice environment that these stakeholders could at least partially change.

The empirical and practical presence of persistent and widespread heterogeneity reminds us that the homogenizing strategy is has notable limitations with significant practical implications. What happens when "consensus" does not exist (Riker, 1982)? Is social cooperation and governance still possible between individuals who don't entirely share the same beliefs, values, ideas, and identities (V. Ostrom, 1997; Aligica & Tarko, 2013)? How can we account for broad "social integration" theories of CSR *without* assuming away the diversity of normative perspectives? The key claim is, thus, that the homogenization of various beliefs or objectives of the social actors is *not* always a key precondition to governance and institutional order. As Rescher (1993) put it, management "need not root in agreement – and not even in a second-order agreement in the processes for solving first-order conflicts – as long as the mechanisms in place are ones that people are prepared (for however variant and discordant reasons) to allow to operate in the resolution of communal problems".

These are not only important theoretical questions of political economy and institutional and governance theory. They are also important for any stakeholder theory. As Jensen (2002) has argued, managers cannot maximize more than one objective function. This has led him to propose the "Enlightened Stakeholder Theory" according to which "the objective function of the firm is to maximize the long-term firm value" (2002: 246). This view expands Milton Friedman's perspective to some extent, but not enough to clarify the ambiguities surrounding the term "value" or to fully account for how corporations in fact behave (Mahoney, 2006; Dunfee, 2008). A lot hinges on the various (heterogeneous!) interpretations of the key terms, in this case, "value". As Dunfee (2008: 351) has noted, "a better way to view the Friedman-Jensen arguments is that they are just that, arguments about a way they would prefer to see the world structured. But that is not the world that we live in. Friedman and Jensen would not probably disagree. Nor is it likely that most citizens would prefer to live in." This gets at the core of the issue: To a large extent, the debates about CSR have been conflicts of vision based on divergent moral view-points. But to provide a *positive* account of the world of CSR as a whole, one needs to go beyond one's own preferred point of view, and acknowledge the full diversity of views. Hence one may see PSA as a move in a more realistic and constructive direction.

Moreover, and most importantly, stakeholder's governance is, most of the time, governance in conditions of heterogeneity. Even if each given manager has a preferred personal view about the proper scope of CSR, they, nonetheless, have to face the fact that their stakeholders may have widely divergent views and expectations. This divergence of expectations needs to be included in the analysis. The question, then, is what are the mechanisms and processes that should be highlighted and used in such circumstances? What are the collective meta-level rules, procedures, patterns governing these mechanisms and processes? As Mahoney (2006: 4) has noted, the "question of how the economic surplus generated by the firm is, or should be, allocated among the various *stakeholders* has been given little research attention". The situation has not improved much since. In our view, one key reason for this state of affairs is that existing CSR theories, as highlighted by the Table 1 typology, cannot properly deal with the issue of heterogeneity, and hence, cannot overcome the limitations of Jensen's single objective function maximization. By contrast, as expanded in the next sections, PSA is designed to provide a possible solution, by modeling CSR decisions as (democratic) co-production procedures withing heterogeneity and polycentric circumstances (Aligica & Tarko, 2013), rather than as simple mathematical optimization problems.

In this approach, we follow Dunfee's (2008) suggestion.[1] Echoing Mahoney (2006), he noted that although "[m]anagers are seen as having a large zone of discretion in designating stakeholders as beneficiaries of social investment", nonetheless, "stakeholder theory, at least in its present state of development, fails to provide fine-grained help concerning how managers should cope with the allocation problem when making social investments" (2008: 361). One of the main stumbling blocks is the absence of a proper procedure for determining "stakeholder salience" (Mitchell et al., 1997). Dunfee's (2008: 361) suggestion is to frame this problem "as a market-like phenomenon involving needy stakeholders competing for assistance from potential suppliers of social goods, including corporations".

The main difficulty in following this suggestion is the fact that market-like emergent orders *without* prices operating as the coordination catalyst are not guaranteed to produce efficient outcomes and lack an entrepreneurial (public or institutional entrepreneurship) driver towards the efficient allocation of resources. As Dunfee (2008: 359) notes, as far as CSR is concerned, "there is no simple demand and supply mechanism". Even with prices, well-known market failures exist, but, without prices to facilitate productive coordination, the failures of emergent orders having public or collective goods or action features can be amplified and multiplied. Institutional entrepreneurship may emerge, but to put it differently, entrepreneurship in non-market settings is not always productive, but it can often be wasteful or even destructive (Kirzner, 1985; Baumol, 1996; Boettke & Leeson, 2009; Boettke & Coyne, 2009a,b). Nonetheless, developing in close conjunction with Ostrom's institutionalism, we do have an incipient theory of productive entrepreneurship in non-market setting, known as "public entrepreneurship" (Oakerson & Parks, 1988; Klein et al., 2010). The theory of polycentricity has also developed as a direct attempt to answer this same challenge of understanding non-market (but market-like) mechanisms for building productive social orders (V. Ostrom, 1991; 1999; Aligica & Boettke, 2008; Aligica & Tarko, 2012; E. Ostrom, 2014). Both the theory of public entrepreneurship and the theory of polycentricity have developed especially with respect to the political realm, but their main ideas can be easily imported into the field of CSR as well, as it has already become obvious by now, they both –political economy and CSR- deal with the same field of phenomena at the interface between the public and the private. In this respect, our proposal for "polycentric stakeholder analysis" can thus also be understood as a public entrepreneurship CSR theory.

Dunfee's (2008) suggestion to search for a "market-like phenomenon" to coordinate CSR activities is thus useful for laying out the agenda and highlighting the tasks that a theory of public entrepreneurship applied to the realm of CSR would have to perform. He laid out a few key questions:

(1) How can a corporation "align their social investments with their comparative advantages in providing social goods"? (Dunfee, 2008: 361). Sometimes this is obvious. For example, Wal-Mart providing help after hurricane Katrina, delivering "truckloads of supplies, including free prescription drugs", was an obvious extension of their usual comparative advantage (Horwitz, 2009, V. Storr…….Emily Chalmer…..). But the answer to this question is less obvious on most occasions. Generally speaking, CSR "[c]ompetencies may lie in intellectual property, or proximity, or ability to distribute, or in special knowledge of employees" (Dunfee, 2008: 355).

(2) How can a corporation "treat social investments in a manner similar to their financial investments by specifying social goals and objectives and then evaluating their investments to make sure that the goals and objectives are realized"? (Dunfee, 2008: 361). This is precisely the challenge that the theory of public entrepreneurship could be designed to address. How can such an evaluation occur in the absence of prices as mechanisms for social

[1] We agree with his diagnostic, while obviously disagreeing with the homogenizing approach of Donaldson & Dunfee's (1994; 1999) "integrative social contracts theory" that we have criticized earlier.

coordination?

(3) How can corporations "be completely transparent in all dimensions of dCSR"? (Dunfee, 2008: 361). Because CSR usually refers to providing various public goods, allowing "outsiders, including relevant stakeholders and their representatives, [to] render independent judgments concerning whether the firm is achieving its [CSR] goals", and providing "other potential corporate suppliers … the information to better inform their own decisions" can increase the system-level efficiency. But this goes against the regular practice of competitive economic activities when secrecy plays an important role. So, while two firms may be competitors in their regular activities, they may be natural cooperators in their CSR activities. How will they manage questions about secrecy and patents?

While PSA will not provide a ready-made recipe for answering such questions, after all these are genuinely hard questions and we can expect at least some context specificity with respect to the proper answers, it charts the intrinsic logic of decision in such circumstances and offers a framework of analysis designed to facilitate (a) the mapping, analysis and understanding of the contextual patterns and factors of specific cases and)b) by implication to help the efficacy of CSR decision making. A tentative PSA framework (laid out in more detail in section 5) rather than providing one-size-fits-all purported solution to CSR management, it provides a broader approach which can help both researchers and managers recognize the diversity of CSR problems and design specific solutions and different methods of stakeholder involvement.

3. PUBLIC VALUE: ITS NATURE AND CREATION

At the center of CSR, governance and stakeholders situations lays the problem of public value, of collective value creation. The challenge is this: How could one group, a collectivity generate out of the diversity of individual values, preferences, views, beliefs a convergent, common public or collective value? What are the mechanism by which one could generate out of the diversity of individual values, a state of nature, a social state, which embeds a common values desirable or at least acceptable to the multitudes of individuals for which that value is salient? As one could note, this challenge is at the core of the governance studies tradition in political sciences as well as at the core of CSR, corporate governance studies in business studies. The two traditions converge in the domain defined and underlined by these problems. Once we accept that CSR involves more than just a roundabout method of increasing profits, and that firms can aim to create value not just for shareholders, but also for a wider range of stakeholders (as a result of shareholders' "altruism", to use Husted & Salazar [2006] terminology), we are led to an inquiry about the nature of "public value" creation. In other words, we are led into an extensive literature which is in itself almost an entire sub-field of inquiry in political science (Moore, 1995; Bozeman, 2002; 2007; Jorgensen & Bozeman, 2007). In what follows, we rely on a simplified account, which has been specifically designed for the theory of polycentricity (Aligica & Tarko, 2013). As we have already noted, the theory of polycentricity is by its very nature based on this problem. A polycentric system is the institutional social description of the action arena or context in which public or collective value is generated in conditions of heterogeneity. Our contribution here is less foundational or theoretical, and more applied. This section shows how to apply the polycentric theory of public value creation to the problem of stakeholder analysis.

The economic analysis of "public values" starts from a somewhat peculiar meta-ethics, namely the conceptualization of moral values as special cases of preferences. In Aligica & Tarko's (2013) account, moral values are "[p]references about other people's behavior that one wants everyone else to have as well" (729). These are not the only kind of possible preferences about other people's behaviors. Voluntary agreements, such as contracts or clubs, also specify how others should behave, but, unlike moral values, if the other person disagrees or refuses to comply, one simply accepts this as a fact of life ("de gustibus non est disputandum") and tries to find other willing participants. By contrast, moral values determine people to desire that everyone else complies with their values. The game theoretical analysis of how norms persist and spread provides the background explanation for this definition. As shown by Axelrod (1986), for a norm to persist, agents need to (a) comply with it, (b) punish those who don't comply with the norm, and, furthermore, (c) punish those who don't punish. In other words, norms reflect a preference about others' behavior *plus* a meta-preference that everyone has that same preference (and acts on it).

This theory dovetails with Michael Walzer's (1987; 1992) account of "moral minimalism" that has influenced much of the "social integration" CSR literature. Moral values can be seen as "preference minimalism", reflecting a limit to “de gustibus non est disputandum” when it comes to other people’s behaviors. When it comes to other people’s behaviors not *everything* can be allowed; moral relativism has a limit. However, unlike the “social integration” accounts, the economic account of “public values” remains at the individual level, and it is compatible with the persistence of irreducible heterogeneity of values. This is important because, while Walzer’s “moral minimalism” may be correct (one can argue that we indeed have “sets of standards to which all societies can be held … rules against murder, deceit, torture, oppression, and tyranny” [Walzer, 1992]), Donald & Dunfee’s (1999) “hypernorms” for business ethics are much more evasive and controversial. In our view, stakeholder analysis should be performed under the working assumption that no such hypernorms exist. (See also Douglas [2000] for another critique of hypernorms and “integrative” theory.)

Once we understand “public values” as instances of preferences, we can pursue an individual-level analysis. Aligica & Tarko (2013) note that, in order to account for value heterogeneity, one needs to look at the *diversity of evaluators* who may not only have (a) different values and different “aspiration levels” for these values (which determine their wiliness to compromise), but also (b) different epistemic perspectives on the observed system (e.g. using different categories to systematize and understand the world) and different evaluation criteria for the state of affairs (what variables are considered relevant, and estimated or measured). Consequently, the activities of a firm may be understood in different ways by different stakeholders (who attach different meanings to various acts), and evaluated based on a variety of ethical criteria.

This allows us provide a different perspective to defining who the stakeholders are, and of identifying their “salience” for a firm’s CSR (Mitchell et al., 1997; Dunfee, 2008). According to the PSA perspective, *the stakeholders are the evaluators of the firm’s activity (and only these evaluators), and the salience of stakeholders is determined by the distance between the shareholders’ own perspective (both normative and epistemic) and the stakeholder’s perspective*. According to this account, someone who does not evaluate the firm’s activity is not a stakeholder, even if they are beneficiaries. Such beneficiaries who are not evaluators can enter the CSR picture only because other stakeholders care about them. For example, a firm that provides relief for the homeless has a host of stakeholders who care and evaluate the firm’s activity in this regard (including those who are effectively involved in providing the relief), but many of the homeless themselves may be simply passive recipients. Many forms of aid and philanthropy are in the same situations. The logic behind excluding passive beneficiaries from the set of stakeholders is that, by not being evaluators, their actions are never directed towards changing the managerial decisions (either CSR decisions or normal business decisions). Managerial decisions may change as a result of information updates *about* such passive beneficiaries, but not as a result of *their* deliberate actions.

Furthermore, because PSA is a *business-case* theory of CSR, albeit a broad one, the salience of stakeholders (i.e. how much their opinions matter for managerial decisions) is ultimately determined by their correspondence with the views and desiderata of managers and shareholders. Again this is not a normative statement but a factual one. The configuration of the decision making process, the structure of authority and power forces us to place the stakeholder and manager at the center of the analytical framework. It is in the end a measure of recognizing the heterogeneity of the situation in the assimetries of decision power and responsibility of different classes of stakeholders. For example, anti-Wal-Mart protesters are unlikely to be among Wal-Mart’s prominent stakeholders, despite the fact that they are clearly evaluating Wal-Mart’s activities. To the extent that stakeholders with very different perspectives from the shareholders have an elevated salience, this is only in an indirect manner – because other shareholders, who have high salience, care about not upsetting them. This includes sheer monetary profit reasons, but there is no reason to limit it to just monetary profit reasons.

Let us compare this to standard stakeholder theory, as synthesized by Dunfee (2008). According to him, a stakeholder is “(1) anyone whom relevant laws and norms require be recognized as a stakeholder, (2) anyone whom hypernorms require be recognized as a stakeholder, and (3) anyone whom the managers of the organization determine, acting consistently with organizational values, to have a legitimate need which can be ameliorated through the use of the core competencies of the corporation” (355). As we have been arguing, the first two identification criteria are problematic. The first one presupposes homogeneity of values, and the second one refers to “hypernorms” which may not even exist. In a sense, these first two criteria put the cart before the horse because, in practice, communities united by certain norms emerge via dynamic processes that display many facets and may involve a strong social entrepreneurship element (Boettke & Coyne, 2009a), and the firm’s CSR may actually be one of the key factors helping this social entrepreneurship -normative change and adjustment- process. In other words, social responsibilities are not necessarily externally imposed upon the firm. They may either arise from the firm itself or the firm may be a key necessary ingredient in the formation of various communities of interests. For example, in the absence of firms' capacity to address certain needs (or perception about their presumed capacity), the community of people raising awareness about those needs may not emerge.

Dunfee's third identification criterion is similar to the PSA criterion given above, and it also includes a reference to the salience of the stakeholders (the reference to "legitimate needs" and to the ability to ameliorate them). There is however a subtle difference between the two perspectives. The PSA perspective does not determine stakeholders as a result of a *conscious decision* on the part of the firm's managers. Consequently, it allows for the possibility that managers *make mistakes* about properly or fully identifying the set of stakeholders. This is analogous to the normal case of a firm making errors about the actual demand for its products. Dunfee accounts for the possibility of managerial error by means of his first two criteria, but once we adopt a thorough individual-level perspective these criteria are problematic. Hence, PSA succeeds in capturing within the individual-level perspective the concerns addressed by the reference to norms, but also, on top of this, manages to preserve the heterogeneity of values. In the PSA perspective, managers try to identify all the salient stakeholders – i.e. all those who will evaluate the firm's activities, and who have a close enough affinity to the firm's shareholders that dismissing them would amount to failing to properly serve shareholders broad values (including their "altruistic" desires).

For example, while Chick-Fil-A may not count pro-gay protesters among its salient stakeholders, the Mozilla Foundation does – hence their diametrically opposed reactions to a very similar event. When one of their COO/CEO described their opposition to same-sex-marriage, protests and boycotts ensuing, Mozilla's CEO resigned almost immediately, which did not happen in the case of Chick-Fil-A.[2] Note that PSA allows us to analyze this divergence and the behavior of the two companies (and of their stakeholders) without assuming any particular prevailing ethical norm about acceptance or rejection of same-sex marriage. In fact, the existence of value heterogeneity in this regard may have contributed to what may be seen as an error made by Mozilla in properly managing its relation with their salient stakeholders. Indeed, as soon as Brendan Eich became CEO, three of Mozilla's directors resigned, and later on a large scale boycott against the Firefox browser determined Eich's resignation.

To sum up, PSA suggests an approach in which a polycentric game is played by different social actors (with different capabilities, endovments, preferences and identities) in an insitutuional landscape defined by by fragmented and overlapping decision arenas and that generate at the interaction between the individual social acvtors perceptions and strategies and the instituinal setting a dynamic process of both ethical and economic relevance. The Ostroms and their collaborators have already developed an instrument for dealing with such institutional-decisional configurations (IAD framework, Ostrom….etc ….). For our purposes it is important just to reference it and to note that given that framework as an instrument to capture the polycentric parameters, our focus is on a specific configuration of interest – the stylized facts of a modal CSR situation. The next section delves more deeply into the issue of stakeholder salience -the pivotal element of that situation- and provides a systematic way by which we can conceptualize CSR effectiveness. Section 5 then provides the fuller framework of analysis about how to consider the salient stakeholders.

4. A CALCULUS OF CONSENT STRATEGY FOR CHARTING AND ESTIMATING CSR EFFECTIVENES

The most of the time unstated expectation that the stakeholders system relationships and governance should stay as close as possible to the democratic standards is a key idea pervasive throughout the stakeholder analysis literature and CSR and CG more broadly. Hence strong standard democratic theory assumptions and values underlying that literature Ideally, one may say that a stakeholders' governance system should be democratic. Its legitimacy and efficiency may hinge on this. Democracy may be seen as an attitude, culture, way of life, set of values etc. but

[2] For a summary, see the Wikipedia accounts of the two issues:
http://en.wikipedia.org/wiki/Chick-fil-A_same-sex_marriage_controversy
http://en.wikipedia.org/wiki/Brendan_Eich#CEO_appointment_and_resignation

ultimately, it is about collective decision making and preference aggregation (Popper, 1960; Buchanan & Tullock, 1962; Dryzek, 2000; Knight & Johnson, 2001; 2007; 2011; Held, 2007). Usually, this insight is related to the twin notions of control and legitimacy. First, democracy is a mechanism for generating, operating and controlling power and authority, via a set of voting arrangements. Second, majoritarian control and preference aggregation is the major source and determinant of legitimacy. The aggregative model of democracy thus links in a coherent framework the key themes of preference aggregation, control, authority, and legitimacy.

Seen in this light, the problem of democracy (including in stakeholders's systems) appears deceivingly simple. This simplicity evaporates once we start looking at the details. First of all, there are multiple ways of preference revelation and multiple ways for a group to decide by voting (unanimity rule, first-preference majority rule, etc.). Each of these methods may lead to different final results (Arrow, 1951; Riker, 1982; Heap et al, 1992; Shepsle & Bonchek, 1997; Sen, 1999; Hartvisgen, 2008). Outcomes are, at minimum, sensitive to the rules used to aggregate opinions. In other words, what is a "majority" differs from one case to another, and it may depend on the collective decision-making institutions, as much as they depend on the preferences of the members of the group. Thus, "combining individual preferences into group choice by majority rule or some other method is not a straightforward undertaking" (Shepsle & Bonchek, 1997), as it is contingent on institutions. There is "no magic wand that transforms this individual clarity about preferences into collective clarity" (Ibid.). And "when the group size is large, when individual preferences are heterogeneous or when there is a large number of alternatives for group members to consider" things become even more problematic.

That is to say the emergence of solutions in stakeholders systems centering in the business arena has to confront similar problems with those of political systems if mechanisms of preference aggregation are to be employed using liberal-democratic, not authoritarian, social dictatorship models. There is no escape from the social choice paradoxes (Arrow) or public choice dillemas (Buchanan, Tullock). PSA starts from a blunt recognition of this reality.

We cannot fully account and counteract for such problems in our present account. Each of them could and should be treated separatedly and in conjunction with others in various configurations generated by the combinatorial logic of polycentric systems. In this paper besides drawing attention to this huge challenge and approach to CSR abd CG studies, we want to offer as an illustration a possible approach that within the larger framework of polycentricity perspective focusses on one specific issue and tries to advance a simplified model that alleviates *some* of the key challenges mentioned above, in particular the issue of homogenizing a heterogeneous group of stakeholders. We propose that a particular model of democracy analysis, namely the "calculus of consent" model (Buchanan & Tullock, 1962), can be adapted to the problem of CSR management, and used to identify the logic of stakeholders' decision making landscape and to assess the efficacy space of their decisions. This model shows, among others, how CSR managers can give priority to some of their core salient stakeholders, even if they are a minority among their larger group of stakeholders.

Let us assume that, based on the PSA identification criterion discussed in the previous section, CSR managers can create an ordered list of stakeholders from the highest salient stakeholders to the lowest salient stakeholders. (That indeed assumes away many of the challenges noted above but we have to adopt this strategy if we want to isolate and analytically process each major problem). Mitchell et al. (1997) procedure (looking at power, legitimacy, and urgency) can also be alternatively used for the same purpose of ordering the list of stakeholders. The question is how far should the corporations' CSR resources be spread out, and thinned out, from addressing the needs of the most salient stakeholders to the needs of the least salient? As Dunfee (2008: 357) pointed out, "[t]he stakeholder literature … does not provide sufficient guidance for managers facing allocation issues". Dunfee considers this problem to be so difficult that he is deeply skeptical that it could be addressed any time soon. Dunfee's point is legitimate, as already noted. The problems with any aggregation mechanism, highlighted by the democratic preferences aggregation and social choice literature, give us some hints to how difficult the problem indeed is. Nonetheless, despite Dunfee's skepticism, we would want to argue that underlying the complex edifice and process of polycentric stakeholders systems, there still is a discernable logic of effective choice and that could put some boundary conditions and signal that it is possible to avoid skepticism or nihilism what it comes to the design of such systems.

Once the stakeholders are ordered from the most salient to the least salient, we can look at the CSR costs of satisfying them. (Again: we are looking here at estimation and judgemental decision making, not monetary calculation).The more of them the corporation tries to consider, the bigger the cost. Hence, the CSR *scope costs function*, $S(n)$, is monotonously increasing as the number of stakeholders, n, is increased. By contrast, we can also consider the CSR *risk function*, $R(n)$, that would cover all three types of business cases for CSR mentioned in section 1, from simple risks associated to public relations disasters to more complex risks associated with reputation and legitimacy (e.g. the risk of failing to attract talent) and all the way to the most complex risks associated with social learning and the failure to pursue the CSR goals. This risk function is monotonously decreasing. The more stakeholders the corporation takes into consideration, the less likely it is to miss something important.

Insert Figure 1 about here

If we put together these two costs, we obtain a graph like the one in figure 1. The minimum of the total costs determines the optimal spread of CSR activities, i.e. the set of salient stakeholders that the corporation should take into consideration. If the set of stakeholders is smaller than this, the CSR scope costs will be smaller, but the risk increase will disproportionately outweigh this reduction of scope costs. If, by contrast, the set of stakeholders is larger than this optimum, the risks will be even further diminished, but the increase in scope costs will make it not worth it. This optimal set of stakeholders determines whose opinions and values should matter for the CSR managers. This is a similar logic (in terms of marginal costs and marginal benefits) to the one used by McWilliams & Siegel (2001) and Husted & Salazar (2006), but it is using a theory of *public* economics. McWilliams & Siegel (2001) and Husted & Salazar (2006) theorized CSR as if it were a private good, thus missing the democratic ethos at the heart of CSR.

We have thus provided a simple theory of CSR effectiveness, which, at least in principle, solves the allocation problem and identifies a guideline logic to CSR managers as to how to think about the range of stakeholders that they need to be considered. Moreover we have identified the existence of a centripetal point, of an operational tendency in the basic logic of decision making of CSR. We have identifies that there are some limiting, boundary conditions. It is possible to pinpoint with more precision –an inside band of relative effectiveness and an outside region-, that not only anything goes as long there is good will among the actors involved when it comes to CSR effectiveness in resource allocation and the trade-offs involved. This, however, is only the beginning of the problem. We have indeed made the problem more manageable (at least conceptually) by pointing out the decisional constraints of effectiveness. The even more difficult part is, once having identified the salient stakeholders, to determine the system of rules and criteria that governs the actual CSR activities and the polycentric processes they are part of. The theory of polycentricity briefly discussed in the next section offers a further guideline for addressing this more difficult problem.

5. THE PSA FRAMEWORK: POLYCENTRISM AND COPRODUCTION AS ANALYTICAL AND HEURISTIC INSTRUMENTS

At first glance, refusing to take the heterogeneity of evaluators off the table makes the problem of CSR management impossibly complex. There are multiple circles of decision, concentric and overlapping, that may be conceptualized as having at the center shareholders and managers and at various slience distances the other social actors, stakeholders with different stakes of different intensities, in different decision arenas. How can one possibly map out all the possible stakeholders, with their divergent perspectives on how to understand the world and how to judge firm activities in these overlapping and competing decision and issue-areas?? The homogenizing assumption had the advantage of simplifying the problem as there would be only one frame of reference. The idea of business ethics “hypernorms” shared across industries would simplify matters even more, offering the promise that firms could learn from each other’s CSRs even across different spheres of activity. The downside, however, is one of losing realism.

The previous section showed how to delineate the set of relevant (salient) stakeholders, but these stakeholders still form a heterogeneous group Fortunately, the theory of polycentricity has been better systematized in recent years, allowing us to better deal with heterogeneity. This section explains how it may be possible to turn this systematization into a tool or framework for CSR analysis and possibly for decisionmaking.

Until recently, the literature on polycentricity has been a long string of various applications ranging from the analysis of the scientific community (Polanyi, 1951) to the study of common law (Fuller, 1978) to the analysis of federalism (V. Ostrom, 1987) and of metropolitan governance (McGinnis, 1999), and to the study of public economies more generally (V. Ostrom, 1999; E. Ostrom, 2005: chapter 9; 2010). Aligica & Tarko (2012) have looked at various types of systems that have been labeled “polycentric” and analyzed their key commonalities, as well as differences. According to their conclusion, the diversity of possible polycentric systems can be understood as laying on a foundation of three key common characteristics: (1) a multiplicity of autonomous “decision centers”; (2) the actions of these “decision centers” are circumscribed by an over-arching system of rules and/or norms, and (3) the content of this system of rules and norms is as such that it creates “incentive compatibility”, i.e. it aligns the incentives of individual actions with desirable social outcomes, thus setting the stage for a productive emergent order.

The multiplicity of autonomous “decision centers” is essential for maintaining creativity and dynamism, as well as the resilience of the system (E. Ostrom, 2010; Toonen, 2010; Aligica & Tarko, 2014). The diversity avoids groupthink and one-size-fits-all solutions, and also provides insurance against unexpected shocks, avoiding the situation of having the system as a whole affected in its entirety at the same time, as different centers have different vulnerabilities and, from case to case, can come to each other’s help. It is for such reasons that polycentric systems often outperform monocentric hierarchical systems, especially when the production of public goods is at stake. But it is the third aspect, which varies in its specific details from case to case, that connects the theory of polycentricity to the theory of public entrepreneurship mentioned earlier. What public entrepreneurs do is either discover and implement such over-arching rules or act as focal points for promoting good norms that create broad “incentive compatibility” for all the actors involved, and, hence, promote productive social orders.

In the context of our discussion, one may imagine the polycentric circles at various levels and of various configurations. One may approach them as centered of the firm’s decision structures or one may see the firm’s stakeholders, who evaluate the firm, as the “autonomous decision centers”, and the CSR managers playing the role of the public entrepreneurs who have to discover a system that promotes the desired social goal. This system can be understood as the set of over-arching rules and norms. For example, the CSR management usually has to decide what inclusion and exclusion rules to use, e.g. what types of criteria someone should fulfill in order to qualify as a salient stakeholder. Furthermore, an important idea is that, because of the nature of most social goals, the best outcomes are usually achieved when the stakeholders are involved in various ways in the “production” process. With that we have reached a crucial element of the the polycentric governance literature: the concept of coproduction.

The idea, that the consumer is a key part of the production process, is known as co-production and it is of fundamental importance for understanding the production of public goods (Parks et al, 1981; Brandsen & Pestoff, 2006; Oakerson & Parks, 2011; Brandsen, Pestoff, & Verchuere, 2012; Aligica & Tarko, 2013). In order to have a product the consumer has to participate in its production. Typical examples are education and health (the student or patient has to contribute actively in the act of learning or getting cured). Yet, interestingly enough, at a closer look governance is a coproduction good as well. That has huge consequences and one could see why a polycentrism-stakeholders-public value paradigm is intrinsically implying a coproduction element. . In the context of our discussion the concept of co-production may be seen as the political economy approach to the demands of “social integration” CSR theories. But the co-production theory is not holistic or sociological, but maintains its individual-level perspective and preserves heterogeneity. Hence, we argue, it provides an improved perspective in terms of realism.

We can also better understand now why CSR does not always come naturally to firms, but requires sometimes important changes in perspective and operation procedures. The idea of co-production is to a large extent at odds with the standard operation of most firms and corporations. The management system behind the delivery of most private goods can be understood as a system of team-production (Alchian & Demsetz, 1972; Miller, 1992). In case of team-production, the consumer is not part of the production process, and workers are not (necessarily) consumers of the product. But team-production and co-production systems are addressing the same managerial problem, namely they are systems for preventing shirking and free-riding in the production process, and, hence, they are easily confused (Aligica & Tarko, 2013). But, depending on the nature of the good that is being produced, it is crucial to properly identify the correct system of production. If we are dealing with a co-production problem, as it is often the case with social activities, but a hierarchical team-production system is put in place, the result will be inefficient. This means that CSR practices often have to change their management system, and, in particular, involve the stakeholders in the decision-making process to a much larger extent than they are used to.

CSR activities can involve a wide variety of situations, and, hence, contrary to the idea of business ethics “hypernorms”, it is not advisable to propose one-size-fits-all recipes. The theory of polycentricity at the foundation of PSA is indeed broad enough to cover numerous different kinds of possible relationships between CSR management and stakeholders. The chart in figure 2 (adapted from Aligica & Tarko’s [2012] systematization of polycentric systems) illustrates the key elements that the CSR management needs to identify, and forms the backbone of the PSA framework.

Insert Figure 2 about here

This chart highlights the key elements that decision making in CSR situations has to take into account. Some of those are not directives about how to do CSR, but guidelines about the type of problem that needs to be solved. Some of these elements are determined by the nature of the problem. For instance: (PSA: 1c) Are the stakeholders acting as disparate individuals or as pre-organized collectivities of individuals with shared goals? (PSA: 2b) Is the problem territorially circumscribed? (PSA: 3a and 3b) Are stakeholders’ entry and exit as salient stakeholders a matter of choice or of necessity?

But most elements involve key decisions by CSR management. (PSA: 2c) Depending on the importance of co-production, one needs to decide the level of involvement of stakeholders in the rule-design process, to put it differently, the level of paternalism of the CSR activity. (PSA: 2d) Considering that stakeholders’ opinions and values may differ, is the achievement of CSR goals dependent of some form of aggregation (e.g. facilitating consensus forming or deciding by majority rule) or is it possible to achieve the CSR goals while interacting with stakeholders on an individual basis (i.e. some CSR goals require dealing with stakeholders on an individual basis)? (PSA: 3a and 3b) If entry and exit decision are taken by CSR managers, they need to decide (and face the possibility that they are mistaken) whether some stakeholders are not salient enough to be included. As Dunfee (2008: 353) put it, “because it is impossible for corporations to respond to all of the needs of their stakeholders … [t]riage is required”. (PSA: 3c) Finally, and again dovetailing on Dunfee’s account, can the relevant information be made public? As Dunfee noted, there are often good reasons why sharing information contributes to CSR goals. But this is not always the case, even if we consider only the CSR goals. For example, sometimes one might want to take precautions to avoid groupthink, especially if empirical evaluation is not easily available.

To sum up, PSA offers insights and conceptual resources to bolster our analytical efforts both at the micro and macro level. The paper extended the Ostroms’ institutional theory perspective by applying it to the domain of corporate governance and stakeholder analysis, illuminating how a framework based on it has the potential to satisfy the major descriptive and analytic criteria required by such a framework, while attempting to preserve the key elements of the normative democratic ethos that drives CSR more broadly. There are further directions in developing tools for institutional analysis with significant methodological (IAD framework and beyond) and the convergence with the newer trends towards contextual analysis (Goodin et al., 2010) are unmistakable clear. That being said, further elaboration of these methodological and epistemological implications and aspects, requires a separated discussion.

CONCLUSION

What are the most effective ways of analyzing corporate agency and responsibility as part of complex, overlapping and competitive formal and informal governance arrangements at the interface of the public and the private, the market, the state and the civil society, the profit and non-profit sectors? What kind of theoretical frameworks should one use in order to best conceptualize, analyze and design stakeholders-based governance systems? Such frameworks have to satisfy at least three criteria: (a) They should capture and accommodate both descriptively and normatively the heterogeneity of preferences, objectives, beliefs and values of the stakeholders as well as the institutional diversity and the complex nestedness of the various governance systems embedding the stakeholders' system; (b) They should capture and analytically deal with the nature and implications of imperfect rationality, information and potential opportunistic behavior of the agents on the ground; and (c) They should be accommodating to the normative democratic ethos that pervades much of the corporate social responsibility (CSR) perspective.

This paper has advanced a possible response to these challenges. Looking at the relevant institutional theory and political economy literature, the paper has identified and introduced a relatively less known governance theory: The polycentric governance perspective developed by Nobel Prize in Economics co-recipient Elinor Ostrom, and by public choice political economy co-founder Vincent Ostrom. The paper has argued that the current discussions regarding stakeholder governance systems (and more specifically the institutional analysis of corporate governance and CSR) may benefit from incorporating the Ostromian perspective in multiple ways. With this end in view, the paper articulated one possible approach to this task by showing how concepts such as "polycentricity" and "polycentric systems of governance" and "co-production" (situations in which consumers of good/service participate in the production process – in this case members of self-regulating communities co-producing, validating and managing the rules and norms under which they operate) may be used to model and interpret the interactions between different stakeholders of a corporation, and the parameters and processes constraining or directing its activities. Polycentric Stakeholder Analysis can thus be seen as a double move: On the one hand, an application of the Ostroms' institutional theory perspective to a new domain, a contribution to the literature regarding corporate governance and social responsibility. On the other hand an extension of the CSR, CG issue area and perspective into the traditional domain of political economy and public choice via the Ostroms' public choice institutionalism. Thus in a sense the paper may be seen as an argument regarding the inevitable and constructive convergence between two intellectual traditions, redefining the frontier of the governance debate.

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TABLES AND FIGURES

Table 1: Typology of business-case theories for CSR (*italic* - existing theories; PSA - our proposal)

Locus of value / **World view**	**Individuals**	**Value communities**	**Integral commons**
Reductionist	*Shareholder theories*	---	---
Pluralistic	---	*Stakeholder theories*	---
Complex emergence	Polycentric Stakeholder Analysis (PSA)	---	*Social integration theories*

Figure 1: Calculus of consent model for determining CSR efficiency

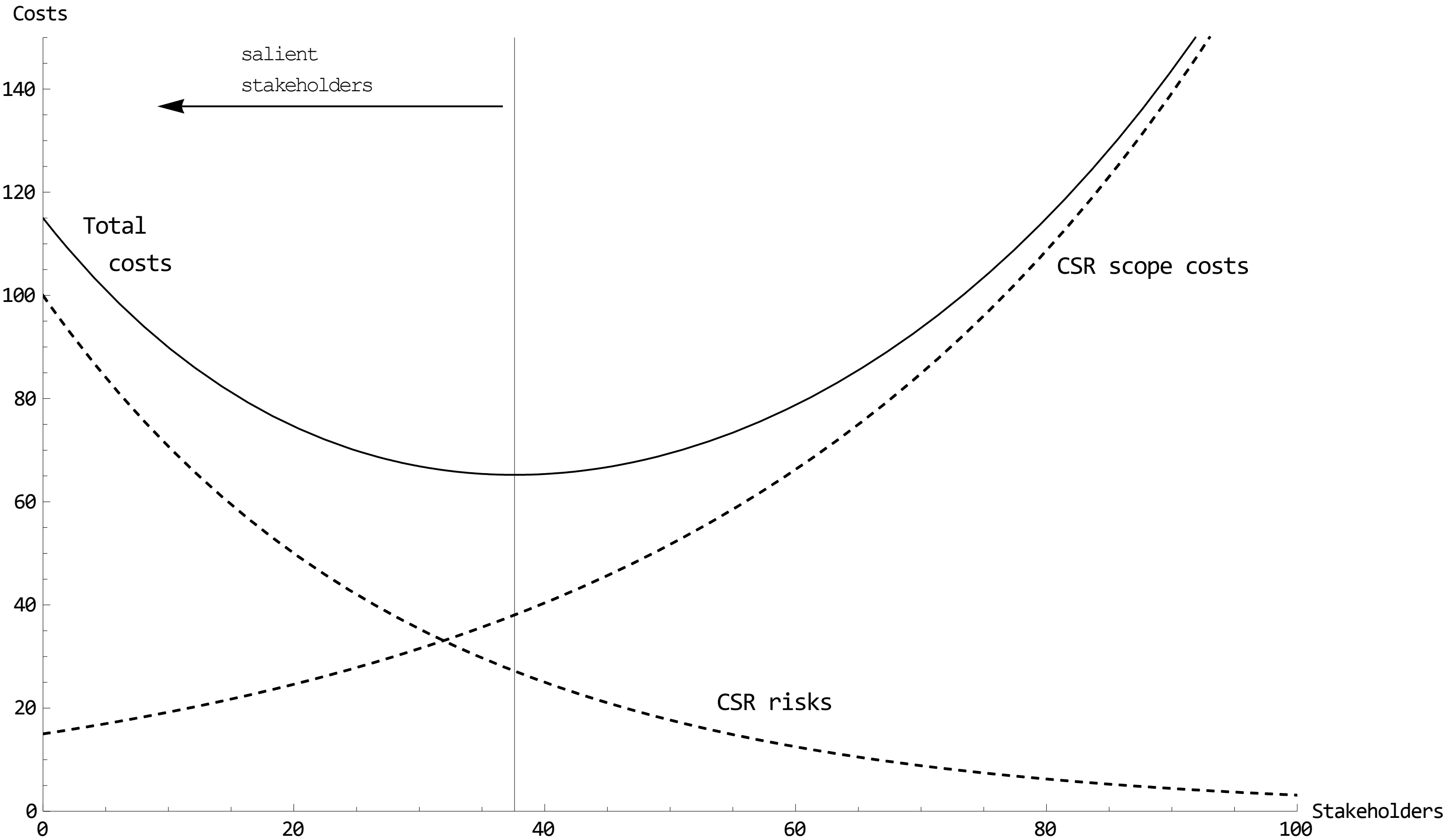

Figure 2: The PSA elements for CSR management

PSA elements:

- 1. *Diversity of stakeholders*:
  - 1a. *Heterogeneity of views*
  - 1b. *Autonomy of action*
  - 1c. *Aims*: *Collective* OR *Individual*
- 2. *Integrating system of rules*:
  - 2a. *Incentive compatibility*
  - 2b. *Jurisdiction*: *Territorial* OR *Nonterritorial*
  - 2c. *Rule design*: *Stakeholders involvement* OR *No stakeholder involvement*
  - 2d. *Collective choice*: *Consensus* OR *Individuals* OR *Majority rule*
- 3. *Coordination process*:
  - 3a. *Entry*: *Voluntary stakeholder decision* OR *Corporate decision to include stakeholder* OR *Natural inclusion*
  - 3b. *Exit*: *Voluntary stakeholder decision* OR *Corporate decision to exclude stakeholder* OR *Natural exclusion*
  - 3c. *Information*: *Private* OR *Public*