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POINT
COUNTERPOINT

Should We Require Every New Venture to Be a Hybrid Organization?

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ABSTRACT Critics of entrepreneurial capitalism have argued that entrepreneurship creates dysfunction in individuals, families, communities, and society because entrepreneurs neglect social and environmental dimensions of value in favour of financial value creation. By way of contrast, hybrid organizations, such as Benefit Corporations, are created explicitly to address social and environmental objectives in addition to their financial objective. Therefore, in this paper we explore the consequences of a world of blended value in which every new venture is required to be a hybrid organization. In doing so, we reveal the boundary conditions of current social criticism levied against entrepreneurship and suggest that blended value may best be relegated to the role of ideal or guideline as opposed to normative or legal obligation.

Keywords: blended value, corporate social responsibility, hybrid organization, social entrepreneurship, sustainable entrepreneurship, triple bottom line

> All investments are understood to operate simultaneously in economic, social, and environmental realms. There is no 'trade off' between the three, but rather a concurrent pursuit of value – social, financial, and environmental. Regardless of the equation involved, the parts operate together, in concert, at all times. They cannot be separated and considered as distinct propositions, but are one and the same. All business enterprises have within them a component or function of social value creation and all nonprofit organizations generate a level of economic value and worth. They are inseparable. Therefore, all returns generated from investing in this capital market space create value that is economic, social, and environmental – a blended value (Emerson, 2003, p.45).

INTRODUCTION

For over a decade the term *blended value* has been employed by scholars and practitioners to communicate a concern about businesses' disproportionate allocation of limited

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attention and resources to the financial dimension of value creation at the expense of its social and environmental dimensions (Emerson, 2003; Nicholls, 2009; Paine, 2003; Vogel, 2005). Proponents of blended value often suggest that financial returns rarely account for the full cost of their production (Bower et al., 2011) and that this emphasis on financial returns exacerbates the managerial tendency to engage in actions that have negative external effects on natural systems and social systems (Stiglitz, 2010).

During this same period, there has been an explosion of both practitioner and scholarly interest in the creation of social businesses designed to employ a hybrid model of organization in which demand-based business logic is combined with need-based charity logic (Battilana and Dorado, 2010; Battilana et al., 2012; McMullen, 2011; Miller et al., 2012; Pache and Santos, 2013). These 'hybrid organizations' go beyond encouraging emphasis on social and environmental dimensions of value creation, weaving these threads into the fabric of the organization from the moment of origin (Grimes et al., 2013). By integrating these priorities into the very mission of the organization, hybrid entrepreneurs seek to ensure emphasis on social and environmental value while immunizing their ventures from the temptation to become focused exclusively on financial value creation (Battilana and Lee, 2014).

If policymakers are susceptible to the inferential affliction suffered by management scholars, namely that if something is good, then more of it must be even better (Grant and Schwartz, 2011; Pierce and Aguinis, 2013), then the concept of blended value has the potential to morph rapidly from a choice to be encouraged into an outcome to be required. But what are the implications of such a policy requiring a moderate, blended value approach in entrepreneurial goal setting, strategy formulation, and tactical implementation?

Philosophers ranging from Aristotle to Confucius have sung the praises of moderation, but we would like to embrace the caveat of Oscar Wilde who glibly, but insightfully, retorted, 'All things in moderation, including moderation'. Indeed, we fear that instead of encouraging entrepreneurs to employ moderation voluntarily in their pursuit of financial outcomes, a superficial understanding of blended value could lead society and its policymakers to rush to the judgment that all organizations should be required to be hybrids. This could have two potentially devastating consequences. First, it could result in policy that abandons moderation in governance in order to enforce moderation in entrepreneurial behaviour. Second, to the extent that an emphasis on blended value has the potential to prohibit, obstruct, or impair the entrepreneurial activities responsible for creating societal benefits, a policy that requires blended value could inhibit or completely suppress the mechanisms that make entrepreneurship the dynamic engine of entrepreneurial capitalism it has proven itself to be (Baumol, 2002).

To avoid a fool's bargain in which policymakers would trade a world that is excessive, but organizationally diverse and dynamic, for one that is moderate but homogenous and stagnant, this essay evaluates the hypothetical policy claim that every new venture should be required to be a hybrid organization. To do so, we first employ stasis theory to identify the assumptions necessary to support such an argument. Second, we consider whether there is consensus (1) that entrepreneurship has dysfunctional effects on individuals, families, communities, and society, and (2) that failure to pursue blended value is responsible for these effects. Third, we examine the efficacy and efficiency of encouraging blended value through (1) the intrapersonal argument of self-regulation, (2) the interpersonal negotiation of social regulation, or (3) the impersonal coercion of governmental regulation. Fourth, we review the costs of each cure. Finally, we consider the prudence of requiring every new venture to be a hybrid organization by evaluating arguments and counter-arguments that support and refute the policy claim's exclusive reliance on the coercive approach.

CLARIFYING THE DEBATE USING STASIS THEORY

Whether every new venture should be required to be a hybrid organization is a policy question that can manifest only after a number of assumptions have been granted involving more fundamental questions. Such policy questions lend themselves to analysis through stasis theory, which was developed by Aristotle and Hermogenes and refined by Roman rhetoricians such as Cicero (Nadeau, 1964). Originally designed for courts of law, the concept of stasis defines the focal point of a dispute and literally means 'a point of rest' between two opposing forces (Sloane, 2001). It is meant to identify precisely what is in dispute by inviting response by antagonists in order to transcend opposition and resume movement toward a goal (Braet, 1987).

Classical theory established four categories of stasis: (1) stasis in *conjecture* concerns whether an act occurred, (2) stasis in *definition* concerns what the act should be called, (3) stasis of *quality* concerns whether the act is justified, and (4) stasis in *place* concerns whether the discussion is occurring in the proper forum (Corbett and Eberly, 2000). Although stasis in place is largely preemptive, the other three are, generally speaking, progressive, such that stasis in definition implicitly concedes conjecture, whereas stasis in quality implicitly concedes both conjecture and definition (Sloane, 2001). Consider, for example, the issue of climate change. Some antagonists deny that climate change is occurring at all. Others concede its occurrence, but debate its meaning, denying that it is anthropogenic. Still other antagonists concede that climate change is occurring and that it is anthropogenic but debate its quality, claiming that the inaction is preferable to action (Stern, 2007), or that future generations will be better positioned to absorb the costs of addressing the issue (Broome, 2008; Dasgupta, 2008). Finally, some antagonists concede that climate change is occurring, is anthropogenic, and that society must take immediate action, but debate the nature of this action – should governmental policy seek to encourage conservation through taxes or are privately-funded technological solutions a more appropriate course of action?

One popular non-legal application of stasis theory is to apply the stases of conjecture, definition, and quality to each of four *topoi* for a resolution of policy (stasis in place usually is not applicable). These topoi include: (1) ill (i.e., symptoms), (2) blame (i.e., cause), (3) cure (i.e., treatment), and (4) cost (i.e., effects vs. side effects) (Corbett and Eberly, 2000). The result is a four-by-three matrix with 12 possible stases (e.g., ill-conjecture, ill-definition, etc.) that help locate the centre of dispute and build on points of consensus to promote productive dialogue about alternative means to respond to a given situation.

The premise that entrepreneurship causes dysfunction because of a lack of blended value can be analyzed through stasis theory to answer the policy question of whether every new venture should be required to be a hybrid organization. Table I offers the

Table I. Matrix of possible stasis points in resolving the policy that every new venture should be required to be a hybrid organization

STASIS / *TOPOS*	*CONJECTURE (What has happened?)*	*DEFINITION (What does it mean?)*	*QUALITY (Should we act?)*
ILL (Symptoms)	**Ill-Conjecture** Does entrepreneurship have dysfunctional effects?	**Ill-Definition** Are these dysfunctional effects negative externalities?	**Ill-Quality** Are these negative externalities bad enough to warrant change?
Response	Yes	Some are externalities but others are the undesired side-effects of innovation.	It depends on the externality and the change.
BLAME (Cause)	**Blame-Conjecture** Are entrepreneurship's dysfunctional effects because of entrepreneurs' failure to pursue blended value?	**Blame-Definition** Is this failure a result of ignorance of the benefits of blended value?	**Blame-Quality** Are there other possible causes for entrepreneurs' failure to pursue blended value?
Response	Sometimes, but not always.	Only if those benefits go unrevealed by oneself or one's competitors and the entrepreneur isn't rational.	Yes, blended value can also be a choice not made because it is expected to yield competitive disadvantage.
GENERIC CURE (Treatment)	**General Cure - Conjecture** Can we encourage every entrepreneur to pursue blended value?	**General Cure - Definition** Will entrepreneurs respond to this encouragement by pursuing blended value?	**General Cure - Quality** How much dysfunction will be reduced by this encouragement?
Response	Yes, through self, social, or governmental regulation	Yes, if failure to pursue blended value was due to ignorance, but if the failure was deliberate, then pursuit will depend on the cost of non-compliance.	It depends on the cause of the failure and whether self, social, or governmental regulation is used to encourage pursuit of blended value.
SPECIFIC CURE (Treatment)	**Specific Cure - Conjecture** Can we require every new venture to be a hybrid organization?	**Specific Cure - Definition** Will requiring every new venture to be a hybrid organization ensure pursuit of blended value?	**Specific Cure - Quality** How much dysfunction will be reduced as a result of this requirement?

Table I. *Continued*

STASIS / *TOPOS*	*CONJECTURE (What has happened?)*	*DEFINITION (What does it mean?)*	*QUALITY (Should we act?)*
Response	Yes, through governmental regulation	Probably, but the pursuit is likely to be half-hearted and minimalistic.	The policy could diminish negative externalities and some negative consequences of innovation but possibly at the expense of negatively affecting entrepreneurship's positive consequences as well
COST (Effects vs. Side Effects)	**Cost - Conjecture** What would a policy that requires every new venture to be a hybrid organization cost society?	**Cost – Definition** Are the reduced costs of dysfunction and the increased costs from creating and enforcing the policy real costs that can be compared?	**Cost – Quality** Are the reduced costs of dysfunction worth the increased costs from creating and enforcing the policy?
Response	Monitoring and enforcement costs but also freedom and possibly dynamism as well	Some are real, but some such as attention or freedom are hypothetical	Probably not for governmental regulation, but likely for self-regulation or social regulation

possible stasis points for the resolution of this policy. We have, however, altered the traditional four-by-three matrix format to distinguish between generic and specific cures so that we may evaluate the benefits and costs of the focal policy, which is likely to require third-party enforcement, against alternatives relying on voluntary action by self-interested entrepreneurs.

If a blended value perspective is the remedy that proponents argue it to be, and if it is as inexpensive as Emerson's opening passage suggests, then requiring new ventures (either normatively or legally) to be hybrid organizations is a policy worthy of consideration. Indeed, many rhetoricians have pointed out that agreement can often be facilitated by clarifying which stasis is the point of contention between parties and by emphasizing where consensus can and has already been reached, especially in matters of policy. In this spirit, we now examine each topos (ill, blame, cure, and cost) for each stasis (conjecture, definition, and quality) to determine the degree of consensus reached regarding various assumptions made to support a blended value argument for requiring that every new venture be a hybrid organization. In doing so, we increase scrutiny of blended value to reveal its vices as well as its virtues in order to determine whether sufficient consensus exists to justify proponents' tendency to champion it as a social panacea.

ILL (SYMPTOMS)

We begin by examining the stases of conjecture, definition, and quality for the ill that motivates most discussions of blended value. Hence, we ask, 'Does entrepreneurship have dysfunctional effects on individuals, families, communities, and society?' paying particularly close attention to any dysfunctional effects it may have on social and environmental outcomes. We then examine whether these dysfunctional effects are negative externalities or merely the price of realizing entrepreneurship's material benefits. Finally, we consider whether these dysfunctional effects merit change efforts.

Defining Entrepreneurship

We begin by defining entrepreneurship as profit seeking because it allows us to reconcile a host of disparate literatures that are relevant to blended value and facilitates comparison of specific manifestations of new value creation – i.e., creation of societal[1] wealth by introducing radically innovative products through new venture creation – against other more generic manifestations – i.e., rent seeking or crime, which also create value and private wealth but not societal wealth. However, unlike strategy scholars who tend to limit profit seeking to the pursuit of *accounting profit* – revenues less fixed and variable costs, we employ the broader notion of *economic profit* – accounting profit less opportunity costs. By doing so, we incorporate the pursuit of financial, social, and environmental value in the profit equation rather than focus solely on financial outcomes.

Ill-Conjecture: The Effects of Entrepreneurship

As profit seeking, entrepreneurship clearly produces societal wealth. It is the engine of economic growth (Audretsch et al., 2006), creating consumer value and jobs (Baumol,

2010) and serves as one of the institutional pillars of capitalism (Baumol et al., 2007). Capitalism has produced unprecedented material benefits, including increased access to safe water, food, education, and decreased mortality rates (Barro, 1991). Entrepreneurial capitalism, characterized by the rule of law, enforcement of property rights, competitive markets, and incentives for innovation (Baumol et al., 2007), channels the entrepreneurial pursuit of profit into the productive act of commercializing new knowledge through the introduction of new goods or services to the market (Baumol, 2010; Schumpeter, 1934) thereby facilitating economic growth, dynamism, and competitiveness of the market (Santos and Eisenhardt, 2009), and ultimately increased consumer utility (Acs et al., 2009).

Despite these material benefits, however, entrepreneurship can also be unproductive or destructive in some instances (Baumol, 1990). Many entrepreneurs provide the impetus for technological progress (Schumpeter, 1934; Stiglitz, 2010), but others seek to prevent disruption of the status quo to maintain their technological advantage (Boettke and Coyne, 2003) or use deceptive means to attain their wealth, exploiting their customers or employees (Darby and Karni, 1973; Van Stel et al., 2007). Consequently, formal institutions, such as laws or statutes, and informal institutions, such as beliefs, values, or norms (North, 1990), play an important role in channelling profit seeking away from societally costly endeavours and toward societally beneficial outcomes (Baumol, 1990).

Although it can empower individuals to escape poverty (Reynolds et al., 2005), engage in meaningful work (McMullen and Warnick, 2015), and provide value for society (McMullen, 2011), entrepreneurship can still have dysfunctional socio-emotional, social, and ecological effects even in the most efficient of institutional regimes. For example, new venture creation is not without risk, causing entrepreneurs to experience failure or the threat of it (Shepherd, 2003). This stress of running a business can lead to strain on families, isolation, depression, and bankruptcy (Begley and Boyd, 1988; Boyd and Gumpert, 1983; Gumpert and Boyd, 1984; Shepherd, 2003). Capitalism's commodification of human capital may further exacerbate these dysfunctional socio-emotional effects. As the fourth strategic factor, entrepreneurs realize income in the form of profits for reallocating the other three strategic factors of production – land, labour, and capital – to higher valued uses (Marshall, 2009). Unlike money or fungible goods, however, human capital and natural capital have properties that often change with geographic location (Hawken et al., 1999). Despite this fact, the dysfunctional socio-emotional effects of relocating away from extended family and friends to exploit an opportunity for material prosperity are often downplayed by capitalist apologists and treated as either necessary evils or badges of honour that demonstrate, somewhat ironically, an individual's concern for others (e.g., his family's well-being) (Roberts, 2002). If these tradeoffs were rare they would seem a small price to pay to ensure one's material security, but entrepreneurial capitalism is an innovative treadmill that is speeding up (Schnaiberg, 1980). As a result, there is a perpetual tradeoff in which greater socio-emotional costs must be borne simply to maintain the financial benefits associated with one's current labour value, thus requiring individuals to economize on friendship or even love (Guinness, 1998). Consequently, researchers have noted a decline in Americans' participation in community-based activities (Putnam, 2000) and an increased emphasis on work-based friendships (Sias and Cahill, 1998).

Entrepreneurial capitalism can also have dysfunctional social effects that strain communities. To the extent that entrepreneurial capitalism facilitates technological change, it increases dysfunctional effects associated with the collapse of the status quo solution, washing away the economic sand upon which many communities are built (Schumpeter, 1942). When an entire community is economically concentrated in production of the status quo, individuals and families suffer severe socio-emotional effects as the community's financial proposition is made obsolete. Consider, for example, the decline of the US steel industry in the 1950s and the related collapse of coal towns in West Virginia and Southwestern Pennsylvania as decreasing demand for coal rendered mining cost-ineffective (Shifflett, 1995).

Finally, entrepreneurship can negatively affect the natural environment. Whenever information is imperfect and the full costs of production are not borne by the producer, but rather by society, producers lack the incentive to account for the full cost of their operations (Arrow, 1969). These externalities encourage more of a harmful activity (i.e., pollution) than entrepreneurs would have otherwise engaged had they been required to bear the full costs of production (Buchanan and Stubblebine, 1962). In such cases, the tendency to abuse natural resources and limit others' access to natural resources increases, as do attempts to cover up such abuses (Zahra et al., 2013). Conversely, however, entrepreneurship can also provide a mechanism for correcting environmental damages that are caused by the market's inability to allocate resources to their most valued use because of, for example, inappropriate governmental intervention or the nature of public goods (Dean and McMullen, 2007; York and Venkataraman, 2010). Thus, entrepreneurship has been proposed as a potential remedy to environmental as well as socio-economic problems because it is capable of internalizing, not just creating, externalities (Buchanan and Faith, 1981; Dean and McMullen, 2007).

Even when property rights are well-defined and enforced, dysfunctional environmental effects may still not be fully accounted for. Because of a lack of scientific understanding of the value of natural resources to the ecosystems in which they are embedded, a short-term sacrifice of environmental diversity for financial prosperity can prove miscalculated upon ecological collapse (Diamond, 2005; Friedman, 2008). Such an outcome could manifest as a result of capitalism treating natural resources as dead (Boldt, 1999). Indeed, the practice of depreciating assets fails to acknowledge the ability of natural resources to replenish themselves, provided they are not consumed beyond some self-sustaining threshold (Fuller, 1969). As with human capital, the value of natural capital is rarely understood as embedded within the context of an ecosystem (Hawken et al., 1999; Lovins et al., 2007), implying that the value of a tree rests only in its wood as opposed to the function it fulfills within the Brazilian rainforest, for example.

Lastly, there are dysfunctional environmental effects that are tolerated because they are believed to accelerate economic development. Although multinational corporations may apply first-world standards to their operations in developing nations as a means of minimizing transaction costs (Kogut and Zander, 1993), new ventures are likely to operate according to the less stringent environmental standards of the developing nation in which they are born (Dasgupta et al., 2002). Nations often allow for environmental transgressions during periods of explosive economic growth under the premise that cleanup will come later – after industrialization has occurred, profit margins have grown enough to absorb overhead associated with environmental concerns, consumers have begun to demand environmental protection, and tax revenue has been generated to fund enforcement of environmental regulations (Stern, 2007).

Ill-Definition: Negative Externalities or Undesired Side Effects?

Whether it is the personal, emotional vicissitudes that accompany the uncertainty of entrepreneurship, the socio-emotional fallout of a community made obsolete by innovation, or capitalism's assumption that human capital and natural capital are fungible goods, it is clear that many of entrepreneurship's dysfunctional effects are not negative externalities. An externality refers to a consequence of an economic activity that is experienced by unrelated third parties. As indicated by the existence of unproductive and destructive forms of entrepreneurship (Baumol, 1990), profit seeking can indeed create negative externalities and contribute to societal costs (Coase, 1960), but many of the dysfunctional effects highlighted above are merely undesired side effects of entrepreneurial activity borne by parties who have chosen to engage in it because of its intended and desired effects. Therefore, even if institutional regimes were highly efficient such that entrepreneurs sought to account for any and every societal cost they could conceive as related to their activities, entrepreneurship would still produce some dysfunctional effects as by-products of innovation. Made possible by the growth of knowledge over time (Audretsch et al., 2006), innovation ensures that no one has perfect information but instead that everyone is involved in a perpetual process of discovering new data (Hayek, 1937, 1945) and forming new interpretations of it (Lachmann, 1976, 1977) that require endless revaluation of ends and means (Kirzner, 1973). Thus, to eliminate the undesired side effects of entrepreneurship is to eliminate learning and thus the dynamism of the innovation growth machine known as entrepreneurial capitalism (Baumol, 2002).

Ill-Quality: Is Change Warranted?

The inability or unwillingness to eliminate *all* undesired side effects of entrepreneurship for fear of killing the golden goose of innovation does not mean that *some* of the undesired side effects or negative externalities of entrepreneurship cannot be reduced. This begs the question of whether entrepreneurship's dysfunctional effects are bad enough to warrant change, which is a question of evaluation depending partly on the empirical evidence. Despite the aforementioned arguments, the net effect of entrepreneurship on social and environmental outcomes at the individual, family, community, and society levels has not been well documented empirically. Because they are difficult to quantify, the effects of entrepreneurship on social and environmental outcomes have received less empirical examination and systematic analysis than entrepreneurship's financial effects (Bruton et al., 2012; McGahan, 2012). Therefore, while both dysfunctional and beneficial effects can be attributed to entrepreneurship through logical inference, data supporting these claims is largely inconclusive. This absence of clear, compelling data has not stopped advocates and critics of entrepreneurship from championing or condemning it or the capitalist system in which it plays an influential role, but these contentious positions have been grounded more in presumptions about the effects of profit potential on behaviour than in empirical evidence about the nature and magnitude of entrepreneurship's effects on social and environmental outcomes.

Although there is a lack of consensus about the *net* effect of entrepreneurship, there are few who would claim that it has no dysfunctional effects whatsoever. Even proponents who praise entrepreneurship for its innovative role in applying new knowledge to the economic sphere (i.e., productive entrepreneurship [Baumol, 1990]) recognize that the introduction of new goods and services by new ventures or incumbent firms leads to creative destruction (Schumpeter, 1942). The resulting socio-emotional costs to individuals and families, social costs to communities, and environmental costs to nature, are understood by proponents of entrepreneurial capitalism to be the inevitable and inextricable price of material prosperity and poverty alleviation. Thus, there is a tentative consensus that entrepreneurship has dysfunctional effects, as evidenced by debate about what should be done to curb them. Accepting that entrepreneurship has dysfunctional effects, we build on this consensus to examine whether a failure to pursue blended value is to blame.

BLAME (CAUSE)

Proponents of blended value often attribute many beneficial and dysfunctional effects to entrepreneurship, proposing that an increased focus on blended value will mitigate the negative consequences and bolster the beneficial outcomes (Zahra and Wright, 2016). The fact that some firms focus more on social outcomes than others, however, does not mean that these approaches necessarily drive social and environmental value creation more than conventional new ventures or that conventional new ventures cause dysfunction. As stated in the topos of ill, the question is not whether entrepreneurship is beneficial or dysfunctional – we have already established that entrepreneurship has both effects; instead, the more pertinent question may be: are entrepreneurship's dysfunctional effects due to a narrow focus on financial value? If entrepreneurs are guilty of failing to pursue blended value as much as they could, then why is this the case? Is this failure a result of ignorance or uncertainty about the benefits of blended value or might it be due to a well-informed choice arising from diverging interests? To address these questions, we now examine the stases of conjecture, definition, and quality for the topos of blame.

Approaches to Blended Value

Before we can examine whether entrepreneurship's dysfunctional effects can be attributed to entrepreneurs' failure to pursue blended value, we must first examine the meaning of blended value and the veracity of the claim that entrepreneurs fail to pursue it. Blended value is a ubiquitous concept that transcends literatures concerned to varying degrees with reducing the dysfunctional effects of profit maximizing behaviour. As shown in Figure 1, blended value is not unique to new ventures, having been discussed in the form of various projects and initiatives within existing organizations (Emerson, 2003; Paine, 2003; Vogel, 2005), but it is typically discussed as influencing the objectives of an organization such that they transcend financial value to include environmental or social value as well (Margolis and Walsh, 2003). Consider social, environmental, and

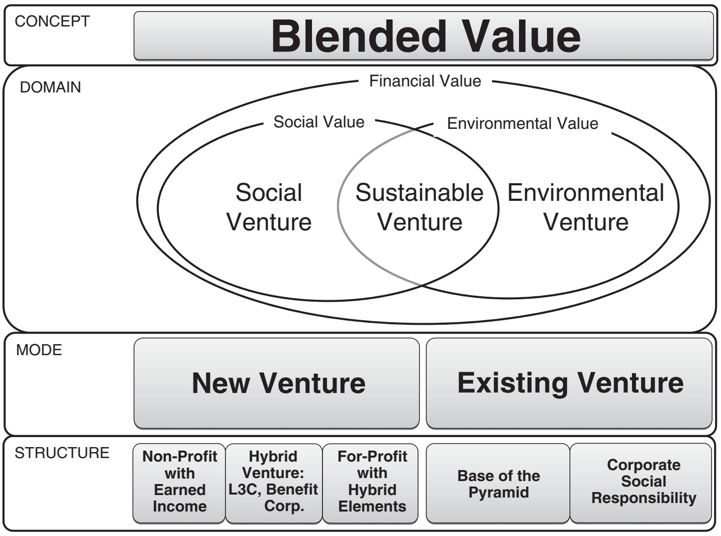

Figure 1. A taxonomy of approaches to blended value

sustainable entrepreneurship, for example (e.g., Dean and McMullen, 2007; Nicholls, 2006). With their focus on multiple forms of value creation (e.g., Austin et al., 2006), these alternative forms of entrepreneurship embrace the spirit of blended value while marrying it to the transformative potential of entrepreneurship. Instead of treating social and environmental outcomes as unintentional by-products of a commercial process, these hybrid forms of entrepreneurship seek to transform the market structure intentionally and directly by creating economic, social, and/or environmental value simultaneously (Miller et al., 2012). Thus, even though socio-economic change is an outcome of entrepreneurship regardless of whether it is deliberately sought, blended value is an ideal invoked with an aim to ensure that this change is positive.

Like all hybrid organizations, hybrid ventures combine the market logic of want with the charity logic of need (Battilana and Lee, 2014), 'blending' the pursuit of financial, social, and/or environmental value creation into the very fabric of the new venture. The combination of financial value with social value (social ventures), environmental value (environmental ventures), or both (sustainable ventures) has received attention in the social entrepreneurship, environmental entrepreneurship, and sustainable entrepreneurship literatures, respectively. To account for the effects of business on society as a whole, many ventures with a blended value approach use triple bottom line accounting, jointly considering financial, social, and environmental effects (Elkington, 2004; Norman and MacDonald, 2004; Savitz, 2013). Triple bottom line accounting has been adopted by many in both the private and public sector (e.g., Epstein and Buhovac, 2014) despite the inherent subjectivity and difficulty of (a) defining a standard of measurement for environmental and social value creation, and (b) establishing a common metric to jointly assess financial, environmental, and social value.

The pursuit of blended value, however, is not circumscribed to hybrid ventures. Existing organizations of a more traditional bent have employed project-level approaches to pursuing blended value. Small proprietorships to multi-national corporations have engaged in projects that seek to encourage the pursuit of blended value even after the organization was created. Although some of these initiatives begin and remain focused on public relations such that blended value is not central to the organization's mission (Porter and Kramer, 2006), others contribute to a growth in organizational emphasis on blended value over time (Brammer et al., 2007; Turban and Greening, 1997). Such is the case for an increasing number of multinational corporations that have introduced entrepreneurial initiatives aimed at the 'base of the pyramid' (BOP) – a market of over 4 billion people who live on less than $2 per day (Prahalad, 2005) and an estimated $5 trillion market (World Resources Institute, 2007). By focusing on the base of the pyramid, organizations can profit while creating social value through employment opportunities or increased accessibility to desired goods and services. This can combat the 'poverty penalty' resulting from consumers' embeddedness within inefficient markets often characterized by monopolies (McMullen, 2011).

Corporate social responsibility (CSR) is another way established organizations advance blended value at the project level by creating social ventures internally or by partnering with existing hybrid ventures to achieve social goals. For example, The Coca Cola Company and Diageo, PLC (Guinness) have partnered with Water Health International to fund water health centres in Ghana, Nigeria, and Liberia. To achieve operational sustainability, these centres charge a nominal fee to cover operating expenses as they provide World Health Organization-quality water for the poor. Thus, CSR projects or initiatives enable established organizations to take responsibility for social and/or environmental effects of their business over and above legally mandated action (Margolis and Walsh, 2003). Businesses with CSR projects or initiatives engage in activities that promote social and environmental value creation, indicating a move toward blended value, while the overall metric of interest for the business remains financial value creation (Madsen and Rodgers, 2015).

These venture- and project-based approaches to blended value can be pursued through different legal forms. Multiple US states have legislated legal forms of business that consider social and environmental dimensions of value creation in concert with their financial value creation including low-profit limited liability companies (L3Cs) and benefit corporations (B Corps). L3Cs are a hybrid organizational form that adopts a blended value approach, but has a social or environmental outcome as its primary purpose. Because of their integration of both financial and social/environmental goals, L3Cs are able to seek funding from foundations and donors through tax-deductible, programme-related investments in support of L3Cs' social/environmental goals as well as funding through private investors and customers. B Corps legal status requires pursuit of a general public benefit – defined in either environmental or social terms – in addition to financial goals. B Corps must assess their general public benefit by a third-party standard and are required to issue an annual benefit report that documents their particular general public benefit.

Organizations that adopt a blended value approach at either the project or venture level often seek certification to assure their stakeholders that their actions support their rhetoric. For example, B Corp certification (commonly used as the third-party assessor for legal B Corps) provides an assessment of the social and environmental efforts of certified businesses and communicates this focus on blended value to stakeholders. Certified B Corps and legal B Corps share many similarities, but they are distinct in that certified B Corps are certified by the nonprofit B Lab, whereas legal B Corps and L3Cs adopt blended value as the legal structure for their business. Thus, even though many certified B Corps are also legal B Corps, they are not legally required to be.

Traditional for-profit and not-for-profit organizations also often incorporate blended value elements into their organizational identity (Czarniawska, 1997; Dacin et al., 2011), though usually to a lesser extent. Many for-profit ventures pursue social or environmental objectives despite not being legally bound to a blended value approach. Moreover, few for-profit businesses are likely to be motivated strictly by financial gain (McMullen, 2011). Although some scholars have argued that businesses hold a fiduciary responsibility to maximize shareholder wealth (Friedman, 1970; compare Garriga and Mele, 2004), many others believe that more stakeholders should be taken into account when managers (entrepreneurial or otherwise) make decisions on behalf of their organizations (Freeman, 2010; Freeman et al., 2004). At the other extreme are non-profit organizations, which also adopt some elements of blended value when they engage in earned-income activities to supplement donations (Brooks, 2009; Nicholls, 2006).

Blame-Conjecture: Is failure to pursue blended value to blame?

Given the above understanding of 'entrepreneurship', 'profit seeking', 'blended value', and 'hybrid organizations', it is clear that many believe that there is a tendency for entrepreneurs in new or existing ventures to seek financial value and accounting profit at any social or environmental cost. But it is also clear that hybrid entrepreneurs have responded to this belief by pursuing blended value both within and outside of existing ventures. Industry, therefore, seems to have found ways to broaden its focus beyond financial value in an effort to address entrepreneurship's dysfunctional effects, such that we can definitively say that *not all* entrepreneurs fail to pursue blended value. In other words, some entrepreneurs *do* pursue blended value, but they are the exception, not the rule, otherwise their efforts would not receive the attention they do; instead, such behaviour would simply be expected of all entrepreneurs, such that failure to pursue blended value would be considered deviant, unethical, or even criminal. Therefore, if some entrepreneurs are pursuing blended value, yet entrepreneurship still has dysfunctional effects, then we are left with two possibilities: either (1) blended value is ineffective such that entrepreneurship's dysfunctional effects are not the result of entrepreneurs' failure to pursue blended value, or (2) blended value is effective in addressing entrepreneurship's dysfunctional effects, but there are simply not enough entrepreneurs engaging in it. We now investigate both possibilities.

Is blended value ineffective? If entrepreneurship is defined as profit seeking, then all forms of profit seeking, be they ethical or unethical, are encompassed. This definition of profit seeking includes positive outcomes such as basic human agency or efforts to learn, negative outcomes such as crime or opportunism, as well as variants in between, such as rent seeking or basic economizing. By arguing that entrepreneurship should be conceptualized as profit seeking, Baumol (1990) acknowledged that various types of entrepreneurship exist (i.e., productive, unproductive, and destructive), but not all of these seek financial gain at *any* cost, despite their exclusive pursuit of financial value. Productive entrepreneurship, for example, seeks profit by creating financial value and societal wealth through the introduction of radically innovative new goods or services to the market (e.g., Schumpeter, 1934). It was the dysfunctional effects of *productive* entrepreneurship, not the profit-maximizing behaviour of unproductive or destructive entrepreneurship that we discussed earlier in the topos of ill and that offered consensus. In contrast, unproductive entrepreneurship abandons much of the private cost of innovation, using rent seeking to appropriate the wealth created by others' innovations, thus creating value for entrepreneurs and customers but failing to contribute to societal wealth (e.g., Tullock, 1980). Destructive entrepreneurship goes a step further, destroying societal wealth while creating value for entrepreneurs and customers through criminal activity (e.g., bootlegging, drug dealing, gun running, etc.). Thus, even when limited to the pursuit of financial value and equated with the profit-maximizing behaviour and opportunistic financial transactions of rent seeking or crime, profit seeking does not necessarily lead to negative externalities.

Most of entrepreneurship's dysfunctional effects were not externalities; they were undesired side effects of entrepreneurship. In such instances, broadening pursuit of profit beyond financial value to blended value does not necessarily address entrepreneurship's dysfunctional effects because those effects are not the result of some extreme emphasis on financial value to the neglect of social or environmental value. Moreover, even if the concept of entrepreneurship requires nothing more than profit seeking, it would not necessarily follow that a concern for accounting profit would focus one's attention only on the short-run, disregarding the opportunity costs included in the broader notion of economic profit and outcomes that become salient when a longer time horizon is considered. Like enlightened self-interest, economic profit would highlight the effects of, say, a damaged reputation on future business. Thus, profit seeking in contexts of accountability is likely to encourage consideration of those social and environmental consequences of current actions that have the potential to generate (societal if not legal) future liabilities with financial consequences. Failure to pursue blended value, therefore, is not solely to blame for entrepreneurship's dysfunctional effects. There are social and environmental 'pains' that accompany economic growth that are not necessarily the result of entrepreneurial negligence or disdain for others' welfare. This is not to say, however, that there are not dysfunctional effects from negative externalities over which entrepreneurs have influence. In such instances, blended value could diminish or eliminate dysfunctional effects if only more entrepreneurs chose to broaden their attention beyond financial value. This brings us back to the second possibility that blended value is indeed effective, but that there are not enough entrepreneurs pursuing it. Why then do some entrepreneurs fail to pursue blended value? We examine this question under the blame-definition stasis.

Blame-Definition: Is ignorance the cause?

We began this essay with a quote from Jed Emerson, the father of blended value. In that quote Emerson (2003) echoes a sentiment widely held and frequently expressed in numerous literatures, including hybrid organizing (Battilana and Dorado, 2010; Battilana et al., 2012; Boyd et al., 2009; Haigh and Hoffman, 2012; Jay, 2013; Mair et al., 2012; Pache and Santos, 2013), corporate social responsibility (Margolis and Walsh, 2003; Vogel, 2005), base of the pyramid (Kolk et al., 2014; Prahalad, 2005), microfinance (Bruton et al., 2011; Khavul, 2010; Yunus, 2007), social entrepreneurship (Dacin et al., 2010; Miller et al., 2012; Santos, 2012), sustainable entrepreneurship (Dean and McMullen, 2007; York and Venkataraman, 2010), shared value (Porter and Kramer, 2011) and even family business (Gomez-Mejia et al., 2007). The sentiment is that blended value is not as costly as one might imagine and that, in some cases, there is no tradeoff whatsoever (Emerson, 2003) such that one can have her proverbial cake and eat it too (Zahra et al., 2009). If this were true, there would be no need to encourage entrepreneurs to pursue blended value in the form of hybridity or otherwise; pursuing blended value would be in the entrepreneur's financial interest.

If no tradeoff is required, then a good explanation is needed for why an entrepreneur would irrationally forgo gains in environmental or social value. Both Prahalad (2005) and Yunus (2007) suggest that false beliefs about the poor may be responsible for precluding entrepreneurs from exploiting opportunities to create improvements in social value, but McMullen (2011) questions these explanations, suggesting that they may oversimplify the challenges of development. If ignorance, rather than financial sacrifice, is the obstacle preventing entrepreneurs from seizing opportunities to create social and environmental value, then perhaps governmental regulation requiring all businesses to pursue blended value and/or to be hybrid organizations is justified (Aguilera et al., 2007; Campbell, 2007), given that the expected financial costs of enforcement would be minimal owing to the lack of financial tradeoff associated with realizing these improvements in social and environmental value (Hart, 2005; London and Hart, 2011; Prahalad, 2005). Because the intent of the legislation would be to encourage awareness as opposed to compliance, the law would arguably enjoy self-enforcement once entrepreneurs were aware of these opportunities to create social and environmental value.

If ignorance of the social and environmental benefits of blended value were the only obstacle preventing more entrepreneurs from pursuing it, then requiring every new venture to be a hybrid organization could be a relatively inexpensive solution, but it would also be a solution that was unlikely to be needed. As entrepreneurs revealed these gains through their innovative efforts, information would disseminate such that self-interest would lead to imitation and the diffusion of innovations. Thus, it seems highly unlikely that ignorance is responsible for discriminating entrepreneurs who do not pursue blended value from those who do. It seems far more likely that entrepreneurs in these two populations are making different decisions because they are using different expectations, preferences, or data as inputs in their decision making process. We examine these explanations in the blame-quality stasis.

Blame-Quality: Might Uncertainty or Interests be the Culprit?

If we abandon the ignorance explanation and return to the more likely scenario that blended value requires some degree of financial tradeoff, and if we accept that no law is entirely costless, then adoption of blended value implies an expected increase in private financial costs but an expected decrease in societal costs. Indeed, few practitioners or academics believe that blended value and hybrid organizing are financially costless endeavours, either privately or societally (Campbell, 2007; Glaeser and Shleifer, 2001). Rather, private financial costs are marginally higher for the individuals who must bear them (at least in the short-run), and reductions in societal costs can compensate for this individual sacrifice, such that collective action creates net benefit for entrepreneurs and the social systems (families, communities, etc.) in which they are embedded. Legal or normative requirements could seek to ensure that entrepreneurs make the sacrifices required for the common good, as is the case with legislation – e.g., fines for price gouging after a disaster – social sanctions – e.g., social condemnation for price gouging – or moral convictions – e.g., guilt for price gouging.

Despite antagonists' claims (e.g., Friedman, 1970), such collective action in the name of blended value would not necessarily imply a rise in production and consumer costs. In fact, long-term consumer costs could actually fall, but because of the rise in short-term production costs, there would still be a financial disincentive preventing entrepreneurs from acting in a way that would be consistent with blended value (Emerson, 2003). This phenomenon is well known as 'demand uncertainty' by the environmental economics literature (e.g., Arrow and Fisher, 1974) and often offered as an explanation for why momentum in clean energy advances ceases with fluctuations in oil prices (e.g., Friedman, 2008). Thus, demand uncertainty is capable of preventing some entrepreneurs from pursuing blended value despite a desire to do so.

In addition to ignorance and uncertainty, there is one final explanation for why some entrepreneurs do not pursue blended value: some entrepreneurs may not care about the social and environmental effects of their actions or, worse yet, view others' concerns for these non-financial sources of value as weaknesses that they can exploit in competitive, game-theoretic scenarios. This is not to say that they would break the law or even act unethically (Friedman, 1970), but to the extent that they search for and have the ability to relocate to 'friendlier' institutional regimes, these entrepreneurs, in aggregate, have the power to initiate a race to the bottom in which governments relax their regulatory standards in order to entice businesses to create financial value in their region or nation (Revesz, 1992).

Thus, support for the blame-related stases, like the ill-related stases, is often more inferential than observed, but nevertheless entrepreneurs are adopting hybrid organizing to create and deliver blended value based on the belief that it will mitigate the dysfunctional effects of profit maximizing behaviour. Entrepreneurs may fail to pursue blended value as a matter of ignorance (i.e., 'I didn't know that there were social or environmental gains to be had by pursuing blended value'), uncertainty (i.e., 'I wanted to pursue blended value, but I wasn't sure whether there were social or environmental gains to justify doing so'), or diverging interests (i.e., 'I was reasonably sure that there were social or environmental gains to pursuing blended value, but I didn't care', or 'I cared about my own short-term financial interests more'). However, even if we assume that profit-maximizing behaviour stems from an exclusive focus on short-term financial gain and that hybrid entrepreneurs overcome all three obstacles pursuing blended value to combat such tendencies, their actions are not guaranteed to eliminate or even reduce the dysfunctional effects of entrepreneurship because some of these dysfunctional effects are accepted and pursued as 'necessary evils' required to realize the beneficial effects of entrepreneurship. There appears to be a tentative consensus that the cause of *some* of entrepreneurship's dysfunctional effects result from too narrow a focus on short-term financial value as evidenced by efforts to use hybrid ventures to pursue blended value both within and outside of existing ventures. We accept and move forward with this tentative consensus to examine potential courses of action to remedy any dysfunctional effects that can be attributed to entrepreneurship.

CURE (TREATMENT)

Assuming that entrepreneurship has dysfunctional effects on individuals, families, communities, and society, and that some of these dysfunctional effects can be attributed to entrepreneurs' narrow focus on financial value, then what is the cure? To address these questions, we now examine the stases of conjecture, definition, and quality for the cure under investigation. Generally speaking, we ask, 'Can we encourage every entrepreneur to pursue blended value? If so, would entrepreneurs respond to this encouragement by actually pursuing blended value, and if they did, how much dysfunction would be reduced by this encouragement?' Specifically, we then ask, 'Can we require every new venture to be a hybrid organization? If so, would requiring every new venture to be a hybrid organization ensure pursuit of blended value, and if it did, how much dysfunction would be reduced as a result of this requirement?'

There are three primary mechanisms for enforcing blended value: self-regulation, social regulation, and governmental regulation. If the externalization of production costs is the focal problem, for example, it can be remedied by encouraging entrepreneurs to cease the activity. Cessation can be voluntary wherein the entrepreneur regulates his own activity, complying with the law, ethics, or norms of the community in which he operates, not for fear of social judgment but because he considers an activity immoral or inconsistent with his own personally-held values. Next, 'social regulation' can promote enforcement though pressure and encouragement from customers or stakeholders who have been affected by the entrepreneurial activity. Lastly, cessation can be encouraged through coercion, as is the case with governmental regulation, wherein the entrepreneur complies with the law for fear of the penalty associated with lack of compliance.

As shown in Table II, we distinguish between these three categories of regulation – self, social, and governmental – and examine their efficiency and effectiveness in curbing the dysfunctional effects associated with not pursuing blended value. Because these dysfunctional effects involve four different systems – individual, family, community, and society – the appropriateness of each form of regulation may vary depending on who is bearing these dysfunctional effects.

When Self-Regulation Encourages Pursuit of Blended Value

Self-regulation is the most efficient way to encourage entrepreneurs to internalize the externalities associated with entrepreneurial activity because it requires no external monitoring or enforcement costs. Whether self-regulation is an effective way to

Table II. Evaluating the efficiency and effectiveness of self-regulation, social regulation, and governmental regulation in encouraging entrepreneurs to pursue blended value

Bearer of Entrepreneurship's Dysfunctional Effects: Pursuit of Blended Value Enforced by:	*Individual*	*Family*	*Community*	*Society*
Self-Regulation **Primary mechanism**: Argument **Examples**: Values, beliefs, identity **Also known as (AKA)**: Moral exchange, voluntary action, other-regarding preferences	**Efficiency**: No monitoring or enforcement costs but still depends on accurate expectations of others' and own preferences **Effectiveness**: Depends on experiencing anticipated regret	**Efficiency**: Depends on imagined opportunity costs of damaging long-term relationships **Effectiveness**: Depends on experiencing love/guilt	**Efficiency**: Depends on degree to which entrepreneur identifies with community **Effectiveness**: Depends on experiencing responsibility	**Efficiency**: Depends on degree of consensus of societal value **Effectiveness**: Depends on experiencing a sense of duty
Social Regulation **Primary mechanism**: Negotiation **Examples**: Consumer preferences, stakeholder pressure, social approval **AKA**: Economic exchange, social exchange, contingent reward, conditioned behavior, transactional		**Efficiency**: Depends on the discontent and the significance of the other's interests to the entrepreneur **Effectiveness**: Depends on a family member having some degree of emotional bargaining power	**Efficiency**: Depends on the threat of the other's discontent - alone or in conjunction with others **Effectiveness**: Depends on a customer or direct stakeholder having some degree of economic bargaining power	**Efficiency**: Depends on transaction costs associated with indirect threat **Effectiveness**: Depends on external stakeholders' degree of indirect bargaining power
Governmental Regulation **Primary mechanism**: Coercion **Examples**: Fines, taxes, jail, duress, punishment, penalties, disincentives **AKA**: Force, compliance, regulative				**Efficiency**: Depends on entrepreneur's desire to resist compliance **Effectiveness**: Depends on social and financial willingness and ability to enforce the rule

discourage entrepreneurs from engaging in the creation of dysfunctional effects, however, is less clear. If ignorance is the problem, the likely policy solution is an awareness campaign communicating a compelling argument for adopting blended value. But, how efficient and effective is reliance on self-regulation to reduce these dysfunctional effects? The answer, we argue, depends on whether the entrepreneur, once aware of them, cares about these dysfunctional effects and the people who must bear them.

Once the entrepreneur escapes ignorance to become aware of the dysfunctional effects of entrepreneurial activity, she must decide whether to continue in her current course of action or to replace her narrow focus on financial value with a broader focus on blended value, which includes a more holistic concern for one's own psychological well-being and socio-emotional welfare. Indeed, one of the parties affected by these entrepreneurial activities is the entrepreneur herself. Among these possible effects are diminished health resulting from increases in stress or decreases in sleep or exercise. Another possible effect is a feeling of inauthenticity stemming from a perceived lack of integration of one's activities and values (Gagné and Deci, 2005); someone who values the environment is likely to suffer some degree of psychological discomfort if her entrepreneurial activities do not reflect these values (Burke, 1991; Cast and Burke, 2002).

Self-interest may be enough to motivate a broader focus on blended value if the entrepreneur sees the decision in a different light, perhaps as a result of a change in sensemaking (Hill and Levenhagen, 1995; Weick, 1995) or as a result of having others reframe the issue for the entrepreneur through a process of sensegiving (Gioia and Chittipeddi, 1991; Maitlis and Lawrence, 2007). For example, instead of seeing a loss of sleep as costless, an argument may emphasize the long-term health implications and tie those to something the entrepreneur cares deeply about, namely her ability to sustain the growth of the business that she is currently sacrificing her health to grow. Thus, if blended value requires a small sacrifice in short-term financial value for an improvement in short-term social value that, in turn, enables an improvement in long-term financial value, then even the most self-centred entrepreneur may be quick to delay immediate gratification for a larger future payoff. Likewise, if blended value requires a small sacrifice in financial value for the psychological benefits of feeling a sense of authenticity and integration at work, entrepreneurs might be expected to engage in that exchange and adopt blended value.

Entrepreneurial activities can also have dysfunctional effects on family, community, and society. As the entrepreneur contemplates whether to adopt blended value, she engages in an intrapersonal negotiation in which arguments for and against blended value are evaluated. Self-regulation is therefore more likely to be effective when the individual cares about those bearing the costs of the dysfunctional entrepreneurial activity. Moreover, the entrepreneur is likely to care more about those who are relationally closer (e.g., family members vs. strangers), presumably because of the increased opportunity costs implied by damaging long-term relationships and the empathy associated with closer relationships (McMullen, 2010, 2015; Miller et al., 2012). Thus, enlightened entrepreneurs who recognize their interdependence with others and their environment will experience moral dilemmas more frequently than self-centred narcissists. If blended value is capable of reducing dysfunctional effects for family, and if one cares about her family, then it is well within the enlightened self-interest of the entrepreneur to sacrifice some financial value for improvements in social value.

If an entrepreneur is informed about the dysfunctional effects of her activities but unwilling to reduce those effects through blended value, and if these dysfunctional effects have significant negative consequences for others, then self-regulation is likely to lose its luster amongst those who are bearing the dysfunctional effects of the entrepreneur's activity. Such instances may call for social regulation.

When Social Regulation Encourages Pursuit of Blended Value

Social regulation functions through negotiation as entrepreneurs respond to informal incentives by engaging in entrepreneurial activities that are contingently rewarded (financially, emotionally, etc.) and by avoiding entrepreneurial activities that are contingently punished (Pache and Santos, 2010, 2013). If customers do not like an entrepreneur's products or the way that they are produced, customers can choose not to purchase those products, thereby removing the positive incentive for the entrepreneurial activity and disrupting the positive feedback loop that was encouraging the entrepreneurial activity (Dean and McMullen, 2007; McMullen and Dimov, 2013). These feedback loops are not restricted to the economic sphere (Margolis and Walsh, 2003; Paine, 2003; Vogel, 2005). Through conflict or withdrawal, family members may offer disincentives for entrepreneurial activities that they believe are preventing entrepreneurs from meeting their familial responsibilities. Stakeholders and other third parties outside of the direct exchange relationship, but who are still affected by it, may also exert pressure on entrepreneurs by removing incentives or introducing disincentives to curb entrepreneurial activity in hope of reducing the entrepreneur's social influence (Waldron et al., 2012, 2015). For example, consider the gay community's recent attempts to discourage entrepreneurs from expressing dissenting opinions about gay marriage. By pressuring A&E Network to drop Duck Dynasty (after Phil Robertson's interview in which he expressed Biblical views on marriage) and by pressuring politicians to disallow Chick-fil-A from operating in their cities (for similar reasons), proponents of gay marriage then encountered a backlash coalition of antagonists against gay marriage acting in the name of freedom of religion and freedom of speech. Entrepreneurial activity became the pawn in this game of chess, played largely by parties who were neither producers nor consumers of the goods and services offered by either the Robertson family or Chick-fil-A.

In some cases social regulation may be viewed as a more appropriate policy solution than self-regulation for encouraging entrepreneurs to pursue blended value. What it gains in effectiveness, however, may or may not be offset by losses in efficiency. Social regulation is arguably less efficient than self-regulation because it tends to be corrective rather than preventive, curbing behaviour from repeating after it has already occurred. Therefore, if an entrepreneur has reliable information that his activities will affect another adversely and that those effects could be diminished without damaging financial value, then self-regulation may be more efficient than social regulation in encouraging blended value because it would prevent individuals, families, communities, or society from having to experience unnecessary damages. As the adage goes, an ounce of prevention is worth a pound of cure. This improvement in efficiency, however, depends on the accuracy of the information used by the entrepreneur in deciding whether to pursue blended value. If these hypothetical costs are inaccurate, then the entrepreneur could be needlessly sacrificing financial value based on false expectations about the dysfunctional effects of his behaviour on others. In such a scenario, financial value would have been sacrificed for no gain in social value, and self-regulation based on these hypothetical damages would have been inefficient.

Scenarios like the aforementioned suggest that social regulation's effectiveness may have efficiency advantages over self-regulation in circumstances where dysfunctional effects are difficult to predict, such as when the activity that the entrepreneur is contemplating is high in novelty. As novelty increases, historical data becomes less useful in predicting the costs and benefits associated with a particular activity (McMullen, 2010). This makes it difficult to form accurate expectations and increases the likelihood that intended consequences will be accompanied by an increase in unintended consequences (Merton, 1936; MacKay and Chia, 2012). Unlike the hypothetical scenarios of the entrepreneur's imagination that were used to inform self-regulation, unintended consequences are perceived by others, and if significant, are likely to invoke a response by others, triggering the need for entrepreneurs to negotiate with family members, customers, or stakeholders (Lawrence et al., 2001).

Related to the preventive vs. corrective distinction that makes social regulation more effective but less efficient than self-regulation is the notion of accountability. Under self-regulation the entrepreneur holds himself accountable by choosing to avoid possible dysfunctional effects that his pursuit of financial value could have on others in the hope that bearing higher private financial costs will yield greater blended value. Because this judgment is informed by hypothetical costs, it is highly susceptible to inaccuracy (McMullen, 2015). Not only are entrepreneurs unlikely to avoid self-serving bias when estimating these costs, they are unlikely to know others' interests better than those others know their own interests. Because the value of the products and services that entrepreneurs create is subjective (Menger, 1950), even if the entrepreneur correctly anticipates the real costs of his actions on others, he may still misestimate the costs that these stakeholders perceive, and it is *perceived* costs that drive consumer choices and stakeholders' actions.

With this subjective notion of value in mind, the divide between financial value and blended value is unlikely to be as large as it is often portrayed to be. Competitive markets encourage accountability as customers and stakeholders vote with their dollars (Mises, 1972), choosing to replace unresponsive incumbent firms with more responsive new ventures. However, this logic fails to account for the increasing distance between actions and perceived consequences enabled by globalization (Bhagwati, 2007). As a result, fraudulent or negligent behaviour can happen for some time before saturating the system with enough negative feedback to trigger awareness of the need to correct the dysfunctional behaviour. In addition, these dysfunctional effects can be dispersed over many stakeholders, encouraging dysfunctional effects to persist longer than they would otherwise because potentially high transaction costs for the inflicted parties may preclude attempts at corrective action unless supported by some institutional mechanism (e.g., class action lawsuits) facilitating collective action. By enlarging both strategic factor and consumer goods markets, globalization slows the saturation of the price system with feedback about dysfunctional entrepreneurial activities. However, parties outside the producer-consumer exchange (e.g., the media, conscientious citizens) may disclose these dysfunctions – e.g., sweat shops in Vietnam, computer dumping in China, etc. – via the internet, thereby disseminating information and facilitating social regulation (Battilana and Dorado, 2010; Boyd et al., 2009). Still, such information only leads to social regulation of entrepreneurial activities if customers use it in their decision-making calculus.

When customers hold producers accountable such that producers respond accordingly, customers effectively encourage producers to internalize the externality. Such instances effectively transform concepts of blended value into financial value (e.g., dolphin-safe tuna, living wage promises, fair trade certification, etc.). This suggests that the pursuit of hybrid value may be equivalent to the pursuit of financial value when producers correctly infer emerging consumer preferences by anticipating changes in consumer values. Along these lines, entrepreneurship itself can be thought of as an institution that exists to ensure that the price system internalizes externalities caused by unresponsive incumbents (e.g., Buchanan and Faith, 1981; Dean and McMullen, 2002, 2007; Santos, 2012). Some incumbent firms may, however, wield enough market power to retain the business of dissatisfied customers while ignoring the complaints of disgruntled employees or growing disapproval of the public. Entrepreneurship can reform such market conditions by liberating customers from having to settle for product solutions that are no longer optimal (Companys and McMullen, 2007; Rindova et al., 2009). When entrepreneurship is perceived as a legitimate threat to incumbents, it continually staves off complacency, prompting incumbents to focus more on serving customers' interests and less on serving their own (McMullen, 2010, 2011).

Unlike corporate managers, entrepreneurs tend to be both agent (manager) and principal (majority shareholder). Although this arrangement is likely to reduce agency problems from the perspective of the majority shareholder, it could raise ethical issues involving other claimants, such as employees who join the hybrid organization based on the expectation that the owners are going to sacrifice some shareholder wealth maximization for the benefit of labour (see for example the controversy over the sale of Hershey's to non-family members [Savitz, 2013]) or a particular cause (see for example charges of greenwashing against Anita Roddick for selling The Body Shop to L'Oreal). Conversely, limited partners may expect wealth maximization but have those expectations violated by a majority shareholder entrepreneur-manager with competing interests. Indeed, the purpose of the new venture can vary substantially based on the number of stakeholders involved, such that an entrepreneur may create a sole proprietorship or partnership as an instrument to advance his or her personal interests (at another's expense in some cases). These interests may conflict with wealth maximization, such as in the case of family firms created to ensure the socio-emotional wealth of the family (Gomez-Mejia et al., 2007) or lifestyle businesses created to provide the founder intrinsic motivation or autonomy in income generating activities that he finds interesting (McMullen and Warnick, 2015). Thus, customers, employees, and other investors may not always hold the entrepreneur accountable, but this does not mean that blended value cannot still be encouraged. There is at least one more way in which stakeholders and third party activists have recourse: they may cry out for governmental regulation.

When Governmental Regulation Encourages Pursuit of Blended Value

The least efficient but potentially most effective way to encourage the pursuit of blended value is through governmental regulation. Where self-regulation operates through intrapersonal argument and social regulation functions through interpersonal negotiation, governmental regulation encourages the pursuit of blended value through impersonal coercion. As a third-party arbitrator, government creates and enforces rules that govern transactions (North, 1990). The creation and enforcement of these rules can be impartial and objective, as tends to be the case under the rule of law, or it can be partial, as is often true of systems characterized by the rule of man or rule of force (Rodrik, 2007). If partial, rules can be advantageous or disadvantageous to the parties involved, directing exchange in ways that either encourage or discourage investment and economic growth (Baumol, 2002). As entrepreneurship theory has long suggested (Schumpeter, 1934), and institutional entrepreneurship has recently emphasized (Pacheco et al., 2010), entrepreneurs can (and do) alter the rules of the game, occasionally on behalf of others (McMullen, 2011) but more often in their own favour (Smith, 1776).

Entrepreneurs can also enter into formal contracts voluntarily, contracts whose enforcement is made possible by the rule of law and an efficient legal system or create informal agreements (e.g., gentlemen's agreements, adoption of professional standards, or involvement in trade associations) and may even prefer them to formal contracts when operating in contexts characterized by personal exchanges as opposed to arm's length transactions (Zacharakis et al., 2007). As institutional economists have shown, trust may be more efficient at the individual, organizational, and local community level (Vogel, 2005), but less efficient at the societal level (North, 1990), precluding exchange with strangers and contributing to opportunity costs (McMullen, 2011). Recourse for violations of informal agreements may differ from violations of the law or breaches in formal contracts such that peer pressure as opposed to legal action becomes the modus operandi, but typically third parties are involved to ensure compliance just the same.

Analysis of the blended value perspective requires a closer consideration of ethical customs. Ethical customs tend to be tied closely to the objective function of the organization as perceived by those who provide it with the resources it needs. Some argue that the sole responsibility of the firm is to maximize shareholder wealth (Friedman, 1970) and that it is up to society to address social causes (McWilliams and Siegel, 2001). According to this view, behaviour tends to be considered ethical if it is consistent with the law, which specifies the order with which claims will be paid. To the extent that all parties involved are aware of and expect this arrangement, and the market is efficient, then efficient behaviour that is legal is considered ethical behaviour and inefficient behaviour (even if legal) is considered unethical (Primeaux and Stieber, 1994).

New ventures, however, often operate in markets that are anything but efficient. Ethical customs constitute a matrix of prescriptions and proscriptions by which economic efficiency is sought and as informal institutions they are often more influential than formal institutions such as the law (North, 1990). Entrepreneurs often seek to create new value under conditions of uncertainty (McMullen and Shepherd, 2006) in which competing frames of reference are used to interpret and value information (Barreto, 2012; McMullen et al., 2008). As a result, conflicting ethical frameworks can emerge giving rise to social expectations with which entrepreneurs are expected to comply even when those expectations conflict and are not yet law.

Together these observations suggest that coercion via law or ethical standards can be effective at encouraging entrepreneurs to pursue blended value, but that reliance on governmental regulation is likely to be highly inefficient when compared to self-regulation and social regulation. Worse yet, governmental regulation is notoriously reactionary. It encourages entrepreneurs to respond to existing rules rather than anticipate future rules, and those rules are likely to be created and enforced by government only after damage to a firm's stakeholders, reputation, or performance has already occurred. Thus, our analysis of the stasis of quality suggests that blended value is unlikely to be costless; instead, it appears to consume already limited resources such that its pursuit is likely to require that entrepreneurs bear private costs. The nature of the obstacle obstructing blended value largely determines the nature of these private costs, the amount of encouragement needed for entrepreneurs to pursue blended value, the type of regulation (self, social, or governmental) that is likely to be effective and efficient, and the societal costs associated with the regulation used to encourage pursuit of blended value. Now that we have established a basis of agreement with regard to the facts, definition, and quality of entrepreneurship's symptoms, causes, and treatments, we can progress to the final topos of cost to evaluate the focal policy claim relative to alternatives.

COST (EFFECTS VS. SIDE EFFECTS)

Assuming (1) that entrepreneurship has dysfunctional effects on individuals, families, communities, and society, (2) that these dysfunctional effects are because of a neglect of social and environmental value resulting from entrepreneurs' narrow focus on financial value, and (3) that we can encourage every entrepreneur to pursue blended value, then a number of cost-related questions emerge:

- If no change is made, what are the expected costs of this neglect to individuals, families, communities, and/or society?
- If blended value is emphasized, what are the expected costs to individuals, families, communities, and/or society? Are the expected societal costs of blended value less than the expected societal costs of inaction?
- If the expected societal costs of blended value are less than the expected societal costs of inaction but the expected private costs of blended value are more than the expected private costs of inaction, then what policy solutions are available to encourage entrepreneurs to pursue blended value? What are the expected costs of governance associated with each of these policy solutions?
- What are the intended consequences of adopting one policy solution over another? What might some of the unintended consequences of such a choice be? How confident should policy-makers be to warrant a legal mandate of blended value?

We begin by examining the stases of conjecture, definition, and quality for the costs of treatment under investigation. Hence, we ask, 'What would a policy that requires every new venture to be a hybrid organization cost society? Are the reduced costs of dysfunction and the increased costs from creating and enforcing the policy real costs that can be compared? Are the reduced costs of dysfunction worth the increased costs from creating and enforcing the policy?'

To clarify the challenge before policy-makers, consider a medical metaphor. Upon becoming aware of certain symptoms, a patient may seek a doctor's counsel. The questions articulated above ask: How painful are the symptoms?; are the symptoms likely to get better or worse if left untreated?; what is the cause of these symptoms?; what possible treatments are available for the symptoms and/or their cause?; what are the costs and side effects of each possible treatment?; and, are the consequences of the possible treatments worse than the symptoms likely to be experienced if left untreated? In this instance, blended value is the treatment that allegedly reduces the dysfunctional effects of entrepreneurship (symptoms) presumably resulting from an overemphasis of financial value (cause). Additional questions emerge regarding who should regulate this administration and the relative costs of each solution. That is, should enforcement of blended value be a matter of self-regulation, social regulation, or governmental regulation? Is the social benefit of having entrepreneurs seize these environmental and social gains worth the social costs of creating and enforcing public policy, be it a relatively inexpensive public service announcement or a more expensive option, such as a strictly enforced law? Arguably, no policy is costless, especially one involving governmental action. Even if a policy prevents failure to seize social and environmental gains that could have been achieved without financial expense, there are other private and societal costs likely to be associated with coercive remedies. Prominent amongst these is attention.

Organizational attention is a limited resource (Ocasio, 1997; Simon, 1965) such that greater allocation of it to social and environmental objectives is likely to come at the expense of the entrepreneur's focus on the firm's financial objectives (Gifford, 1992). Consequently, hybrid organizations voluntarily seeking to create blended value may experience a competitive disadvantage to their more focused counterparts who are seeking to create economic or social value exclusively through a business or charity, respectively. Businesses focus their limited attention on meeting the ever-changing demands of customers and, to a lesser extent, investors (Haigh and Hoffman, 2012); charities focus their limited attention primarily on meeting the ever-changing needs of beneficiaries and, to a lesser extent, donors (Glaeser and Shleifer, 2001). In contrast, hybrid organizations serve beneficiaries, customers, investors, and donors and must allocate limited organizational attention to each of these stakeholders.

The inability to specialize as a business or a charity could prevent hybrid organizations from enjoying the surplus that comes from the specialization (and the focused allocation of attention) made possible from a division of labour. This surplus has historically facilitated innovation and the creation of new knowledge that enables economic growth (Diamond, 1997; Nohria and Gulati, 1996). Some have suggested that businesses or 'hierarchies' within companies can be established to reduce transaction costs, thereby reducing the need for expensive contracting among parties (Williamson, 1975). This solution, however, is likely to come at the expense of greater specialization that could have been obtained from a market solution to the problem, such that the price of this reduction in transaction costs is an increase in opportunity costs or 'specialization costs' borne by society (Alchian and Demsetz, 1972; Demsetz, 1988). Blended value extends this concern. By reducing many social and environmental costs of entrepreneurial activity in the short-run, blended value could contribute significantly to long-run losses in economic, social, and environmental benefits that could have been possible in a society of greater organizational specialization.

Thus, acknowledging the importance of ethical management is different from embracing an explicit mandate that all entrepreneurs seek blended value in their attempts to create value. The emergence of distinctly economic organizations and distinctly social organizations may be indicative of a more sophisticated and evolved ecosystem than one whose socio-economic landscape is dotted with organizations seeking to be all things to all people. It is entirely possible that the societal shortcomings of purely economic organizations or the economic shortcomings of purely social organizations are less in their totality than their aggregate costs would be in a society full of hybrid organizations that perform better on their auxiliary dimension of value creation but, as a result, bear greater costs and inefficiencies on their primary dimension of value creation. Thus, we too share enthusiasm for the possibilities of creating blended value through hybrid organizations (see for example, Dean and McMullen, 2007; Grimes et al., 2013; McMullen, 2011; Miller et al., 2012), but as yet one more dimension of an increasingly complex socio-economic ecosystem, as opposed to a reformation of capitalism and its landscape of more specialized organizational types.

CONCLUSION

We began this essay by asking whether every new venture should be required to be a hybrid organization. If entrepreneurship has dysfunctional effects that are caused by entrepreneurs' failure to pursue blended value and if Emerson is correct in claiming that blended value does not require tradeoffs among social, environmental, and financial value, then requiring every new venture to be a hybrid organization would be an inexpensive way for society to encourage entrepreneurs to pursue blended value, diminishing or even eradicating entrepreneurship's dysfunctional effects on individuals, families, communities, and society. Public support of such a conclusion would likely encourage calls for governmental regulation that policy-makers would gladly heed. Such calls and responses might even be justified *if the conclusion and the arguments upon which this conclusion rests were sound*. However, as pictured in Figure 2, our examination of the facts, causes, and costs of entrepreneurship's dysfunctional effects suggest that consensus about the stases of conjecture, definition, and quality is lacking. Such dissension amplifies with each assumption made as one progresses through the stases, attenuating consensus if not confidence in conclusions reached. Because policy resolutions are conclusions reached at the end of a long chain of logic, they are highly susceptible to such attenuation. Thus, it is probably wise to approach any policy resolution that promotes coercion with a healthy dose of skepticism.

First, although there is consensus that entrepreneurship has dysfunctional effects on individuals, families, communities, and society, these effects are unlikely to be negative externalities caused by a failure to pursue blended value and more likely to be inevitable and inextricable outcomes of an innovation process, without which entrepreneurs cannot create new value for society. Secondly, for any dysfunctional effects that have indeed resulted from entrepreneurial failure to pursue blended value, there is no consensus that these effects are the result of entrepreneurs overestimating the costs of blended value. It

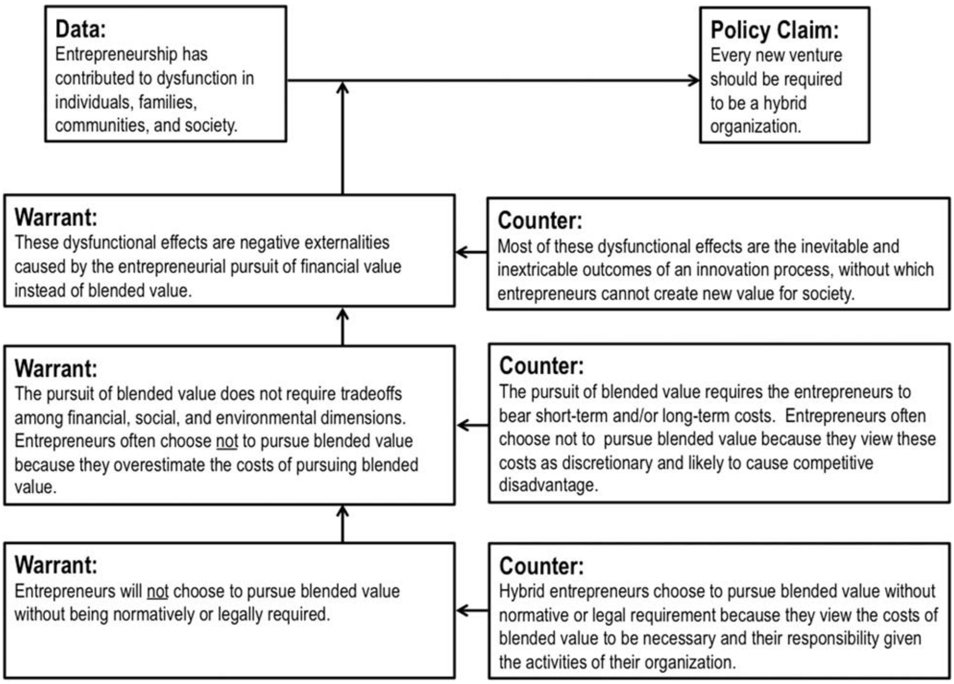

Figure 2. Counter claims to a blended-value-based policy claim that every new venture should be required to be a hybrid organization

is more likely that blended value is costly, requiring a short-term (if not long-term) trade-off that conventional entrepreneurs consider to be an unnecessary expense and source of competitive disadvantage. Finally, even for entrepreneurs who do indeed overestimate the costs of blended value, some still pursue blended value without being normatively or legally required to do so. For instance, hybrid entrepreneurs acknowledge that there will be short-term and possibly even long-term private costs associated with pursuing blended value, but they still choose, without normative or legal requirements, to create hybrid organizations because they view the costs of blended value to be their responsibility given their organization's activities.

Together, these refutations reveal that, despite consensus that entrepreneurship has dysfunctional effects on individuals, families, communities, and society, there is little-to-no support for the policy claim that every new venture should be required to be a hybrid organization. As demonstrated in this article, each link in the chain of logic, so frequently used to argue for blended value, is tenuous and easily challenged, calling such a policy claim into question. Though hypothetical, this policy claim was by no means some fantastic stretch of the imagination used as a 'straw man' to knock down. It is a conclusion that rests on arguments that proponents of blended value have explicitly made and have frequently used to critique mainstream business. These proponents of blended value suggest that the socio-emotional and environmental pain of growth and change are the unnecessary results of a fixation on financial value and that the material benefits of innovation could be enjoyed without this pain, if only there were some way to encourage entrepreneurs to broaden their focus and pursuits. Unfortunately, such encouragement has the potential to devolve rapidly into coercion when calls for moderation go unheeded, when 'fixation' and 'focus' are relabelled 'obsession' and 'greed', and when politicians believe they can offer simple, one-size-fits-all solutions to complex, painful problems.

To the extent that blended value encourages entrepreneurs to consider dimensions of value beyond immediate financial rewards, it is a difficult concept to argue against. If there were no private costs to blended value, or if there was net benefit of blended value when the effects of entrepreneurship across various levels of analysis were taken into account, then blended should indeed be enthusiastically encouraged. Indeed, if blended value were an unequivocally good thing, a premise often advanced by hybrid entrepreneurs, then proponents of blended value could be expected to argue that there should be no hesitancy supporting a law mandating that every business be a B Corp, certified by the government as opposed to a private association. Our analysis, however, suggests that there are good reasons to question the assertions that the pursuit of blended value is an unequivocally good thing, that hybrid organizations are not without their own unique costs, and that governmental regulation should be the default policy it is often assumed to be.

Even the best of intentions are subject to inaccurate expectations, unintended consequences when implemented, and mistaken inferences concerning others' preferences. Just as ethics and institutions overlay efficiency concerns when making judgments about what is and is not an appropriate decision or action, blended value is likely to play a moderating role in preventing attention and action from being too narrow and short-sighted. However, a guideline that is selectively applied when deemed appropriate by entrepreneurs or their stakeholders is quite different from a law that is injudiciously applied to all organizations and expensively enforced by the state. Whether requiring new ventures to register as B Corps or requiring existing firms to become certified B Corps, a one-size-fits-all approach to preventing the potential for negative externalities could undermine the specialization that has been a hallmark of capitalism and a key mechanism behind its creation of unprecedented material benefits.

There is a crucial difference between encouraging someone to make a choice through persuasive argument vs. forcing them to comply through coercion. Although encouraging individuals to curb their unadulterated pursuit of financial return in order to mitigate social and environmental risk may be prudent advice, legally requiring them to do so is likely to reduce or deny the very decision-making discretion that enables entrepreneurs to fulfill their critical role as institutional agents who ensure both allocative and adaptive efficiency (Moran and Ghoshal, 1999). Without this discretion, entrepreneurial capitalism may indeed be less extreme, but at what cost? As Thomas Jefferson pointed out, 'A society that will trade a little liberty for a little order will lose both, and deserve neither'. Thus, we encourage policy-makers to consider blended value carefully and in context when contemplating the societal effects of entrepreneurship, whether it occurs in new or existing organizations. This is not to say that coercion is never justified, only that governmental regulation, like all force, should be a last resort, exercised only with good measure, and always limited to what is absolutely necessary without an ounce more.

NOTES

[1] To avoid confusion with the social dimension of blended value, we employ the term '"societal"' instead of '"social"' when distinguishing Coasian (1960) notions of '"social cost/wealth"' from '"private cost/wealth'."

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