

# Private action in public interest: The comparative governance of social issues

Jiao Luo\*  | Aseem Kaul 

Strategic Management & Entrepreneurship  
Department, Carlson School of Management,  
University of Minnesota, Minneapolis, Minnesota

**Correspondence**

Jiao Luo, Carlson School of Management,  
University of Minnesota, 321 19th Avenue South,  
Minneapolis, MN 55455.  
Email: luoj@umn.edu

**Research Summary:** We develop a theoretical framework to define the comparatively efficient organizational form for dealing with a social issue, based on the market frictions associated with it. Specifically, we argue that for-profits have an advantage in undertaking innovation and coordinating production economies, nonprofits in playing a fiduciary role given ex post information asymmetry, self-governing collectives in dealing with bounded externalities through private ordering, and state bureaucracies in governing general externalities. We build on these arguments to develop a mapping between combinations of these market frictions and the comparatively efficient arrangements to govern them, including a variety of hybrid arrangements such as private-public partnerships, social enterprises, corporate social responsibility, and so on. Our framework thus contributes to research in strategy, organizations, and public policy.

**Managerial Summary:** What is the best way to deal with a social problem? While some believe such problems are best left to the state, others argue that business should take the lead in solving them, or favor nonprofit solutions. In this article, we move beyond such one-size-fits-all approaches, highlighting the different strengths of different organizational forms. We argue that for-profits' strong incentives make them more innovative; nonprofits are more trustworthy in representing the best interests of others; collectives enable actors to self-organize around a common interest; and the state is best for issues that impact the entire population. We thus develop a mapping between the nature of the social problem and the organizational form—or combination of organizational forms—that may deal with it most efficiently.

\*Authors contributed equally and are listed in reverse alphabetical order.

## KEY WORDS

collective action, hybrid organizations, institutional economics, market frictions, social impact

## 1 | INTRODUCTION

The role of for-profit businesses in addressing social problems—climate change, disease, hunger, poverty, exploitation, and so on—is a topic of growing interest in the field of strategic management (Barney, 2005; George, Howard-Grenville, Joshi, & Tihanyi, 2016; Mahoney, McGahan, & Pitelis, 2009). Building on an early emphasis on the ethical imperative for firms to recognize and take responsibility for the broader consequences of their actions (Freeman, 1984; Hinings & Greenwood, 2002; Stern & Barley, 1996), the literature has increasingly come to emphasize the strategic value of socially responsible actions (Dorobantu, Kaul, & Zelner, 2017; Flammer & Luo, 2017; McWilliams & Siegel, 2001). While this work provides strong evidence for a positive link between corporate social responsibility (CSR) and firm financial performance (Barnett & Salomon, 2012; Flammer, 2015; Henisz, Dorobantu, & Nartey, 2014; King & Lenox, 2001; Waddock & Graves, 1997), it is far from clear that such activities truly contribute to social welfare (Barnett, 2016; Jones et al., 2016; Kaul & Luo, 2018). After all, there are many other organizations—government agencies (Arrow, 1969; Olson, 1965; Pigou, 1920; Shleifer, 1998), nonprofits (Besley & Ghatak, 2001; Marquis, Davis, & Glynn, 2011; Rose-Ackerman, 1996), self-regulating collectives (Ostrom, 1990; Prakash & Potoski, 2007, 2012), and various hybrid forms (Battilana & Lee, 2014; Pache & Santos, 2010)—that could and do address social problems. In order to determine whether and when for-profit actions to address social problems are welfare enhancing, we therefore need a more holistic theory of the comparative advantage of various organizational arrangements in addressing social issues.

In this article,<sup>1</sup> we offer an initial attempt at such a theory. Specifically, we focus on social issues of allocation—that is, social problems that arise on account of market frictions that result in Pareto suboptimal resource allocations (Arrow, 1969; Arrow & Hahn, 1970; Coase, 1960; Debreu, 1959)<sup>2</sup>—and determine the comparatively efficient governance arrangement for dealing with such issues. Our analysis builds on the new institutional economics (NIE) tradition (Coase, 1984; Dorobantu, Kaul et al., 2017; Williamson, 2000), in that we focus on the transaction costs<sup>3</sup> that drive suboptimal welfare outcomes, identify the organizational forms best suited to dealing with those transaction costs, and derive the governance arrangement that would be comparatively efficient in addressing them. Our approach thus follows the principle of first-order economizing through discriminating alignment (Williamson, 1996), whereby transaction characteristics are matched to governance structures in order to “get the governance structures right” (Williamson, 2000, p. 59).

<sup>1</sup>This version of the article has been abridged to meet the journal's length requirements. While the current version captures the main ideas of our argument, interested readers can find a more detailed exposition in Appendix S1, including additional illustrative examples and expanded citations to relevant literature.

<sup>2</sup>We discuss the distinction between issues of allocation and issues of distribution, as well as the link between issues of allocation and market frictions, in more detail in the next section.

<sup>3</sup>By transaction costs we mean the broad set of costs of running the economic system (Arrow, 1969; Coase, 1937), including costs of bargaining, maladaptation, and measurement (Williamson, 1996). Market frictions are the characteristics of market exchanges that give rise to these transaction costs (Mahoney & Qian, 2013).

Adopting this general approach, we contend that social issues of allocation arise primarily on account of two types of market friction—externalities and (ex post) information asymmetries—though they may be exacerbated by uncertainty and production economies. We then argue that private organizations have distinct advantages in dealing with these market frictions: nonprofit organizations are uniquely well-suited to playing a fiduciary role in situations with high (ex post) information asymmetry, self-governing collectives provide a superior means of private ordering in situations with bounded externalities, and for-profit firms are well-positioned to innovate and devise new solutions in the face of creative or absolute uncertainty, as well as to realize economies of scope between commercial and noncommercial activities (Besley & Ghatak, 2007; Kaul & Luo, 2018). These private forms may prove inadequate, however, in dealing with general externalities, where the state's coercive authority to tax, proscribe, and punish gives it a unique advantage (Arrow, 1969; Klein, Mahoney, McGahan, & Pitelis, 2013; Stiglitz, 1989). Building on these arguments we develop a conceptual mapping between the underlying features of social problems and the governance arrangement that may be most efficient in dealing with them. Our mapping not only considers the choice between pure forms, but also includes a range of hybrid arrangements that combine features of these pure forms in response to different combinations of market frictions (see Table 2, discussed later). We thus offer a holistic theory explaining the existence of these hybrid arrangements, based on their comparative efficiency in dealing with social issues.

In putting forward our theory, we do not claim to provide a panacea for all social ills. Our analysis is focused on efficiency considerations and does not consider ethical issues related to the distribution of endowments and power in society. We also rely throughout on the principle of remediableness (Williamson, 1996), so that the governance arrangements we highlight are not optimal or flawless, just more likely to be effective than other feasible arrangements on average. Moreover, our framework is not meant to predict which governance arrangements will arise in practice. We recognize that the choice of governance arrangements may be driven by a wide range of cultural, normative, or relational pressures (DiMaggio & Anheier, 1990; DiMaggio & Powell, 1983; Galaskiewicz & Wasserman, 1989; Marquis, Glynn, & Davis, 2007) that have little to do with efficiency (North, 1990). Our purpose is simply to describe the feasible governance arrangements that would be chosen were efficiency the sole criterion, so as to provide a baseline against which deviations from the goal of comparative efficiency may be assessed.

By providing a coherent and holistic theory that maps distinct types of social issues to the governance arrangements that may be comparatively efficient in addressing them, we advance research in strategy, organizations, and policy. Our study highlights the potential advantage of for-profit firms in advancing social welfare (Besley & Ghatak, 2007; Kaul & Luo, 2018), thus answering recent calls for a broader, more inclusive view of value creation in the strategy literature (George, McGahan, & Prabhu, 2012; Mahoney et al., 2009), while also pointing to reasons why an exclusive reliance on for-profit firms in solving social issues may be inadvisable. We also emphasize the role of hybrid organizational forms and cross-sector partnerships (Battilana & Lee, 2014; Lenox & Chatterji, 2018; Mahoney & McGahan, 2007)—including various forms of public–private collaboration (Cabral, Lazarini, & de Azevedo, 2013; Klein et al., 2013)—in addressing social issues, and offer a theoretical rationale for the comparative efficiency of such forms relative to pure types. In addition, we contribute to research in new institutional economics (Coase, 1984; North, 1986; Williamson, 2000), applying the insights of this work on the organization of business transactions (Coase, 1937; Hansmann, 1996; Williamson, 1975, 1985, 1991a, 1996) to the organization of transactions involving social issues (Coase, 1960; Olson, 1965). Our study thus sets the stage for further research into how

activities at the intersection of public and private interests are best organized (Besley & Ghatak, 2001, 2007; Kaul & Luo, 2018; Olson, 1986).

## 2 | SOCIAL ISSUES AND MARKET FRICTIONS

We begin our analysis by delving deeper into the nature of social issues and their relation to market frictions. To do so, we adopt a long-standing distinction between issues of distribution and issues of allocation (Arrow, 1969, 1985; Buchanan, 1968; Cooter, 1982; Musgrave, 1959).<sup>4</sup> Issues of distribution reflect questions of justice and fairness (Marti & Scherer, 2016; Rawls, 1971; Sen, 2009) and are fundamentally concerned with how property rights (and the corresponding endowments of income and wealth) are defined and distributed in a way that is consistent with social choice (Arrow, 1951; Sen, 1999), while issues of allocation reflect questions of efficiency and are fundamentally concerned with whether, given a well-defined set of property rights, resources are allocated in a Pareto optimal way (Arrow & Hahn, 1970; Coase, 1960). Thus, while social issues of distribution deal with choices between Pareto optimal outcomes, social issues of allocation deal with deviations from the Pareto optimal outcome (Hochman & Rodgers, 1969, 1974).

In this article, we focus on social issues of allocation, recognizing that while distribution issues are undeniably important, resolving allocation issues is a necessary condition for achieving social welfare (Arrow, 1985). Moreover, since allocation issues arise due to a variety of market frictions that hinder the efficient allocation of resources (Arrow & Hahn, 1970; Coase, 1960), they lie well within the purview of strategy scholars, who have long studied how private organizational forms resolve these frictions (Mahoney & Qian, 2013; Yao, 1988). In particular, as mentioned above, we can apply the familiar principles of first-order economizing to allocation issues, defining the nature of the transaction involved in solving the issue and aligning it with the governance structure that is comparatively efficient in undertaking that transaction (Williamson, 1996, 2000).

To be clear, economizing in this sense does not mean simply choosing the option with the lowest production cost, but includes effective adaptation and the elimination of waste (Dorobantu, Kaul et al., 2017; Williamson, 1991b, 1996). Consistent with the notion of incomplete contracting in its entirety, the comparatively efficient governance structure in our conception is the one that minimizes all relevant costs, including the transaction costs of bargaining, maladaptation, and measurement (Williamson, 1991b, 1996). So, for instance, if for-profit provision were associated with quality shading (Hart, 2003; Hart, Shleifer, & Vishny, 1997) or excessive provision of “public bads” (Benson, 2008), then these maladaptation costs would need to be taken into account when considering whether for-profit provision were truly comparatively efficient. Since all deviations from the Pareto optimal allocation are thus included in costs, our transaction cost minimizing approach to allocation is equivalent to the choice, by farsighted actors, of the (feasible) governance structure that maximizes social value within the bounds of prevailing institutions (Williamson, 1991b, 1995).

Further, while social issues of allocation result from market frictions, not all market frictions result in social allocation issues. For the purposes of our study, when we speak of social issues we refer to issues that cannot be resolved through the operation of normal commercial or business transactions. So, for instance, while the presence of production economies may make market transactions comparatively inefficient, we would not consider this a social issue because such economies may be realized and captured within a (for-profit) hierarchy in the course of normal business transactions (Mahoney & Qian, 2013; Teece, 1980; Yao, 1988). In contrast, we think of pollution as a social issue because normal business transactions are unlikely to result in optimal levels of pollution

<sup>4</sup>For a more detailed discussion of the distinction between allocation and distribution, see Appendix S1.

(Coase, 1960). For our purposes then, we refer to social allocation issues as those that are not resolved in the course of normal business transactions, that is, where self-interested actions by empowered agents are insufficient to achieve welfare maximizing outcomes.<sup>5</sup>

As we discuss in more detail below, we assert that such social issues arise primarily as the result of two market frictions: ex post information asymmetries and externalities (Coase, 1960; Cooter, 1982). In both these cases, the welfare outcomes of agents are beyond their immediate, private control—hence the “social” issue. This is not to suggest, however, that other forms of market friction have no role to play in social issues. On the contrary, a key part of our analysis is to consider how other types of market frictions—specifically uncertainty and production economies (Mahoney & Qian, 2013)—combine with information asymmetries and externalities to complicate and exacerbate issues of social allocation. In addition, we assume throughout that bounded rationality and opportunism feature in all transactions, contributing to incomplete contracting over social issues (Williamson, 1975, 1985, 1991b, 2000).

### 3 | MARKET FRICTIONS AND PURE FORMS

Having distinguished between social issues of distribution and allocation, and linked the latter to market frictions (Mahoney & Qian, 2013; Yao, 1988), we next turn to consider the comparatively efficient governance arrangements to deal with these frictions, in line with a discriminating alignment approach (Williamson, 1996, 1998). In particular, we begin by considering four pure forms: for-profit firms (Coase, 1937; Williamson, 1975, 1985), nonprofit organizations (Besley & Ghatak, 2001, 2003; Hansmann, 1980, 1996; Marquis et al., 2011), self-governing collectives<sup>6</sup> (King & Lenox, 2000; Ostrom, 1990, 2010; Prakash & Potoski, 2012; Yue, Luo, & Ingram, 2013), and state bureaucracy (Pigou, 1920; Stiglitz, 1989; Williamson, 1999; Wilson, 1989). We take each market friction, describe the ways in which it may contribute to socially suboptimal outcomes, and discuss the pure organizational form that we contend is most advantageous in dealing with that market friction.<sup>7</sup> Note that when comparing organizational forms we hold the transaction itself constant, so that the ability of the different organizational forms to economize on the transaction costs resulting from the market friction is the only driver of their comparative efficiency (Williamson, 1975, 1985).<sup>8</sup>

Our main arguments are summarized in Table 1, which offers a mapping between the four types of market frictions—ex post information asymmetry, externalities (bounded and general), (creative or absolute) uncertainty, and production economies<sup>9</sup>—and the four pure organizational forms—for-profits, nonprofits, collectives, and state bureaucracy—based on the comparative efficiency of each form in dealing with each type of market friction. As such, Table 1 offers a composite profile of the comparative logic of the different forms. Thus, we contend that the very combination of ideological

<sup>5</sup>Pitelis (1994) refers to such situations as “private sector failure”.

<sup>6</sup>While self-governing collectives are also not-for-profit entities, they are distinguished from nonprofit organizations by an emphasis on consensus-based decision making rather than administrative fiat. Thus, while nonprofits are run by professional managers, self-governing collectives are run by representatives drawn from among their members (Skocpol, 2003). In practice, of course, the line between the two may blur; a point we return to in the next section where we discuss membership-based nonprofits (Clark & Wilson, 1961; Knoke, 1988).

<sup>7</sup>A more detailed version of this section, with additional examples and a comparative assessment of alternate forms in dealing with each market friction, may be found in Appendix S1.

<sup>8</sup>While it may be observationally true that some transactions may “only” be undertaken through a particular form, this is a reflection of the comparative efficiency of the form in lowering the relevant transaction costs. Absent transaction costs, there is no reason why the same transaction could not be organized in other forms (Williamson, 1991b).

<sup>9</sup>Our mapping of market frictions draws on that of Mahoney and Qian (2013), except that we group asset specificity and economies of scale and scope under the larger category of production economies (Yao, 1988)—a choice we justify further below—and, as already mentioned, we assume bounded rationality and opportunism feature in all transactions.

**TABLE 1** Comparative advantage of pure governance forms

	<b>For-profit</b>	<b>Nonprofit</b>	<b>Collective</b>	<b>State</b>
Ex post information asymmetry	Very weak	Strong	Moderate	Weak
Bounded externalities	Weak	Moderate	Strong	Weak
General externalities	Weak	Weak	Very weak	Strong
Creative or absolute uncertainty	Strong	Moderate	Weak	Very weak
Production economies (commercial co-specialization)	Strong (very strong)	Moderate (weak)	Moderate (weak)	Moderate (weak)

motivation and nondistribution constraint that causes nonprofits to excel at playing a fiduciary role in the presence of ex post information asymmetries also makes them less innovative and less efficient at realizing production economies. Similarly, the strong incentives that make for-profits exceptionally good at finding innovative solutions and advantage them in realizing production economies, also make them untrustworthy in the face of ex post information asymmetries or externalities. State bureaucracies have a strong advantage when dealing with general externalities because of their coercive power over all citizens, but the need for probity in exercising that power makes them slow to change and subject to high levels of contestation and capture, as well as high centralization, leaving them poorly equipped to innovate, or to play a strong fiduciary role. And self-governing collectives can use direct communication and consensus to efficiently achieve private ordering over bounded externalities, but these very characteristics hamper their ability to innovate, realize production economies, or deal with externalities that extend beyond their domain. The rest of this section explains and elaborates these conclusions.

### 3.1 | Information asymmetry and nonprofit organizations

We begin by considering market frictions caused by information asymmetry. Specifically, we focus on problems of ex post information asymmetry, that is, on situations where the information asymmetry may persist even after the transaction is complete, since these are the situations where rational and farsighted self-interest on the part of uninformed actors may be insufficient to enable Pareto optimal transactions. Ex post information asymmetry can arise in many ways. First, it may arise in the case of credence goods, that is, goods where the value of what the consumer receives is unverifiable or extremely costly to verify even after consumption (Darby & Karni, 1973). Such credence goods may include altruistic or social goods, where actors who pay for the goods do not consume them directly, but contribute toward goods and services that are provided to others, so that the true benefits of provision may be costly to verify (Becker, 1974; Kaul & Luo, 2018; Milgrom & Roberts, 1986). Second, problems of nonverifiability may also arise in the case of “merit goods” (Besley, 1988; Musgrave, 1959), where individuals may lack the knowledge or expertise to properly assess the value of what they are receiving, and must rely on the opinion of experts to judge its utility (Arrow, 1963). Third, ex post information asymmetry may arise where transactions are complex and their outcomes are causally ambiguous (Chi, 1994; Lippman & Rumelt, 1982), so that it may be hard to tell, even ex post, whether the observed outcome was the result of deliberate action (or inaction) on the part of the transaction partner. Finally, ex post information asymmetry may also result from challenges in measuring transaction outcomes (Besley & Ghatak, 2005; Chi, 1994; Hwang & Powell, 2009), for instance, where the outcomes of a transaction are imperfectly measured so that there is a gap between perfunctory performance and consummate performance, leaving room for quality-shading (Hart, 2003, 2008; Hart & Moore, 2008) and moral hazard (Chi, 1994; Hölstrom, 1979; Luo, Kaul, & Seo, 2018); where the benefits to the recipient are complex (Hölstrom & Milgrom, 1991) or

subjective (Waguespack & Salomon, 2015); or where measurement is costly, making comprehensive assessment infeasible (Kaul & Luo, 2018).

In all these cases, ex post information asymmetry impairs the functioning of markets, making it challenging for transacting parties to correctly assess the value of transactions (Anheier & Ben-Ner, 1997; Hansmann, 1980), and causing skeptical actors to choose not to transact, while naïve actors receive less than they pay for. Clearly, the resulting transaction costs would be lower if the less-informed party could rely on its transaction partner to act with probity, that is, to discharge the transaction with loyalty and rectitude (Williamson, 1999). Our contention is that nonprofit organizations have a comparative advantage in playing this fiduciary role, that is, in serving as reliable representatives of the interests of vulnerable parties. First, nonprofits operate under a distribution constraint, which serves as a form of credible commitment to ensure that the value they create is in the service of their cause and is less likely to be appropriated by other interests than under alternate governance forms (Glaeser & Shleifer, 2001; Hansmann, 1980, 1987; Nelson & Krashinsky, 1973). The relatively weak incentives of nonprofits thus make them less liable to problems of quality-shading or merely symbolic provision (Hansmann, 1980, 1987; Hart, 2003; Hölstrom & Milgrom, 1991; Kaul & Luo, 2018) and, in the case of merit goods, may incline them to give people what they need rather than what they want. Second, nonprofits tend to be ideologically driven, designed to serve a specific cause or reify a specific ideology (Besley & Ghatak, 2001; Rose-Ackerman, 1996; Weisbrod, 1977), and often attracting and selecting workers whose personal preferences are aligned with the cause (Akerlof & Kranton, 2005; Besley & Ghatak, 2003; Bowles, Gintis, & Osborne, 2001; Clark & Wilson, 1961). As a result, nonprofits may be naturally less inclined to take advantage of ex post information asymmetry. Third, because nonprofits derive their legitimacy from the efficacy with which they serve the focal cause (Baum & Oliver, 1996; DiMaggio & Anheier, 1990) as well as their responsiveness to the voices of their constituents and community (Anheier & Ben-Ner, 1997; Ben-Ner, 1986; Knoke, 1988),<sup>10</sup> they may be especially concerned with maintaining a positive reputation (Cho & Zhou, 2017), and therefore less likely to take advantage of ex post information asymmetry given the chance of being found out. Finally, being committed to a single cause means that nonprofits may have both the incentive and the ability to develop more specialized knowledge around an issue, and may thus be better positioned to serve as experts in situations involving merit goods. For all these reasons, nonprofit organizations have a comparative advantage in undertaking transactions involving high ex post information asymmetry.

### 3.2 | Bounded externalities and self-governing collectives

A second market friction associated with social issues is the presence of externalities, that is, situations where each actor's actions impact the outcomes of others, and each actor's outcomes are impacted by the actions of others, creating the need for collective action (Arrow, 1969; Coase, 1960; Commons, 1931; Olson, 1965). These may include negative externalities, whereby the actions of one party harm others, or positive externalities, where the actions of one party benefit others. While the prior literature has distinguished between different types of externalities based on whether they are excludable and / or subtractable (Buchanan, 1965; Ostrom, 2005, 2010; Ostrom & Ostrom, 1971), we focus on a different distinction, one based on the scope of excludability. In many cases, externalities may be nonexcludable but bounded, that is, there exists a natural constituency of actors who are

<sup>10</sup>It follows that nonprofits founded to satisfy the personal agenda or ego of their founder (Horvath & Powell, 2016), to serve elite interests (Marquis et al., 2011), or simply to take advantage of public support (Rose-Ackerman, 1996) may be unresponsive to or unrepresentative of the needs of vulnerable parties, and thus fundamentally inefficient.

the sole or primary beneficiaries from the externality (Olson, 1986). So, for instance, while the light from a lighthouse is technically nonexcludable, the lighthouse itself is useful only to those sailing in and out of neighboring ports, creating the potential for exclusion (Coase, 1974). Where such natural bounds exist, the externality would still be nonexcludable within these bounds, but may be excludable across these bounds, that is, it may be possible to limit any benefit from cooperation to those who are part of the community (Ostrom, 1990; Stigler, 1974).

The possibility that an externality may be naturally bounded—that is, excludable outside of a specific subset of actors—is important because it creates the potential for private ordering (Ahuja & Yayavaram, 2011; Baron, 2001; Williamson, 1996). Being part of a bounded community will lower the incentive to free-ride, while raising the incentives to monitor each other (Hansmann, 1996), and making free-riding more readily observable (Ostrom, 1990). Not only will the shared interests within the community make it easier to agree on a joint solution, it may also lead to solutions that are better conceived, allowing actors to incorporate local expertise and interests (Andersson & Ostrom, 2008; Ingram & Clay, 2000; Ostrom, 1990, 2005) and avoid a costly, prolonged, and potentially ineffective decision process, wherein outsiders try to apply general rules to situations they may understand poorly (Coase, 1974; Maitland, 1985; Williamson, 1996).

This is not to suggest that cooperation among members of a bounded community will be automatic. Actors still have reason to fear free-riding within the group and may therefore still face bargaining problems (Arrow, 1969), causing them to fail to agree on a cooperative solution in spite of their compatible preferences (Sen, 1967; Sugden, 1984). Agreeing and committing to a common set of actions, as well as to a shared set of rules—that is, to the constitution governing the collective action (Ostrom, 1990; Ostrom & Ostrom, 1971)—may thus still involve substantial costs (Hansmann, 1996), especially in situations where subtractability is high and members of the community must not only decide how to cooperate to enhance the overall benefit to the group, but also how this benefit is to be shared among them.

Our contention is that self-regulating collectives are the comparatively efficient form for enabling private ordering in situations where externalities are naturally bounded, because they allow those who have the most to gain from cooperation to directly and simultaneously communicate with each other and commit to a mutually optimal solution (Sen, 1967; Stigler, 1974; Sugden, 1984). So long as the number of actors within the community of shared interest is relatively small, and the contributions of each actor are easy to observe (Hölmstrom, 1979), members of the collective can self-organize and monitor, relying on direct negotiation with each other to arrive at a mutually acceptable solution, and direct observation of each other's actions to maintain discipline. This is the case, for instance, with irrigation collectives where farmers can monitor each other's water use by simply observing their neighbors' fields (Ostrom, 1990), or on online platforms where each actor's ratings are visible to all. Self-monitoring may be especially effective where the members of the collective are embedded in a network of strong ties (Dorobantu, Kaul et al., 2017; Granovetter, 1985; Yue et al., 2013), as is likely to be the case given geographic proximity or shared affiliation or identity. Such ties will help enable governance both because the threat of social censure in the future will make free-riding more costly (Jones, Hesterly, & Borgatti, 1997), and because familiarity with the others involved may make actors more willing to risk being vulnerable to them (Williamson, 1996). Note that contribution to a collective may take the form of abatement of negative externalities, as in the case of voluntary environmental programs (Barnett & King, 2008; Prakash & Potoski, 2007, 2012) and collectives to manage common pool resources (Ostrom, 1990); or the generation and sharing of positive externalities, as in standard-setting organizations (Rosenkopf & Tushman, 1998; Rysman & Simcoe, 2008) and industry peer networks (Zuckerman & Sgourev, 2006).

### 3.3 | General externalities and the role of the state

While self-governing collectives may be comparatively efficient at dealing with bounded externalities, when it comes to general externalities—that is, situations where the benefits from individual actions diffuse across a broad range of individuals, and the natural community of interest is therefore the entire population rather than a subgroup—the advantage may lie with the state. State bureaucracies have an advantage in such situations, since the state alone has coercive authority over its citizens (Arrow, 1969; Klein et al., 2013; Rangan, Samii, & Van Wassenhove, 2006), enabling it to tax, proscribe, and punish (Stiglitz, 1989). Thus, not only can a state bureaucracy exclude some actors from the benefits of externalities, it can also compel relevant actors to contribute to the provision (abatement) of positive (negative) externalities, both by directly collecting contributions from its citizens in the form of taxes, and by mandating disclosure of otherwise unobservable contributions, coupled with strong sanctions for noncompliance. This ability to compel participation constitutes a strong comparative advantage of state bureaucracy, because while other governance forms could certainly develop administrative and technological systems to exclude nonparticipants (as we have seen above), they cannot really compel those whose actions impact their outcomes to participate if they choose not to. It is only through the action of state bureaucracy (or the threat of such action) that the relevant actors may be forced to cooperate.

### 3.4 | Uncertainty, innovation, and for-profit firms

Having considered both ex post information asymmetries and externalities, we next turn to consider other forms of market friction, which, we contend, do not directly give rise to social issues (as we have defined them), but may exacerbate social issues resulting from these other frictions. We begin by considering the market frictions of uncertainty; specifically, we focus on creative and absolute uncertainty (Packard, Clark, & Klein, 2017). The defining characteristic of such uncertainty is that the set of possible courses of action is open-ended (Packard et al., 2017), so that the uncertainty can only be resolved through the deliberate actions of those facing the uncertainty. In this way, creative or absolute uncertainty is distinct from environmental uncertainty; while environmental uncertainty is largely exogenous to the actor and may be dealt with by maintaining flexibility and keeping one's options open, creative or absolute uncertainty require active learning and innovation by the actor to resolve the uncertainty (Folta, 1998; Packard et al., 2017). This need for entrepreneurial action based on subjective judgments in the face of uncertainties that cannot be resolved either analytically or statistically (Foss, Klein, Kor, & Mahoney, 2008; Klein, 2008; Knight, 1921; Langlois, 1992) may apply not only to business opportunities but also to many social issues. While traditional theoretical models of collective action or the provision of public goods often assume that the optimal solution is known and universally understood (Cernes & Sandler, 1983; Olson, 1965), in many real-world situations the range of available options and outcomes may be unbounded, and the probabilities connecting them unknown (Ostrom, 1990).

In such contexts, for-profit firms may play an important role in developing innovative solutions to social issues. First, governance by fiat within hierarchies enables the coordination needed for successful adaptation, even as the law of forbearance that operates within the hierarchy creates conditions conducive to greater cooperation and flexibility in pursuit of novel innovations (Williamson, 1985, 1996). As a result, hierarchical governance may help enable the sharing and recombination of tacit knowledge in the pursuit of innovation (Kogut & Zander, 1992; Liebeskind, 1996). Second, the role of the owner-manager as residual claimant creates the appropriate incentives for uncertainty-bearing (Klein, 2008; Knight, 1921; Sautet, 2000). Just as entrepreneurs in the context of private

goods are incentivized to discover new opportunities or develop new capabilities by the right to claim the residual rents from their inventions (Foss et al., 2008; Kaul, 2013; Klein, 2008; Langlois, 1992), for-profit governance may also motivate entrepreneurs to develop innovative solutions to social problems, both by devising new solutions and by adapting existing solutions to make them more efficient and effective.

### 3.5 | Production economies, co-specialization, and the role of for-profits

For-profits may also have an advantage in realizing production economies, which include economies of scale, learning, and scope (Yao, 1988), as highlighted by the traditional TCE literature (Alchian & Demsetz, 1972; Teece, 1980; Williamson, 1975, 1985). As already mentioned, the use of administrative fiat and forbearance within the hierarchy will help enable coordination among activities, which may be necessary to realizing production economies. While other organizational forms could use fiat and forbearance to realize production economies as well (Olson & Zeckhauser, 1970), for-profit firms may have an advantage over these other forms due to the strength of their internal incentives. While the impossibility of selective intervention means that incentives within for-profit firms are weaker than those that operate in the market (Williamson, 1985, 1996), it also means that incentives in non-profits, collectives, or state bureaucracies are weaker than those in for-profits. Thus, coordination costs (Williamson, 1985, 1996) may be lower under for-profit governance than under these other forms, giving for-profits a slight advantage in realizing production economies, *ceteris paribus*.

Where the role of for-profits may be especially important, however, is in cases where there are economies of scope between activities that face high *ex post* information asymmetry or externalities on one hand, and purely commercial activities that are not subject to these frictions on the other. This is perhaps most frequently the case when negative externalities are coproduced in the production or delivery of business goods and services, for example, pollution from factories (Coase, 1960). Even when externalities are not coproduced, however, it may be that the resources and capabilities required to generate positive externalities (or abate negative ones) have other, purely commercial uses—for example, drug development capabilities (Vakili & McGahan, 2016). We term such cases commercial co-specialization, meaning that the focal activity or transaction is most efficiently carried out when it is co-specialized (Argyres & Zenger, 2012; Chi, 1994; Kaul, 2013) with a purely commercial activity. Given the impossibility of selective intervention (Williamson, 1985, 1996), however, placing the co-specialized commercial transaction under any other governance form may negatively impact its efficiency and competitiveness. Thus, situations where social problems share economies of scope with purely commercial activities may be most efficiently governed by for-profit firms (Besley & Ghatak, 2007; Kaul & Luo, 2018).

## 4 | THE COMPARATIVE GOVERNANCE OF MARKET FRICTIONS

Thus far, we have considered the comparative efficiency of pure forms in dealing with individual market frictions, as summarized in Table 1. These frictions may occur jointly however; individual transactions may be subject to multiple frictions. We therefore turn to consider a variety of hybrid arrangements (Battilana & Lee, 2014; Kivleniece & Quelin, 2012; Williamson, 1991a) that may be comparatively efficient in dealing with combination of frictions. To do so, we draw on the comparative advantage of the different pure forms as summarized in Table 1, and look for the combination of these forms that may best be able to mitigate the challenges resulting from the combination of market frictions, keeping in mind that combining different forms may result in substantially higher

coordination costs inside the organization, given the impossibility of selective intervention (Williamson, 1985, 1996) and the challenge of combining forms with competing logics (Battilana & Dorado, 2010; Pache & Santos, 2010; Rivera-Santos & Rufín, 2010). In defining the comparatively efficient arrangement we therefore try to limit ourselves to arrangements that bring together no more than two forms—either in partnership or as a hybrid, depending on the modularity of the relevant activity—and choose the combination of forms that, we argue, will jointly minimize the transaction costs resulting from the combined market frictions.

#### 4.1 | Markets and firms

The resulting mapping between the nature of the transaction and the comparatively efficient organizational arrangement is shown in Table 2. Row (1) in Table 2 shows cases where both externalities and ex post information asymmetries are low. Per our definition above, these cases do not involve social issues, since they involve no private sector failure (Pitelis, 1994) and represent purely commercial transactions that are the traditional purview of competitive or business strategy (Chi, 1994; Oberholzer-Gee & Yao, 2018; Yao, 1988). Nevertheless, we discuss them briefly, if only to highlight the correspondence between our framework and the prior literature.

**TABLE 2** Mapping the comparatively efficient governance arrangement

		Low creative or absolute uncertainty			High creative or absolute uncertainty
		Ex post information asymmetry	Low commercial co-specialization	High commercial co-specialization	
Externality	Column (1)	Column (2)	Column (3)		
		Row (1) <sup>a</sup>	Market <i>e.g., Financial spot markets, farmers' markets</i>	For-profit governance <i>e.g., GE, Walmart, Google, Apple</i>	
Low	Low	Row (2)	Service Nonprofit <i>e.g., Doctors without Borders, animal shelters, non-profit nursing homes</i>	Non-profit certification / partnerships <i>e.g., BBB, Underwriters Laboratories, Tom's shoes, Microsoft's partners in learning</i>	Social entrepreneurship <i>e.g., Method products, Drinkwell, Thorn technologies, benefit corporations</i>
	High	Row (3)	Self-governing collective <i>e.g., Irrigation collectives, labor unions, PTAs, credit unions, retail co-ops</i>	BoP initiatives <i>e.g., Commercial micro-finance initiatives, Project Shakti</i>	Sharing economy <i>e.g., AirBnB, Kickstarter, Goodreads</i>
Bounded	Low	Row (4)	Member Nonprofits <i>e.g., Churches, American Bar Association, Academy of Management</i>	Social activism <i>e.g., Fairtrade, HRC, before they book</i>	Social platforms <i>e.g., Edustar, Ushahidi</i>
	High	Row (5)	Govt. provision / maintenance <i>e.g., NYPD, National Park Service, IRS</i>	Govt. regulation / subsidies <i>e.g., OSHA, EPA, Medicare</i>	Govt. contracting <i>e.g., Road maintenance, NIH, NSF</i>
General	Low	Row (6)	Govt. sponsorship / political activism <i>e.g., Charter schools, NRDC, ACLU</i>	Public good certification / PPP / others <i>e.g., Rainforest alliance, World Food Programme, Project XL</i>	Public entrepreneurship / PPP / others <i>e.g., Hybrid prisons, EMS in India</i>
	High				

*Note.* More details on these examples, as well as enhanced descriptions of the underlying dimensions of the framework can be found in Appendix S1. We strongly recommend that readers review Appendix S1 while interpreting this table. PPP: public–private partnership; BoP: Base of the Pyramid.

<sup>a</sup> Cases in Row (1) are adequately handled by normal business or commercial transactions and therefore do not involve “social issues” per our definition.

Column (1) in Table 1 shows the case where uncertainty and commercial co-specialization are low. In the case of Row (1) this means that all transaction costs are low and the transaction may be carried out through the market. Examples of such arrangements range from financial spot markets to labor exchanges to farmers' markets and craft fairs—settings where commodity products are exchanged between atomistic agents, and there is no small numbers bargaining problem. Columns (2) and (3) of Table 2 consider cases where commercial co-specialization is high (meaning that there are substantial economies of scope between the focal transaction and a purely commercial one) and where (creative or absolute) uncertainty is high, respectively.<sup>11</sup> Given low externalities and low ex post information asymmetry, these cases are best governed within a for-profit firm—either a large corporation or an entrepreneurial startup—as discussed in the previous section.<sup>12</sup> Indeed, this cell in Table 2 represents the traditional theory of the firm in the strategy literature (Alchian & Demsetz, 1972; Teece, 1980; Williamson, 1975, 1985, 1991a).

## 4.2 | Nonprofits, CSR and social enterprise

Row (2) in Table 2 examines transactions where externalities are low, but ex post information asymmetry is high. Where uncertainty and commercial co-specialization are low as well, as in Column (1), such cases are best governed by a nonprofit, specifically by nonprofits playing a service role (Kaul & Luo, 2018; Yaziji & Doh, 2009), that is, providing goods and services supported by charitable donations from private individuals. Examples include NGOs serving social causes such as Doctors without Borders, Salvation Army, soup kitchens, animal shelters, suicide prevention centers, and so on; as well as nonprofit providers of private services subject to ex post information asymmetry, such as nonprofit hospitals (Rushing, 1974), nursing homes (Baum, 1999; Baum & Oliver, 1996), and performing arts organizations (Kuan, 2001).

Next, consider the case where high ex post information asymmetry is combined with commercial co-specialization, as in Column (2). The comparatively efficient governance arrangement in this case may be some form of delegated philanthropy, where a for-profit acts on the behalf of its stakeholders to provide goods and services to those in need (Bénabou & Tirole, 2010). Typical examples of this case include situations where the firm provides goods or services related to its main business to recipients who cannot pay for them directly, with the expectation of being rewarded for doing so by other stakeholders (Kaul & Luo, 2018), for example, pro bono provision of services (Carnahan, Kryscynski, & Olson, 2017), or in-kind donations of consumer goods to those in need (Marquis & Park, 2014). Such provision should generally involve a partnership between a for-profit and a nonprofit (Chatain & Plaksenkova, 2018; Galaskiewicz & Sinclair-Colman, 2006; Gatignon & Ballesteros, 2018; King, 2007), however, because in the absence of nonprofit oversight for-profits may be incentivized to take advantage of ex post information asymmetry by engaging in underprovision (Glaeser & Shleifer, 2001; Kaul & Luo, 2018) or quality shading (Hart, 2003; Hart & Moore, 2008), and because the for-profit may not understand the relevant context well enough to make a truly welfare-enhancing choice (Khan, Munir, & Willmott, 2007). Examples include certification of for-profit compliance by nonprofits (Chatterji & Toffel, 2010; Fischer & Lyon, 2014; Rao, 1998), for example, Better Business Bureaus or Underwriters Laboratories; and support from reputable

<sup>11</sup>Since high creative or absolute uncertainty always privileges the involvement of for-profit firms in any case, we do not distinguish between cases with low and high commercial co-specialization within the high uncertainty case.

<sup>12</sup>In some such cases, the comparatively efficient governance arrangement may be a partnership between two for-profit firms. The literature on such alliances or other for-profit hybrids (Geyskens, Steenkamp, & Kumar, 2006; Makadok & Coff, 2009; Williamson, 1991a, 1996) is too extensive to discuss here, and is not the focus of our work in any case. We limit ourselves to acknowledging that for-profit governance may include governance via collaborations between for-profits.

nonprofits for corporate social initiatives, for example, Microsoft's partnerships with NGOs for its Partners in Learning program (Bhanji & Oxley, 2013), Tom's shoes partnerships with NGOs to deliver their shoes in Africa (Battilana & Lee, 2014; Marquis & Park, 2014), and Starbucks' partnership with Conservation International to grow sustainable coffee (Chatain & Plaksenkova, 2018). Partnerships between for-profits and nonprofits also include nonprofit support of CSR efforts by providing training and expertise in dealing with social issues, for example, the training of hotel executives by nonprofits dealing with human trafficking. They may also include for-profit support of nonprofit initiatives, through both in-kind donations, for example, donations of medications by pharmaceutical companies to nonprofit providers; and interventions that leverage the firm's knowledge and expertise, for example, Toyota's streamlining of New York soup kitchens (New York Times, 2013).

Column (3) in Row (2) deals with situations involving high creative or absolute uncertainty and high ex post information asymmetry, such as those where it is unclear how a social problem may best be solved. In such cases, the comparatively efficient governance arrangements may be social entrepreneurship (Martin & Osberg, 2007; Santos, 2012; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008), that is, initiatives that develop new technologies and business models combining social and business objectives (Battilana & Lee, 2014; Fosfuri, Giarratana, & Roca, 2016) in order to benefit disenfranchised stakeholders and be financially rewarded for doing so, for example, Method products, or Drinkwell (a startup that offers villagers in South Asia a low-cost system to purify well water). In such cases, the fact that the social mission is an explicit part of the firm's strategy, often from its very inception, serves as a credible commitment to playing a fiduciary role, as does the adoption of hybrid regulatory forms such as benefit corporations. The key point is that for such organizations the social mission lies at the core of their purpose, unlike in the case of CSR initiatives by established companies. Given the impossibility of selective intervention (Williamson, 1985, 1996), the fidelity of social initiatives placed within a larger hierarchy that includes purely commercial activities is inevitably compromised, which is why it may be comparatively efficient to place such initiatives in a hybrid organization designed specifically for that purpose (Kaul & Luo, 2018).

#### 4.3 | Community organizations

Row (3) of Table 2 considers the case where externalities are bounded, and a community with shared interests exists. In the absence of other frictions, as in Column (1), such situations are best governed through self-governing collectives, as mentioned above. Where subtractability is high, these may take the form of common pool collectives—such as irrigation collectives (Ostrom, 1990), kibbutzes (Ingram & Simons, 2000), or Euro-IX (an association of European ISPs and internet exchange points)—where actors develop and commit to a shared constitution of rules for the sharing of a common good. Where subtractability is low, the efficient arrangement may be a club good collective, such as labor unions (Hannan & Freeman, 1987), resident's associations (Hansmann, 1996), bowling leagues (Putnam, 2001), fraternal associations (Skocpol, 2003), banking self-regulation arrangements (Yue et al., 2013), and voluntary environmental programs (Prakash & Potoski, 2007, 2012) that bind actors together through mutual monitoring in pursuit of a shared, nonsubtractable benefit (Buchanan, 1965; Prakash & Potoski, 2007). Further, where production economies are involved, these collectives may morph into business cooperatives, which are similar to for-profit firms (Boone & Ozcan, 2014), except that the residual rights lie with the members who share the externality rather than with outside investors (Hansmann, 1996). Examples of such cooperatives include credit unions (Barron, West, & Hannan, 1994; Chatterji, Luo, & Seamans, 2017), retail cooperatives (Ingram & McEvily, 2007), and agricultural cooperatives (Schneiberg, King, & Smith, 2008).

Next, consider the case where bounded externalities are combined with high commercial co-specialization, for instance, where the actions of the firm have a positive or negative impact on a local community, for example, the effect of the tourism industry on local conditions in tourist destinations (Hall, Matos, Sheehan, & Silvestre, 2012). In such cases, as in Column (2), the comparatively efficient governance arrangement may be a Base of the Pyramid (BoP) initiative, or some other inclusive growth strategy (George et al., 2012; London & Hart, 2011; Prahalad, 2005). While such strategies involve for-profit firms leveraging economies of scope with their established business to generate positive externalities for local communities, the benefits from such initiatives are stronger when they preserve and leverage the existing social capital of these communities, and are responsive to their needs (Ansari, Munir, & Gregg, 2012). Examples include commercial micro-finance initiatives (Cobb, Wry, & Zhao, 2016; Singh & Dutt, 2015; Wolfolds, 2016), as well as other BoP programs, such as Unilever's Project Shakti in rural India (Porter & Kramer, 2011).

Where bounded externalities are combined with creative or absolute uncertainty, the comparatively efficient governance arrangement may be a sharing economy platform, that is, the creation of a forum through which actors with shared interests can communicate and collaborate with each other. Given the inherent uncertainty of any such novel platform, its creation is likely to require some for-profit involvement. As in column (3), several recent for-profit initiatives in the "sharing economy" space, such as Uber and AirBnb, fall within this category, as do crowdsourcing / crowd-funding initiatives such as Kickstarter or Goodreads, as well as other open source communities (Hippel & Krogh, 2003; Shah, 2006), for example, Android Studio, Oracle's MySQL. Such platforms make it easier for actors to coordinate on and adopt a single solution, creating, in effect, a privately managed collective.

Moving to Row (4), where bounded externalities are combined with high ex post information asymmetry—such as in cases where the members of the community lack the ability to measure or assess the benefits from collective action—the comparatively efficient arrangement may be the monitoring of the collective's actions by a third-party (Delmas & Montes-Sancho, 2010; Prakash & Potoski, 2007, 2012), or, more often, the replacement of the collective by a membership-based nonprofit (Clark & Wilson, 1961; Knoke, 1988; Skocpol, 2003). Examples of such nonprofits include churches and other religious organizations (Miller, 2002), as well as professional associations such as the American Bar Association or the Academy of Management (Greenwood, Sudaby, & Hinings, 2002; Prakash & Potoski, 2007). These organizations perform service and certification functions similar to the nonprofits discussed earlier, except they do so primarily (or exclusively) for the benefit of their members, and rely on contributions or dues from their members. Moreover, unlike other forms of self-regulating collectives, membership-based nonprofits generally deal in credence goods and therefore involve the application of technical or specialized expertise.

Where bounded externalities and ex post information asymmetry problems are combined with commercial co-specialization, as in Column (2), we have a situation where the actions of the firm generate positive or negative externalities for a community, but the firm's key stakeholders are unable to observe or assess these effects, for example, the exploitation of farming communities or indigenous populations when firms in developed markets source from third world countries. In such cases, the comparatively efficient governance arrangement is some form of social activism through which private ordering is achieved in the shadow of regulatory sanctions (Baron, 2001, 2009; Baron & Diermeier, 2007; Ingram & Rao, 2004). Social activists serve as representatives of the interests of disenfranchised communities in the face of externalities produced by business activities, exerting pressure on corporations to either abate negative externalities or generate

positive externalities, and being more successful in doing so when they are organized as a non-profit with the authority and expertise to represent the community interest (Dorobantu, Henisz, & Nartey, 2017; Hiatt, Sine, & Tolbert, 2009; Ingram, Yue, & Rao, 2010; King & Soule, 2007; McDonnell, King, & Soule, 2015). Examples include Fairtrade International, Greenpeace's endorsement of Kimberly-Clark's sourcing policy (Walker, 2014), and Human Rights Campaign's (HRC) Corporate Equality Index.

Finally, in Column (3), consider transactions involving bounded externalities, high uncertainty, and high ex post information asymmetry, that is, situations where groups of actors with shared interests are trying to work together to develop a collective solution, but lack the ability to judge the efficacy of the solutions they develop; for instance, doctors looking to share their experience and knowledge with each other, but being unable to verify the accuracy of knowledge shared. The comparatively efficient arrangement for such transactions may be a social platform, which is a collaborative platform created and managed by a nonprofit entity. Social platforms work much like sharing economy platforms, in that they enable members of the community to interact and cooperate in new ways, except that because of the ex post information asymmetry involved, such platforms are better run by nonprofits than by for-profits—the intuition being that the relative disadvantage of for-profits in playing a fiduciary role is greater than the disadvantage of nonprofits in driving innovation. Examples include the Ushahidi platform (George et al., 2012) or the Edustar platform (Chatterji & Jones, 2012). Several open source or user communities (Franke & Shah, 2003; Shah, 2006) are also organized by nonprofits—for example, Unix, the Mozilla Foundation—precisely because of the fear of opportunistic action by for-profit platform owners.

#### 4.4 | Regulation, government provision, and public–private partnerships

Row (5) in Table 2 considers cases where externalities are general—that is, situations where the effects of the transaction are felt by the general population, suggesting the need for some form of state intervention—but ex post information asymmetry is low. Where both commercial co-specialization and uncertainty are low, as in Column (1), the comparatively efficient arrangement is likely to be state bureaucracy, especially in cases where financial or economic considerations are not primary or where frequent adaptation is not desirable, so that bureaucratic inefficiency may be a design feature, enabling probity and credible commitment (Williamson, 1996, 1999, 2000; Henisz, 2000). In such situations, the state may choose the level of the good to supply for its citizens and undertake the provision of the public good itself (Olson & Zeckhauser, 1970). Examples include the military, police and fire departments, IRS, and so on. The state may also play a maintenance role in the case of naturally occurring common pool resources that are of value to society at large, for example, the National Park Service and various federal and state fish and game administrations.

Moving to Column (2), where general externalities are combined with commercial co-specialization—that is, when the externalities in question are generated by the business activities of firms—it may be more efficient for the state to play an indirect role, influencing the actions of for-profit firms rather than managing public good provision directly. In the case of negative externalities, this may involve monitoring of for-profit firm activities by state-run regulatory agencies, for example, OSHA, EPA. In the case of positive externalities, it may involve the provision of subsidies or tax incentives, such as government support for electric vehicles and alternate energy production, for example, state support for wind energy (Marcus & Fremeth, 2016). In cases with positive externalities, the government may also fund consumption by its citizens, paying for-profits for the provision of goods and

services to those who cannot afford them (but, importantly, can accurately assess their value), for instance through food voucher programs, Medicare, and so on.<sup>13</sup>

Where general externalities are combined with high uncertainty, as in Column (3), government contracting may be the comparatively efficient governance arrangement. In such cases, innovation is desirable, and may be best achieved by the government taking responsibility for the provision of the good or service (to fully account for externalities), but contracting the actual provision out to a for-profit enterprise that would then have the incentive to achieve greater efficiency and cost-saving. Examples include private provision of city services such as road maintenance or trash collection (Levin & Tadelis, 2010; Warner & Hefetz, 2008). The state may also play an important role in funding scientific research through public grants (NSF, NIH, etc.) and public-private research collaborations (Bruce, Figueiredo, & Silverman, 2018), with such support being especially important in pursuing basic scientific research, developing general purpose technologies, or seeding new technology domains and markets—all contexts with high general externalities where new innovations produce substantial knowledge spillovers (Mazzucato, 2015).<sup>14</sup> Note that such contracting is only advisable in cases where *ex post* information asymmetry is low and the quality of private provision is easily monitored or assessed<sup>15</sup>; where this is not the case the benefits of innovation may be offset by the costs of quality shading and other forms of private expropriation (Brown & Potoski, 2003; Hart, 2003; Hart et al., 1997; Levin & Tadelis, 2010).

Finally, Row (6) considers the case where externalities are general and *ex post* information asymmetries are high; in other words, cases where actions generate widespread externalities, but those affected by the externalities either have no voice, or are unable to correctly measure and assess the effect of these externalities for themselves. Examples include actions leading to climate change, which affect everyone on the planet, but whose exact causes and consequences are challenging to assess (Lyon & Maxwell, 2011). They may also include provision of such services as prisons or primary schools where *ex post* information asymmetries may be high because those directly experiencing the service (prisoners, children) may not be able to credibly voice complaints over how they are treated, creating the potential for quality shading (Hart et al., 1997). Given low uncertainty and limited commercial co-specialization, as in Column (1), the comparatively efficient governance arrangement in such situations is likely to be a collaboration between the state and a nonprofit. This may involve government sponsorship of nonprofits, with the state using its coercive authority to raise funds for the provision of a good or service, while the nonprofit plays the fiduciary role of ensuring that the funds are used appropriately. Examples include charter schools (Beckman & Gatewood, 2011)—which are funded by the state in recognition of the externalities of education, but managed as nonprofits given the high *ex post* information asymmetry involved—and government contributions to foreign aid efforts run by nonprofit organizations (Kapucu, 2006). This category may also include political activism by advocacy nonprofits (Skocpol, 2003; Yaziji & Doh, 2009), for example, Sierra Club, ACLU, NRDC.

<sup>13</sup>Toll goods—which have high excludability but are nonsubtractable (Ostrom, 2005, 2010)—are generally best governed as for-profits, given the potential for natural monopoly, but may require some state intervention to help resolve uncertainty about future demand (Klein et al., 2013; Rangan et al., 2006).

<sup>14</sup>Mazzucato (2015) ascribes the advantage of the state in funding such research to its superior ability to tolerate “uncertainty,” while bemoaning the state’s inability to capture the value from its investments in fundamental research. We contend that it is precisely the infeasibility of capturing value from these investments—a reflection of the positive externalities associated with them—that makes state funding comparatively efficient (and necessary). Note, moreover, that the role of the state in our analysis (as in Mazzucato’s) is to fund and support private (for-profit or nonprofit) innovation, not to undertake such innovation on its own.

<sup>15</sup>In the case of state support for science, *ex post* information asymmetry is moderate, given the substantial technical expertise required. This is why such support is often channeled through relatively independent agencies (e.g., NSF, SBIR) and relies heavily on the scientific expertise of the public servants involved (Bruce et al., 2018)

Where general externalities and high ex post information asymmetry are combined with either high commercial co-specialization or high uncertainty, as in Columns (2) and (3), the appropriate governance arrangement is more complicated. The logic of our argument would suggest a tri-partite collaboration between the state, nonprofits, and for-profits in such cases, but as already discussed, such a collaboration may be difficult given high coordination costs. Where these coordination costs can be resolved, the comparatively efficient arrangement is nonprofit provision with technical assistance from a for-profit and funding from the state. This is the case, for example, in the UN World Food Programme, wherein a nonprofit entity addresses world hunger with support from the UN's member states and in partnership with leading food companies that provide technical expertise and distribution, leveraging economies of scope with their core businesses.

Where the coordination costs of bringing together three governance forms are too high, the comparatively efficient governance arrangement may be to fall back on a simpler hybrid, with one form playing a dual role. This generally happens in one of three ways. First, as already mentioned, nonprofits may take on the role of the state, working with for-profits as partners, certifiers, or advocates of for-profit social initiatives. Examples include such nonprofits as the Rainforest Alliance, UTZ, and the Marine Stewardship Council (Prakash & Potoski, 2012) that promote sustainable practices through a combination of certification and collaboration. Second, nonprofits (or, better yet, social enterprises) may step up to play an innovative role in lieu of for-profits, while collaborating with the state. Thus, nonprofits may serve as public entrepreneurs (Klein, Mahoney, McGahan, & Pitelis, 2010), devising novel solutions to social problems (Shah, Agarwal, & Sonka, 2017), and then seeking to mobilize support behind these solutions in order to have them institutionalized by the state, for example, the development of new software and business models to provide emergency medical services (EMS) in Indian cities (George, Rao-Nicholson, Corbishley, & Bansal, 2014). Third, the state may be tasked with playing a fiduciary role (in lieu of nonprofit involvement), protecting the interests of its citizens against exploitation by for-profits and developing the expertise necessary to (at least partially) play the nonprofit's role. In such cases, the comparatively efficient governance arrangement is a public-private partnership (PPP) (Kivleniece & Quelin, 2012; Rangan et al., 2006). This may include complex and contingent contracts for for-profit provision supported and closely monitored by the state, so as to enable the firm to innovate and realize economies of scope while the state ensures the public benefit (Brown, Potoski, & Van Slyke, 2016; Potoski, 1999), for example, Project XL (Delmas & Marcus, 2004; Marcus, Geffen, & Sexton, 2002). It may also include collaborative or joint provision by the state and for-profits, where the state is able to closely monitor the quality and appropriateness of the service provided, while allowing the for-profit to innovate and improve efficiency, for example, hybrid governance in prisons (Cabral et al., 2013), as well as certification programs run by state agencies (Delmas & Toffel, 2008), for example, EnergyStar, National Organic Program.

Overall, rows (5) and (6) of Table 2 offer a nuanced picture of the role of the state in dealing with social issues (Stiglitz, 1989). On one hand, they suggest that the range of activities for which direct provision by the state is the comparatively efficient solution is fairly limited, consisting only of situations where both ex post information asymmetry and commercial co-specialization are low, and stability over time is to be privileged over innovation (Shleifer, 1998). As such, our analysis embraces the notion of government failure (Coase, 1964; Maskin & Tirole, 2008), highlighting, in particular, the comparative ineffectiveness of public bureaucracy in both driving efficiency and innovation (Schmidt, 1996) and representing the interests of local communities (Ostrom, 1990). On the other hand, we also highlight the critical role of the state in funding or otherwise supporting activities with

widespread externalities (Olson, 1965, 1986), including scientific and technological research (Mazzucato, 2015).

Similarly, Column (2) in Table 2 offers a more nuanced view of CSR activities, stressing how the nature of CSR varies with the extent to which the benefits provided are excludable. Thus, CSR activities may range from those involving social goods (Kaul & Luo, 2018) where the benefits are perfectly excludable and go to specific individuals or organizations (e.g., Buy One Give One programs, pro bono services), to activities that benefit specific communities (e.g., fairtrade initiatives, labor standards), to for-profit provision of public goods (Cornes & Sandler, 1983; Murdoch & Sandler, 1997) where the benefits from the firm's activities are diffused across the entire population (e.g., pollution reduction, lower carbon footprint). What these different initiatives have in common is that they leverage economies of scope with the firm's commercial activities to serve the disenfranchised, and rely on rewards from other stakeholders for doing so—and this, in turn, means that they depend on oversight by third parties to represent the interests of the disenfranchised (Besley & Ghatak, 2007; Kaul & Luo, 2018), though the nature of this oversight varies with the nature of benefits involved.

More generally, two points about Table 2 are worth highlighting before we close. First, the various cells in the table are best thought of as points along a continuum rather than as silos. Clearly, the choice among the various governance arrangements depicted in the table will depend upon the relative magnitude of the market frictions to which a transaction is subject. So, for instance, the easier (or less costly) a service is to monitor or assess, the greater the relative advantage of government contracting compared to PPPs (Hart, 2003; Hart et al., 1997). Second, Table 2 suggests that the comparatively efficient arrangement to govern a transaction may change as the nature of market frictions changes. So, for instance, as creative uncertainty increases, goods and services that were once provided by the state directly may be better contracted out to private actors, as instanced by the rise of private military contractors in the aftermath of the cold war, as the United States tried to adapt to new types of warfare (Baum & McGahan, 2013). Similarly, changes in social values and beliefs—for example, changing gender roles or changing perceptions of military efforts—may increase the transaction costs associated with community organizations, prompting a shift to professionalized nonprofits over time (Skocpol, 2003). Our theoretical framework thus helps to explain the tradeoffs between different governance arrangements, and the factors that may privilege one over the other across time and place.

## 5 | DISCUSSION

In this study, we sought to answer the question: What is the comparatively efficient governance arrangement for dealing with social issues? To do so, we drew on a wide range of prior research to highlight the comparative advantage of different organizational forms in dealing with various market frictions. We then developed a conceptual mapping between the combination of market frictions to which a transaction is subject, and the comparatively efficient arrangement—either a pure form, or a hybrid—under which it is governed. Our mapping identifies 15 distinct types of transactions where social problems of allocation arise, and shows how private arrangements—for-profits, nonprofits, and collectives—may play an important role in efficiently addressing these problems, with 9 of these 15 types requiring no state intervention at all.

By providing a coherent and holistic theory of the comparatively efficient governance arrangement for dealing with social issues, our study contributes to work in strategy, organizations, and public policy. We contribute to the nonmarket strategy literature (Baron, 2016; Dorobantu, Kaul et al., 2017) by offering a comprehensive theory of how businesses can help deal with social issues

(George et al., 2012; Mahoney et al., 2009). In particular, we move beyond the idea the firms may benefit financially from being socially responsible (Barnett & Salomon, 2012; Flammer, 2015; Waddock & Graves, 1997) to argue that there are conditions under which they may be comparatively efficient in enhancing social welfare, especially where there is a need to develop novel solutions to social problems (Agarwal, Audretsch, & Sarkar, 2007; Klein et al., 2010), or where there are economies of scope between their private operations and the provision of public goods (Besley & Ghatak, 2007; Kaul & Luo, 2018). At the same time, we also highlight important boundary conditions for for-profit involvement, stressing the potential for self-serving actions by firms (Akerlof & Shiller, 2015; Kaul & Luo, 2018; Milgrom & Roberts, 1986) and the consequent need for active monitoring of these efforts by those better suited to playing a fiduciary role.

For research on organizations, our study delves deeper into the logic of hybrid organizations (Battilana & Lee, 2014; Mahoney & McGahan, 2007), highlighting the role of such cross-sector collaborations in addressing key social issues (Cabral et al., 2013; Klein et al., 2013; Lenox & Chatterji, 2018). While existing work in this area has generally focused on the challenges such forms face in combining competing logics, and the ways in which they organize to overcome these challenges (Battilana & Dorado, 2010; Pache & Santos, 2010), we complement these perspectives by providing a theoretical rationale grounded in comparative efficiency for why these hybrid arrangements exist in the first place. In particular, we emphasize conditions under which these hybrids may be more efficient than the pure forms they bring together, despite the higher coordination costs of combining forms.

Finally, our study also speaks to research in public policy. We extend work in new institutional economics (Coase, 1984; North, 1986; Williamson, 2000) by applying the comparative governance approach of dealing with “incomplete contracting in its entirety” (Coase, 1937; Hansmann, 1996; Williamson, 1996, 1998) to the resolution of social problems (Coase, 1960). As such, we move beyond doctrinaire approaches (Stiglitz, 1989) that either champion or question private involvement in serving public interests (Barley, 2007; Shleifer, 1998) to offer a contingent account of the role of public bureaucracy (Williamson, 1999; Wilson, 1989), highlighting the need for state involvement in overcoming externalities on one hand, and the potential for government failure (Coase, 1964; Stiglitz, 1989) on the other, and suggesting that while direct state provision is rarely comparatively efficient, state support of private initiatives is often welfare enhancing.

As mentioned in the introduction, our study is limited in that we focus on issues of allocation rather than distribution (Arrow, 1969; Pitelis, 2013), highlight comparisons between arrangements rather than within them, and do not study, or claim to predict, the process through which governance arrangements are chosen (Klein, Mahoney, McGahan, & Pitelis, 2018; North, 1990; 2006). While these are certainly important issues worthy of further attention, we suggest that they must reside outside the scope of the current study, which is already quite ambitious in the ground it covers. Future research could explore these issues, using the framework in Table 2—and the logic underpinning it—as a starting point. In particular, it may be useful and important to examine how distributional imperatives interact with the considerations of allocative efficiency (Arrow, 1985); in a world of positive transaction costs the determination of property rights is itself subject to allocation problems, so that the choice of governance arrangements may have important implications for how property rights (and consequently economic value) are distributed among actors (Williamson, 1995). Thus, the choice of governance arrangements may determine whose interests get priority, with the rise of professional nonprofits, for example, potentially increasing the emphasis on “post-material” issues that are of greater salience to the upper- and middle-class citizens whose donations fund these nonprofits

(Berry, 1999; Skocpol, 2003). Examining how greater attention to property rights impacts our discriminating alignment framework is thus a potentially important extension of our study.

As one of the first studies to attempt a comprehensive mapping of the comparatively efficient governance arrangement across the range of market frictions, our article is also limited in that it is meant to be largely exploratory—intended more to serve as a foundation for further development than as a definitive theoretical account. Institutional arrangements take a great diversity of forms in practice, and the factors that drive the choice between them are varied and complex (Ostrom, 2005, 2010), far outstripping what may be analyzed in a single article. Our hope is that by laying out the range of governance arrangements that may be used to solve social issues, and the conditions under which they may be comparatively efficient, our study will help set an agenda for further research into how social issues are best governed.

Future work could also assess the validity of our arguments empirically. One way to test our theory would be to match the nature of the activity to the relative prevalence of governance arrangements, using variance in market frictions over time and geography. While we recognize, as acknowledged earlier, that the choice of governance arrangement may be driven by a variety of factors, we nevertheless expect that institutions will evolve, however gently, toward efficiency (Demsetz, 1967; Ingram & Clay, 2000), so that as the underlying nature of transactions change, the arrangements used to govern them should also change in the direction predicted by Table 2. A second, more direct way to test our theory would be to study the relative welfare performance of alternate governance arrangements, the prediction being that arrangements that conform to our theory will outperform those that do not.

To conclude, our study provides a systematic, albeit preliminary, answer to the question: what is the comparatively efficient governance arrangement to deal with social issues? Drawing on a range of disciplines, we derive the comparative advantage of different organizational forms in governing different sources of market frictions, and use this to develop a comprehensive mapping between the nature of a transaction and the comparatively efficient governance arrangement. In doing so, we not only move beyond a doctrinaire emphasis on the virtues of private or public actors in addressing social problems, we highlight the role of a wide range of hybrid forms in this regard. Our study thus contributes to literature in strategy, organizations, and public policy, offering both a theoretical rationale for various forms of private action in public interest, and a pragmatic basis for choosing the comparatively efficient arrangement to deal with any given social problem.

## ACKNOWLEDGEMENTS

We thank special issue editor Joe Mahoney and two anonymous reviewers for their generous and insightful feedback throughout the review process. We are also grateful to Paul Ingram, Tom Lyon, Eric Orts, Evan Rawley, Jasjit Singh, Andrew Van de Ven, as well as anonymous reviewers and participants at the Academy of Management Annual Conference, the Alliance for Research on Corporate Sustainability conference, the Dartmouth Junior Faculty Strategy Research Summer Camp, the Society for Institutional and Organizational Economics conference, the Strategic Management Society Annual Conference, and Strategy Research Forum for comments and suggestions on earlier versions of this article.

## ORCID

Jiao Luo  <https://orcid.org/0000-0002-8003-3958>

Aseem Kaul  <https://orcid.org/0000-0003-1455-6897>

## REFERENCES

- Agarwal, R., Audretsch, D., & Sarkar, M. B. (2007). The process of creative construction: Knowledge spillovers, entrepreneurship, and economic growth. *Strategic Entrepreneurship Journal*, 1(3–4), 263–286.
- Ahuja, G., & Yayavaram, S. (2011). Perspective—Explaining influence rents: The case for an institutions-based view of strategy. *Organization Science*, 22(6), 1631–1652.
- Akerlof, G. A., & Kranton, R. E. (2005). Identity and the economics of organizations. *Journal of Economic Perspectives*, 19(1), 9–32.
- Akerlof, G. A., & Shiller, R. J. (2015). *Phishing for Phools: The economics of manipulation and deception*. Princeton, NJ: Princeton University Press.
- Alchian, A. A., & Demsetz, H. (1972). Production, information costs, and economic organization. *American Economic Review*, 62(5), 777–795.
- Andersson, K. P., & Ostrom, E. (2008). Analyzing decentralized resource regimes from a polycentric perspective. *Policy Sciences*, 41(1), 71–93.
- Anheier, H., & Ben-Ner, A. (1997). Shifting boundaries: Long-term changes in the size of the for-profit, nonprofit, cooperative and government sectors. *Annals of Public and Cooperative Economics*, 68(3), 335–353.
- Ansari, S., Munir, K., & Gregg, T. (2012). Impact at the ‘Bottom of the pyramid’: The role of social capital in capability development and community empowerment. *Journal of Management Studies*, 49(4), 813–842.
- Argyres, N. S., & Zenger, T. R. (2012). Capabilities, transaction costs, and firm boundaries. *Organization Science*, 23(6), 1643–1657.
- Arrow, K. J. (1951). *Social choice and individual values*. New York, NY: John Wiley & Son.
- Arrow, K. J. (1963). Uncertainty and the welfare economics of medical care. *American Economic Review*, 53(5), 941–973.
- Arrow, K. J. (1969). The organization of economic activity: Issues pertinent to the choice of market versus nonmarket allocation. In *The analysis and evaluation of public expenditure: The PPB system* (pp. 59–73), Joint Economic Committee, 91st Congress, 1st session, v. 1. Washington, DC: U.S Government Printing Office.
- Arrow, K. J. (1985). The potentials and limits of the market in resource allocation. In G. R. Feiwel (Ed.), *Issues in contemporary microeconomics & welfare* (pp. 107–124). Albany, NY: State University of New York Press.
- Arrow, K. J., & Hahn, F. (1970). *General competitive analysis*. San Francisco, CA: Holden Day.
- Barley, S. R. (2007). Corporations, democracy, and the public good. *Journal of Management Inquiry*, 16(3), 201–215.
- Barnett, M. L. (2016). The business case for corporate social responsibility: A critique and an indirect path forward. *Business & Society* (in press). <https://doi.org/10.1177/0007650316660044>
- Barnett, M. L., & King, A. A. (2008). Good fences make good neighbors: A longitudinal analysis of an industry self-regulatory institution. *Academy of Management Journal*, 51(6), 1150–1170.
- Barnett, M. L., & Salomon, R. M. (2012). Does it pay to be really good? Addressing the shape of the relationship between social and financial performance. *Strategic Management Journal*, 33(11), 1304–1320.
- Barney, J. B. (2005). Should strategic management research engage public policy debates? *Academy of Management Journal*, 48(6), 945–948.
- Baron, D. P. (2001). Private politics, corporate social responsibility, and integrated strategy. *Journal of Economics & Management Strategy*, 10(1), 7–45.
- Baron, D. P. (2009). A positive theory of moral management, social pressure, and corporate social performance. *Journal of Economics & Management Strategy*, 18(1), 7–43.
- Baron, D. P. (2016). Strategy beyond markets: A step back and a look forward. In J. M. de Figueiredo, M. Lenox, F. Oberholzer-Gee, & R. G. Vanden Bergh (Eds.), *Advances in strategic management* (Vol. 34, pp. 1–54). Bingley, U.K.: Emerald Group Publishing Limited.
- Baron, D. P., & Diermeier, D. (2007). Strategic activism and nonmarket strategy. *Journal of Economics & Management Strategy*, 16(3), 599–634.
- Barron, D. N., West, E., & Hannan, M. T. (1994). A time to grow and a time to die: Growth and mortality of credit unions in New York City, 1914–1990. *American Journal of Sociology*, 100(2), 381–421.
- Battilana, J., & Dorado, S. (2010). Building sustainable hybrid organizations: The case of commercial microfinance organizations. *Academy of Management Journal*, 53(6), 1419–1440.
- Battilana, J., & Lee, M. (2014). Advancing research on hybrid organizing – Insights from the study of social enterprises. *Academy of Management Annals*, 8(1), 397–441.
- Baum, J. A. C. (1999). The rise of chain nursing homes in Ontario, 1971–1996. *Social Forces*, 78(2), 543–583.
- Baum, J. A. C., & McGahan, A. M. (2013). The reorganization of legitimate violence: The contested terrain of the private military and security industry during the post-cold war era. *Research in Organizational Behavior*, 33, 3–37.
- Baum, J. A. C., & Oliver, C. (1996). Toward an institutional ecology of organizational founding. *Academy of Management Journal*, 39(5), 1378–1427.
- Becker, G. S. (1974). A theory of social interactions. *Journal of Political Economy*, 82(6), 1063–1093.
- Beckman, C. M., & Gatewood, B. (2011). Building organizations to change communities: Educational entrepreneurs in poor urban areas. In K. Gordon-Biddle & J. Dutton (Eds.), *Using a positive lens to explore social change and organizations* (pp. 379–397). New York, NY: Routledge, Taylor and Francis Group.
- Bénabou, R., & Tirole, J. (2010). Individual and corporate social responsibility. *Economica*, 77, 1–19.

- Ben-Ner, A. (1986). Nonprofit organizations: Why do they exist in market economies? In S. Rose-Ackerman (Ed.), *The economics of nonprofit institutions: Studies in structure and policy* (pp. 94–113). New York, NY: Oxford University Press.
- Benson, B. L. (2008). *The war on drugs: A public bad*. (Florida State University Working Paper). Retrieved from <http://myweb.fsu.edu/bbenson/DrugWarBad.pdf>
- Berry, J. M. (1999). *The new liberalism: The rising power of citizen groups*. Washington, DC: Brookings Institution Press.
- Besley, T. (1988). A simple model for merit good arguments. *Journal of Public Economics*, 35(3), 371–383.
- Besley, T., & Ghatak, M. (2001). Government versus private ownership of public goods. *Quarterly Journal of Economics*, 116(4), 1343–1372.
- Besley, T., & Ghatak, M. (2003). Incentives, choice, and accountability in the provision of public services. *Oxford Review of Economic Policy*, 19(2), 235–249.
- Besley, T., & Ghatak, M. (2005). Competition and incentives with motivated agents. *American Economic Review*, 95(3), 616–636.
- Besley, T., & Ghatak, M. (2007). Retailing public goods: The economics of corporate social responsibility. *Journal of Public Economics*, 91(9), 1645–1663.
- Bhanji, Z., & Oxley, J. E. (2013). Overcoming the dual liability of foreignness and privateness in international corporate citizenship partnerships. *Journal of International Business Studies*, 44(4), 290–311.
- Boone, C., & Ozcan, S. (2014). Why do cooperatives emerge in a world dominated by corporations? The diffusion of cooperatives in the U.S. Bio-ethanol industry, 1978–2013. *Academy of Management Journal*, 57(4), 990–1012.
- Bowles, S., Gintis, H., & Osborne, M. (2001). Incentive-enhancing preferences: Personality, behavior, and earnings. *American Economic Review*, 91(2), 155–158.
- Brown, T. L., & Potoski, M. (2003). Transaction costs and institutional explanations for government service production decisions. *Journal of Public Administration Research and Theory*, 13(4), 441–468.
- Brown, T. L., Potoski, M., & Van Slyke, D. (2016). Managing complex contracts: A theoretical approach. *Journal of Public Administration Research and Theory*, 26(2), 294–308.
- Bruce, J. R., Figueiredo, J. M., & Silverman, B. (2018). Public contracting for private innovation: Government capabilities, decision rights, and performance outcomes. *Strategic Management Journal*, forthcoming.
- Buchanan, J. M. (1965). An economic theory of clubs. *Economica*, 32(125), 1–14.
- Buchanan, J. M. (1968). What kind of redistribution do we want? *Economica*, 35(138), 185–190.
- Cabral, S., Lazzarini, S. G., & de Azevedo, P. F. (2013). Private entrepreneurs in public services: A longitudinal examination of outsourcing and statization of prisons. *Strategic Entrepreneurship Journal*, 7(1), 6–25.
- Carnahan, S., Kryscynski, D., & Olson, D. (2017). When does corporate social responsibility reduce employee turnover? Evidence from attorneys before and after 9/11. *Academy of Management Journal*, 60(5), 1932–1962.
- Chatain, O., & Plaksenkova, E. (2018). NGOs and the creation of value in supply chains. *Strategic Management Journal*, (in press). <https://doi.org/10.1002/smj.2938>
- Chatterji, A. K., & Jones, B. (2012). *Harnessing technology to improve K-12 education* (Policy Brief Discussion Paper No. 2012-05). Washington, DC: Brookings Institution.
- Chatterji, A. K., Luo, J., & Seamans, R. C. (2017). *Identity competition in the wake of crisis: Banks vs. credit unions 2004–2012* (Working Paper). Durham, NC: Duke University.
- Chatterji, A. K., & Toffel, M. W. (2010). How firms respond to being rated. *Strategic Management Journal*, 31(9), 917–945.
- Chi, T. (1994). Trading in strategic resources: Necessary conditions, transaction cost problems, and choice of exchange structure. *Strategic Management Journal*, 15(4), 271–290.
- Cho, N., & Zhou, Y. M. (2017). *Profit, reputation and the risk of medical malpractice liability* (Working Paper). Ann Arbor, MI: University of Michigan.
- Clark, P. B., & Wilson, J. Q. (1961). Incentive systems: A theory of organizations. *Administrative Science Quarterly*, 6(2), 129–166.
- Coase, R. H. (1937). The nature of the firm. *Economica*, 4(16), 386–405.
- Coase, R. H. (1960). The problem of social cost. *Journal of Law and Economics*, 3, 1–44.
- Coase, R. H. (1964). Discussion. *American Economic Review*, 54(3), 192–197.
- Coase, R. H. (1974). The lighthouse in economics. *Journal of Law and Economics*, 17(2), 357–376.
- Coase, R. H. (1984). The new institutional economics. *Journal of Institutional and Theoretical Economics*, 140(1), 229–231.
- Cobb, J. A., Wry, T., & Zhao, E. Y. (2016). Funding financial inclusion: Institutional logics and the contextual contingency of funding for microfinance organizations. *Academy of Management Journal*, 59(6), 2103–2131.
- Commons, J. R. (1931). Institutional economics. *American Economic Review*, 21(4), 648–657.
- Cooter, R. (1982). The cost of Coase. *The Journal of Legal Studies*, 11(1), 1–33.
- Cornes, R., & Sandler, T. (1983). On commons and tragedies. *American Economic Review*, 73(4), 787–792.
- Darby, M. R., & Karni, E. (1973). Free competition and the optimal amount of fraud. *Journal of Law & Economics*, 16(1), 67–88.
- Debreu, G. (1959). *Theory of value: An axiomatic analysis of economic equilibrium*. New York, NY: John Wiley & Son.
- Delmas, M., & Marcus, A. (2004). Firms' choice of regulatory instruments to reduce pollution: A transaction cost approach. *Business and Politics*, 6(3), 1–20.
- Delmas, M. A., & Montes-Sancho, M. J. (2010). Voluntary agreements to improve environmental quality: Symbolic and substantive cooperation. *Strategic Management Journal*, 31(6), 575–601.

- Delmas, M. A., & Toffel, M. W. (2008). Organizational responses to environmental demands: Opening the black box. *Strategic Management Journal*, 29(10), 1027–1055.
- Demsetz, H. (1967). Toward a theory of property rights. *American Economic Review*, 57(2), 347–359.
- DiMaggio, P. J., & Anheier, H. K. (1990). The sociology of nonprofit organizations and sectors. *Annual Review of Sociology*, 16, 137–159.
- DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Collective rationality and institutional isomorphism in organizational fields. *American Sociological Review*, 48(2), 147–160.
- Dorobantu, S., Henisz, W. J., & Nartey, L. J. (2017). Not all sparks light a fire: Stakeholder and shareholder reactions to critical events in contested markets. *Administrative Science Quarterly*, 62(3), 561–597.
- Dorobantu, S., Kaul, A., & Zelner, B. (2017). Non-market strategy research through the lens of new institutional economics: An integrative review and future directions. *Strategic Management Journal*, 38(1), 114–140.
- Fischer, C., & Lyon, T. P. (2014). Competing environmental labels. *Journal of Economics & Management Strategy*, 23(3), 692–716.
- Flammer, C. (2015). Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. *Management Science*, 61(11), 2549–2568.
- Flammer, C., & Luo, J. (2017). Corporate social responsibility as an employee governance tool: Evidence from a quasi-experiment. *Strategic Management Journal*, 38(2), 163–183.
- Folta, T. B. (1998). Governance and uncertainty: The trade-off between administrative control and commitment. *Strategic Management Journal*, 19(11), 1007–1028.
- Fosfuri, A., Giarratana, M. S., & Roca, E. (2016). Social business hybrids: Demand externalities, competitive advantage, and growth through diversification. *Organization Science*, 27(5), 1275–1289.
- Foss, N. J., Klein, P. G., Kor, Y. Y., & Mahoney, J. T. (2008). Entrepreneurship, subjectivism, and the resource-based view: Toward a new synthesis. *Strategic Entrepreneurship Journal*, 2(1), 73–94.
- Franke, N., & Shah, S. (2003). How communities support innovative activities: An exploration of assistance and sharing among end-users. *Research Policy*, 32(1), 157–178.
- Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston, MA: Pitman.
- Galaskiewicz, J., & Sinclair-Colman, M. (2006). Collaboration between corporations and nonprofit organizations. In W. W. Powell & R. Steinberg (Eds.), *The nonprofit sector: A research handbook* (pp. 168–190). New Haven, CT: Yale University Press.
- Galaskiewicz, J., & Wasserman, S. (1989). Mimetic processes within an interorganizational field: An empirical test. *Administrative Science Quarterly*, 34(3), 454–479.
- Gatignon, A., & Ballesteros, L. (2018). The relative value of firm and non-profit experience: Tackling large-scale social issues across institutional contexts. *Strategic Management Journal*, forthcoming.
- George, G., Howard-Grenville, J., Joshi, A., & Tihanyi, L. (2016). Understanding and tackling societal grand challenges through management research. *Academy of Management Journal*, 59(6), 1880–1895.
- George, G., McGahan, A. M., & Prabhu, J. (2012). Innovation for inclusive growth: Towards a theoretical framework and a research agenda. *Journal of Management Studies*, 49(4), 661–683.
- George, G., Rao-Nicholson, R., Corbishley, C., & Bansal, R. (2014). Institutional entrepreneurship, governance, and poverty: Insights from emergency medical response services in India. *Asia Pacific Journal of Management*, 32(1), 39–65.
- Geyskens, I., Steenkamp, J.-B. E. M., & Kumar, N. (2006). Make, buy, or ally: A transaction cost theory meta-analysis. *Academy of Management Journal*, 49(3), 519–543.
- Glaeser, E. L., & Shleifer, A. (2001). Not-for-profit entrepreneurs. *Journal of Public Economics*, 81(1), 99–115.
- Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91(3), 1–31.
- Greenwood, R., Suddaby, R., & Hinings, C. R. (2002). Theorizing change: The role of professional associations in the transformation of institutionalized fields. *Academy of Management Annals*, 45(1), 58–80.
- Hall, J., Matos, S., Sheehan, L., & Silvestre, B. (2012). Entrepreneurship and innovation at the base of the pyramid: A recipe for inclusive growth or social exclusion? *Journal of Management Studies*, 49(4), 785–812.
- Hannan, M. T., & Freeman, J. (1987). The ecology of organizational founding: American labor unions, 1836–1985. *American Journal of Sociology*, 92(4), 910–943.
- Hansmann, H. B. (1980). The role of nonprofit enterprise. *Yale Law Journal*, 89(5), 835–901.
- Hansmann, H. B. (1987). Economic theories of nonprofit organization. In W. W. Powell (Ed.), *The nonprofit sector: A research handbook* (pp. 27–42). New Haven, CT: Yale University Press.
- Hansmann, H. B. (1996). *The ownership of enterprise*. Cambridge, MA: Harvard University Press.
- Hart, O. (2003). Incomplete contracts and public ownership: Remarks, and an application to public-private partnerships. *Economic Journal*, 113(486), C69–C76.
- Hart, O. (2008). Economica Coase lecture reference points and the theory of the firm. *Economica*, 75(299), 404–411.
- Hart, O., & Moore, J. (2008). Contracts as reference points. *Quarterly Journal of Economics*, 123(1), 1–48.
- Hart, O., Shleifer, A., & Vishny, R. W. (1997). The proper scope of government: Theory and an application to prisons. *Quarterly Journal of Economics*, 112(4), 1127–1161.
- Henisz, W. J. (2000). The institutional environment for economic growth. *Economics and Politics*, 12(1), 1–31.

- Henisz, W. J., Dorobantu, S., & Nartey, L. J. (2014). Spinning gold: The financial returns to stakeholder engagement. *Strategic Management Journal*, 35(12), 1727–1748.
- Hiatt, S. R., Sine, W. D., & Tolbert, P. S. (2009). From Pabst to Pepsi: The deinstitutionalization of social practices and the creation of entrepreneurial opportunities. *Administrative Science Quarterly*, 54(4), 635–667.
- Hinings, C. R., & Greenwood, R. (2002). Disconnects and consequences in organization theory? *Administrative Science Quarterly*, 47(3), 411–421.
- Hippel, E. V., & Krogh, G. V. (2003). Open source software and the 'private-collective' innovation model: Issues for organization science. *Organization Science*, 14(2), 209–223.
- Hochman, H. M., & Rodgers, J. D. (1969). Pareto optimal redistribution. *American Economic Review*, 59(4), 542–557.
- Hochman, H. M., & Rodgers, J. D. (1974). Redistribution and the Pareto criterion. *American Economic Review*, 64(4), 752–727.
- Hölmstrom, B. (1979). Moral hazard and observability. *The Bell Journal of Economics*, 10(1), 74–91.
- Hölmstrom, B., & Milgrom, P. (1991). Multitask principal-agent analyses: Incentive contracts, asset ownership, and job design. *Journal of Law, Economics, & Organization*, 7(Special), 24–52.
- Horvath, A., & Powell, W. W. (2016). Contributory or disruptive: Do new forms of philanthropy erode democracy? In R. Reich, C. Cordelli, & L. Bernholz (Eds.), *Philanthropy in democratic societies* (pp. 87–122). Chicago, IL: University of Chicago Press.
- Hwang, H., & Powell, W. W. (2009). The rationalization of charity: The influences of professionalism in the nonprofit sector. *Administrative Science Quarterly*, 54(2), 268–298.
- Ingram, P., & Clay, K. (2000). The choice-within-constraints new institutionalism and implications for sociology. *Annual Review of Sociology*, 26, 525–546.
- Ingram, P., & McEvily, B. (2007). *Sharper in relief: Opposition, identity and the maintenance of social movement organizations* (Working Paper). New York, NY: Columbia Business School.
- Ingram, P., & Rao, H. (2004). Store wars: The enactment and repeal of anti-chain-store legislation in America. *American Journal of Sociology*, 110(2), 446–487.
- Ingram, P., & Simons, T. (2000). State formation, ideological competition, and the ecology of Israeli workers' cooperatives, 1920–1992. *Administrative Science Quarterly*, 45(1), 25–53.
- Ingram, P., Yue, L. Q., & Rao, H. (2010). Trouble in store: Probes, protests, and store openings by Wal-Mart, 1998–2007. *American Journal of Sociology*, 116(1), 53–92.
- Jones, C., Hesterly, W. S., & Borgatti, S. P. (1997). A general theory of network governance: Exchange conditions and social mechanisms. *Academy of Management Review*, 22(4), 911–945.
- Jones, T. M., Donaldson, T., Freeman, R. E., Harrison, J. S., Leana, C. R., Mahoney, J. T., & Pearce, J. L. (2016). Management theory and social welfare: Contributions and challenges. *Academy of Management Review*, 41(2), 216–228.
- Kapucu, N. (2006). Public-nonprofit partnerships for collective action in dynamic contexts of emergencies. *Public Administration*, 84(1), 205–220.
- Kaul, A. (2013). Entrepreneurial action, unique assets, and appropriation risk: Firms as a means of appropriating profit from capability creation. *Organization Science*, 24(6), 1765–1781.
- Kaul, A., & Luo, J. (2018). An economic case for CSR: The comparative efficiency of for-profit firms in meeting consumer demand for social goods. *Strategic Management Journal*, 39, 1650–1677.
- Khan, F. R., Munir, K. A., & Willmott, H. (2007). A dark side of institutional entrepreneurship: Soccer balls, child labour and postcolonial impoverishment. *Organization Studies*, 28(7), 1055–1077.
- King, A. A. (2007). Cooperation between corporations and environmental groups: A transaction cost perspective. *Academy of Management Review*, 32(3), 889–900.
- King, A. A., & Lenox, M. J. (2000). Industry self-regulation without sanctions: The chemical industry's responsible care program. *Academy of Management Journal*, 43(4), 698–716.
- King, A. A., & Lenox, M. J. (2001). Does it really pay to be green? An empirical study of firm environmental and financial performance: An empirical study of firm environmental and financial performance. *Journal of Industrial Ecology*, 5(1), 105–116.
- King, B. G., & Soule, S. A. (2007). Social movements as extra-institutional entrepreneurs: The effect of protests on stock price returns. *Administrative Science Quarterly*, 52(3), 413–442.
- Kivleniece, I., & Quelin, B. V. (2012). Creating and capturing value in public-private ties: A private actor's perspective. *Academy of Management Review*, 37(2), 272–299.
- Klein, P. G. (2008). Opportunity discovery, entrepreneurial action, and economic organization. *Strategic Entrepreneurship Journal*, 2(3), 175–190.
- Klein, P. G., Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2010). Toward a theory of public entrepreneurship. *European Management Review*, 7(1), 1–15.
- Klein, P. G., Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2013). Capabilities and strategic entrepreneurship in public organizations. *Strategic Entrepreneurship Journal*, 7(1), 70–91.
- Klein, P. G., Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2018). Organizational governance adaptation: Who is in, who is out, and who gets what. *Academy of Management Review* (in press). <https://doi.org/10.5465/amr.2014.0459>
- Knight, F. H. (1921). *Risk, uncertainty and profit*. Boston, MA: Houghton Mifflin.
- Knoke, D. (1988). Incentives in collective action organizations. *Administrative Science Quarterly*, 53(3), 311–329.

- Kogut, B., & Zander, U. (1992). Knowledge of the firm, combinative capabilities, and the replication of technology. *Organization Science*, 3(3), 383–397.
- Kuan, J. (2001). The phantom profits of the opera: Nonprofit ownership in the arts as a make-buy decision. *Journal of Law, Economics, and Organization*, 17(2), 507–520.
- Langlois, R. N. (1992). External economies and economic progress: The case of the microcomputer industry. *Business History Review*, 66(1), 1–50.
- Lenox, M., & Chatterji, A. (2018). *Can business save the earth? Innovating our way to sustainability*. Stanford, CA: Stanford University Press.
- Levin, J., & Tadelis, S. (2010). Contracting for government services: Theory and evidence from U.S. cities. *Journal of Industrial Economics*, 58(3), 507–541.
- Liebeskind, J. P. (1996). Knowledge, strategy, and the theory of the firm. *Strategic Management Journal*, 17(Winter Special Issue), 93–107.
- Lippman, S. A., & Rumelt, R. P. (1982). Uncertain imitability: An analysis of interfirm differences in efficiency under competition. *The Bell Journal of Economics*, 13(2), 418–438.
- London, T., & Hart, S. (2011). *Next-generation business strategies for the base of the pyramid: New approaches for building mutual value*. Upper Saddle River, NJ: Financial Times Press.
- Luo, J., Kaul, A., & Seo, H. (2018). Winning us with trifles: Adverse selection in the use of philanthropy as insurance. *Strategic Management Journal*, 39(10), 2591–2617.
- Lyon, T. P., & Maxwell, J. W. (2011). Greenwash: Corporate environmental disclosure under threat of audit. *Journal of Economics & Management Strategy*, 20(1), 3–41.
- Mahoney, J. T., & McGahan, A. M. (2007). The field of strategic management within the evolving science of strategic organization. *Strategic Organization*, 5(1), 79–99.
- Mahoney, J. T., McGahan, A. M., & Pitelis, C. N. (2009). Perspective—The interdependence of private and public interests. *Organization Science*, 20(6), 1034–1052.
- Mahoney, J. T., & Qian, L. (2013). Market frictions as building blocks of an organizational economics approach to strategic management. *Strategic Management Journal*, 34(9), 1019–1041.
- Maitland, I. (1985). The limits of business self-regulation. *California Management Review*, 27(3), 132–147.
- Makadok, R., & Coff, R. W. (2009). Both market and hierarchy: An incentive-system theory of hybrid governance forms. *Academy of Management Review*, 34(2), 297–319.
- Marcus, A., & Fremeth, A. (2016). The role of governance systems and rules in wind energy development: Evidence from Minnesota and Texas. *Business and Politics*, 18(3), 337–365.
- Marcus, A., Geffen, D. A., & Sexton, K. (2002). *Reinventing environmental regulation: Lessons from project XL*. Washington, DC: Resources for the Future.
- Marquis, C., Davis, G. F., & Glynn, M. A. (2011). Golfing alone? Corporations, elites, and nonprofit growth in 100 American communities. *Organization Science*, 24(1), 39–57.
- Marquis, C., Glynn, M. A., & Davis, G. F. (2007). Community isomorphism and corporate social action. *Academy of Management Review*, 32(3), 925–945.
- Marquis, C., & Park, A. (2014). Inside the buy-one give-one model. *Stanford Social Innovation Review*, 12(1), 28–33.
- Marti, E., & Scherer, A. G. (2016). Financial regulation and social welfare: The critical contribution of management theory. *Academy of Management Review*, 41(2), 298–323.
- Martin, R. L., & Osberg, S. (2007). Social entrepreneurship: The case for definition. *Stanford Social Innovation Review*, 18(Spring), 29–39.
- Maskin, E., & Tirole, J. (2008). Public-private partnerships and government spending limits. *International Journal of Industrial Organization*, 26(2), 412–420.
- Mazzucato, M. (2015). *The entrepreneurial state: Debunking public vs. private sector myths*. Philadelphia, PA: Public Affairs.
- McDonnell, M. H., King, B. G., & Soule, S. A. (2015). A dynamic process model of private politics: Activist targeting and corporate receptivity to social challenges. *American Sociological Review*, 80(3), 654–678.
- McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of Management Review*, 26(1), 117–127.
- Milgrom, P., & Roberts, J. (1986). Relying on the information of interested parties. *RAND Journal of Economics*, 17(1), 18–32.
- Miller, K. D. (2002). Competitive strategies of religious organizations. *Strategic Management Journal*, 23(5), 435–456.
- Murdoch, J. C., & Sandler, T. (1997). The voluntary provision of a pure public good: The case of reduced CFC emissions and the Montreal protocol. *Journal of Public Economics*, 63(3), 331–349.
- Musgrave, R. A. (1959). *The theory of public finance: A study in public economy*. New York, NY: McGraw-Hill.
- Nelson, R., & Krashinsky, M. (1973). Two major issues of public policy: Public policy and organization of supply. In R. R. Nelson & D. R. Young (Eds.), *Public subsidy for day care of young children* (pp. 32–55). Lexington, MA: D. C. Heath & Co.
- New York Times (2013, July 28). In lieu of money, Toyota donates efficiency to New York charity. *New York Times*.
- North, D. C. (1986). The new institutional economics. *Journal of Institutional and Theoretical Economics*, 142, 230–237.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. New York, NY: Cambridge University Press.
- North, D. C. (2006). *Understanding the process of economic change*. Princeton NJ: Princeton University Press.

- Oberholzer-Gee, F., & Yao, D. (2018). Integrated strategy: Residual market imperfections as the foundation of sustainable competitive advantage. *Strategy Science*, 3(2), 463–480.
- Olson, M. (1965). *The logic of collective action: Public goods and the theory of groups*. Boston, MA: Harvard University Press.
- Olson, M. (1986). Toward a more general theory of governmental structure. *American Economic Review*, 76(2), 120–125.
- Olson, M., & Zeckhauser, R. (1970). The efficient production of external economies. *American Economic Review*, 60(3), 512–517.
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. New York, NY: Cambridge University Press.
- Ostrom, E. (2005). *Understanding institutional diversity*. Princeton, NJ: Princeton University Press.
- Ostrom, E. (2010). Beyond markets and states: Polycentric governance of complex economic systems. *American Economic Review*, 100(3), 1–33.
- Ostrom, E., & Ostrom, V. (1971). A theory for institutional analysis of common pool problems. In G. Hardin & J. Baden (Eds.), *Managing the Commons* (pp. 157–173). San Francisco, CA: W.H. Freeman.
- Pache, A.-C., & Santos, F. (2010). When worlds collide: The internal dynamics of organizational responses to conflicting institutional demands. *Academy of Management Review*, 35(3), 455–476.
- Packard, M. D., Clark, B. B., & Klein, P. G. (2017). Uncertainty types and transitions in the entrepreneurial process. *Organization Science*, 28(5), 840–856.
- Pigou, A. C. (1920). *The economics of welfare*. London, England: Macmillan.
- Pitelis, C. (1994). On the nature of the capitalist state. *Review of Political Economy*, 6(1), 72–105.
- Pitelis, C. N. (2013). Towards a more ‘ethically correct’ governance for economic sustainability. *Organization Studies*, 30(10), 1115–1139.
- Porter, M. E., & Kramer, M. R. (2011). Creating shared value. *Harvard Business Review*, 89(1/2), 62–77.
- Potoski, M. (1999). Managing uncertainty through bureaucratic design: Administrative processes and state air pollution control agencies. *Journal of Public Administration Research and Theory*, 9(4), 623–639.
- Prahлад, C. K. (2005). *The fortune at the bottom of the pyramid*. Upper Saddle River, NJ: Wharton School Publishing.
- Prakash, A., & Potoski, M. (2007). Collective action through voluntary environmental programs: A club theory perspective. *Policy Studies Journal*, 35(4), 773–792.
- Prakash, A., & Potoski, M. (2012). Voluntary environmental programs: A comparative perspective. *Journal of Policy Analysis and Management*, 31(1), 123–138.
- Putnam, R. D. (2001). *Bowling alone: The collapse and revival of American community*. New York, NY: Simon and Schuster.
- Rangan, S., Samii, R., & Van Wassenhove, L. N. (2006). Constructive partnerships: When alliances between private firms and public actors can enable creative strategies. *Academy of Management Review*, 31(3), 738–751.
- Rao, H. (1998). Caveat emptor: The construction of nonprofit consumer watchdog organizations. *American Journal of Sociology*, 103(4), 912–961.
- Rawls, J. (1971). *A theory of justice*. Cambridge, MA: Harvard University Press.
- Rivera-Santos, M., & Rufín, C. (2010). Odd couples: Understanding the governance of firm–NGO alliances. *Journal of Business Ethics*, 94(1), 55–70.
- Rose-Ackerman, S. (1996). Altruism, ideological entrepreneurs and the non-profit firm. *Journal of Economic Literature*, XXXIV, 701–728.
- Rosenkopf, L., & Tushman, M. L. (1998). The coevolution of community networks and technology: Lessons from the flight simulation industry. *Industrial and Corporate Change*, 7(2), 311–346.
- Rushing, W. (1974). Differences in profit and non-profit organizations: A study of effectiveness and efficiency in general short-stay hospitals. *Administrative Science Quarterly*, 19(4), 474–484.
- Rysman, M., & Simcoe, T. (2008). Patents and the performance of voluntary standard-setting organizations. *Management Science*, 54(11), 1920–1934.
- Santos, F. M. (2012). A positive theory of social entrepreneurship. *Journal of Business Ethics*, 111(3), 335–351.
- Sautet, F. (2000). *An entrepreneurial theory of the firm*. London, England: Routledge.
- Schmidt, K. M. (1996). The costs and benefits of privatization: An incomplete contracts approach. *Journal of Law, Economics, and Organization*, 12(1), 1–24.
- Schneiberg, M., King, M., & Smith, T. (2008). Social movements and organizational form: Cooperative alternatives to cooperations in the American insurance, dairy, and grain industries. *American Sociological Review*, 73(4), 635–667.
- Sen, A. K. (1967). Isolation, assurance and the social rate of discount. *Quarterly Journal of Economics*, 81(1), 112–124.
- Sen, A. K. (1999). The possibility of social choice. *American Economic Review*, 89(3), 349–378.
- Sen, A. K. (2009). *The idea of justice*. Cambridge, MA: Belknap Press/Harvard University Press.
- Shah, S. K. (2006). Motivation, governance, and the viability of hybrid forms in open source software development. *Management Science*, 52(7), 1000–1014.
- Shah, S. K., Agarwal, R., & Sonka, S. (2017). *A time and a place: Nonprofit engagement in the creation of markets and industry emergence* (Working Paper). Retrieved from <https://ssrn.com/abstract=2959714>
- Shleifer, A. (1998). State versus private ownership. *Journal of Economic Perspectives*, 12(4), 133–150.
- Singh, J., & Dutt, P. (2015). *Corporate engagement at the base of the pyramid: Commercial microfinance and entrepreneurship* (Working Paper). Retrieved from <https://ssrn.com/abstract=2616746>

- Skocpol, T. (2003). *Diminished democracy: From membership to management in American civic life*. Norman, OK: University of Oklahoma Press.
- Stern, R. N., & Barley, S. R. (1996). Organizations and social systems: Organization theory's neglected mandate. *Administrative Science Quarterly*, 41(1), 146–162.
- Stigler, G. J. (1974). Free riders and collective action: An appendix to theories of economic regulation. *Bell Journal of Economics and Management Science*, 5(2), 359–365.
- Stiglitz, J. E. (1989). On the economic role of the state. In A. Heertje (Ed.), *The economic role of the state* (pp. 9–85). Oxford, England: Blackwell.
- Sugden, R. (1984). Reciprocity: The supply of public goods through voluntary contributions. *Economic Journal*, 94(376), 772–787.
- Teece, D. J. (1980). Economics of scope and the scope of the enterprise. *Journal of Economic Behavior and Organization*, 1(3), 223–247.
- Vakili, K., & McGahan, A. M. (2016). Healthcare's grand challenge: Stimulating basic science on diseases that primarily afflict the poor. *Academy of Management Journal*, 59(6), 1917–1939.
- Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, 18(4), 303–319.
- Waguespack, D. M., & Salomon, R. (2015). Quality, subjectivity, and sustained superior performance at the Olympic games. *Management Science*, 62(1), 286–300.
- Walker, E. T. (2014). *Grassroots for hire: Public affairs consultants in American democracy*. Cambridge, , England: Cambridge University Press.
- Warner, M. E., & Hefetz, A. (2008). Managing markets for public service: The role of mixed public–private delivery of city services. *Public Administration Review*, 68(1), 155–166.
- Weisbrod, B. A. (1977). *The Voluntary Nonprofit Sector*. Lexington, MA: D.C Heath & Co.
- Williamson, O. E. (1975). *Markets and hierarchies*. New York, NY: Free Press.
- Williamson, O. E. (1985). *The economic institutions of capitalism*. New York, NY: Free Press.
- Williamson, O. E. (1991a). Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly*, 36(2), 269–296.
- Williamson, O. E. (1991b). Strategizing, economizing, and economic organization. *Strategic Management Journal*, 12(Winter Special Issue), 75–94.
- Williamson, O. E. (1995). Hierarchies, markets and power in the economy: An economic perspective. *Industrial and Corporate Change*, 4(1), 21–49.
- Williamson, O. E. (1996). *The mechanisms of governance*. New York, NY: Oxford University Press.
- Williamson, O. E. (1998). The institutions of governance. *American Economic Review*, 88(2), 75–79.
- Williamson, O. E. (1999). Public and private bureaucracies: A transaction cost economics perspective. *Journal of Law, Economics, and Organization*, 15(1), 306–342.
- Williamson, O. E. (2000). The new institutional economics: Taking stock, looking ahead. *Journal of Economic Literature*, 38(3), 595–613.
- Wilson, J. Q. (1989). *Bureaucracy: What government agencies do and why they do it*. New York, NY: Basic Books.
- Wolfolds, S. (2016). *Donations and differentiation: Three essays on non-profit strategy*. (Doctoral dissertation). Boston, MA: Harvard Business School.
- Yao, D. A. (1988). Beyond the reach of the invisible hand: Impediments to economic activity, market failures, and profitability. *Strategic Management Journal*, 9(1S), 59–70.
- Yaziji, M., & Doh, J. (2009). *NGOs and corporations: Conflict and collaboration*. New York, NY: Cambridge University Press.
- Yue, L. Q., Luo, J., & Ingram, P. (2013). The failure of private regulation: Elite control and market crises in the Manhattan banking industry. *Administrative Science Quarterly*, 58(1), 37–68.
- Zahra, S. A., Rawhouser, H. N., Bhawe, N., Neubaum, D. O., & Hayton, J. C. (2008). Globalization of social entrepreneurship opportunities. *Strategic Entrepreneurship Journal*, 2(2), 117–131.
- Zuckerman, E. W., & Sgourev, S. V. (2006). Peer capitalism: Parallel relationships in the U.S. economy. *American Journal of Sociology*, 111(5), 1327–1366.

## SUPPORTING INFORMATION

Additional supporting information may be found online in the Supporting Information section at the end of the article.

**How to cite this article:** Luo J, Kaul A. Private action in public interest: The comparative governance of social issues. *Strat Mgmt J*. 2019;40:476–502. <https://doi.org/10.1002/smj.2961>