Institutional Incentives and Entrepreneurial Decision-Making:

Nonprofit and For-Profit "Social" Entrepreneurship

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Introduction

Previous research has outlined the relationship between entrepreneurship and institutions generally (Boettke & Coyne, 2006; Hwang & Powell, 2005), political entrepreneurship and political institutions (Sheingate, 2003), and entrepreneurship in all three sectors (P. F. Frank, Shockley, & Stough, 2004). Stated perhaps too simplistically, this small but growing body literature suggests that institutions guide entrepreneurial behavior like they do all economic behavior. "The underlying logic of the connection between institutions and entrepreneurial behavior," Boettke and Coyne (2006) write, "is the realization that institutions, or the rules of the game, provide a framework that guides activity, removes uncertainty, and makes the costs of action and facilitates the coordination of knowledge dispersed throughout society" (p. 120). The primary means by which institutions guide behavior is structuring the opportunities that entrepreneurs identify and act on. As Douglass North (1990) asserts, "Institutions, together with the standard constraints of economic theory, determine the opportunities in society. Organizations are created to take advantage of those opportunities, and, as organizations evolve, they alter the institutions" (p. 7).[1] In this paper, we are motivated to examine the institutional forces on entrepreneurship in the different sectors, particularly in the philanthropic sector (or the gray area between philanthropy and markets).

We believe that there is something more that can be said about how institutions structure opportunities in the three sectors of the economy. Specifically, there exists a burgeoning body of research in the nonprofit and business literatures that suggests entrepreneurs often seek to maximize a dual or double bottom line (Mair & Marti, 2006). Specifically, the field of social entrepreneurship has burst onto the academic scene during the past decade, and in many ways this research has taken the economic way of thinking about entrepreneurial behavior and shifted its meaning. In his classic paper on institutions and entrepreneurship, William Baumol (1990) explains that is it the relative

[1] Also see Yu (1999) for entrepreneurs needing the firm "as a coordinating institution" (p. 30).

payoffs that society offers which directs entrepreneurial behavior (especially toward productive or rent-seeking activities). Thus, policy affects the allocation of entrepreneurial efforts. Extending Baumol's analysis to social entrepreneurship, defined below, it has become clear that policy (and subsequent scholarship) has both popularized this idea and has generated new incentives for social entrepreneurs.

Without belaboring the definitional debate (Cukier, Trenholm, Dale, & Gekas, 2011), the question explored here is to what extent do institutions drive entrepreneurial decision-making in a non-market context or in the context of what many scholars believe is both financially and socially motivated. It is clearer in terms of a conceptual framework why nonprofit entrepreneurs operate outside of a market context (P. M. Frank, 2006; Glaeser & Shleifer, 2001), yet the social entrepreneur who responds to market-based institutional incentives along with social incentives is much more difficult to operationalize. To that end, we examine the institutional framework that leads to the double bottom line outcome. Additionally, we begin to answer the question of how the universe of entrepreneurial behavior in a multi-sector economy might be operationalized.

We begin our analysis by examining what might be called the "classical" and contemporary conceptions of the relationship between institutions and entrepreneurship. We look at the work the Israel Kirzner and Joseph Schumpeter (i.e., the classical conceptions) as well as structure and agency theories and new institutional economics (i.e., the contemporary conceptions). The classical and contemporary conceptions reveal at least two distinct ways of interpreting the relationship between institutions and entrepreneurship, two characterizations of the nature of institutions, and varying forms of entrepreneurial opportunities that institutions structure. Then, in light of the results of our first-level analysis, we then look more specifically at the institutionalist forces in the for-profit and nonprofit sectors and consider some recent survey research on how entrepreneurs are incentivized to operate under varying rules pertaining to organizational governance.

Entrepreneurship and Institutions: Classical and Contemporary Conceptions

The last great theorists of entrepreneurship are Israel Kirzner and Joseph Schumpeter. Kirzner and Schumpeter seem to have outlasted their prior theorists (see Formaini, 2001) and seemingly every contemporary theorist grounded in the history of entrepreneurship theory references one or both of them. In both Kirznerian and Schumpeterian theories of entrepreneurship the importance of institutions is not immediately apparent. A deeper consideration of their theories of entrepreneurship, however, reveals precisely the institutional understanding that we seek.

Kirznerian entrepreneurship always emphasizes "entrepreneurial discovery."

> The essence of entrepreneurship consists in seeing through the fog created by the uncertainty of the future. When the Misesian human agent acts, he is determining what indeed he 'sees' in the murky future. He is inspired by the prospective pure-profitability of seeing the future more correctly than others do. (Kirzner, 1997b, p. 51)

While it is difficult to ascertain institutional forces amid the barrage of metaphors, there is a strong presence of implied institutions in Kirzner's thought. Institutions are implied in "equilibration" (i.e., movement toward an equilibrium state), which Kirzner describes as the *effect* of entrepreneurial discovery. Kirzner identifies entrepreneurship as the central feature in understanding the market as a dynamic process, not as a static state. "For me," Kirzner (1973) writes, "the changes the entrepreneur initiates are always toward the hypothetical state of equilibrium…" (p. 73). Consequently, he "…finds entrepreneurship incompatible with the equilibrium state, but compatible with, and indeed essential for, the notion of the equilibration process" (Kirzner, 1992a, p. 7). (See also Kirzner, 1997a, p. 62; Vaughn, 1994, p. 152). It can be argued that the market process would not equilibrate (but rather would be random) without a persistent set of institutions within which entrepreneurial discovery occurs.

Equilibration is central to Kirznerian entrepreneurship as it reflects the pursuit of profit opportunities. Profitable opportunities arise from prior human error only when the market is in disequilibrium: “In equilibrium there is no room for the entrepreneur. When the decisions of all market participants dovetail completely…and no possibility exists for any altered plans that would be simultaneously preferred by the relevant participants, there is nothing left for the entrepreneur to do” (Kirzner, 1973, p. 26). Without basic market institutions that support the emergence of profit opportunities (e.g., property rights, rule of law), they would not be perceptible. Harper (1998) outlines the core institutional conditions affecting entrepreneurial activity while providing incentives to exploit profit opportunities. In brief, these primary conditions are freedom and liberty, rule of law, certainty of law, private property, freedom of contract, and freedom of entrepreneurial choice. Without these conditions, entrepreneurship will likely fail to flourish and entrepreneurs will lack the incentives to create and discover profit opportunities.

Economists define institutions as the rules of the game in society or the “humanly devised constraints that shape human interaction” (North, 1990, p. 3). Institutions allow people to interact and transact in a market because of the establishment of trust and the reduction of uncertainty. These constraints on people’s choices can be formal in that they are written down, or they can be informal, tacit rules that cannot be articulated (Harper, 1998). Additionally, Harper notes in his analysis of North (1981) that the institutional framework of society “comprises constitutional rules, operating rules, and normative behavioral codes” (Harper, 1998, p. 242). Institutions consist of governing laws, contracts, property rights, and other legal and operational codes that provide predictability. In terms of a dynamic market process, institutions are essential for entrepreneurs to act without entering the completely unknown. As Kasper and Streit (1998) note, “human interaction in the economy depends greatly on fairly regular patterns on which people may rely”

(Kasper & Streit, 1998, p. 19). These institutions may be tangible or intangible, thus guided by specific rules or they can be culturally created (or even perceived) obligations.

Additionally, these entrepreneurial opportunities structured by intangible institutions are subjective. "In the market system the existence of opportunities is signaled by profit opportunities in the form of price differentials. Now signals may not always be seen but the kernel of market theory is that a *tendency* exists for them to be seen" (Kirzner, 1979, p. 116, italics in the original). These basic market institutions, however, support ethereal indicators of market process, namely, price signals that facilitate exchange. The market equilibrates solely as the result of ethereal indicators profit opportunities structured by market institutions. "The market process, then, consists of those changes that express the sequence of discoveries that follow the initial ignorance that constituted the disequilibrium state" (Kirzner, 1992b, p. 44). Thus, according to Kirznerian entrepreneurship, when the entrepreneur's alertness identifies a profitable opportunity within a set of market institutions, the equilibration process is triggered and the market process is engaged

While Schumpeter's and Kirzner's theories of entrepreneurship share many complementary components (see Boudreaux, 1994; Choi, 1995; Kirzner, 1999), they ultimately differ in their institution-opportunity nexus they each provide. In contrast to Kirznerian entrepreneurs as "guarantors of coordination," Schumpeterian entrepreneurs are "disruptors of life" (Vaughn, 1994, p. 144). In *The Theory of Economic Development* (1934/2002), Schumpeter locates the primary agent of economic change and development in a healthy market economy in entrepreneurship. "Development," he writes, "is spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing" (p. 64). Schumpeterian entrepreneurship operates not by price signals but by new combinations of existing gods or services. It is the carrying out of new combinations in the form of introducing a new good or method of production, opening of a new market, identifying a new source of supply of raw materials or half-manufactured goods, or carrying out of the new organization of any industry (p. 66). "All of these cases [of new combinations]," Schumpeter (1926/2003) writes, "are cases of carrying out a different use of national productive forces from the previous one, of taking them away from their previous uses and putting them into the service of new combinations" (p. 250). The Schumpeterian entrepreneur, therefore, does not invent something entirely new but rather deploys *existing* resources into new combinations, which not only suggests a type of materiality that Kirznerian entrepreneurship lacks but also supports the existing resources had a prior objective presence before the Schumpeterian entrepreneur utilized them in a new combination. Note that the entrepreneur's idea for a new combination is governed by the existing rules, and the actual process is motivated by the various outcomes that are perceived to exist.

Schumpeterian entrepreneurship both implies intangible institutions and explicitly incorporates tangible institutions. As in Kirznerian entrepreneurial discovery, Schumpeterian new-combination entrepreneurship implies that institutions play an important role in entrepreneurship. "The carrying out of new combinations we call 'enterprise,'" Schumpeter writes, "the individuals whose function it is to carry them out we call 'entrepreneurs'" (p. 74). Schumpeterian economic development, just as Kirznerian equilibration triggered by entrepreneurial discovery, implicitly requires a set of persistent institutions. On the surface at least, Schumpeterian economic development depends on the same set of intangible institutions as does Kirznerian equilibration and entrepreneurial discovery. The opportunities to carry out new combinations, just as profit opportunities, are shaped by the existing set of institutions. Yet, in articulating "creative destruction"[2] for which he is well known, Schumpeter goes farther and explicitly includes tangible

[2] Schumpeter articulates the idea of "creative destruction" not in *The Fundamentals of Economic Development* but rather in "Chapter VII: The Process of Creative Destruction" of *Capitalism, Socialism, and Destruction* (Schumpeter, 1950 (1942)).

institutions. In *Capitalism, Socialism, and Democracy* (1950 (1942)), Schumpeter evokes raw materiality, almost animalism, when he describes the effects of entrepreneurship,

> The competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their lives (p. 84).

While the materiality is evident throughout the passage, tangible institutions are particularly indicated he chooses the noun phrase "decisive cost and quality advantage." It is these institutional attributes that are not matters of perception but real and palpable. "The problem that is usually being visualized is how capitalism administers existing structures," Schumpeter (1950 (1942)) observes, "whereas the relevant problem is how it creates and destroys them" (p. 84). Herein we plainly see that institutions in Schumpeterian entrepreneurship are not ideational but rather material.

Schumpeter's inclusion of institutional costs gestures towards a largely undeveloped link between Schumpeter's classical conception of entrepreneurship and new institutional economics (NIE). The key to NIE economic institutionalism is transaction costs in that they "exist and necessarily influence the structure of institutions and the specific economic choices people make" (Furubotn & Richter, 2000, p. xiii), which reflects the same binary construct as institutions and entrepreneurship. As Oliver Williamson (1985) states, "Contrary to earlier conceptions—where the economic institutions of capitalism are explained by reference to class interests, technology, and/or monopoly power—the transaction cost approach maintains that these institutions have the main purpose and effect of economizing on transaction costs" (p. 1). The centrality of transaction costs in NIE points to the use of material, objective, and tangible resources: "With respect to institutions, it is abundantly clear that their use (as well as their formation) requires the input of real resources" (Furubotn & Richter, 2000, p. xiii). In NIE, there is an explicit role for the entrepreneur as an endogenous source of institutional change. As Douglas (1990) North puts it, "Incremental change comes from the perceptions of the entrepreneurs in political and economic organizations n that they could do better by altering the existing institutional framework at some margin. But the perceptions crucially depend on both the information that the entrepreneurs receive and the way they process that information" (p. 8). Thus, NIE can be interpreted as incorporating both tangible institutions and objective, materially bounded entrepreneurial opportunities.

Figure 1: Entrepreneurship Typology

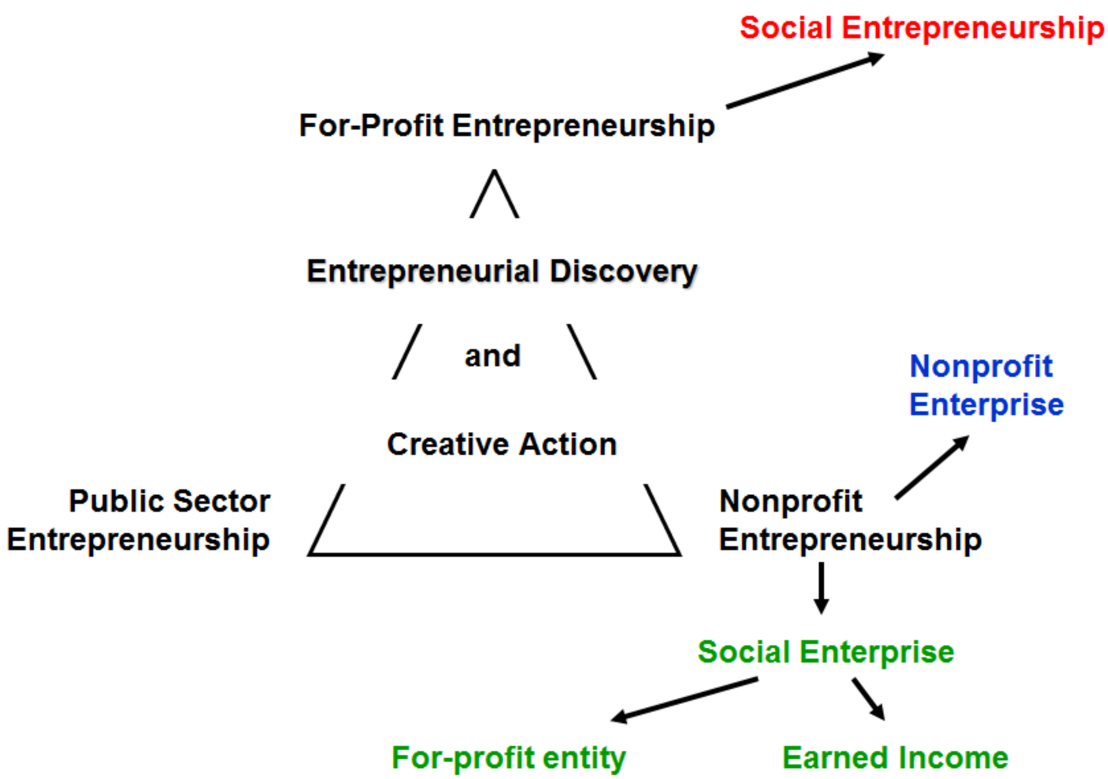

Figure 1 above presents an entrepreneurship typology that shows the varying forms of entrepreneurial decisions given the institutional incentives that shape those decisions. Additionally, the typology attempts to explain the different forms of entrepreneurship that occur within both the for-profit and nonprofit sectors. Of course both the Kirznerian and Schumpeterian entrepreneur are profit driven, but the broader implication here is that other forms of NIE can help explain the ways in which institutions shape entrepreneurial decisions in both the for-profit but also the nonprofit context.

There is more than one "new institutionalism" (Hall & Taylor, 1996; Peters, 1996, 2005; Rockman, 1994). Considerable theoretical empirical work in the economics, political science, and sociology has been done that has developed very strong conceptions of institutions in the varieties of new institutionalism. There is *sociological institutionalism*, which treats modern organizational forms and procedures as "culturally-specific, akin to the myths and ceremonies devised by many societies, and assimilated into organizations, not necessarily to enhance their formal means-ends efficiency [i.e., Weberian rationality], but as a result of the kind of processes associated with the transmission of cultural practices more generally" (Hall & Taylor, 1996, pp. 946-947). For entrepreneurial activity, the most important element of sociological institutionalism is its cognitive emphasis on institutions as "'frames of meaning' guiding human action." This form of institutionalism most closely allies the intangible institutions and entrepreneurial opportunities of Kirznerian entrepreneurship.

Historical institutionalism treats institutions as "formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy" (Hall & Taylor, 1996, p. 938). Parsing the conceptual term "historical institutionalism," Pierson (2000) explains that "historical" is used "because it recognizes that political development must be understood as a process that unfolds over time" and "institutionalism" is used "because it stresses that many of the contemporary political implications of these temporal processes are embedded in institutions—whether formal rules, policy structures, or norms" (pp. 264-265). For entrepreneurial activity, the most important element of historical institutionalism is path dependence. For his historical institutionalist analysis of social provision in the United States, Hacker (2002) defines "path dependence" as follows: "Small initial differences in circumstances may have large eventual effects as self-reinforcing processes encourage continued reliance on established institutions…" (, p. 9). (Also see Arthur, 1994.) Thus, "the continued reliance on established institutions" structure actors' choices, just as both rational-choice and sociological institutions do. Therefore, once again, in terms of entrepreneurial activity, path dependence structures Kirznerian profit opportunities and organizes the possibilities of Schumpeterian new combinations.

The variety closest to NIE is *rational choice institutionalism* that has its roots in economics, specifically in public choice theory (see Buchanan & Tullock, 1962). It treats institutions as generally as both formal and informal rules and procedures (Kasper & Streit, 1998).
Defining institutions as "shared concepts used by humans in repetitive situations organized by rules, norms, strategies" (Ostrom, 1999, p. 37), the most important element of rational choice institutionalism for entrepreneurial activity is its emphasis on strategic actions. "Institutions structure such interactions," Hall and Taylor (1996) write, "by affecting the range and sequence of alternatives on the choice-agenda to…thereby leading actors toward particular calculations and potentially better outcomes" (p. 945). Rational-choice institutions thus structure actors' choices, and best supports the tangible conception of institutions necessitated in Schumpeterian entrepreneurship.

Nonprofit Entrepreneurship and Institutional Incentives

The nonprofit sector, understood as the primary component of the larger notion of civil society,[3] serves a dual purpose in understanding how entrepreneurs discover and create "profit" opportunities in this sector and the for-profit sector. Our proposition for the relationship between nonprofit entrepreneurship and institutions is that intangible institutions and objective opportunities predominate in the nonprofit sector. First, entrepreneurship in the nonprofit sector fills gaps in the provision of goods or services that left to the market or public sectors alone are otherwise unfilled.

[3] Civil society is made up of what Tocqueville (1832/2000) calls associations, which are nonprofit nonpolitical volunteer organizations that have an extensive presence in countries with democratic institutions.

Certain institutions unique to the nonprofit sector provide the catalyst for entrepreneurs to act and seek these "profit" opportunities in a non-market context. Second, the nonprofit sector acts as a source of institutional change, which as a result generates institutions that assist entrepreneurs in other sectors. Civil society is a powerful force in sustaining democratic institutions and providing important conditions for economic exchange; thus, entrepreneurs are assisted in their profit-seeking through the institutions created by the vast components of the nonprofit sector. Hence, the thesis of Part 5 is that institutions both structure nonprofit entrepreneurship, and the institutions created by this sector help structure entrepreneurial activity in other sectors. What follows is a deeper exposition of this dual role the nonprofit sector plays in the entrepreneurial process.

A key component of the nonprofit economy is that the conditions which foster for-profit entrepreneurship also help create nonprofit entrepreneurship. Fundamentally, the substantial size of the nonprofit sector in America is the result of several factors: increased efficiency in nonprofit provision of services and the lack of trust in government; market wealth generation and the availability of seed capital for nonprofit entrepreneurs; and the institutional conditions that substantiate the market process, to name a few. Yet, there exist unique institutions that create incentives for entrepreneurs to establish a nonprofit organization, as opposed to establishing a for-profit firm or seeking provision through the public sector.

The first characteristic of nonprofit entrepreneurship is understanding the types of profit opportunities that create a desire for nonprofit provision of goods or services. Incentives for nonprofit entrepreneurs may come from several areas: ideology, altruism, creative expression, etc. These areas do not provide a perfect substitute for profit in market-based entrepreneurship, but they do provide incentives for individuals to act and, more importantly, they provide incentives for individuals to search for opportunities.

Ideological incentives alert actors to opportunities for betterment especially in sectors where nonprofits do not compete with for-profit businesses. Ideological and altruistic entrepreneurs are alert to actual or perceived needs, opportunities for idea dissemination, or gaps in the supply of something they themselves want to benefit from. For example, this type of entrepreneur sees the need, based on inadequate provision, for an art museum in their particular town. They are alerted to this need by a desire they possess that is unfulfilled and they establish a nonprofit for two reasons: 1) they are altruistically concerned with output (Gassler, 1990), and 2) by forming a nonprofit they are likely to receive donative financing (Hansmann, 1981).[4]

Another type of ideological entrepreneur that might be considered a 'pure altruist' is one that is alerted to a perceived opportunity or need by compassion or religious conviction (Rose-Ackerman, 1996). A class of entrepreneurs exists that establish human service nonprofits (e.g., soup kitchens, homeless shelters) and these entrepreneurs are often concerned with serving others for the sake of their beliefs. Also, certain ideological entrepreneurs are alerted to establish an organization by a lack of provision within the greater culture around them. Among other things, this type of entrepreneur wants to disseminate ideas and, as noted above, they are likely to receive funds only if they do not distribute 'profits' to stakeholders. The nonprofit economy has a different set of signals alerting actors to form nonprofit organizations, and the difficulty in comparing these signals to the for-profit economy comes from the ideological nature of these alerting mechanisms. Therefore, two crucial problems arise for nonprofit entrepreneurs to successfully realize their profit opportunities. First, these entrepreneurs must discover how to establish and sustain a nonprofit where donors are potentially an important source of revenue, and second how to maintain a flow of resources in perpetuity. Thus, for the purposes of this conceptual typology, what instructions facilitate entrepreneurs in achieving these ends?

[4] Also see (Bilodeau & Slivinski, 1998; Glaeser & Shleifer, 2001) for a more extensive, purely rational, analysis of the nonprofit entrepreneurial decision.

Shleifer (1998) makes the case that nonprofit organizations fulfill a role where neither the state nor the private market has the proper incentive to efficiently produce. In four situations, according to Shleifer, the market and government are inferior to nonprofit provision: 1) opportunities for cost reductions lead to non-contractible deterioration of quality, 2) innovation is unimportant, 3) competition is weak and consumer choice is not effective, and 4) reputational mechanisms are weak. In these four cases, Shleifer is making the point that the market economy has an alternative to government, which is the establishment of nonprofit firms. He states, "entrepreneurial not-for-profit private firms can be more efficient than either government or the for-profit private suppliers…where soft incentives are desirable, and competitive and reputational mechanisms do not soften the incentives of private suppliers" (Shleifer, 1998, p. 140). Whether justifiable or not, schools, hospitals, day-care centers and other organizations raise concerns about the appropriateness of private provision.

Two important institutional catalysts (both of which fit broadly into rational choice and sociological institutionalism), emphasized by Shleifer's justification for nonprofit provision over government provision, provide incentives for these entrepreneurs. The first is the non-distribution constraint, and the second is reputational considerations. Nonprofit organizations are organized where they cannot distribute any net earnings (pure profits) to individuals who exercise control over the organization (Hansmann, 1980). Nonprofits may earn profits, but the entrepreneur does not realize these monetary profits in the same way as a for-profit entrepreneur. If a nonprofit organization earns monetary profit, it cannot distribute those profits to the owners or employees, so those profits are returned to the organization for operation or program purposes. This non-distribution constraint does not allow nonprofits to distribute surpluses to stakeholders (whereas in for-profit organizations stakeholders expect to reap personally the residual of revenues minus costs). With the non-distribution constraint in place, nonprofit entrepreneurs signal donors to give in order that their funds be used for the provision of a specific good or service and these funds will not be used for non-program purposes.

The importance of reputation builds upon the importance of the non-distribution constraint. Since donations are the lifeblood of the nonprofit entrepreneur, he can comply with the wishes of the donor or he can renege and use the funds for other purposes. Rose-Ackerman (1996) emphasizes that any firm has its reputation at stake in this type of situation, but a nonprofit organization is less likely to renege because of donor limitations on how funds are spent and the consequences of losing donors. If a nonprofit organization abuses donor intent by misusing funds and such misuse of funds is exposed, the reputation and therefore the existence of a nonprofit will be in serious jeopardy. Maintaining a positive reputation as to the use of funds in terms of fulfilling organizational mission provides discipline to a nonprofit entrepreneur that mimics loss in the for-profit sector. Loss of donations will follow a marred reputation.

Social Entrepreneurship and Institutional Incentives

For many economists, but more so business theorists, the world of entrepreneurship and entrepreneurial motives is quite crowded. Where in economics we are often concerned with what entrepreneurship does, equilibration or new combinations, other researchers are quite concerned with what entrepreneurship is or who entrepreneurs are. Thus, when it comes to social entrepreneurship (and entrepreneurship outside of a purely nonprofit or for-profit maximization context) considerable debate surrounds the definition. Table 1 below outlines the more prominent conceptions of social entrepreneurship that helps clarify the notion of entrepreneurs who seek to achieve some broad systemic effects. For our purposes here, as in many of the definitions in table 1, social entrepreneurship must bring about some sort of change or equilibration not simply in a market context but also in a social context. The question to answer here is what type of entrepreneurial activity will bring about such change, and what incentives drive these entrepreneurial decisions?

As indicated above, nonprofit entrepreneurs are often referred to as social entrepreneurs, but their functional impact occurs under a very different institutional context than other social entrepreneurs. These entrepreneurs organize outside a market context, without market generated price signals, and they choose to operate in this sector precisely because market incentives do not exist (as described in the previous section). Social entrepreneurs, referring to figure 1, often operate in a for-profit context, but the institutional incentives which drive their organizational form are those that soften the pure profit-based decision paradigm. Does a distinction exist between a standard for-profit entrepreneur (and the firm they create) and a for-profit entrepreneur that attempts to satisfy a double bottom line?

Again, researchers have examined the trade-off between nonprofit and for-profit status for the entrepreneur, especially in industries where both types of firms operate (Chapelle, 2010). Yet, can a firm pursue both financial and social objectives? What are the tangible or intangible institutions that drive these decisions? Consistent with the NIE, there are both sociological and rational choice institutional incentives at play here. While it is difficult to easily examine the intangible institutions that dive entrepreneurs toward a social objective, there exist tangible institutions that help motivate this type of financial and social goal. Two examples where institutions direct the entrepreneurial decision are the benefit corporation and the low-profit limited liability company (L3C).

From a legal point of view, the benefit corporation and the L3C are no different from traditional for-profit entities. They pay taxes on their income, and they typically have the same state and local tax implications as any other firm. Thus, the question remains what do these tangible institutional rules do to create social entrepreneurial outcomes, i.e. how are entrepreneurs supposed to strike a balance between making a profit and achieving a social objective?

Table 1: Systemic effects of social entrepreneurship

Theorist and work	Systemic effects
Young (1983, p. 36)	"…entrepreneurship in the nonprofit sector, as elsewhere, represents the cutting edge of the sector's activity, and, as such, its study helps to reveal the driving forces and underlying character of its member organizations."
Waddock and Post (1991, p. 394)	Theory of social entrepreneurship is one of catalytic change.
Dees' earlier conception (2001, p. 4)	Social entrepreneurs as change agents "by adopting a mission to create and sustain social value."
Alvord, Brown, and Letts (2004, p. 279)	"Sustainable transformation" in the social sector in the form of capacity-building initiatives alters local norms, roles, and expectations to transform the cultural contexts in which marginalized groups live…"
Light's earlier "inclusive" conception (2006, pp. 18-20)	Social entrepreneurship can come in the form of both new solutions to large, intractable problems or smaller, more modest technical or administrative change.
Dees' later conception (Dees & Anderson, 2006, p. 44)	In unmistakably Schumpeterian terms: "Social entrepreneurs are individuals who reform or revolutionize the patterns of producing social value, shifting resources into areas of higher yield for society."
Bornstein (2007, pp. 1-2)	Social entrepreneurs as "transformative forces": "People with new ideas to address major problems who are relentless in the pursuit of their visions, people who simply will not take 'no' for an answer, who will not give up until they have spread their ideas as far as they possibly can."
Martin and Osberg (2007, p. 34)	The effects of social entrepreneurship almost explicitly in Schumpeterian and Kirznerian terms insofar as the social entrepreneur "creates a new equilibrium, one that provides a meaningfully higher level of satisfaction for the participants in the system."
Swedburg (2009, p. 99)	Schumpeter's full model of non-economic entrepreneurship: "The pushing through to the successful introduction of social change, through a new combination of elements that make up some way of doing things."

One means of answering these questions is looking at entrepreneurial motives driven by the tangible institutions designed to create more social entrepreneurship. A recent survey[5] conducted on L3Cs in Illinois begins to show the impact of these efforts. Some preliminary analysis of this 88 question survey reveals that institutional design does impact the entrepreneurial decision. Both in the quantitative and qualitative metrics, entrepreneurs respond to the varying incentives that impact their organizational form. For L3Cs, the goal is to establish a mix of investments from varying sources that are attracted to some form of social mission. The institutional forces at play are directing entrepreneurs away from traditional for-profit corporate structures, which demand a higher financial return than a social enterprise could provide, while a nonprofit organization has more limited access to capital (Witkin, 2009). Thus, the L3C is designed to bridge the gap between a traditional for-profit and a nonprofit organization.

The data presented here grants a preliminary look at the entrepreneurial response to these institutional changes. When asked whether their L3C existed prior to the establishment of this new organizational form, 82% of respondents answered 'No.' When asked why they organized as an L3C the entrepreneurs surveyed responded overwhelmingly, 83%, the need to generate more sources of capital investment. Yet, these entrepreneurs maintained that they also wanted to "give back" and "signal" investors of social goals and to be able to focus on a "mission" and not profit alone. Finally, more than half of the entrepreneurs surveyed revealed that they consider operating as a nonprofit yet chose the L3C due to the opportunity to attract a different type of investor or to operate in an industry where profits could be attained.

Considering the institutional incentives outlined above, it seems clear that policy to support these social entrepreneurs assumes that the pursuit of both financial and social value is an appropriate differentiation between potentially competing goals. Yet, all firms must create value for

[5] A group of researchers at DePaul university led by John Ronquillo conducted this survey. The findings have yet to be published.

their customers and in a market context the value created by firms ultimately benefits consumers. This begs the question as to whether these hybrid forms of entrepreneurial organization, organizations that pursue a double bottom line, necessitate tangible institutional polices in order to incentivize a social mission within a market context (Steinberg, 2012). Does the nonprofit organizational form (along with for-profit firms) capture the necessary value needed for the provision of all desirable goods and services without the needs for other types of organizations? It is clear from the survey data described above, that L3C designation is a response to tangible institutional incentives as much as a necessary model for the provision of the full spectrum of goods and services in the marketplace. Yet, is a hybrid organization (the double bottom line) a necessary entity in the world of efficient resource allocation?

One means of answering this question is on overall market efficiency grounds. Markets produce efficient outcomes because inefficiency leads to failure or takeover. We argue similar discipline mechanisms, albeit not market generated, work in the nonprofit sector, but with the myriad incentives faced by hybrid organizations, efficient resource allocation is questioned. Principally speaking, those charged with seeking profits and those charged with seeking a social mission can lead to a clash of cultures (Steinberg, 2012). Much more data is needed to better understand how these new institutional forms increase or decrease overall allocative efficiency.

Conclusion

We argue here that while for-profit social entrepreneurship exists, without contradiction, it is unclear whether this organizational form improves on the overall allocation of efficient resources. Entrepreneurship theory more broadly, and NIE, helps us to better understand why the allocation of entrepreneurial resources has multiple avenues, yet it is unclear whether these many forms leads to the desired systemic social outcomes. Much more work needs to be done in order to understand whether the correct policies are at play which leads to the optimal allocation of entrepreneurial decision-making.

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