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Perceived Institutional Ambiguity and the Choice of Organizational Form in Social Entrepreneurial Ventures

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Social entrepreneurship (SE) is emerging as a common approach to meeting social needs. However, SE founders appear to be organizing under both for-profit and nonprofit organizational forms to engage in essentially the same activities. We investigate this lack of consistency regarding the choice of organizational form by examining two possible explanations: a difference in motivational goals among social entrepreneurs or perceived ambiguity regarding trends in core dimensions of the institutional environment. Overall, we argue that founder perceptions of an ambiguous institutional environment are leading to the variance in choice of organizational form for SE ventures. Both theoretical and practical directions for future research are discussed as well.

Introduction

Social entrepreneurship (SE) is emerging as an increasingly common approach to meeting social and economic needs. While governments and nonprofit organizations have long organized to meet specific human societal ills, hybrid entities (i.e., SE ventures) have emerged in recent years combining elements of a for-profit focus on efficient use of economic resources with a nonprofit focus on social value creation (Austin, Stevenson, & Wei-Skillern, 2006). This dual focus on concurrent economic and social value creation has been termed by some as the "double bottom-line" (Dees, 1998).

One of the interesting aspects regarding the emergence of SE ventures is that some founders choose to organize under a for-profit organizational form while others organize under a nonprofit form, even though they are engaged in essentially the same functional activities (cf. Fukuyama, 1999). This lack of consistency regarding organizational form selection begs the question: Considering the important institutional differences between

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for-profit and nonprofit organizational forms, why do social entrepreneurs select one form over the other?[1] There are two possible answers to this question. First, it may be that the social and/or economic motivations of the social entrepreneur play a decisive role in the choice of organizational form (cf. Katz & Gartner, 1988). For example, those individuals with stronger social relative to economic goals would be more likely to organize with a nonprofit status. Likewise, those social entrepreneurs with a stronger focus on the economic goals of the venture might be more likely to choose a for-profit organizational form. However, Dees (1998) suggests that social entrepreneurs are typically motivated by concurrent economic and social goals. If that is the case, their internal "motivation" would not direct them towards either organizational form choice since both the economic and social motivational goals would likely be equally important. We argue that in such cases there is a second possible answer to why social entrepreneurs select one form over the other.

In the absence of a dominant internal motivation, the entrepreneur's dual focus elevates the importance of the institutional environment in determining the choice between organizational forms (cf. Sine, Haveman, & Tolbert, 2005). The choice then is contingent upon the specific norms the entrepreneur perceives in the institutional environment related to resource acquisition, stakeholder alignment, and legitimacy attainment (Baum & Oliver, 1991). The challenge, however, is that the current institutional environment surrounding the emergence of nascent SE ventures is ambiguous, characterized by conflicting social norms (e.g., Newman, 2000). So while received theory typically assumes social institutions reduce uncertainty for decision-makers (DiMaggio, 1997; DiMaggio & Powell, 1983; Meyer & Rowan, 1977), for social entrepreneurs forming new ventures, conflicting institutional norms may actually increase the perceived ambiguity in the choice of organizational form.

Thus, the purpose of this article is to examine how the influence of an entrepreneur's perception of ambiguous institutional factors (e.g., resource acquisition, stakeholder alignment, and legitimacy) at the time of venture founding affects this choice of organizational form. By examining perceptions of this ambiguity, we seek to provide a theoretical rationale as to why entrepreneurs elect to organize under one organizational form instead of the other.

To examine these issues, this article is organized in the following manner. First, we define and discuss institutional ambiguity and its relevance to the choice of organizational form in nascent SE ventures. Then, we present our theoretical model and offer propositions explaining the various determinants of the organizational form choice. Finally, we discuss the implications of our model and offer several directions for future SE research. Overall, the goal of this article is to conceptually examine how an entrepreneur's perception of critical dimensions of the institutional environment (e.g., resource acquisition, stakeholder alignment, and legitimacy attainment) shapes subsequent choices during the start-up phase.

Institutional Ambiguity and Social Entrepreneurship

According to institutional theorists, a critical function of institutions is to reduce cognitive uncertainty by providing socially rationalized rules for action (DiMaggio &

1. We do recognize that a growing convergence between nonprofit and for-profit sectors (particularly in the United States) likely contributes to variance in the choice between alternative organizational forms (e.g., Foster & Bradach, 2005; Fukuyama, 1999). It is our contention that it is precisely trends like this institutional convergence that create ambiguity in an entrepreneur's mind regarding the choice of organizational form.

Powell, 1983; Haveman, 1993; Meyer & Rowan, 1977; Scott, 2002). Tight coupling between organizations with institutional environments is thought to enhance organizational survival prospects as engaged communities, influential stakeholders, and resource providers offer critical legitimacy, support, and resources (Baum & Oliver, 1991; Singh, Tucker, & House, 1986). These linkages are especially important for nascent organizations, especially where new technologies or organizational forms are introduced (Aldrich & Fiol, 1994; Sine et al., 2005; Singh et al., 1986; Stinchcombe, 1965).

Early views in institutional theory also distinguished between institutions as static artifacts of the external environment and the process of institutionalization as "the processes by which social processes, obligations, or actualities come to take on a rulelike status in social thought and action" (Meyer & Rowan, 1977, p. 341). Over the long run, prior longitudinal research demonstrates that institutions and organizations tend to coevolve in predictable fashion as organizational actors strive to ensure survival by following prescribed rules for action (Haveman & Rao, 1997). In the short run, however, institutionalization processes are not always predictable, orderly affairs, as new values and norms strive to supplant traditional modes of organization and action (cf. Newman, 2000).

Under these conditions, in the short run, institutionalization processes may actually increase environmental uncertainty as conflicting social values and norms create ambiguity in the entrepreneur's mind as to the appropriate course of action (cf. Newman, 2000; Okun, 1980). For entrepreneurs attempting to concurrently balance aspirations of success with avoidance of failure (e.g., March, 1988), institutions become less determinate because individual social "norms" simply cannot be taken for granted. Here, decisions would likely develop in accordance with the entrepreneur's expectations regarding the appropriate course of action given perceived trends in the institutional environment.[2] So, while mimesis (e.g., copying other firms) may play a localized role in individual decision making, in the short run, considerable variance can be observed across broad populations of SE ventures. It is our central thesis that perceived institutional ambiguity stemming from the lack of normative agreement over the appropriateness of trying to concurrently create social and economic value accounts for a significant portion of the variance in the choice of organizational form in SE ventures.

In the following section, we link this concept of institutional ambiguity with specific elements of the institutional environment (e.g., stakeholder alignment, resource acquisition, and legitimacy attainment; Baum & Oliver, 1991). Specifically, we discuss how trends in each dimension of the institutional environment may influence an entrepreneur's perceptions regarding the appropriate organizational form. To this point, we offer propositions specifying theoretical links among these variables shaping the choice of organizational form in SE ventures.

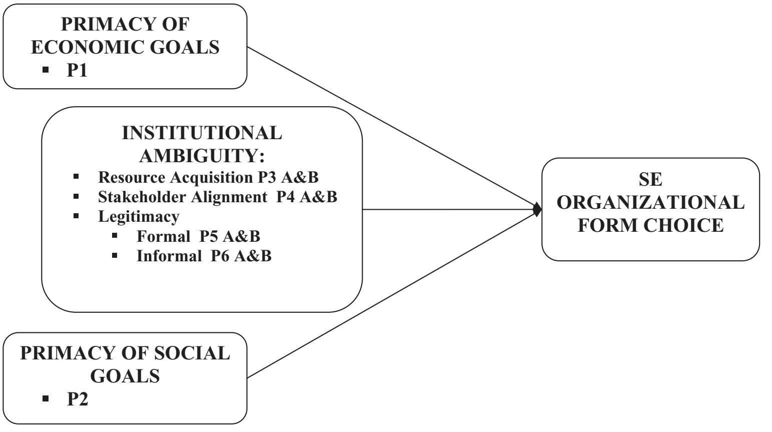
Theoretical Model of Organizational Form Choice

Thus far we have argued that aside from a definitive internal motivation, perceptions regarding the ambiguity of the institutional environment specific to stakeholder alignment,

2. This decision context also suggests an important boundary condition for current entrepreneurship theory. For effectual entrepreneurs (e.g., Sarasvathy, 2001), the cognitive flexibility associated with effectual reasoning processes are substantively limited after this critical organizing decision, as the tax exemption decision largely commits a firm to the chosen course of action. This does not, however, imply that entrepreneurs engaged in the start-up process described here would not engage critical constituencies in a predecision dialogue to determine the appropriate course of action.

Figure 1

Theoretical Model of Organizational Form Choice



resource acquisition, and legitimacy attainment substantially influence the social entrepreneur's choice of organizational form. As Figure 1 illustrates, our theoretical model links both the social entrepreneur's economic/social goals and assessment of the institutional environment as potential determinants of the choice of organizational form (nonprofit versus for-profit). However, depending on the relative values of an entrepreneur's social and economic motivations, the institutional environment may take on a greater or lesser role in determining the choice of organizational form, as we next explore.

Economic Goals

As we introduced earlier, we expect an entrepreneur with a dominant economic motivation to form a for-profit firm. The question then becomes whether an entrepreneur with a *truly* dominant economic motivation would form an SE firm at all. Rather, it would seem that the primacy of the economic agenda would encourage such an entrepreneur to create a firm with a sole mission to generate appropriable profits. Social value creation in such a scenario would likely play a secondary—if any—role to the central economic goals. At this point, social entrepreneurship would not be an accurate functional description of the firm as the entrepreneur is likely pursuing traditional entrepreneurial activities (e.g., profit).

Social Goals

Regarding the social mission of SE firms, although the substance of the motivational goals differs in important ways from profit maximization, a central goal of the social entrepreneur is still to *maximize* public welfare (or "social value"; cf. Austin et al., 2006). Social value maximization as a motivational goal implies the social entrepreneur attempts to maximize the social welfare of others without diminishing any individual's utility (e.g., Leontief, 1966; Sen, 1979). In contrast to those with strong economic goals, we expect entrepreneurs with dominant social goals to form a nonprofit venture. The question still remains, however, if the central goal of the entrepreneur is to only maximize social value then perhaps the emerging firm may be functionally different from an SE venture. Thus, in cases where the entrepreneur is primarily motivated by either economic or social goals, such goals are likely determinative of both the form and function of the emerging venture. To this point, we would expect ventures created by entrepreneurs with dominant economic or social goals to create a firm functionally different than an SE venture with a double bottom-line.

Formally,

Proposition 1: There is a positive relationship between the goal of maximizing economic profits and the decision to organize under a for-profit organizational form where the economic goals of the entrepreneur hold primacy over the social goals.

Proposition 2: There is a positive relationship between the goal of maximizing social value and the decision to organize under a nonprofit organizational form where the social goals of the entrepreneur hold primacy over the economic goals.

Dual Focus

However, as quadrant one of Figure 2 suggests, social entrepreneurs with a double bottom-line focus likely possess complementary goals to concurrently maximize economic and social value. It is our central thesis that these complementary goals raise the importance of the institutional environment for determining the social entrepreneur's decision process since neither motivational goal remains dominant.

In addition, as the model's null proposition, we assume that if neither economic nor social goals are important, then no SE venture will be created. In all other cases, these motivational influences play an important role in the choice of organizational form. It is those cases that we find particularly interesting and comprise the focus of this research—those cases where economic and social goals are of equally high importance. Therefore, as we will discuss in the following sections, the lack of a predominant internal motivational determinant elevates the relative importance of an entrepreneur's perceptions regarding the institutional environment to the choice of organizational form.

Figure 2

Motivational Goals and the Choice of Organizational Form

		ECONOMIC GOALS	
		HIGH	LOW
SOCIAL GOALS	HIGH	NONPROFIT/FOR-PROFIT ORGANIZATIONAL FORM "INSTITUTIONAL AMBIGUITY"	NONPROFIT ORGANIZATIONAL FORM
	LOW	FOR-PROFIT ORGANIZATIONAL FORM	NO FIRM CREATED

As we mentioned earlier, a core function of institutions is to provide socially rationalized rules for action (e.g., social norms—Meyer & Rowan, 1977). For nascent organizations, these institutionalized social norms are thought to primarily exert their effects through three core dimensions of the organization's institutional environment: stakeholder alignment, resource acquisition, and legitimacy attainment (Baum & Oliver, 1991). Specifically, as we will discuss later, competing social norms related to both economic and social value creation may affect whether key stakeholders buy into the intended mission of the firm thereby shaping the level of support provided. Also, these competing social norms may affect the ability of social entrepreneurs to acquire necessary resources as key resource providers may favor one mission (e.g., social versus economic) over the other. Or, this normative conflict may affect whether tacit approval for the organization's dual mission is informally and/or formally granted by society at large. Overall, as prior research indicates, these core dimensions of the institutional environment are critical for social entrepreneurs to focus on as they are the primary channels through which the institutional environment shapes the survival prospects of nascent organizations (Baum & Oliver, 1991).

Stakeholder Alignment

Consistent with Gimeno, Folta, Cooper, and Woo (1997) who examine performance thresholds, the alignment of stakeholders in SE ventures regarding the concurrent creation of social and economic value is critical to the survival and future growth of the firm. Stakeholders, those groups of parties that are affected by, and themselves affect firms, are gaining an increasingly important role in management theory and practice (Freeman, 1984).

Assuming that there are benefits to be derived from proper management of a firm's stakeholders (Donaldson & Preston, 1995), before such benefits can be derived, stakeholders must fundamentally buy into the double bottom-line concept of the firm. However, some stakeholders may question whether the "double bottom-line" focus is truly feasible given potentially competing goals for the use of generated profits. To this point Eikenberry and Kluver write:

> Because of their inherent value, it is extremely important for non-profit organizations to focus upon their organizational missions. Yet, organizational mission is threatened when for-profit partnerships, the generation of commercial revenue, and social entrepreneurship activities emphasize profit at the expense of a non-profit organization's mission . . . with increased involvement in for-profit partnerships, non-profit organizations have a difficult time preserving their organizational mission while fulfilling the demands of corporate stakeholders (2004, p. 136).

While some would disagree with their characterization of the for-profit sector, their article does once again confirm the point that stakeholder alignment in SE ventures is a challenging task and critical for firm survival and future growth. Given the functional mission of the firm, it is likely that some stakeholders would prefer a nonprofit form while others would prefer a for-profit form for reasons discussed later.

For stakeholders becoming involved with nonprofit SE ventures, stakeholder alignment with the double bottom-line concept is critical since the firm will have to divert some of its energy that would otherwise be used towards pursuing the social goals of the firm towards generating sufficient resources to be self-sustaining. While external stakeholders do receive some tangential benefits from their support of nonprofit organizations (e.g., tax deductions, publicity, intrinsic rewards), they are generally disallowed from directly financially benefiting from the organization as a whole.

In the United States, the Internal Revenue Service (IRS) has created numerous categories and qualifications under which organizations can apply for federal tax-exempt status (26 United States Code Section 501 *et seq.*). One of the common qualifications of nonprofit organizations stipulated by the IRS is that the net earnings of the organization are not allowed to be appropriated by private parties. This discourages individuals and organizations from contributing resources to a nonprofit (and receiving tax deductions in turn) and then seeking to privately benefit from the resources that are ostensibly to be used for the benefit of the public. Globally, researchers at the Johns Hopkins Comparative Nonprofit Sector Project, a leading research consortium on the nonprofit sector, note that this same policy regarding the nondistribution of residual profits, by informal convention or formal legal requirement, is consistent across the 40 countries currently covered by project researchers (Salamon, Sokolowski, & List, 2003). Broadly then, the primary concern of external stakeholders becoming involved with nonprofit organizations globally would likely be the expected social returns (maximizing the social value created by the nonprofit firm) rather than maximizing any economic returns.

Likewise, stakeholders involved with for-profit SE ventures must fully buy into the double bottom-line concept to be willing to allow some of their capital investment to be diverted towards pursuing social goals, which may not necessarily maximize returns to their investments. However, despite the seemingly inferior investment opportunities of these firms, societal norms have significantly shifted from perceptions of solely maximizing shareholder wealth (e.g., Friedman, 1962) to recognition of philanthropic obligations of firms (e.g., Sharfman, 1994). Thus, it may be that for-profit stakeholders are willing to sacrifice some economic returns to satisfy normative social obligations.

Additionally, it may also be that for-profit SE ventures actually exhibit greater returns for stakeholders. To explain, observe that Eikenberry and Kluver (2004) neglect to investigate the causes of economic profit in firms (e.g., the payment to economic factors exceeding their usage costs [Peteraf, 1993] and thus, ignore the role that increased demand for factors in fixed supply plays in generating rents [Barney, 1986]). So, if consumers begin to reveal a consistent preference for the goods and/or services of SE ventures because of the concomitant focus on social and economic value creation, these firms might be able to maintain a double bottom-line focus on the resource-based advantage the firm has constructed (cf. Barney, 1991). In addition, it is likely that the same factors stimulating demand for SE ventures' products (e.g., Hibbert, Hogg, & Quinn, 2002) would also shape stakeholder demand for investment opportunities in SE ventures (e.g., Mackey, Mackey, & Barney, 2007).

For example, consider an entrepreneur who wants to start a software firm that develops in-home adult literacy educational software and as part of its business plan, will provide free adult education classes. Not only would the free education classes create value for society at large, but the firm can also gain access to valuable information about product usage. Consider further that the information gleaned from such free education classes could be done in test groups at less cost to the firm. On one hand, it may be that stakeholders not in favor of the double bottom-line concept would balk at the firm sponsoring such classes as an apparent misuse of funds. Alternatively, key stakeholders may specifically seek out firms that are engaged in such socially beneficial efforts because of the public goodwill the firm attracts—and that stakeholders benefit by their association with such firms. Thus, while the provision of the classes may not maximize returns to stakeholders in the near term, the broader complementary social and economic value generated through such dual focus may increase stakeholder returns over the long term. To this point, stakeholders may be willing to forgo short-term returns for long-term effectiveness of the double bottom-line. Formally, the following propositions are offered regarding stakeholder alignment:

> **Proposition 3A:** The perceived commitment of external stakeholders to the primacy of an SE venture's economic goals will have a positive relationship with the choice to organize under a for-profit organizational form.
> **Proposition 3B:** The perceived commitment of external stakeholders to the primacy of an SE venture's social mission will have a positive relationship with the choice to organize under a nonprofit organizational form.

Resource Acquisition

According to Romanelli (1989), one of the key pieces of prescriptive advice stemming from the empirical findings on the factors contributing to the survival of nascent firms is that entrepreneurs should time their entry decisions to correspond with substantial environmental munificence. Within the context of SE, the macro-level institutional trend of privatization is an indicator of a munificent environment for privately held dual-focus entities. Evidence of this trend is noted by Thompson (2002), quoting a speech by former British Prime Minister Tony Blair who states:

> In the second half of the century we learnt that government cannot achieve its aims without the energy and commitment of others—voluntary organizations, business, and crucially, the wider public . . . every year thousands of social entrepreneurs achieve extraordinary things in difficult circumstances (p. 414).

While this example supports the notion that SE is influenced by emerging institutional trends, we focus on the central question of this section: how does the institutional environment affect resource acquisition of SE firms?

We posit that the same privatization trend that is shifting resources away from governments is also shifting resources toward privatized social ventures (cf. Yergin & Stanislaw, 1998; Zahra, Ireland, Gutierrez, & Hitt, 2000). One consequence of this institutional shift, however, is that many nonprofits are finding necessary resources more difficult to acquire. This trend is occurring as institutional trends appear to be increasingly legitimizing for-profit ventures attempting to generate rents by conducting similar activities that used to lie solely in the domain of nonprofit or governmental settings (Mort, Weerawardena, & Carnegie, 2003).

An example of this transfer of resources from governmental/nonprofit settings to for-profit ventures is Edison Schools. In this situation, tax revenues traditionally set aside to fund and run government-sponsored public schools are now given directly to privately operated, for-profit Edison Schools as revenue in exchange for Edison Schools' services as providers of public education (http://www.edisonschools.com).[3] Other empirical evidence on this trend in resource transfer (in this case on charitable giving), as indicated in recent reports, appears to confirm that although charitable donations are increasing in raw

3. At the time this article was written, Edison Schools was managing in excess of 95 charter schools in 19 states across the United States, spanning from Hawaii to New York (including the District of Columbia). To date, Edison Schools had also partnered with existing public education institutions across the United States and in the U.K. to allow these organizations to benefit from their innovative approach to education.

totals, they are doing so at a decreasing rate in certain critical areas. In particular, between 1991 and 2002, charitable giving decreased from 9.8% to 7.8% in health-related services, maintained 4.8% of total giving in public/societal benefit, and decreased from 2.9% to 2.7% for environmental giving.[4] As such, these statistics appear to directly confirm Foster and Bradach's (2005) report that charitable giving has decreased to the point that many nonprofit firms are seeking profit-making ventures as a way to ensure sustainability.

When these charitable giving trends are compared with the astronomical growth in the private investment markets (USD 10–180 billion from 1991 to 2000; Kaplan and Schoar, 2005) it appears as though private investment (e.g., venture capital, angel investments, etc.) might be a substantial, alternative long-term source of capital. However, ambiguity arises as to which organizational form will help attract necessary resources when one considers, as we discussed previously, that IRS regulations limit private inurement (26 U.S. 501). Because of these kinds of regulations, private equity firms such as venture capitalists would not "invest" in nonprofit firms since they could not retain a portion of the residual rights of ownership over the firm. Rather, such resource providers would prefer to invest in for-profit SE ventures. Nevertheless, ambiguity may remain as to the appropriateness of for-profit ventures with a concomitant double bottom-line.

This ambiguity regarding for-profit SE ventures may result in many would be *investors* opting to become *donors* for nonprofit SE ventures. Even though nonprofit firms face their own challenges in procuring sufficient resources from the shrinking pool of funds available via donations or grants, entrepreneurs may perceive less uncertainty in acquiring resources under a nonprofit organizational form. In addition, since nonprofit organizations may also have the benefit of obtaining a tax-exempt status, the ability of the venture to retain more of the generated revenue (i.e., tax exemption) will encourage some social entrepreneurs to pursue a nonprofit form in lieu of a for-profit form in order to generate sufficient financial slack necessary to enhance survival prospects (e.g., George, 2005; Sharfman, Wolf, Chase, & Tansik, 1988). As such, we offer the following propositions:

Proposition 4A: There will be a positive relationship between the perceived ability of the SE venture to procure private investment capital and other "for-profit" resources and the choice to organize under a for-profit form.

Proposition 4B: There will be a positive relationship between the perceived ability of the SE venture to procure resources allocated towards charitable purposes and the choice to organize under a nonprofit form.

Legitimacy Attainment

According to Singh et al. (1986), one of the primary causes of the liability of newness is the perceived lack of legitimacy in new ventures by external constituencies. In examining the attainment of legitimacy, Suchman (1995, p. 573) has asked "legitimacy for what?" There are at least two answers to this question: legitimacy for passive acceptance and legitimacy for active participation (Suchman, 1995). First, to overcome the liability of newness, firms will seek to increase legitimacy to a threshold level at which they are passively accepted by society at large (Suchman, 1995). This base level of legitimacy attainment suggests that firms have gained normative social approval and are informally "authorized" to conduct business.

4. According to these statistics, charitable giving did increase for religious organizations, but for the other areas mentioned, total giving decreased. All stats taken from AAFRC Trust for Philanthropy, 2002.

However, for firms to move beyond mere survival and seek to secure long-term growth, they will seek to further increase their legitimacy for a second reason: to gain the active participation of their stakeholders (Suchman, 1995). With such active participation, firms are more able to procure critical resources, such as capital infusions, and help increase the likelihood of their long-term survival. Thus, even after firms attain a threshold level of passive acceptance, they will continue to engage in activities and practices in order to formally reify their legitimacy. Building from this perspective, Aldrich and Fiol (1994) note that for new firms in nascent industries, two types of legitimacy, sociopolitical (formal legitimacy) and cognitive (informal legitimacy), are particularly important. Within the context of SE, both formal and informal legitimacy are critical predictors of organizational form choice in SE ventures.

According to Aldrich and Fiol (1994), informal legitimacy is defined by the diffusion of knowledge about a venture's mission and implies conformity with general social norms and customs ("passive acceptance"). On the other hand, formal legitimacy is defined as the acknowledgement by governments, the general public, and relevant stakeholders that the firm in question meets applicable laws and thus facilitates active acceptance and commitment by external stakeholders (e.g., Suchman, 1995). The attainment of this type of legitimacy recognizes that firms have navigated through various degrees of red tape and are approved to do business. Certainly, without the base-level attainment of formal and informal legitimacy, a firm's survival can be threatened. Thus, both forms of legitimacy appear to be tapping into a similar broad dimension relating to organizational legitimacy—that of meeting threshold levels of acceptance by the firms' constituents to help ensure short- and long-term survival.

Within the context of SE, it is evident that such considerations are important to the choice of organizational form made by social entrepreneurs. In particular, in regards to the issue of normative fit, how social entrepreneurs perceive the likely acceptability of privatizing certain social services (e.g., basic research, welfare, and human services, etc.) will inevitably shape how they choose to organize their ventures. In other words, the social entrepreneur's views regarding societal norms of legitimacy, (e.g., the relative legitimacy of private environmental protection services or private insurance services) will influence under which form the social entrepreneur organizes.

For example, consider the possibility that a social entrepreneur wishes to start a new venture to provide affordable health insurance coverage to undocumented individuals. Despite the potential benefit this would provide to government agencies and to society as a whole (cf. French & Kamboj, 2002), the social entrepreneur must consider how the pursuit of such a venture would conform both to informal social norms and formal legal institutions. In particular, normative approval of generating profits from certain activities serving underprivileged and/or illegal populations might be a controversial issue for some external constituencies (e.g., Eikenberry & Kluver, 2004, provide a good example of the logic of these opponents of privatization) and thus might lead some social entrepreneurs to perceive an unfavorable normative climate. Ultimately, based on this perception, these social entrepreneurs might choose to organize under a nonprofit organizational form to minimize the perceived conflict with informal social norms by limiting personal profit from the venture.

Conversely, the potential profitability of such a venture might engage key stakeholders. Considering the growing numbers of undocumented individuals in the United States, the attendant benefits of providing necessary health coverage (reducing the burden for governmental agencies) might outweigh any inherent ethical concerns. In such a situation, assuming that the opportunity attracts a variety of investors, the economic goals of the venture would likely coincide with social concerns. Therefore, social entrepreneurs desiring to generate profits might choose to organize under a for-profit organizational form consistent with the legitimacy of the economic mission.

In both cases, since informal social norms and legal institutions operate in the external environment of the social entrepreneur, projections must be made regarding the perceived legitimacy of conducting double bottom-line activities. Even though the social entrepreneur's personal motivations may shape the mission of the SE venture, his or her perception of the legitimacy of the venture in accordance with both informal social norms and formal legal institutions will fundamentally shape the form of the venture. Thus, the perceived legitimacy of the SE venture's mission stemming from its institutional context will directly influence the choice of organizational form made by the entrepreneur. Following these arguments, we formally propose:

Proposition 5A: The perceived informal legitimacy (i.e., perceived conformity with social norms) of the economic goals of the SE venture (above social mission) will have a positive relationship with the choice to organize under a for-profit organizational form.

Proposition 5B: The perceived informal legitimacy of the social mission of the SE venture (above the economic goals) will have a positive relationship with the choice to organize under a nonprofit organizational form.

Proposition 6A: The perceived formal legitimacy (i.e., perceived conformity with legal norms) of the economic goals of the SE venture (above the social mission) will have a positive relationship with the choice to organize under a for-profit organizational form.

Proposition 6B: The perceived formal legitimacy of the social mission of the SE venture (above the economic goals) will have a positive relationship with the choice to organize under a nonprofit organizational form.

Directions for Future Research

Implications for Theory

A central feature of our discussion here is the concept of perceived institutional ambiguity. One of the interesting features of prior work on institutional theory is the notion that institutional norms as objective, exogenous artifacts of the environment constrain managerial choice (Baum & Oliver, 1991; Oliver, 1991; Scott, 1987). However, our model, relying on alternate prior theory, suggests that isomorphic pressures may not always be determinate particularly where an entrepreneur perceives conflicting norms (e.g., Newman, 2000). In such cases, rather than constraining entrepreneurial choice, institutional ambiguity appears to increase the relative importance of entrepreneurial decision making (e.g., here the choice of organizational form).

To this point, a natural question is whether it is appropriate to classify social norms as an institution since their status as acceptable norms lacks unanimous consent. Whether democracy, tolerance, equity, the responsibilities of public corporations, or any other widely diffused but socially constructed societal norm, there are always contrary views (cf. Searle, 1995). Does the presence of dissenting opinions delegitimize accepted social institutions? We do not believe so. Rather, during the process of *institutionalization*, where norms diffuse among social groups, ambiguity will undoubtedly arise as competing norms struggle to attain primacy.

In the context we describe here, the central normative conflict stems from the perceived appropriateness of concurrent economic and social value creation. Specifically, the convergence of profit maximization with social value maximization in the functional double bottom-line of SE firms undoubtedly creates conflict over appropriate courses of action. At the heart of the conflict is the normative uncertainty as to whether individuals should personally profit from solving social problems. More specifically, referring back to the example of the firm providing health insurance to undocumented individuals, the normative dilemma facing firms is what they should do with their accounting profits. Should the profits be returned to the immigrant groups in the form of lower prices or rebates to maximize the social utility of these immigrant groups? In other words, can—*or should*—firms jointly maximize profit and social value creation?

As evidenced by numerous advocates and detractors for and from both sides of this debate (e.g., Eikenberry & Kluver, 2004), trends such as privatization, shifts in resource munificence, and convergence between nonprofits and for-profit organizations suggest the resulting institutional ambiguity may actually be growing. In the long run, we expect the institutional ambiguity surrounding SE ventures will likely dissolve as societal norms coalesce around a specific functional mission for the firm (e.g., dual social and economic value creation). However, until this occurs, the ambiguity in the institutional environment will likely continue to result in considerable variance in the choice of organizational form as social entrepreneurs attempt to maximize the chances of their firm thriving.

Implications for Empirical Research

Empirical testing of the proposed relationships predicted within Figure 1 also is an important direction for SE research. First, as we noted earlier, the specific motivational determinants of SE remain an open empirical question. Specifically, to what extent do the intended goals of the founder translate into the function mission of the emerging firm (e.g., Katz & Gartner, 1988)? The model constructed here discusses the possibility that specific individual-level motivations may play a determinative role in the choice of organizational form where either the economic or social goals attain primacy over the other. A true test of this relationship would occur where ratio measures are utilized to quantify each motivational component, which would require scale development work by future researchers. In the meantime, scholars may consider utilizing ordinal measures to capture the rank-order differences between specific motivational components and venture founding decisions such as the choice of organizational form (e.g., see Meglino & Ravlin, 1998, pp. 359–366 for a broader discussion on measuring ipsative versus normative individual values as a methodology for measuring differences in preference for economic versus social value creation activities in SE ventures).

In addition, a central part of our theoretical contribution is the concept of institutional ambiguity. To effectively capture perceived ambiguity in the institutional environment would also likely require the development of new scales, since we are focused on the perceptions of the entrepreneur. In much of the prior research on the effects of institutional variables on decision making, a causal linkage from institutions to cognition is often implied by noting the covariation of specific elements of the institutional environment with specific choice outcomes (e.g., see Haveman & Rao, 1997; Sine et al., 2005). Given the prevailing view of institutional norms, such a course of action is entirely appropriate. Our theoretical model, however, suggests competing norms may actually create institutional ambiguity in the entrepreneur's mind. To this point, creating scales to capture perceived ambiguity regarding specific dimensions of the institutional environment would allow future research to effectively capture the specific choice outcomes (e.g., here the choice of organizational form) predicted by the theoretical model.

We have also, purposively, not conceptualized each identified dimension of the institutional environment as orthogonal constructs. Rather, throughout our discussion of Figure 1, we note the important linkages among the institutional dimensions of the environment. We elected to pursue this course of action for two reasons. First, it is consistent with prior theory on the institutional environment as all three dimensions reflect prevailing social norms (e.g., Baum & Oliver, 1991). Second, each dimension of the institutional environment links with the other two dimensions in important ways (e.g., perceived formal legitimacy affects stakeholder alignment, etc., cf. Zimmerman & Zeitz, 2002). As such, the interdependency among the institutional dimensions marks an interesting course of action for future research. Especially in the context of SE ventures where the "double bottom-line" is pursued, investigating how informal legitimacy affects subsequent stakeholder alignment or how stakeholder alignment affects subsequent resource acquisition, all reflect interesting research questions. Our recommendation would be for future research to investigate these interdependencies when discussing the specific role each dimension plays in shaping SE outcomes.

Implications for Practice

Finally, it was noted that the choice of organizational form has important implications for the ability of SE firms to attain the resources, stakeholder alignment, and legitimacy necessary to effectively sustain operations. Considering the importance that politicians, practitioners, and now researchers have placed upon SE phenomena, investigating how certain variables influence the emergence and sustainability of these ventures is indeed an important practical area of inquiry. As we noted earlier, various stakeholder groups may have different potentially conflicting goals for the SE venture. While we examined this conflict during the venture formation stage, future research investigating how social entrepreneurs actively manage the influence of external stakeholders in shaping firm strategy (and ultimately the function of the firm) throughout the firm's life cycle is a critical area for future research.

Additionally, our theoretical model illuminates the critical role resource acquisition plays in shaping the venture formation stage. We noted previously that the concurrent social and economic focus of SE ventures may attract certain investors to SE firms (cf. Mackey et al., 2007). Future research investigating the specific investment goals and risk-return preferences of investors in SE firms would provide important practical guidance for new firms seeking to obtain stable sources of critical resources.

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