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RESEARCH

Hands, Hearts and Hybrids: Economic Organization, Individual Motivation and Public Benefit

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Should policy makers rely upon firms motivated by profit and guided by the invisible hand of the market to promote public benefit or upon government agencies or nonprofits motivated by the compassionate heart? In this article we examine how the motivational assumptions implicit in these forms of economic organisation impact on their ability to promote the public good in key areas of the economy. We argue that in many circumstances it would be better to for policy makers to work with hybrid organisations: organisations that aim for both social and economic returns and whose stakeholders display the true complexity of individual motivation.

Keywords: hybrid; social enterprise; purpose-driven corporation; profit-maximisation; motivation

Introduction

What kind of economic organization will best promote the public benefit in different parts of the economy? This is a central economic question that confronts policy makers in every society. Can private sector firms be trusted with social services? Should profit-making corporations run publicly funded hospitals or schools? Do public sector organisations waste large sums on ultimately fruitless projects while paternalising their clients and stifling entrepreneurialism and innovation? Can charities be entrusted with public money to meet social goals efficiently and effectively, or do they pursue their own agenda regardless of cost and the wider public interest?

Traditionally, there have been three principal types of economic organisation for policy makers to consider: the privately-owned firm or corporation; the state or government agency; and the so-called nonprofit organisation. But a fourth candidate is increasingly of interest to economists and public policy analysts: the hybrid organisation, which blends in various ways characteristics of the other three. The focus of this article is the merits and demerits of the hybrid as a means of promoting public benefit, compared to other forms of economic organization, and the consequent implications for public policy.

We begin with some background on the concept of hybrid organisations and some data on their prevalence. We demonstrate that many social problems arise from the fact that more conventional forms of economic organisation are single-minded in their objectives, pursuing profits in the case of the private firm and various conceptions of social purpose or the public good in the case of state agencies and nonprofits. Finally, we examine the ability of hybrid organisations—organisations that pursue both financial and social returns—to address some of these issues, discussing some of the advantages they might have in resolving them but also drawing attention to the tensions that arise and other difficulties they encounter in trying to pursue social purpose and profit simultaneously.

The Emergence of Hybrid Organisations

Hybrids come in a variety of shapes. In particular, the hybrid fusion of purpose and profit (or social value and commercial value) has attracted most attention, both on account of the increasing prevalence of such hybrid forms, and also because of the apparent tension between the fused components. It is this hybrid combination that is the focus of this paper.

Examples of hybrid purpose and profit organisations include social businesses, social enterprises, community interest companies, worker and consumer co-operatives, trading charities, and purpose-driven corporations. Whatever their label, they all have one thing in common: they have at least two aims or objectives that they are trying to achieve. Most crucially, they aim to promote public benefit *and* to make money; they seek to achieve social and environmental returns as well as financial ones.

The simultaneous pursuit of economic and social value is not new. The nineteenth-century settlements organised by Cadbury's and Lever Brothers (now Unilever) were forerunners of the purpose-driven corporation, while trading nonprofits have an almost equally long history, and consumer and worker cooperatives emerged during the Industrial

Revolution as a response to poverty and exploitation. But recent decades have seen a renewed interest in, and innovation around, organisational entities that blend outcomes, behaviours, and structures from different sectors, with the aim of mixing social and financial returns.

It is challenging to quantify the growing emergence of such organisations. Longitudinal data on the number of hybrid purpose and profit organisations is notoriously unreliable because of changes in defining such entities over time. Nonetheless data can give both a snapshot of current prevalence and some insights into trends. It has been estimated, for instance, that there are close to 100,000 social enterprises in the UK, employing nearly 1.5m people [1]. In 2005 the UK government introduced Community Interest Companies (CICs), a legal form designed for social enterprises which heavily curtails the distribution of profits, and by 2019 there were 15,729 CICs [2]. In 2010 the US created 'Public Benefit Corporations', a legal form of purpose-driven corporation, and by 2015 over 2000 Public Benefit Corporations had been registered [3]. B Corporation, a global voluntary certification system that requires companies to consider and account for the impact of their decisions on the environment, supply chain, workforce, local community and other dimensions, was founded in 2007; it now has 3,745 companies certified in 74 countries across over 150 industries [4, 5].

As noted above, the key factor unifying all the various kinds of hybrid is their pursuit of both social and financial aims. As we shall discuss shortly, this dual objective structure, and its interaction with the individual motivations of stakeholders in and around the organisation, can have strengths and weaknesses as an instrument for promoting public benefit. But first we examine some of the problems that arise from the operations of single-objective organisations: the profit-maximising firm, the state agency, and the nonprofit.

The Profit-Maximising Firm: Knaves in Control—And Out of Control

The principal aim of the classic privately-owned firm is maximization of profit—or, for shareholder-owned corporations, the maximization of shareholder value. All the stakeholders involved in the organization—owners, managers, employees, investors—are assumed to have a simple motivation: the pursuit of their own material self-interest. They may be described as egoists or—in the terminology of the eighteenth-century philosophers David Hume and Bernard Mandeville—as knaves [6 pp25–26]. According to this vision, a properly functioning firm structures the incentives within it so that these self-interested motivations are aligned with the profit-maximisation objective of the organization.

It might seem obvious that, if an organization is run and staffed by knaves, pursuing their own self-interest in all their activities, it will be unlikely to be very effective in promoting public benefit, however the latter is interpreted. With respect to the private firm run by self-interested agents in a competitive market, however, the situation is more complicated. The operation of what Adam Smith has immortalized as the market's 'invisible hand' suggests that, in a competitive market, the pursuit of self-interest by all the agents involved can result in public benefit, even though they have no intention of achieving that outcome. More formally, a central theorem of welfare economics demonstrates that, under certain specific conditions, private firms operating in competition with one another can yield an allocation of resources commonly known as Pareto-efficiency: an allocation of economic resources where it is impossible to make one person better off without making another worse off. Put less technically, in a Pareto-efficient competitive world, there are no resources sitting around unused—no unemployed labour, no productive land uncultivated, no machinery lying idle. Moreover, all these resources are employed in their best possible use: in economists' terms, they are both productively and allocatively efficient.

An immediate problem with this argument relates to equity and social justice. Pareto-efficient competitive economies can be wildly unequal. Indeed, as most readers will be aware, recent years have seen runaway inequalities in competitive market economies, both within wider society and, of direct relevance here, within firms. Currently, the average CEO in the private sector is paid 265 times that of the average worker in their firm in the US and 201 times in the UK [7].

But there are also problems with the invisible hand's power to promote efficiency. First, for it to work properly, all of those involved have to have proper *information*, or the ability and willingness to obtain proper information, especially concerning quality. If consumers cannot properly assess the quality of the product they buy or of the service they use, producers can increase their profits by reducing quality and costs. Producers who behave in this way will not be punished by the loss of demand from consumers or users, because the latter will be unaware of the quality reduction. Classic examples of where such information problems are most acute include most social services, such as education, healthcare, and social care.

A second, and currently even more important, difficulty for the invisible hand concerns what are usually termed *externalities.* Externalities arise when a third party is affected either positively (an external benefit) or negatively (an external cost) by a market transaction in which they were otherwise uninvolved. It is not in the interest of profit-maximising firms to take account of such unpriced benefits and costs, making it impossible for the invisible hand to guide profit-maximising firms towards public benefit.

An illustration of the problems created by the existence of external benefits, and one of direct relevance to current concerns, is provided by vaccines. Consider a profit-maximising pharmaceutical firm producing a vaccine for Covid-19. The research for vaccine development is expensive, and so to cover its costs and to make a significant profit the firm must charge a high price for its vaccine. Now the purchasers of a vaccine against an infectious disease not only protect themselves from infection, but also protect all those with whom they come into contact: hence, there is an external benefit from the purchase. However, if the price is high, it is likely that few would purchase the vaccine and hence most of those external benefits would not be realised. The disease would continue to wreak its havoc—despite there being an effective vaccine for it. It is therefore not surprising that in the present situation most governments have stepped in to fund both the research and the provision of the appropriate vaccines.

The classic example of an external cost, again directly relevant to present-day problems, concerns carbon emissions. Anyone who travels by car or flies by plane imposes external costs on others through the carbon dioxide emitted and the consequent effect on the climate. It may be trivial in the context of one person making one trip, but it is massive in the context of billions of persons and trips in the worldwide economy. However, the profit-maximising firms selling cars and airlines selling flights have no reason to take these costs into account when pricing their products and therefore price them far too low from society's overall perspective.

These examples illustrate how the existence of externalities creates serious problems for the invisible hand's ability to promote the public benefit. As with asymmetric information, it creates opportunities for knaves to pursue their own self-interest at the expense of the wider society, as the guiding hand of the competitive market cannot control the profit-maximisers: knaves in control of their own enterprises. They may be efficient in their own terms, but they are out of control: socially, economically and environmentally damaging from the point of view of the wider society.

State Agencies and Nonprofits: Knights in Control—But Insensitive, Inefficient and Ineffective

The objective of the state-owned agency is different from that of the profit-maximising firm. In its idealised form, its principal aim is to promote social well-being as ultimately defined by citizens in democratic elections. The motivation of the principal stakeholders—politicians, civil servants, managers, employees—is assumed to be to provide a service of benefit to the public: so-called public service motivation [8]. Essentially altruistic, not egoistic, and guided not by the invisible hand of the market but by a compassionate heart of moral purpose and duty. If those running and staffing privately owned firms are described as knaves, those working in state-owned firms may be described as knights [6 pp26–27].

Most nonprofits are also assumed to be staffed by knights, albeit a rather different kind. Their aim is not to benefit the general public good, as defined through democratic elections, but to advance the well-being of a particular social group such as the poor, the ill, or the politically oppressed, or a wider social good, such as the environment. The motivation of the stakeholders—board members, donors, managers, employees, and volunteers—is similarly assumed to ultimately be altruistic. However, in contrast to the state agency, which in principle must serve all citizens equally, the altruism is focused narrowly on the individuals in the particular group involved—what is often termed nonprofit particularism [9].

It might be thought that if altruistic agents led an organization and also constituted most of its employees such an organization could be relied upon to promote public benefit. But while such a desirable outcome is undoubtedly possible in the operation of state agencies and nonprofits, for it to actually happen in practice, four exacting conditions have to hold.

First the knights must be genuine knights, not knaves. The pursuit of self-interest in a state agency or nonprofit can be immensely destructive. As public choice theorists have demonstrated, self-interested politicians aiming to maximize votes, or civil servants trying to maximize the size of the budgets that they control, not only fail to direct their agencies towards the social good, but can create social and economic damage in terms of inefficiency and ineffectiveness [10]. Nor are self-interested employees of state-owned firm or nonprofits likely to be any more efficient or effective. Monopolistic agencies run by self-interested agents are unlikely to be either productively efficient or socially effective. They are not motivated to economise on resources or to put themselves out in serving the public. And, of course, corruption and personal self-enrichment is an endemic problem, not only for state agencies but also for unregulated nonprofits.

But there are also problems if the organisation is run by genuine knights. First, it is unlikely that the precise focus of the knights' altruistic concerns will be identical to that of the wider society as a whole. As we noted, nonprofit knights are often particularists: generally concerned primarily with the beneficiaries of the service they are providing rather than with the wider social good, which may suffer in consequence. Second, when they do focus on the beneficiaries, knights should respect their needs and wants. However, genuine, compassionate concern is not always accompanied by respect. Instead, this altruism often resembles paternalism, with the knight deciding that 'they know best' about the beneficiary's needs and wants. As Rudolf Klein has argued, 'if the pursuit of self-interest at the expense of the public interest is the pathology of knavery, self-righteous rectitude is the pathology of knighthood' [11]. Third, and perhaps the most important, knights should not let the siren call of altruism trump the need to be efficient and effective. Knights, even those aware of such needs, often struggle with efficiency. The absence of the market means they rarely have adequate mechanisms to tell them how efficiently or effectively they are operating. They do not have feedback via the price mechanism, the entry and exit of consumers, and their own profit-and-loss accounting. But, rather than redress this, too often they fall back on the plea of doing good to defend operations that are demonstrably wasteful.

William MacAskill, promoting more effective altruism in *Doing Good Better* [12], illustrates the problems of ineffectiveness, paternalism and misdirected compassion. A philanthropic engineer observed children in an African village playing on a homemade roundabout. At the same time, their mothers waited hours in line to get water from a windmill pump on a still day. The engineer had the ostensibly brilliant idea of combining the two: a Playpump that used the energy of playing children to pump water for the village. Unfortunately, after many of these had been installed throughout Africa, it was discovered that they didn't work. The energy required to pump the water was far greater than that created by children playing. In some cases, children had to be paid or forced in some way to push the roundabout; in others the mothers did it themselves 'a task they found tiring, undignified or demeaning' [12 p4]. Moreover, prior to the Playpump's installation, no-one had asked the communities what they wanted; when they were finally asked after installation, many said they much preferred the handpumps that the Playpump had displaced, which were much easier to use and to repair. And a handpump was much cheaper: a quarter of the price.

So motivational problems lie at the heart of many state, market, and nonprofit failures. But can hybrid organisations do better?

Hybrid Organizations: A Typology of Motivational Propositions

In assessing whether the complex nature of the hybrid motivational structure can deliver public benefit, we face two related challenges. First, hybrid organizations that fuse purpose and profit are not a unitary entity, but a complex collection of organisational forms. It is unlikely, therefore, that there is a single idea of motivation and behaviour. Second, assumptions about motivation are often implicit in accounts of hybrid organisations, but the motivational advantages and disadvantages of such organisations have not yet been explicitly established.

In the following sections we attempt to navigate these challenges by drawing out from various accounts of hybridity some formal propositions about motivation and behaviour. We first identify three types of motivational proposition associated with hybrid organisations: 'encapsulated interest', in which the primary motivation of an organisation remains self-interested profit extraction, but when such profit extraction is aligned with creating social value; 'hearts and hands', in which organisations exhibit dual primary motivations of self-interested profit extraction and altruistic 'purpose'; and 'the restrained hand', in which self-interested behaviours are constrained and social behaviours supported by internal or external governance structures or oversight. Second, we consider the potential strengths and weaknesses of each type in resolving the motivational, efficiency and effectiveness failures of existing resource allocation systems.

The Invisible Hand Reaches Out: Encapsulated Interest

The first motivational proposition is derived from the concept of 'shared value'. 'Shared value' proponents hold that there is no necessary trade-off between profit extraction and social value: a profit-making firm can be successful only if its surrounding community is flourishing; external social problems can 'frequently create *internal* costs for firms' [13 p65; italics in original]. Medium to long-term profit maximisation is therefore aligned with prosocial activities. Such perspectives have gained increasing traction, most famously in the 2018 intervention by Larry Fink, CEO of global investment manager Blackrock: 'To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society [14].'

Such aligned value may take various forms. It may include offering support to local schools to secure a future supply of skilled labour, provision of reasonable working conditions that may improve worker productivity and staff retention, energy efficiency schemes that cut business costs, and reduction in carbon emissions to mitigate the strategic risks of climate change upon a firm's supply chain. The appearance of prosocial behaviours may be as important as the substance: a firm's reputation as a contributor to the community may, for instance, support staff recruitment or encourage purchases by ethical consumers.

This proposal of shared value implies a hybrid motivation that applies specifically to the for-profit firm—that of encapsulated self-interest. The focus of those who control and invest in the firm remains self-interested profit maximisation. However, in order to achieve this goal it is in the strategic interest of these self-interested actors to create social value—making a positive contribution to society is thus *encapsulated* within the controlling actors' self-interest. The proposal is not dissimilar to Adam Smith's description of self-interest harnessed for public benefit. The difference is that the prosocial behaviour extends beyond the specific market transaction, encompassing a broader range of activities, including those typically regarded as externalities. Through such a motivational structure the organisation retains the efficiency and effectiveness of the market-based firm, but its objective is aligned with social impact; knaves are under control, reined in by their own interest. There is also a potentially positive motivational effect for both altruistic and self-interested staff: altruists will be motivated by the prosocial activities of the firm and self-interested staff will buy in to the firm's prosocial commitments because these secure the firm's sustainability and thus their jobs and future wages. There may be appeal, too, to mixed motive investors, managers, and staff, who can simultaneously achieve social impact and profit. This is, in sum, a seemingly robust motivational proposition: it appeals to all, whether knights' prosocial objectives, knaves' self-interest, or the mixed motives of those that fall in between the two. This motivational system relies upon the assumption of alignment between profit maximisation and social value creation. There are, however, two significant challenges to this assumption.

The first challenge is incompleteness. In practice, the alignment of the two goals is likely to vary widely, being dependent on the particular market niche in which a firm operates and the competitive pressures that it faces. Sometimes firms may indeed overlook the benefit to profit of pursuing certain prosocial activities, especially if the strategic vision is excessively short-term. However, in many cases prosocial activity (whether the reduction of harmful externalities, the provision of positive externalities or the refusal to exploit information asymmetry to the detriment of the consumer) is likely to remain costly to the firm and will not be undertaken. In particular, there is likely to be a specific challenge in pursuing equity. Meeting the needs of vulnerable users or increasing the pay of low-wage staff can be costly; whether there is alignment of social impact and profit may be contingent on market circumstances. For instance, enabling access to services for disabled people may increase profit if it creates opportunities for firms to benefit from disabled people's spending power (the 'purple pound'). But for some goods, services or consumer groups, such a profit-making opportunity may not be apparent, and therefore there is no alignment between profit and equitable provision of goods. In these cases other solutions are necessary: either some kind of moral purpose within the firm (see Hearts and Hands, below) or government regulation to ensure equity.

Second, and an extension of the problem of incompleteness, is unreliability. Under the encapsulated interest framework, profit-seeking remains the primary intention; public benefit is a means to the end of profit maximisation, not an end in itself. Commitment to prosocial behaviours is therefore potentially unstable and dependent on the firm's strategic evaluation at any given moment. Reliance on reputational effects creates further risk of unreliability: the objective for firms is to maximise the *perception* of a contribution to public benefit, not public benefit itself. In sum, the assumption is precarious: there are conditions in which knaves will remain out of control in pursuing their interests without regard for public benefit.

This analysis suggests three areas where policy can be used to encourage prosocial behaviour. First, situations of genuine alignment between profit and social value may be overlooked by firms, especially if their strategic horizon is excessively short-term; policy initiatives can focus firms' attention on the business benefits of prosocial behaviours, perhaps through information or nudge techniques. Second, policy can tackle the problem of incomplete alignment of prosocial activities and profit. Government regulation, by altering the costs and benefits associated with activities, can change an externality into an internality, for example penalties and incentives around carbon emissions. Finally, policy initiatives can address the challenge of unreliability. For instance, robust accounting and impact measurement systems, by providing information to stakeholders (investors, consumers, staff), can enable rigorous exploration of a firm's social performance [15]: Are prosocial activities comprehensive? Are they largely for show, or is there evidence of meaningful social impact? Beyond government policy, civil society actors potentially play a significant function too: voluntary certification schemes, such as FairTrade or B Corps, can enhance transparency around firms' social value. Such schemes can support the alignment of social impact with profit maximisation provided the ethical certification is robust and, through its signalling power, increases consumer demand.

Hearts and Hands: Moral Purpose and the For-Profit Organisation

The encapsulated interest proposal assumes self-interest as the motivation of investors and managers who control the for-profit firm. A second hybrid motivational proposition has a different foundation—that the for-profit firm is wholly or partially controlled by actors who have altruistic—or at least mixed—motivations. Proposing moral purpose as a motivating factor within a for-profit firm departs from standard economic approaches, but there are multiple examples. These range from investors who are prepared to sacrifice full financial return for the sake of social impact [16], to social entrepreneurs who use the for-profit form to tackle social problems, to purpose-driven firms that explicitly have dual social and financial ends, to proprietor-owned firms embedded in local communities, and to pharmaceutical companies that have in principle pledged to supply coronavirus vaccines on a nonprofit basis [17]. In these cases public benefit is not an intermediary step to enable profit maximization, but instead carries at least equal weight as a primary organisational objective.

This motivational system offers a remedy for the incompleteness of the encapsulated interest model. Conditions of perfect alignment between profit and social purpose are not necessary. Because of altruistic motivations, those who control the organisation are prepared to sacrifice their own interests, at least in part, to further public benefit in a way that the focused profit-maximiser would not. Through this mixed motivational system, there is the possibility for companies to pursue a broader range of prosocial activities. Such activities may include the reduction of externalities harmful to the community, such as carbon emissions, even though this may be costly to the firm; the refusal to exploit information asymmetries or monopoly power even though such exploitation would increase profits; contributions to the local community that have no obvious return in terms of profit; or remedies to inequity, such as paying staff above the minimum market or statutory wage. Of particular significance is the potential power of altruistic purpose to push through market-based social innovation, a positive externality that would otherwise be under-supplied. As an example, consider the case of M KOPA, a for-profit start-up that has brought clean and affordable electricity to off-grid households and businesses in sub-Saharan Africa through a combination of solar-powered technology and mobile phone finance systems [18]. An encapsulated interest motivational system is not useful here: the risks are too high and the returns too uncertain for profit-maximising actors. Instead the initial investors in the firm were social impact funds and development finance institutions, while the founders were social entrepreneurs who, perhaps, had a mixed motivation of social impact, profit, and intrinsic challenge.

In addition to aligning the objective of the for-profit firm with public benefit, this hybrid motivational proposal can remedy the efficiency and effectiveness problems associated with knightly control. As noted above, altruistic knights in nonprofit organisations and in government lack feedback mechanisms that inform them of the efficiency and effectiveness of their work. But in the 'hearts and hands' hybrid knights use market-based resource allocation mechanisms: they make investments, not gifts; they provide services to consumers, not to beneficiaries. Market systems such as competition, price, and consumer entry and exit bring information about the efficiency, effectiveness, and market sustainability of knights' investments and services. We have also noted that control by knights may be top-down and paternalist: here consumer choice transfers power from the paternal altruist to the user.

What about the effects on staff motivation? Here the effects may be mixed. Knights are likely to be in sympathy with and energized by the moral purpose and prosocial activities of the organisation, while knaves will be motivated if the organisation's success in the market can provide stable employment and a good salary. But if the cost of the organisation's prosocial activities is partly paid through reduced salaries or through increased risk to the organisation's sustainability, then knaves may be demotivated.

Beyond this lack of appeal to knaves, this motivational proposition has three significant difficulties. First, there is the challenge of organisational sustainability. While profit maximisation is not a priority, profitability is: the organisation must be sufficiently competitive in the market at least to ensure its ongoing survival. The costs incurred in undertaking prosocial activities must be borne by some stakeholder, whether investor, staff, or consumer. If the costs are too high, the organisation becomes uncompetitive, and the demands of the market are in tension with the pursuit of public benefit.

This leads directly to a second difficulty: there may again be incomplete responses to social problems. Given market pressures, incentives to avoid the most costly prosocial behaviours remain. As an example, organisations may offer support to the mildly disadvantaged, but not to individuals with deeply embedded vulnerabilities who are especially costly to help. The response to inequity is, therefore, incomplete. There may be a range of difficult moral choices between purpose and financial sustainability, and about which moral purposes should be prioritised.

The third, and perhaps most serious, challenge to this motivational proposition is its instability. It is reliant on the moral purpose of individual leaders or investors who control or invest in the organisation. If these leaders or investors exit an organisation, then costly prosocial activities may end with their departure: there is no formalised constitutional arrangement or external constraint that protects these activities. There are particular moments when public benefit activities may be especially under threat, such as the sale of equity holdings by philanthropic investors, the exit of founding social entrepreneurs, or a takeover by profit-maximising investors. In all these cases, the ambitions for social impact are threatened by the risk of the organisation refocussing on an objective of profit maximization and economic value extraction.

Policy tools to support the morally driven organisation overlap with those already suggested for the 'encapsulated interest' firm. Impact accounting systems and voluntary certification schemes can, by creating strong signals of the ethical behaviour and impact of the organisation, potentially strengthen its competitive position and hence sustainability. The problem of incompleteness can be addressed by, for instance, governments providing subsidies that reduce the cost of helping the most vulnerable, and therefore relieve the firm of difficult trade-offs between moral purpose and financial sustainability. Finally, the development of organisational forms and structures that protect moral purpose from knavish takeover may be valuable in remedying the challenge of instability. It is to such structures that the next section turns.

The Restrained Hand: Regulated Purpose Organisation in the Market

A third motivational proposition is derived from the emergence of 'regulated purpose' organisations within market settings. By 'regulated purpose' we mean organisations that are subject to additional oversight or constraint (whether internal or external) that either restricts the profit that can be distributed outside the organisation or binds the organisation to certain prosocial behaviours. Various mechanisms of this nature have emerged in the market setting, ranging along a continuum from total prohibition on profit extraction to mild restriction, differing in formality from legal to advisory, and varying from internal governance arrangements to legal requirements.

The origins of these regulated purpose hybrid organisations vary. First, as we have noted, neither encapsulated interest nor the presence of moral purpose in the for-profit firm necessarily offer a reliable defence against self-interest that harms or fails to contribute sufficiently to public benefit. The threat of out-of-control knaves remains. Various mechanisms therefore seek to provide formal institutional protection of public benefit in for-profit organisations. Some are new legal forms of organisation: the CIC in the UK limits an organisation's sale of assets and caps its profit distributions and interest payments, while the public benefit corporation in the US and in other countries compels the for-profit organisation to work for the broader benefit of all stakeholders rather than elevating shareholder profit above all else. Other mechanisms include internal governance arrangements, such as 'golden shares' that enable actors to veto organisational strategies that compromise social impact, and organisational ethics committees that monitor and advise upon the social and environmental performance of a company [19]. Moral purpose in these cases becomes codified, certified, or formally monitored.

A second dynamic is the entry of state and nonprofit organisations into market settings. In these cases the 'regulated purpose' characteristic of the organisation is long-established: the state agency exists to provide public purpose and there is no private extraction of profit (assuming the absence of corruption); the tax-exempt nonprofit organisation (whether the registered charity in the UK or the 501(c)(3) in the US) is guided by its public benefit mission and a legal constraint on the distribution of profits outside the organisation. Market entry is driven in some cases by the development of commercial business models in nonprofit organisations, and in others by the introduction of quasi-markets in which state and nonprofit agencies compete for users and for government funding. In this case the process is not the imposition of regulation on a knavish market-based organisation, but the development of new market behaviours by already regulated social purpose organisations.

The motivational proposition of the regulated purpose organisation is twofold. First, these legal and governance measures provide an institutional defence against exploitative or harmful behaviours driven by profit maximisation:

restrictions prevent knaves from running out of control and organisational actors, whether knights or knaves, are guided towards social purpose objectives. In conditions of information asymmetry, for instance, the goal of profit maximisation creates an incentive for organisations to cut quality and costs. In such situations regulated nonprofit organisations may be more effective, since the legal prohibition upon profit distribution reduces the incentive for such exploitative behaviour [20]. The extent and power of the protection given to public benefit will vary significantly according to the particular mechanisms; but in principle the mechanisms serve to maintain an alignment of organizational objective with public benefit.

Second, while the social purpose of the organisations are in some sense regulated, resource allocation takes place within a market setting. Again, this may remedy problems of inefficiency and ineffectiveness in organisations controlled by knights: market mechanisms bring information about the efficiency, effectiveness, and market sustainability of the organisation. They also create incentives for both knightly and knavish owners, managers, and staff to be responsive to service users' own interpretations of their needs and well-being; for if they do not so respond, then users may exit, thus threatening the organization's survival [21]. If, for instance, parents and carers are given the right to choose the government school to which they send their children, and if funds are allocated to schools according to pupil numbers, then schools must offer educational provision which meets parents' preferences— otherwise they will lose users and resources, eventually compromising the existence of the school. Consider also a charity that provides services to disabled people. If that charity receives a philanthropic or government grant, there is the danger of paternalistic altruism and little incentive to be responsive to the disabled person. But suppose the government gives the disabled person a budget and enables them to choose between different providers: the charity must then be responsive to the user's needs if it is to access the resources that the user holds. In addition to a likely increase in responsiveness and effectiveness, we can note the change in the power relationship: the parent/carer or disabled user moves from passive beneficiary to empowered decision maker. In some cases market pressures may also encourage nonprofit organisations to be less particularistic in the services they deliver in order to increase market revenue by responding to broader demand.

The response of altruistic staff members to this motivation system may be mixed. On the one hand, the regulatory mechanisms may be seen to protect current and future prosocial activities, thus enabling knights to commit their energies to the organisation. On the other hand, energetic motivation is associated with actors' perception of autonomous action [22]: the presence of regulatory mechanisms and oversight, if perceived as controlling staff and managers' decisions, might reduce motivation. For some knights who work in the nonprofit or government sectors, the move into the market setting may also be experienced as disempowering, with market values and processes interpreted as inappropriate constraints on altruistic action [23].

The primary vulnerability of this motivational system, however, is the alienation of self-interested profit-seeking actors. Regulatory mechanisms create either a formal restriction on profit extraction or a commitment to prosocial behaviours that might in any case reduce profit. Profit-seeking investors will be especially discouraged, and the extent of this discouragement will be proportional to the extent of restriction on profit making. The restricted return from a CIC will not appeal to mainstream investors, while the public benefit corporation may exhibit to investors an unfavourable risk/return profile because of its focus on public benefit. As an example, note this risk factor identified by the public benefit corporation Lemonade during its recent initial public offering of shares: 'As a public benefit corporation, our focus on a specific public benefit purpose and producing a positive effect for society may negatively impact our financial performance' [24 p61]. Organisations may therefore be deprived of capital funds for growth, and self-interested staff may be discouraged if a lack of investment and growth implies lower wages.

There are two other challenges. First, in common with the moral purpose for-profit organisation, there remains the difficulty of ensuring sustainability in the marketplace if prosocial behaviours incur costs and if capital investment is scarce. Second, and linked to this, there may again be disincentives against the most costly public benefit behaviours if these undermine competitiveness—and especially against activities that support equity, such as serving the most vulnerable or paying higher wages.

The challenge for policymakers is to support the development of sophisticated legal and governance arrangements that meaningfully protect public benefit but that do not, as far as possible, discourage self-interested actors from seeking financial return. The restriction on profit distribution associated with the UK's CIC vehicle has, for instance, been eased over time in an attempt to achieve the right balance between protection of public benefit and encouragement of financial investment.

Towards Motivational Combinations

Each of these hybrid motivational systems can make some contribution to public benefit by reining in out-of-control knaves, by supporting the efficiency and effectiveness of knights and reducing their paternalism, or both. However, each system also carries limitations and is incomplete. In these closing remarks we explore the possibility of dynamic combinations between these motivational systems that might contribute to public benefit and social impact.

First, different motivational systems may fill specific motivational niches in particular fields or operating environments. Encapsulated interest is a robust motivational system provided the assumption of alignment between medium-term profit maximisation and public benefit holds. Where that alignment is incomplete or unreliable, then there is a role for moral purpose to extend and safeguard public benefit in the for-profit firm. Regulated purpose organisations may be necessary where there is a high risk of drift away from a public benefit focus, or where such drift could have a significant harmful impact: an example of the former is the existence of governance constraints in impact investment funds to prevent an excessive bias towards financial return [25]; an example of the latter is the prohibition on selling off community assets in the CIC. The balance and interaction of these motivational systems will vary in different fields, being dependent on, for instance, the extent of alignment between profit maximisation and public benefit, the particular information difficulties or externalities present, the composition of the workforce and the likelihood of pressure from ethical consumers.

Second, different motivational types may occur consecutively over the lifecycle of an organisation. Intentional moral purpose may be required to initiate a venture that creates social innovation (a positive externality); but if that venture succeeds and achieves market sustainability, then the motivational frame may switch to encapsulated interest, for evidence demonstrating the alignment of profit and social impact has now been gathered. *Prima facie* this can appear a negative step, for moral purpose is exchanged for self-interest. But in fact it can be a positive progression, because the encapsulated interest framework, appealing to both knights and knaves, in this instance is likely to be more sustainable and robust for public benefit—on the condition, of course, that the alignment of social impact and profit is maintained.

There remains, however, an ongoing challenge of equity. These hybrid organisations and their associated motivational systems are located in the market and use market allocation systems. This brings potential benefits for efficiency and effectiveness. Markets too can empower users, by transforming the passive beneficiary of charity or government services into an active consumer armed with the power of choice [6, 26]. Nonetheless in each motivational system there remains a problem around equity. The challenge of maintaining market sustainability and competitiveness may require costly equity measures to be avoided, even if those who control the organization are knights: these include providing services to the most vulnerable, catering to minority needs and preferences, or increasing wages for the low-paid worker. In these circumstances only government subsidy or regulation can level the competitive playing field.

In sum, traditional resource allocation mechanisms assume static motivations—self-interest in the market, public service in government, and altruism and mission in the nonprofit. The developing hybrid motivation systems discussed here are dynamic and fluid; none on its own is sufficient, but combinations between them offer the possibility for innovative responses to social problems and the overcoming of market, state, and nonprofit failures.

Competing Interests

The authors have no competing interests to declare.

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