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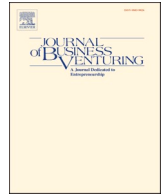
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## Exploring the microfoundations of hybridity: A judgment-based approach

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### ABSTRACT

We explore the concept of organizational hybridity from the perspective of the Judgment-Based Approach to entrepreneurship (JBA). The JBA provides much-needed microfoundations for hybridity in the form of a more nuanced, action-based view of the market mechanism in shaping enterprises. Rather than a problem of conflicting logics at the organizational level, hybridity is redefined as entrepreneurial judgment at the individual level about combinations of monetary and psychic profit. Viewed this way, hybridity is a universal characteristic of real-world enterprises rather than a defining feature of a specific subset of them. This approach thus ultimately reshapes our understanding of hybridity and suggests an alternative view that is less conflictual and insular, and more conciliatory and integrated. It also sheds light on various problems facing such enterprises, including strategy formation, practical wisdom, normative pressures, mission drift, entrepreneurial groups, and public policy.

*Executive summary:* Hybrid enterprises are said to combine different logics or orientations within an organization. These logics are typically described as either economic or social, and are usually conceived as existing in inherent tension with each other; hence, hybrid enterprises are neither conventional monetary profit-seeking businesses nor purely social or charitable organizations, but some awkward, possibly paradoxical combination of both. The best-known and most frequently studied types of hybrids are social enterprises, which straddle the line between monetary profit-seeking and the pursuit of broader social goals or social value.

The literature on hybrids is growing rapidly, but to date there has been little agreement over its fundamental concepts and frameworks, and key questions remain about the origins, meaning, and development of hybrids. There is particular debate about whether the different “logics” of hybrids are necessarily in tension or conflict, or whether they exist harmoniously, as complements. Are hybrids just another form of profit-seeking market organization? As organizations, are they puzzles to solve, or perhaps paradoxes to confront? Answering these questions is crucial for understanding of what hybrids are, how they work, and what their broader implications are for economy and society.

We address to these debates by developing a new conceptual basis for studying hybrid enterprises. We argue that current controversies are usually the result of studying hybridity only at the organizational level. In response, we explore the microfoundations of hybridity, showing that what is called hybrid organizing simply reflects entrepreneurs’ choices about how to pursue

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*monetary profits* and *psychic profits*. Drawing on the Judgment-Based Approach to entrepreneurship (JBA), we show how entrepreneurial decision-making constantly negotiates the boundaries of monetary calculation and profit-seeking and alternative, non-monetary goals such as providing social benefits. Understanding the interplay between the monetary and psychic profit leads to a more realistic and nuanced account of the causal foundations of hybridity, while also dispelling some confusions that have arisen in the literature. Ultimately, what is called hybridity at the organizational level is simply the result of entrepreneurial action at the individual level about combinations of profit.

This approach leads to several notable results. First, it emphasizes that all enterprises are to some extent social and contain elements of what is called hybridity. Second, as a result, micro-foundations challenge the importance of hybridity as such as a key construct. What is called hybridity is not a defining characteristic of certain organizations, but exists in all enterprises, and is a persistent aspect of entrepreneurial decisions regarding how to organize and restructure firms. Third, a micro-level approach dissolves the perceived tension between different logics in the enterprise, promoting a view that is less conflictual and insular, and more conciliatory and integrated. Fourth, microfoundations can help connect meso- and macro- level research as a way of encouraging a more comprehensive research program that includes all sizes and shapes of enterprise. Fifth, they also shed light on various problems facing enterprises of all types, including strategy formation, practical wisdom, normative pressures, mission drift, entrepreneurial groups, and public policy.

## 1. Introduction

A growing body of entrepreneurship research emphasizes the idea of duality or hybridity in the study of nontraditional enterprises. Hybrid organizations come in many shapes and sizes, but generally they are understood as combining market and nonmarket characteristics, also known as economic (commercial) and non-economic (social) orientations or logics (Shepherd et al., 2019). These logics are presented as inconsistent with each other, thus offering conflicting guidelines for how firms should be run and making hybrid organizing difficult, and even a potentially fixed-sum game in which any economic benefit is balanced by a social cost (Edmans, 2020). For instance, Battilana et al. (2017, p. 128) explain that “different studies tend to adopt different theoretical lenses, examining hybridity either as a combination of multiple organizational identities, multiple organizational forms, or multiple societal rationales,” with the underlying common assumption that hybrids encompass “core organizational elements that would not conventionally work together” (Battilana et al., 2017, pp. 128, 129; emphasis added).

The most prominent examples of hybrids are social enterprises (SEs), i.e., organizations that use commercial strategies to achieve social or environmental goals (Doherty et al., 2014; Haigh et al., 2015a, 2015b; Mongelli et al., 2019). However, hybridity is broader than social enterprise, being a firm-level characteristic that stems from the form and mission of an organization (McMullen, 2018; Miller et al., 2012, p. 617). Form and mission are shaped by a variety of factors, especially different institutional logics facing the organization (Pache et al., 2023; Pache and Santos, 2013) as well as entrepreneurs’ personal motivations and identities, any and all of which can influence a hybrid’s organizational identity (Glynn et al., 2020, pp. 66–67; Pache and Thornton, 2020; Wry and York, 2017).

Scholars are divided on the issue of whether hybrid organizations are a “problem to solve” or an “opportunity to take” (Mongelli et al., 2019). Yet in nearly all perspectives, hybridity is conceived as an abstract and aggregate aspect of such organizations, a concept that is a “collective given” and largely a black box.<sup>1</sup> Thus, while some research explores the antecedents of prosocial motivations and hybrid venturing (Bacq and Alt, 2018; Wry and York, 2017), along with “how hybrid organizations can become purposeful actors fostering social innovation” (Mongelli et al., 2019, p. 304), little work has been done to investigate hybridity at the level of individual actions within the process of running a hybrid venture (Ratinho and Bruneel, 2024; Saebi et al., 2019, pp. 79, 88). In other words, we still lack an understanding of this collective (e.g., firm-level) construct in terms of microfoundations—the actions and interactions of individuals within organizations (Foss, 2015, p. 117). As a result, because the relationships between the micro and macro levels are causal rather than constitutive (Foss, 2015, p. 118), we lack an accurate understanding of the *causal foundations* of firm-level hybridity.

We address this gap using insights drawn from entrepreneurship theory and economics. Specifically, we adopt the Judgment-Based Approach (JBA), which views entrepreneurship as judgmental decision-making about the use of scarce, heterogeneous resources under conditions of uncertainty (Foss and Klein, 2012; Knight, 1964; McCaffrey et al., 2023; McMullen and Warnick, 2016, p. 635; Mises, 1998; Rapp and Olbrich, 2023; Rothbard, 2009; Salerno, 2008). The JBA is particularly suited to study hybridity because it views entrepreneurship as a unique type of decision-making rather than an occupation or an industry activity (Klein, 2008). Entrepreneurs, whether individually or in teams, are the source of final authority or judgment in their organizations. They are also the ultimate source of benefits created by the firm because they make its key decisions (strategy, organizational design, industry positioning) and decide its social responsibility and social actions (Foss and Klein, 2012; Foss et al., 2019b). Entrepreneurs’ choices shape the enterprise and determine the relative importance of its economic or social elements. Their authority highlights potential conflicts between the active

<sup>1</sup> According to Barney and Felin (2013, p. 139), “collective givens need to be unpacked. Rather than simply postulate and point to the existence of collective things—whether structure, culture, institution, organization, market, or society” or, in this case, organizational hybridity—“the precise job of the social scientist is to explain the origins of the macro as the result of individuals and their interaction.”

decision-makers in an organization and the broader group of stakeholders who try to influence its shape, scale, and everyday activities (McMullen and Warnick, 2016, p. 651).

While research on hybridity using the JBA is still rare<sup>2</sup> (McCaffrey, 2018a), it can directly address a variety of recent research prompts around microfoundations (e.g., Ratinho and Bruneel, 2024; Saebi et al., 2019, pp. 85–86). That is, using the JBA to explore hybridity answers calls for investigating “the complex interplay of different components that together form” an enterprise’s social mission (Siegner et al., 2018, p. 1323), while also encouraging more positive, optimistic research into the unique advantages of hybrid organizing (Battilana, 2018; Mongelli et al., 2019). Applying the JBA to the study of hybridity is also especially timely given the interest in the mutual reinforcement of social and commercial elements in nonprofit organizations, whereas merely “juxtaposing the economic dimension against social impact on the basis of a simple refusal of market mechanism” now “seems to be no longer appealing” (Mongelli et al., 2019, pp. 303–4). Rather, as Mair, Battilana, and Cardenas (2012, p. 364) suggest, “entrepreneurial models ... that leverage economic capital and combine the industrial and market principles deserve particular attention” regarding the mechanisms that enable them to manage hybridity. At the same time, others have drawn attention to the need for action-based research to provide microfoundations for theorizing (Ratinho and Bruneel, 2024; Saebi et al., 2019, p. 79; Shepherd, 2015, pp. 493–94), for further exploring the relationship between entrepreneurial action and social or economic logics within hybrids (Shepherd et al., 2019), and for considering the initial conditions of hybrid organizations in a way that accounts for the emergent processes through which they arise (Barney and Felin, 2013).

## 2. Hybridity, enterprise, and the JBA

The JBA offers unique insights into the problems that hybridity research currently faces, by providing action-based microfoundations of hybridity and exploring the role of the market system and economic calculation (monetary profit seeking and the price system) in the entrepreneurial decisions that shape enterprises (e.g., Mises, 1951). These microfoundations can also connect the meso and macro levels of analysis, challenge hybridity as a construct, and propose a more integrated view that encompasses all enterprises.

Many fundamental problems in the literature revolve around how hybrid enterprises and their entrepreneurs deal with conflicting objectives, reconcile inherent tensions between value systems, and secure competitive advantage (Doherty et al., 2014, p. 429). Some scholars recommend that instead of resolving such tensions, hybrids can simply accept them as paradoxical by “purposefully balancing and combining instrumental initiatives—where addressing sustainability issues yields business benefits—with moral initiatives—where firms address environmental and social issues in their own right” (Hahn et al., 2018, p. 237; see also Hahn et al., 2015). Other researchers warn that tensions between different aspects of a larger social mission become “social mission disjunctions” in which these tensions are acknowledged as inevitable (Siegner et al., 2018). Similarly, McMullen (2018) suggests that among the hybrid features that SEs possess, mixed identities (Conger et al., 2018; Wry and York, 2017), mixed financing (Battilana et al., 2012; McMullen and Bergman, 2017), and dual organizational objectives (Battilana and Dorado, 2010; Battilana and Lee, 2014) are likely to be mutually reinforcing and become more prominent over time, and thus more distinguishable from other traditional forms of business and charity. However, *how* this happens remains unclear.

The key reason why hybridity is considered “puzzling” or “counterintuitive” from an economic perspective (Hockerts, 2006, pp. 142–43) is that entrepreneurs’ social goals—which may themselves be based on a variety of ethical, religious, or other values—are seen as inconsistent with monetary profit because they give conflicting guidelines to entrepreneurs in terms of how to run their firms (Saebi et al., 2019, p. 80; Smith et al., 2013; Wry and York, 2017; Zahra et al., 2009). Even champions of hybridity, who view it as an opportunity to reshape modern economic systems, contend that the different aspects of hybrids require a delicate balancing act regarding how to define, organize, and run a venture (Battilana et al., 2012, p. 51; Mongelli et al., 2019). In theory, traditional for-profit enterprises and social enterprises are supposed to make clear choices about their mission and motivation at the organizational level (Dees, 2001). Reconciling the pursuit of monetary profit with the pursuit of social purpose becomes a fixed-sum game fraught with difficulties because any increases in economic action must be balanced by a decrease in social action, and vice versa (Edmans, 2020). On the one hand, an enterprise based on business methods rather than charity must pursue profits and avoid losses; on the other hand, an enterprise that aims to facilitate social value must refrain from precisely such monetary-profit-seeking behavior and

<sup>2</sup> This may be because some precursors of the modern JBA were economists like Frank Fetter and Ludwig von Mises, whose work is perceived to focus on traditional business firms and monetary-profit-seeking entrepreneurship. However, these writers also pioneered the analysis of “psychic profit” discussed below. Like much of entrepreneurship theory based in economics, the JBA begins by focusing on an economic role—what is called the entrepreneurial *function* (McCaffrey, 2018b; McMullen and Shepherd, 2006; Klein, 2008). A functional analysis conceptually isolates a few characteristics to make them easier to study (Long, 2006): thus, the entrepreneurial function abstracts away from details (Salerno, 2008) to highlight how individuals make decisions under uncertainty and use judgment to earn profits by satisfying consumers (Knight, 1964; Foss and Klein, 2012). While often the focus remains preponderantly on this functional analysis because it is useful for theory development, real-world entrepreneurship is more complex than it alone can describe. The insights of JBA and its precursors into what are now called “alternative” forms of organization, such as hybrids, were thus not explicitly developed in the original works of Fetter, Knight, or Mises, and are yet to be fully recognized in subsequent literature.

direct its activities according to a different, social principle. From this point of view, it is tempting to see hybrids as in danger of being short-lived and “sterile” creatures like biological hybrids (McMullen, 2018), torn by contradictory commands and mutually incompatible rules to follow.<sup>3</sup>

Recent work has begun to emphasize complementary interactions between entrepreneurs' economic and social goals and to consider differences in degree of hybridity (Battilana et al., 2017; Besharov and Smith, 2014). Rather than using only two discrete categories of organization, it is more helpful to conceive of enterprises as lying on a continuum or spectrum of hybridity that accounts for variations in the use of economic and social logics. An important example of this emerging trend is found in Shepherd et al. (2019), who develop a conceptual framework for studying *hybrid relativity* and the *intensity of hybridity* in organizations. Hybrid relativity refers to the distribution or balance of economic and social logics within a firm, while intensity of hybridity is the “vigor” with which those logics are held. Taken together, these factors determine an organization's *degree of hybridity*. This framework adds new dimensions to the hybridity concept and opens the way for researchers to explore a variety of problems in hybrid organization, particularly how, when, and why entrepreneurs can influence the degree and intensity of hybridity (Shepherd et al., 2019, pp. 493–97, 500–501).

Despite its advantages, Shepherd, Williams, and Zhao's conceptual framework is open to revisions and extensions, both of which can be provided by the JBA. Especially, there is a need to dig deeper into the hybridity construct. Shepherd, Williams, and Zhao (2019, p. 497) suggest that their framework can aid in exploring whether different logics are conflicting or complementary, yet it does not by itself provide a definite answer. This lingering tension is due to a focus throughout the literature on hybridity at the organizational level. Shepherd, Williams, and Zhao's framework does add nuance to our understanding of how hybrids work, but by defining relativity, intensity, and degree of hybridity at the organizational level it does not examine the underlying entrepreneurial actions that shape organizational behavior and what we know as hybridity.

Thus, the first unique insight that the JBA can add is a challenge to the importance of hybridity per se as a fundamental construct. In place of hybridity, we suggest an alternative understanding of all enterprises based on entrepreneurial judgments about monetary profits and “psychic profits” (the subjective benefit an entrepreneur receives as the result of a choice) (Fetter, 1915, pp. 22–30; McCaffrey, 2018b; Mises, 1998, pp. 206, 287–88; Packard and Bylund, 2021). This approach, which we develop below, explains the crucial entrepreneurial and economic decisions that continually shape the boundaries and behaviors of enterprises in economic and non-economic terms, and provides a previously missing foundation for the “micro-decisions nested within the hierarchy of a macro-decision” (McMullen, 2015, p. 653). Once these actions (microfoundations) are explicated, the alleged tension between logics dissipates and is replaced by a more harmonious account of entrepreneurial valuation and choice.

Second, and as a result, the JBA brings up the inherently social aspects of *all* enterprises: all businesses are socially engaged and can involve the pursuit of social value,<sup>4</sup> not merely those that explicitly embrace hybrid or social labels (Austin et al., 2006). Hybridity is not then a distinct organizational type (Shepherd et al., 2019, p. 492), and does not juxtapose two conflicting sides or logics of enterprise. Thus, whereas the extant literature views hybridity as conflictual and insular, a third contribution of the JBA is a conciliatory and integrated approach: like all enterprises, hybrids are the result of multiple, sequential entrepreneurial judgments about which principles and rules to follow in organizing various market and nonmarket characteristics (Moss et al., 2018). Fourth, microfoundations provide a missing link that connects existing meso- and macro-level research on hybrids (Ratinho and Bruneel, 2024; Saebi et al., 2019).

In what follows, we use the framework of the judgment-based view to offer a consistent account of the entrepreneurial decision-making process and address how it shapes organizations, and thus how it connects “micro” and “macro” aspects of hybridity. We argue that the interplay between monetary profit and “psychic” profit is a crucial aspect of entrepreneurial decision-making in all ventures, although it is more easily observable in hybrids. Understanding this interplay shows that the difference is one of degree, not of kind—and that in fact there are no stark “qualitative differences between hybrids and non-hybrids” (Shepherd et al., 2019, p. 3). This line of research links entrepreneurial action and issues surrounding complexity, rules, practical wisdom, normative pressures, mission drift, entrepreneurial groups, and public policy.

### 3. The interplay between monetary and psychic profit

Entrepreneurial judgment can be defined as decision-making under uncertainty, as opposed to deterministic decisions using probabilistic risk (Packard et al., 2017). Judgments are choices about how to best use scarce, heterogeneous assets in the pursuit of some kind of benefit (Foss and Klein, 2015; McMullen and Warnick, 2016, p. 635), and the context of such behavior goes beyond the boundaries of new, small, or innovative firms. Judgment is a more general kind of decision-making in the active creation of

<sup>3</sup> Stressing the importance of the profit-and-loss mechanism for selecting successful firms and improving consumer welfare leads naturally to wariness about alternative forms of organizing business (Hahn et al., 2018; Lewis, 2000; Schad et al., 2016; Smith and Lewis, 2011). In fact, as McMullen (2018) explains, both the for-profit and not-for-profit sectors have raised concerns regarding the rise of SEs. The former often see them as a marketization trend that threatens the very essence of the social sector (Conger et al., 2018; Wry and York, 2017), whereas the latter claim that combining social and commercial objectives corrupts the marketplace (Husock, 2013).

<sup>4</sup> A crucial implication of this view that we develop below is that traditional profit-seeking enterprise is fundamentally social in the sense that it involves peaceful cooperation between a variety of members of society for their mutual benefit. Entrepreneurs, investors, suppliers, employees, and customers are all part of a nexus of production, exchange, and consumption that provides a basis for much of modern social order and the welfare benefits that flow from it (e.g., Hayek, 1998, pp. 35–54; Mises, 1998). Furthermore, the spillover effects and positive externalities of the market system in terms of increased knowledge, innovation, development, and so on are also powerfully social.



opportunities, and therefore encompasses both monetary-profit-motivated and socially motivated activities. Entrepreneurs delineate their alternatives, compare and evaluate their options, and specify the goals they are pursuing and where to set the boundaries of their organizations (Foss et al., 2019b; Rapp and Olbrich, 2023). Such choices, particularly those that involve *goal judgment* (Rapp and Olbrich, 2023, p. 194), necessarily lead to shaping the firm by identifying non-economic boundaries and ethical, moral, and socially valuable employments of resources just as it involves the determination of its economic boundaries and the use of physical, human, and financial resources.

Entrepreneurial decision-making under uncertainty uses the tool of *economic calculation* (Foss and Klein, 2012; McCaffrey et al., 2023; Mises, 1998, 1951). Calculation refers to entrepreneurs using monetary profit and loss, appraised using the price system, to make judgments about how to best allocate scarce resources in the face of uncertainty (Mises, 1920 1990; Salerno, 1990a, 1990b). In a complex economy, entrepreneurs need money prices to express the costs of production, to appraise future costs, and to forecast which kinds of production they believe will be profitable. Monetary profit is the difference between revenues obtained and costs incurred, or a “surplus of money received over money expended,” while loss is “a surplus of money expended over money received” (Mises, 1998, p. 287). This system provides the rational guide for comparing costs that forms the basis of *economic organization*.

However, there are limitations to economic calculation and to the monetary-profit guideline as the sole basis for decision-making because “economic calculation cannot comprehend things which are not sold and bought against money” (Mises, 1998, p. 215). Calculation is restricted to the marketplace, and within it, only to things with money prices. At the margins of the market are goods and services that *could* be priced using money but are not, often for moral or similar reasons (e.g., the lack of prices for blood, organ donations, sexual services, and adoption rights for children). Similarly, social goals—such as tackling poverty, reducing homelessness, providing access to education, or improving health care—are goods valued based on their ability to directly satisfy wants rather than for their role in a production process. They lack prices (or can only partially be comprehended using monetary prices) because consumers and entrepreneurs choose not to place them within the sphere of economic calculation.<sup>5</sup>

However, they can be “comprehended” within psychic profits. Psychic profit is the subjective and marginal benefit received as the result of a choice (Fetter, 1915, pp. 22–30; McCaffrey, 2018b; Mises, 1998, pp. 287–88; Packard and Bylund, 2021). Psychic profit is derived from any action as interpreted by the actor, in this case, by an entrepreneur, and is a universal feature of action and choice: all human beings constantly seek psychic profits, in that they are always interested in improving their welfare as they perceive it. Even when monetary considerations appear paramount, the subjective psychic element does not disappear, because the maximization of monetary value is itself grounded in (or doubled by) a nonmonetary appreciation of that very fact. In other words, *monetary profit is the handmaiden of psychic profit*; in a developed market economy, it is required—as handmaiden—to efficiently appraise factors of production that cannot be subjectively or psychically appraised. Social goals such as reducing homelessness, which concern more than the pursuit of monetary profit, are encompassed in the pursuit of psychic profit in the entrepreneurial decision-making process.<sup>6</sup> The notion of psychic profit thus carries significant explanatory power, as it provides a basis for making sense of complex choices entrepreneurs face when acting at the boundaries of the price system. While monetary profit is vital in guiding entrepreneurs’ decisions (Mises, 1998, p. 249), entrepreneurs are not solely functional types who only maximize monetary profits. At the “micro” level of real individuals and actions (e.g., Saebi et al., 2019, pp. 80, 84; Shepherd, 2015, pp. 493–94), profit seeking is a question of sequential, marginal, iterative, heuristic, and uncertain decisions (McMullen, 2015, p. 652; Rapp and Olbrich, 2023) about the importance to the entrepreneur of different forms of value creation (Packard and Bylund, 2021).

The interplay—and, sometimes, trade-off—between the two kinds of profit is thus an essential aspect of all entrepreneurial choice, and of all forms of enterprise, from the most economically driven to the most social businesses. This is different from the idea of two different logics or identities in conflict within particular organizations. The pursuit of only monetary profit—i.e., the abstract notion of pure profit maximization—is unrealizable, just as the notion of pure charity is (see, e.g., Packard and Bylund, 2021). A purely monetary-profit-maximizing entrepreneur is even hard to imagine: the “no-matter-what maximizer” is bound to be a sociopath, or the economic equivalent of a Machiavellian power seeker.<sup>7</sup> Furthermore, even this caricature of entrepreneurship would carry elements of social benefit and social value through the mutually beneficial process of market exchange (as famously recognized centuries ago by Adam Smith). Equally unrealizable are pure charities, where philanthropic entrepreneurs are driven by psychic profit alone—in other words, solely by subjective benefits they receive from doing good—and are completely unwilling to heed the parameters of economic efficiency for fear of letting monetary profit seeking guide their decisions or shape their organizations even marginally (Birkinshaw et al., 2014). Neither of these extremes is found in the real world. As a result, “economic logic,” or a monetary-profit orientation, turns out to be something else: the interplay between the pursuit of monetary profit and that of psychic profit. Equally, “social logic” involves the same interplay. As a result, the two parameters between which hybridity is supposedly anchored (Battilana et al., 2017), or whose interplay is revealed in different intensities and relative weights within organizations (Shepherd et al., 2019, p. 499), *inevitably involve*

<sup>5</sup> Of course, sometimes it is simply illegal to offer goods and services for money. Our concern is not with such cases, however, but with voluntary decisions entrepreneurs make concerning monetary and psychic profits.

<sup>6</sup> Ludwig von Mises, Frank A. Fetter, and other precursors of the modern JBA developed these profit concepts as part of their fundamental economic analysis, upon which they established theories of entrepreneurship. Schumpeter also wrote of “the elegant term ‘psychic income,’ which surely deserves further use” (Schumpeter, 2018, p. 54). Importantly, both types of profit contain economic elements, especially if we conceive of costs as opportunity costs (McMullen and Warnick, 2016, p. 635).

<sup>7</sup> Constantly maximizing monetary profit creates innumerable opportunities to bend or break moral rules. “True” maximizers would commit any kind of moral atrocity so long as it earned the highest available monetary profit, yet this is simply not how entrepreneurs behave in the real world (although there is no shortage of entrepreneurs who are willing to bend or break the rules somewhat).

elements of hybridity themselves, rather than constituting pure “logics.”

In all enterprises, different types of motivation (monetary, personal, social, etc.) are in a constant, natural, and inevitable state of negotiation and mediation through entrepreneurs’ decisions about their own psychic profit and through the price system: they do not represent a separate or irreconcilable decision problem. This in turn means that all enterprises are in a sense social, and what is called hybridity exists in all real-world business ventures. But, perhaps ironically, if everything is a hybrid, then nothing is—that is, if all businesses incorporate hybridity through entrepreneurs’ decisions, then hybridity is not conceptually distinct, nor is it necessarily conflictual or paradoxical in organizational terms. It is more accurate to say that all ventures exist in a landscape of economic and social engagement, i.e., amid an array of varied, but related, economic- and social-value pursuits bounded by the abstract notion of pure monetary-profit maximization and that of pure charity. This landscape comprises various magnitudes of economic and social value, yet its distinctive features form an integrated whole, not a forced combination of black and white dichotomous elements such as different logics or degrees of hybridity.

Shepherd et al. (2019) recommend focusing research on how different logics are distributed in organizations (hybrid relativity), and on how vigorously those logics are held (hybrid intensity). These factors are important but on their own lead to conceptual gaps or quandaries. First, hybrid relativity reflects the “representation of economic and social logics at the organization’s core” (Shepherd et al., 2019, p. 496). This terminology seems intuitive yet requires disaggregation and explanation. The logics are seen as objective magnitudes that can be measured or at least identified and separated in practice. However, below the organizational level, things are more complex. How are these logics represented in practice, and to whom are they represented? What specifically constitutes the core of the organization? Without a foundation in action, these questions have no clear answers, and hybrid relativity is limited to a descriptive term that tells us little about how entrepreneurs arrive at a specific distribution of economic and social goals or how that distribution changes over time.<sup>8</sup>

Second, hybrid intensity also lacks substance unless it is connected to action. Intensity is the vigor with which a logic is held, but this too invites further questions. How is vigor identified or measured? What does it mean for vigor to be “held”? And who or what is doing the holding? The only way to answer these questions is with reference to the actions of individuals. Specifically, entrepreneurs (as ultimate decision-makers) determine the relative vigor of economic or social goals through their decisions about how to allocate resources in the organization. Unless it is realized through some sort of decision, vigor is an empty concept; as it cannot exist independent of concrete choices, it needs to be understood as manifested through entrepreneurial action.

Following this thread, the interplay of the two kinds of profit, monetary and psychic, replaces aggregate notions of economic or social logics as the focus of analysis. This is particularly important because focusing on aggregates and collective givens has moved theorizing away from its microfoundations in action and has led to an emphasis on aggregate costs and benefits rather than either entrepreneurial decision-making at the margin or a comprehensive multilevel analysis (e.g., Agafonow, 2015, p. 1043; McCulloch and Ridley-Duff, 2020; Ratinho and Bruneel, 2024; Saebi et al., 2019, p. 84). Entrepreneurial judgment, the result of sequential problem solving (Rapp and Olbrich, 2023), can be imagined as a governing sequence of profit-combination decisions. This theoretical array captures a wide range of social motivations, actions, and organizational forms: all businesses exist as reflections of entrepreneurs’ choices between monetary and psychic profit pursuits. This choice is everywhere, in all ventures.

Psychic profit also sheds light on social enterprises specifically. Social enterprise is ultimately about managing the two types of profit by subsuming, limiting, modifying, or channeling monetary profit seeking into social values or goals of some kind that produce psychic profit. Because many social goals cannot be evaluated using money, or their total value can be only partially appraised and comprehended in monetary terms (Mises, 1998, p. 216; Rapp and Olbrich, 2023, p. 196), social entrepreneurs must continually decide how to increase, reduce, or trade off potential monetary profits and psychic profits in obtaining that goal or providing that social value. They do not pursue either form of profit as an absolute and discrete variable but by considering risk as well as discounting between the present and the future value of both monetary and psychic goals they pursue. The margins in question are set by entrepreneurs’ calculations, which determine an enterprise’s boundaries in terms of its size and its social involvement.<sup>9</sup> Boundaries between what can and cannot be evaluated in money prices are just that: boundaries for marginal, individual, entrepreneurial decision-making, not distinctive and aggregate organizational logics.

Because nonpriced goods (e.g., employee welfare, reducing homelessness) are not evaluated by entrepreneurs in monetary terms for use in production but are instead directly valued for their psychic benefits, the choice to use them only requires entrepreneurs to engage in individual, subjective valuation, not a market process using money prices. Entrepreneurs choose these goods despite not being able or willing to place them fully within the scope of the marketplace. By doing so, they potentially dampen their monetary profits in exchange for psychic profit or, if they align their social goals to the monetary value of the enterprise and consumer wants, increase both psychic and monetary profit. This is ultimately what happens when entrepreneurs heed the suggestions, influence, and expressed wishes of wider stakeholders, whether this is communicated to them through social regulation (McMullen and Warnick, 2016, p. 650), communities of inquiry (Shepherd et al., 2019), or other means. Social values and goals transmitted and internalized in this way provide a guide for entrepreneurs pursuing psychic profits that complements the pursuit of monetary profit without

<sup>8</sup> Note that Shepherd, Williams, and Zhao (2019, pp. 494–95) use concepts like “relative importance of social logic” to label the axes of their figures without explaining the relevant units of measurement.

<sup>9</sup> The judgment required to effectively balance profit seeking and alternative decision guides is a prime example of “ownership competence,” that is, entrepreneurs’ competence “in exercising property rights over resources that owners choose to assemble and control” (Foss et al., 2020). Moreover, the “processes of firm formation, growth, and ongoing operation are continuous” (Foss and Klein, 2012, p. 2), so comparisons of monetary and psychic profit must be made at every stage in enterprise development.

contradicting or compromising the ability to allocate resources efficiently and to plan production.

Put differently, psychic profit explains how all entrepreneurship—including social entrepreneurship and “hybrid” organizing—is utility maximizing for the entrepreneurs. The key is to understand that pursuing the most highly valued opportunities may require forgoing maximal monetary profits in exchange for psychic profits: forgoing monetary profits produces a greater summative value. This expands on Douglas and Shepherd’s (2000) model of entrepreneurial utility maximization by incorporating the social element (see also Packard and Burnham, 2021), and also fits with Bacq and Alt’s (2018) finding that feeling valued by others plays an important role in fostering social intentions. Such external validation is an important source of psychic profit.

By looking at entrepreneurs’ choices, we find an explanation of how they navigate difficult decisions between, say, short- and long-term financial value and personal values such as a feeling of authenticity in one’s social venturing (McMullen and Warnick, 2016, p. 648). Prosocial affects, motivations, identities, communities of inquiry, external pressures, and incentives do not directly make an organization a “hybrid.” Instead, these factors are filtered through entrepreneurial action and decision-making before they can impact the size, scope, and social engagement of an organization. This has implications for the role of psychology and/or cognitive research in entrepreneurship studies that extend far beyond this paper. However, it directly builds on Shepherd, Williams, and Zhao (2019, pp. 500–501), who emphasize entrepreneurs’ prosocial motivations but leave a conceptual gap between motivations and organizational outcomes. That gap is filled by judgment, by entrepreneurial valuations revealed through action.

The *micro* decision process we are explaining is most easily seen in small organizations where entrepreneurs exercise direct control of operations. However, the JBA also has special significance for larger firms with developed hierarchies, in which entrepreneurs are more distant from day-to-day decision-making. In this context the entrepreneur’s decisions often shift from practical operations to choosing how to effectively delegate such practical decision-making throughout the organization. As Frank Knight put it, the corporate entrepreneur’s “main function is to choose the officials who are said actually to carry on the business of the company ... Business judgment is chiefly judgment of men” (Knight, 1964, p. 291). Owner-entrepreneurs retain “original judgment,” that is, ultimate decision-making power within the enterprise. They in turn delegate “derived judgment” to managers, who exercise discretion within the limits set by those ultimate decision-makers (Foss et al., 2007).

The conventional view of the profit-making firm is that delegated authority relates to means but not ends. Managers seek the best available means to achieve the given end of the business enterprise, which is to earn profits (Knight, 1964, p. 291; Mises, 1998, pp. 286–91). However, by looking at the microfoundations of hybridity, it becomes clear that this distinction cannot be maintained: the strict separation of means and ends is an implication of the purely functional view of entrepreneurship. In practice, delegating authority influences the means *and the ends* of the organization. Once delegated, micro-level decisions influencing goals, which reshape the firm every day, are made by many different people within the hierarchy of a complex organization. They are subject to the final authority of the entrepreneur, but in the short run especially they can deeply influence decisions about the enterprise’s pursuit of monetary profit and the psychic profit of managers and anyone exercising derived judgment. Some implications of this point are explored in Section 5.3, in the discussion of mission drift.

Because every action can result in monetary and psychic profit, the question for entrepreneurs is what combination of profit can be pursued (given the boundaries set by economic calculation) and should be pursued (given the scope set by stakeholders, shareholders, and their own judgment).

#### 4. Profit decisions: some examples

To illustrate our approach, in this section we provide examples of what profit decisions look like in different kinds of enterprises, and the role that judgment plays in each type.

First, consider traditional corporate social responsibility (CSR), in which firms pursue monetary profits and simply donate part of them to a charitable cause (rather than, say, adopting triple-bottom-line accounting to estimate economic, social, and environmental impacts). For example, the American department store chain Kohl’s, which is a typical monetary-profit-seeking business, donates the entirety of the net profit from its special Kohl’s Cares merchandise collection to causes that support the health and well-being of families in surrounding communities. It claims to have donated at least \$415 million through this program since 2000 (Kohl’s, n.d.). This form of CSR provides a social benefit, but it is also a source of psychic profit for the entrepreneurs as ultimate decision-makers (these benefits could accrue to individual entrepreneurs, or in the case of larger corporations, to the board members, who exercise original judgment). Yet it does not involve “hybridity” distinct from ordinary entrepreneurial decisions at this firm, nor does it involve a paradox or inherent incompatibility between the donation and the pursuit of profit.

A similar point can be made about the entrepreneurial choice to take a company public or not, which at one time was described as “one of the most important and least studied questions in corporate finance” (Pagano et al., 1998, p. 27). In particular, the choice to keep a company private tends to be driven by the personal benefits that accrue to private control (the psychic profits of entrepreneurs) rather than by growth opportunities (monetary profits for entrepreneurs and investors) (Helwege and Packer, 2009). Family-owned firms are especially averse to losing the benefits of control, as they often navigate “underdeveloped capital markets with weak legal institutions and investor rights” using unique or tacit knowledge or human capital (Masulis et al., 2020, p. 5213). Yet entrepreneurs who choose to stay private even in the face of growth opportunities still maximize their total welfare (monetary plus psychic benefits) without necessarily maximizing money income. It would be strange to call these family-owned private companies—such as Mars Inc., Cargill, or Bechtel—examples of (organizational) “hybridity,” but that is a reasonable conclusion if we ignore individuals’ psychic profits.

Second, consider an entrepreneur running a conventional monetary-profit-seeking enterprise, such as the CEO of FastSigns, a company featured in an episode of *Undercover Boss* (Dabl, 2022). The entrepreneur discovers that one of his employees is



underperforming at work due to the stress of a difficult family situation and is in danger of being evicted from his home. If poor productivity causes financial difficulties for the company, then from the perspective of strict monetary profit seeking under uncertainty, the boss's decision should be to lay the employee off. But entrepreneurs also want to create a friendly company culture, to be personally generous, and to increase the positive visibility of the company by being featured on the TV show. The latter goals can be partially appraised in terms of their costs and PR benefits but cannot be fully comprehended or expressed in monetary terms. Thus, the entrepreneur must consider the difference between the costs and benefits of hiring a more productive employee, and the benefit (or psychic profit) of helping a person in need, both now and taking into account the future value of the business. In the FastSigns case, the entrepreneur chose to donate \$50,000 and a car to the employee, and enrolled him in a customized training program. On the margin, the employer acted like a social enterprise, even though the underlying motivation of his business was still monetary profit seeking, and the form of FastSigns' organization did not change formally or informally. Crucially, virtually every decision involved in running any enterprise involves similar social decisions, whether the enterprise is explicitly social or not.

Third, consider the case of industries where technological development has been steadily leading to the preponderant automation of production (Chandha, 2022), especially manufacturing, logistics, and transport. Entrepreneurs in these industries must weigh not only potential future revenue against costs but also monetary profit against psychic profit and decide how much to be guided by each. Some choose to replace human workers (e.g., Tesla), others try to automate slower than they grow to minimize layoffs, and still others invest in a skill shift, creating more future jobs for their employees. Examples of the last option are found particularly in South Korea and Singapore, which boast high rates of robot adoption and low rates of unemployment (Economist, 2021). Yet both slowing automation and investing in new skills involve entrepreneurs trading monetary profit for the subjective well-being of knowing that their employees are being taken care of. These decisions are made from an ex-ante vantage point—like buying from a supplier with a higher price because of that supplier's sourcing, sustainability, contribution to community welfare, or shared value (Porter and Kramer, 2006)—i.e., they are moral actions performed before consideration for monetary profit. But entrepreneurs also consider the future value of the business, and thus ex ante decisions, and their immediate considerations for monetary profit, are mediated both by psychic profit and by future considerations of monetary profit. In any case, in this scenario as well, what seem like hybridity and conflicting logics when viewed at the aggregate level turn out to be economic decision-making and judgment at the micro level.

Fourth and finally, consider the case of certain social enterprises in the UK, such as Aspire, Shelter, The Big Issue, and Emmaus, whose purpose is to reduce homelessness (Richardson, 2013). Rather than firstly seeking monetary profit or identifying themselves as ethical monetary-profit companies, the *primary goal* of the entrepreneurs who run these enterprises is to create social benefits. In these cases, this means reducing employment barriers for homeless persons and providing them with skills, qualifications, and education, ultimately aiming at their complete employment and social inclusion. While these goals cannot entirely be appraised in terms of money, social entrepreneurs nevertheless aim to earn a monetary profit to create further wealth to be employed in the service of the larger goal. Such entrepreneurs *specialize* in making use of the price system without letting their decisions be governed primarily by it. To do this, social entrepreneurs like Jane Harris from Aspire Oxford or Steve Weymouth from Shekinah Mission in Plymouth use their judgment to split up the aggregate problem of social versus economic goals into subproblems (e.g., Rapp and Olbrich, 2023, p. 197) to which they provide solutions through marginal decisions between monetary and psychic profits.

For instance, Skylight began by hiring homeless persons to work full-time in its commercial cafés (Richardson, 2013, pp. 23–24, 27). However, because “the demands of regular employment are inappropriate for individuals with severely chaotic lives, and ... [they] cannot form a profitable workforce” (Richardson, 2013, p. 40), the entrepreneurs running the café often incurred monetary losses—running it with 50 trainees from rehab centers led to a regular operating loss of over \$70,000. To solve these issues, the entrepreneurs had to decide whether to extend the company's social mission by also providing housing and counseling for its trainees or to restrict it to supported employment only. This appraisal does not imply an abstract reconsideration of entrepreneurs' prosocial motivations, identities, or broader organizational mission, nor is it resolvable through computational means (Rapp and Olbrich, 2023, pp. 194–95). What it does imply is a practical decision about the boundaries of the company, particularly about which aspects of it to subject to the monetary profit-and-loss test, and judgment about the goals and marginal alternative choices the enterprise faces. In the above case, Skylight café partnered with Crisis, a local charity, to outsource aid, outreach, and housing; once these issues were resolved, the café specialized in providing short- or long-term work placements and apprenticeships, becoming part of the “parent charity's wider mission and ... allow[ing] other parts of the parent organisation to generate profit” (Richardson, 2013, p. 33).

Calculations of monetary profit (or monetary loss) provide guidance to all entrepreneurs about how to organize their enterprises, and they provide knowledge about the effects of drawing their boundaries, helping them to navigate sequential decisions between monetary and psychic profit. A specifically social enterprise can thus maximize social value by heeding the signals of monetary profit and loss without prioritizing the latter as its sole guideline. In the interplay between monetary and psychic profit, social entrepreneurs often prefer to be guided by psychic profit. However, monetary profit seeking is an indispensable guide for choosing the boundaries of the firm and the degree of involvement that is most likely to sustainably increase social value.

Where an entrepreneur decides to set the boundaries of a firm determines how significant and formal its social aspects appear and whether it should be thought of as a conventional business, a specifically ethical business, a social enterprise, a charity, or something else. All of these involve deciding which resources to price within the market and which to hold outside the scope of the price system, because only within the framework of monetary calculation can we assess how much an entrepreneur can afford to steer away from monetary profit seeking and toward psychic profit seeking. There are many ways in which the social objectives of entrepreneurs are intermingled at the margin with their monetary-profit decisions, whether those objectives are complementary or integrated (Fowler, 2000). But in the long run, an enterprise cannot last if monetary profit is systematically ignored, and it will either transform into a traditional charity or become unsustainable.

The JBA outlined above reshapes our understanding of hybridity by showing the entrepreneurial process through which the social

and economic boundaries of organizations are set, and moves the field forward by taking a step back to reconsider its fundamental constructs. The question of negotiating the business and social aspects of an enterprise is only one example of a much larger decision-making process faced by all entrepreneurs, rather than a unique problem for certain organizations. What does make a particular enterprise unique is the point it chooses to occupy in this profit-decision landscape, a point that is subject to constant iteration and negotiation based on trial and error. While all entrepreneurs are faced with such choices, some specialize in making specific goal judgments and appraisal judgments at the boundaries of the price system, which can produce drastically different sizes and shapes of organizations.

## 5. Implications of a judgment-based approach to “hybridity”

The above discussions thus show that the mix of social and economic boundaries is not inconsistent, paradoxical, or sterile. This does, however, imply that widely accepted terms like “hybrid” and “social” are prone to inconsistent use and even to creating confusion, precisely because they indicate features of entrepreneurship that are universal. It is likely too late to completely abandon these terms, but we can encourage their clearer and more consistent use and the recognition that at most they signal differences of degree rather than kind among entrepreneurs and organizations. In any case, our microfoundations approach allows for many new connections to be made between hybridity research and other topics in entrepreneurship studies, and between entrepreneurship research as a whole and other disciplines, as we explore below.

### 5.1. Complexity and simple rules

This approach first invites the question of how, in practice, entrepreneurs navigate decisions about monetary and psychic profit.<sup>10</sup> A full answer requires future empirical research, so here we limit ourselves to making some suggestions to help guide such work. It is especially important to point out that the knowledge of which profit combinations will be most successful only emerges through entrepreneurs’ and consumers’ experiments regarding what the market will bear in terms of each kind of profit, and the relation between the limits of the market, a sustainable social order, and the optimum level of social benefit. Rather than an effort to manage incompatible elements, judgmental profit decisions reflect entrepreneurs searching for the proper economic specialization of an organization (Dorobat and Topan, 2015) under conditions that change over time, creating uncertainty, complexity, and the need for good judgment.

In more traditional enterprises, the size and limits of the firm are set mainly by entrepreneurs heeding the price system. However, in SEs or similar organizations where the price system is less available or less relevant, the resultant increased complexity makes it necessary to discover other methods. We suggest that these enterprises can benefit from developing frameworks of *simple rules* (Eisenhardt and Sull, 2001; Foss et al., 2022a; Kratochvil et al., 2023) to aid judgment and economize on the resources used in making a constant stream of profit decisions. Simple rules are guidelines for decision-making that balance generality and specificity, and provide an antidote to particularly chaotic, uncertain, and, above all, complex environments (Eisenhardt and Sull, 2001). When faced with such conditions, entrepreneurs can streamline decision-making to a small number of simple rules to provide stability (Kratochvil et al., 2023) and structure original and derived judgment especially, setting priorities for resource allocation across opportunities for monetary and psychic profit.

Simple rules refer to several types of questions relevant to profit decisions: how-to questions, boundaries, priorities, timings, and exits (Eisenhardt and Sull, 2001). Examples of simple rules already abound in social enterprises, although they are not always recognized as such. For instance, many SEs are based on priority rules—25 % of employees must be former convicts striving for rehabilitation, 10 % of all food produced in a restaurant must be given away to local homeless, 100 % of ingredients must be sourced from ethical producers, etc. Rules matter beyond these contexts, however. Boundary rules are especially notable in the context of profit decisions. The accreditation body Social Enterprise Mark CIC requires that any business that wishes to adopt the SE label must earn at least 50 % of its revenue from business activities (Social Enterprise Mark CIC, n.d.). There are many boundary rules that can be derived from this condition. For instance, an enterprise might require that whenever revenue from grants and donations exceeds 50 % for a significant period of time, it must spin off a new charity to absorb those funds and allow the enterprise to continue to function as such. The Skylight example discussed above deals with this sort of case: faced with financial losses from hiring the homeless, the enterprise had to decide whether to merge with another organization or to allow a new venture to specialize in the social mission while leaving the café to function as a normal business.

In sum, while judgment is necessary across all enterprises, what is different is the specific rules that will fit the “particular circumstances of time and place.” For instance, the more “social” factors come into play, the more necessary is a kind of moral decision-making (and moral rules). Discovering how to structure such rules may require collaboration with the social entrepreneurship sector as a whole (Mitzinneck and Besharov, 2019; Montgomery et al., 2012).

<sup>10</sup> Entrepreneurs navigate a complex and difficult economic and moral landscape (Hannafey, 2003), and it is not our goal to offer a comprehensive blueprint for making profit decisions, nor are we prescribing particular social values. Equally, as noted above, it is beyond the scope of this paper to probe the role of cognitive research and psychology in entrepreneurship.

## 5.2. Practical wisdom and normative pressures

No less importantly, the previous discussion implicitly highlights that rules, albeit simple, must also be good, appropriate, and effective, and that decision-makers must be skilled enough to apply them wisely. We can refer to this in Aristotelian terms as the need for “practical wisdom,” or “the capacity to understand and act upon what is both *good and feasible for oneself and others* in particular situations” (Dunham, 2010, p. 523; emphasis in original). In the context of this paper, practical wisdom refers to judgment in evaluating monetary profit seeking compared to other (social) rules (Foss et al., 2022b), or to what Rapp and Olbrich (2023) call *goal judgment and appraisal judgment*. Entrepreneurs who possess outstanding market-forecasting skills and other extraordinary abilities have something—a mix of experience, talent, knowledge, even empathic accuracy (McMullen, 2015)—that is not arbitrary or random. Whatever these skills might be, they include a moral element or counterpart: good judgment about how to navigate monetary and psychic profit. In other words, they require moral as well as economic insight into future consumer preferences, which goods and services to include in the market, and which social actions are necessary or desirable to pursue.<sup>11</sup> Individual self-regulation will play a part in shaping these judgments, but they can also be influenced by social regulation and government regulation (McMullen and Warnick, 2016, p. 647). Hence the need for an overarching framework of rules for each organization to also establish the boundaries of “good” entrepreneurial behavior.

Moreover, this raises the broader question of how psychic profit relates to “normative pressures” (Oliver, 1991). Once again, we see a difference between a view founded on entrepreneurial action and an organizational view. Research on normative pressures tends to view them as external forces to which entrepreneurs must “comply” or “conform” (Durand et al., 2019). That is, entrepreneurs passively react to normative pressures, which are given or exogenous. They begin in a kind of moral equilibrium that is then disturbed by outside pressures (Bundy et al., 2013; Oliver, 1991). Yet, business activity is never devoid of non-economic aspects, and is always to a certain extent socially oriented. As a result, we can assign moral agency to entrepreneurs, i.e., a component of inner moral structure in entrepreneurial action, irrespective of outside moral pressures. Entrepreneurs do not only respond to context; *they are part of the context* because they have certain worldviews and moral and ethical conceptions that infuse their work. Certainly, outside pressures can at times be the most important factors influencing entrepreneurs’ choices, but the inner side can also be the driving factor (for better or for worse) and should therefore also be considered. Practical wisdom and experience in using the inner moral agency in their entrepreneurial activity leads to an active disposition (trained, deliberate, habitual, and conscious) of entrepreneurs to tackle situations by looking at both economic and non-economic sides of things. This in turn connects to the notion of intensity discussed above, where entrepreneurial actions are also part of the context and help to shape it.

Although our approach refers to organizations in general, it connects especially easily to social enterprises and answers calls for prosocial entrepreneurship research in the broader literature (e.g., Saebi et al., 2019, p. 88; Shepherd, 2015). First, it emphasizes the underlying social aspects of traditional market entrepreneurship. It is an example of treating concepts like “social” behavior broadly to expand research boundaries, as opposed to stifling research by requiring overly narrow definitions (as warned against by Shepherd, 2015, p. 499), and thus creates harmony rather than division between traditional and social entrepreneurship. Second, this more integrated and conciliatory approach increases our appreciation of complex interactions across a variety of dimensions of value, motivation, and outcomes, enriching the range of conceptual work that can be done to capture the richness of real-world behavior. Rather than paint organizations as curiosities, paradoxes, or inherent problems to be solved, the JBA encourages us to appreciate the variety and benefits of entrepreneurial behaviors and organizational forms that exist around us. “Hybridity” is everywhere, and is being redefined and reshaped by the choices of entrepreneurs at every moment and in every market around the world.

## 5.3. Mission drift

An important example along these lines is the problem of mission drift (Cornforth, 2014; Ebrahim et al., 2014; Ramus and Vaccaro, 2017), an oft-lamented but poorly defined and understood phenomenon (Grimes et al., 2019). Mission drift can be conceptualized in our framework as a dynamic, iterative change in entrepreneurs’ marginal decisions about the ends of the enterprise. As these decisions accumulate over time, the actual conduct of the organization can differ widely from its stated purpose(s), general ethos, or legal status. That is, without the framework of economic calculation, it becomes easier for an entrepreneur’s decisions to diverge from “the framework, the opportunity, people, capital, and context” (Austin et al., 2006, p. 17).

Divergence also becomes possible between the ends of the entrepreneur and those of other members of the organization, such as managers. Because psychic profit is subjective, it often reflects tacit values that are difficult to communicate through an organization’s hierarchy, thus creating potential for conflicting ends when entrepreneurs do not consistently articulate ends to other decision-makers (see also Section 5.2). This is an example of what Grimes et al. (2019) refer to as “values-based complexity” in and around the organization, which gives rise to mission drift. Psychic profit helps explain how this complexity arises, while rules complemented by practical wisdom should be considered as a possible solution to ensure entrepreneurs can delegate judgment effectively. Importantly, a major goal of Grimes et al.’s (2019) theory of mission drift is to move the discussion beyond SEs and make the concept more general, which fits well with our approach to “hybridity” that also reveals its relevance to all firms. Yet our framework also responds to those critics who argue that missions themselves are complex and variegated (Varendh-Mansson et al., 2020). Beginning with psychic profit

<sup>11</sup> Our discussion of practical entrepreneurial skills can also be understood in light of tacit and dispersed knowledge, or “knowledge of the particular circumstances of time and place.” Furthermore, the ways entrepreneurs acquire and use skill in judgment depends on the institutional context (cf. Foss et al., 2019a; McCaffrey, 2018c).

takes us “upstream” to the fundamental problems of entrepreneurial choice that shape organizations.

Because of the inherent difficulties of communicating information about psychic profits, entrepreneurs using original judgment can fail to delegate effectively to those managers who can best realize a chosen mission. These microfoundations thus provide a fresh perspective on the traditional problem of the separation of ownership and control as well as derivative challenges like moral hazard (McCaffrey, 2017). The notion of practical wisdom also has a role to play—alongside principles and rules, governance mechanisms, and stakeholder engagement—in avoiding mission drift. For instance, mission drift can result from entrepreneurs’ failure to accumulate practical wisdom and effectively specialize the social margins of an enterprise (McMullen and Bergman, 2017, p. 245). One way to counteract mission drift is by using boundary or exit rules—for instance, by establishing markers for performance and impact that fit the organization’s unique mission. Failure to meet these standards triggers a specific response—e.g., if monetary profits increase disproportionately compared to estimated social benefits for more than two years running, growth activities cease until the two are aligned. Moreover, entrepreneurs can adopt these rules for their own benefit (the benefit of knowing that the organization stays true to its stated goals), for accountability purposes (as a signal to stakeholders that the organization is in good hands), or to create “small wins” within the enterprise (Wolf and Mair, 2019).

#### 5.4. Entrepreneurial groups

We have argued that there are inherent dangers in theorizing entrepreneurship only at the organizational or aggregate level and ignoring the micro or individual level. Nevertheless, the entrepreneurial function is often shared among multiple individuals, so it is important to say something about the relevance of our framework for entrepreneurial teams or groups in which decision-making authority is shared (Harper, 2008; Ruef, 2010) and to explore the meaning of psychic profit in this context. Psychic profit is individual and subjective, and therefore cannot be aggregated or added interpersonally. Instead, the entrepreneurs who together make up a team or group have their own preferences and psychic profits, which can differ widely and should be assessed separately. This contrasts with monetary profits (or losses), which are more objective and can be aggregated and quantitatively expressed as well as divided among claimants based on ownership titles or other criteria.

Consider a hypothetical example of an equal partnership of three entrepreneurs who create a business venture that serves football fandoms by organizing events and selling merchandise. The venture seeks monetary profits but also has an additional social goal of helping local communities by employing at-risk youth. Each founder owns one-third of the shares and receives one-third of the profits in dividends (or bears one-third of the losses in terms of written-off capital). The first entrepreneur is enthusiastic about being involved in this type of social business activity and about various other aspects of being an entrepreneur, such as the thrill of being his own boss. The second founder is content with the monetary profits she earns but is completely unmoved by, e.g., the social aspect of the business or the fact that she is her own boss because she has already founded many other similar ventures. The third founder is fed up with entrepreneurship and is on the verge of exiting altogether. He has limited interest in monetary profits and is plagued by a guilty conscience because the business creates a morally questionable product—perhaps it encourages customers to gamble recklessly on their favorite teams. Thus, we could say he incurs psychic costs or losses from the activity that are barely compensated by the monetary gains, which are just sufficient to keep him involved. In this example, all three entrepreneurs earn equal shares of money profits, which can be contracted, quantitatively expressed, and exchanged, yet they differ greatly in terms of their psychic profits and overall outlook on the business. These differences are not captured in the price system, as they fall outside the scope of economic calculation, and entrepreneurs’ decisions become more complex the more they choose to step outside the boundaries of economic calculation by choosing psychic profits over monetary profits.

Entrepreneurial groups and teams are receiving significant attention in the literature, but there are still fundamental problems to address surrounding the meaning of entrepreneurial groups or teams, the nuances of the social contexts in which they appear, how they are formed, and how they change over time (Ruef, 2010; Scheidgen, 2019). Psychic profit is a thread that can weave together these different problems by conceiving of entrepreneurial groups as attempts to overcome the complexities of communicating and coordinating dispersed, tacit knowledge about psychic profits. For example, forming teams is a process of entrepreneurs communicating and aligning their respective psychic profits, either to exploit areas of overlap or to fill specialization gaps. This also fits with the idea that teams are formed based on perceived shared purpose (Harper, 2008).

#### 5.5. Public policy

Our view also carries implications for policy makers. The above discussion shows that it is even more difficult than is normally acknowledged (e.g., McMullen and Warnick, 2016, p. 657) to separate traditional from social enterprises. Most real-world businesses exist far from the conceptual extremes, and their legal status might not reflect their actual behavior. For example, a venture can develop a social brand identity without obtaining any specific legal status. At the same time, a seemingly monetary-profit-seeking business can have large social elements not captured in CSR or social-enterprise metrics. Entrepreneurs who superficially pursue money profits may have deeper, less observable social goals, and nominally social entrepreneurs can be more focused on their own individual monetary benefit than their stated social missions imply.

Furthermore, the social elements in any business venture are dynamic and are tied closely to entrepreneurs’ practical decisions about combinations of profit. They reflect the subjective values and judgments of entrepreneurs, which are often in flux. Yet legal status can have a profound influence on whether and how enterprises do business (or “do good”): tax liability, regulatory and financial reporting, shareholder rights, etc., are all connected to legal classifications (Battilana et al., 2012). Consequently, public policy should use caution when defining different kinds of enterprises and avoid one-size-fits-all approaches. Equally, entrepreneurs are often

confused about which legal status is best for their ventures, and many change that status in order to thrive (Haigh et al., 2015a) or to signal a special legal identity such as a Fair Trade company (Glynn et al., 2020, pp. 55–56). Others face difficult choices between status as a traditional business or as a nonprofit, as both have unique costs and benefits. In some situations, entrepreneurs try to get the best of both worlds by creating separate legal entities with different legal statuses, which brings about more complexity through an additional administrative burden (Battilana et al., 2012, pp. 52–53). In response to the challenge of choosing a legal status, several countries have introduced new forms, such as the Benefit Corporation in the United States or the Community Interest Company in the United Kingdom (Rawhouser et al., 2015). These innovations may represent an important step forward for organizations that explicitly embrace a nontraditional form, but to what extent they manage to capture the nuances of entrepreneurs' profit decisions is a crucial topic for future research.

## 6. Conclusion

Examining the microfoundations of what is conceptualized as “hybridity” through the lens of judgment and economic calculation is a valuable step in the development of the JBA, as well as in entrepreneurship research generally. Most notably, focusing on entrepreneurial decision-making and choices about monetary and psychic profit provides previously unexplored economic microfoundations for complex organizing.

We also pose a challenge to the importance of hybridity as a fundamental construct, and to the idea that such organizations are inherently conflictual or paradoxical. What are typically seen as social or hybrid elements in enterprise are universal: at the micro level all businesses contain these elements, which are created and embedded in the enterprise through entrepreneurs' original and derived judgments. While there are differences in the extent to which these decisions are formally part of an organization's mission, in and of themselves they fail to distinguish hybridity as a distinct organizational form. This does not imply that it is pointless to study these decisions; if anything, a microfoundations approach reveals the powerfully social dimensions of entrepreneurship in general, even in the most seemingly monetary-profit-focused businesses.

Instead of aggregate economic and social benefits (Agafonow, 2015, p. 1043) or varying degrees or intensities of social and economic logics (Shepherd et al., 2019), we find that the boundaries of all enterprises are constantly being negotiated at the margins by entrepreneurs making judgments about monetary and psychic profits across a varied landscape of profit-combination decisions. The success or failure of these decisions ultimately shapes the size and scope of enterprises, and reflects an ongoing, dynamic process of change. It begins with entrepreneurs and ripples through their organizations and into adjacent communities and other entrepreneurs' choices and organizations, creating a profoundly complex environment.

In adopting this view, we thus avoid the conflictual and insular views of hybridity prominent in the literature and propose an approach that is more conciliatory and integrated. In addition to clarifying the action-based foundations of entrepreneurial organization, we fill a micro-level research gap that is currently neglected in favor of studying antecedents or aggregate or organizational aspects, and we thereby offer the possibility of greater integration with meso- and macro-level studies.

Lastly, our approach builds bridges to research on entrepreneurial action and issues surrounding complexity, simple rules, practical wisdom, normative pressures, mission drift, entrepreneurial groups, and public policy. We are hopeful that it will prove to be a useful (micro)foundation for future work.

## Credit authorship contribution statement

**Carmen-Elena Dorobat:** Writing – review & editing, Writing – original draft, Supervision, Investigation, Conceptualization. **Matthew McCaffrey:** Writing – review & editing, Writing – original draft, Conceptualization. **Mihai Vladimir Topan:** Writing – review & editing, Writing – original draft, Methodology, Conceptualization.

## Declaration of competing interest

We the authors affirm that there are no competing interests or conflicts of interest involving this paper.

## Data availability

No data was used for the research described in the article.

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