Two kinds of private organizations dominate the market place: for-profits and non-profits. Non-profit organizations limit how capital providers and entrepreneurs are compensated due to the non-distribution constraint. However, this rigidity helps to secure social benefits as it may reduce managerial rent-seeking (see Hansmann (1980) and Glaeser and Shleifer (2001) among others) thereby helping to attract contributions of financial and human capital.

Non-profits occupy a significant part of the private sector of modern economies. A study of 26 countries conducted in the mid-1990s (Salamon et al., 1999), for example, found that not-for-profits employed an average 6.8% of the non-agricultural workforce (12% in the case of the US). Another study of eight OECD countries about a decade later (Salamon et al., 2007) shows that not-for-profits contributed 8% to GDP on average (7.2% in the case of the US).

For-profit firms usually have a rigid mission, to maximize the profit of their owners, even though in a world of shareholder democracy it does not necessarily follow that the mission is to maximize profit of owners. If owners choose to care about more than profit, there are few legal barriers to pursuing this (see, for example, Morgan and Tumlinson, 2012), although the threat of hostile takeovers for public companies would make it relatively difficult to pursue objectives that do not maximize shareholder value.

The ability of for-profit firms to pursue their objective may be reinforced by selecting managers who care solely about money -- the usual *homo economicus* assumption. These managers are rewarded with bonuses based on profitability to encourage effort. The focus on profit can, however, lead to a social cost when profitable actions do not reflect social values. Everything from environmental pollution to poor treatment of workers is blamed on placing the pursuit of profit above all else.
Recognizing these issues, there is much recent interest in more flexible organizational forms which combine "profit with purpose", securing the right trade-off between pro-social behaviour and efficiency. These hybrid forms of organization, are often referred to as "social enterprises" or, "public benefit corporations" (Shiller, 2012), or "social business" (Yunus, 2007). The mantra of this sector is to balance making profits with a social mission (Katz and Page, 2010) and to eschew the rigidity of either non-profit or for-profit enterprise. However, this raises new agency problems since the objectives of profit-making and the social good is often at odds in the social sector (e.g., the cost-quality trade-off).

Social enterprise should be differentiated from CSR. A narrow view of CSR is that its main objective is to produce a private good and service and make profits, but to acknowledge certain externalities associated with its production or use, and therefore committing to certain standards and norms. In contrast, for social enterprises the good or service produced is not typically a private good (e.g., helping indebted consumers to get rid of their debt burden) and has a non-negligible “social” component (Besley and Ghatak, 2015). But one can argue that CSR is broader than reversing externalities (e.g., community development initiatives by business). A part of our research agenda to understand whether or not we need a different legal/institutional structure for social for-profits relative to CSR. One conjecture is that the difference between CSR and social enterprise lies in the institutional objective function. For example, if the objective function includes something other than financial returns, then it is a social enterprise and if it is about maximizing financial returns subject to some “social” constraints, then it is CSR. This raises the question of what is the difference between social outcomes in objective function versus in a constraint in terms of governance, financing, management, and outcomes, as well as the kind of personnel that would self-select into these organizations.

With the rise of social enterprise and other forms of hybrid organizational forms that lie between for-profit organizations and pure non-profits, the share of what can be collectively called the private social sector is larger, although we do not have good estimates of it. On top of this, the government or public sector also has a big presence in the social sector.
The rise of social enterprises shows that the classification of all organizations as discrete non-profit, for-profit and government entities is no longer possible. The current state of the world is more complex, as benefit corporations (B corps), public-private partnerships, quasi-governmental organizations (e.g. USAID) have emerged as prevalent organizational models, and corporate social responsibility is permeating traditional profit-maximizing organizations. Henry Hansmann’s seminal paper, “The Economic Theories of the Non-Profit Sector,” (1987) offered a theoretical framework for understanding the non-profit sector, but it is now time to expand the theory to understand today’s world.

An emerging research area seeks to understand the social sector from the economic point of view, and integrate it with the standard economic framework which largely applies to for-profit organizations producing private goods (e.g., economics of contracts and organizations, IO, finance, labour) or the government providing public goods (e.g., standard public economics).

The main reason why a separate theoretical framework is needed is because a lot of standard economic reasoning that underpins our understanding of the allocation of resources in the private sector does not quite apply in the social sector. To start with, quality and performance is typically non-contractible, ranging from experience goods to credence goods. Also, many of these goods and services have some externalities – that is, the benefits and costs are partly external to the organization. Friedman said social responsibility of business is to make profits but perhaps that cannot be an operative principle for schools or hospitals or organizations mentoring inner-city kids. Similarly, the virtues of competition as a mechanism of resource allocation is well-understood in the context of private goods but in the social sector, how to model it is less clear (e.g., how non-profits compete).

At the same time, standard models of public goods provision, which has as its premise that these goods and services have a public good component, either assumes that either the government or the charitable sector is able to provide them. It is recognized that the provision may not be at an efficient level – either due to political economy distortions in the case of government provision or due to standard problems of free-riding in the case of private provision, but until recently very
little attention was paid to the microeconomic aspects of how organizations in the social sector operate, both in terms of the inner-workings of these organizations (incentives, organization design issues internal to the firm), as well as how these organizations interact and operate at an industry level.

The aim of this research agenda in this emerging literature is to understand:

a) The motivations of the actors in the social sector
b) The organization design (e.g., delegation, ownership structure), financing, and implicit and explicit incentive mechanisms that these organizations use (reputation vs career concerns vs explicit incentive pay).
c) Quality, performance, and impact assessment of the outputs of these organizations
d) Understanding how these organizations interact at an industry level and how they interact with conventional organizations.

One key element of the literature allows for preferences of economic agents to be broader than simple work-leisure trade off and caring mainly about private goods to be bought with money. This can be separated from behavioural economics, which studies departures from certain consistency axioms in a rational choice framework. One can have many objectives other than maximizing private wealth or consumption of private goods and yet be strictly rational. Even in standard public economics models, people care about public goods and services. In this literature, the starting premise is there is some failure in government provision of public goods, regulations, and private voluntary actions by individuals (e.g., models of voluntary charitable contributions).

The standard microeconomic framework to view economy-wide resource allocation rests on three pillars - a) markets/firms, b) the government, and c) families/households. There has been a fair bit of research in economics on the philanthropy sector and non-profits, and some research on bureaucracies. We feel a framework that can nest these different organizations and also allow us to understand phenomena such as social enterprise in terms of some core economic dimensions (e.g., degree of observability of output, extent of presence of externalities, the weight
in the objective functions of various actors on monetary and social objectives, extent of agency problems) would be valuable.

Recent work has moved beyond stylized models of motivation based on a narrow view of *homo economicus* and have embraced a wider perspective on motivation. Broadly speaking, this has been focused on different approaches to non-pecuniary motivation ranging from models of intrinsic motivation, doing something for its own sake rather than reward, to models where preferences are influenced by pro-social objectives, social norms, or the need to conform to a chosen identity or concern. The basic premise of this literature is:

a) Individuals care about goals other than money and private goods
b) There is no benevolent government or a charitable sector providing public goods efficiently
c) Decentralized private enterprises step in to provide these goods and services
d) Agency problems affect the provision of these goods although they may be different in nature from those that are associated with private goods
e) There are some benefits and costs that are external to the organizations.

The main objective of the research agenda is, from a theoretical perspective, what are the roles of different institutional structures in addressing social problems? How do we think about and model the large diversity of organizations that do not fit into the simple categories of traditional for-profit, non-profit or government?

Some of the specific issues we wish to study are:

1) What are the contours of the questions that pertain to the sector?
   - Finance
   - Organizational Economics
   - Political Economy
   - Regulatory
• Development/Health/Education – what have we learned within these fields that inform the broader theoretical issues

2) Understanding of intrinsic motivations in the sector, including signaling and impact

3) Is this a different sector? In what ways?

4) What are the challenges that face practitioners?

5) How do empiricists address these issues?