

# A Critical Assessment of Social Entrepreneurship: Ostromian Polycentricity and Hayekian Knowledge

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## Abstract

We offer a microfoundation of social entrepreneurship through the work of Vincent and Elinor Ostrom on polycentricity (Ostromian polycentricity) and that of Friedrich Hayek on the economics of knowledge (Hayekian knowledge) that reveals both the main strength and main weakness of social entrepreneurship. Problematizing social entrepreneurship in terms of the political economy of knowledge and based on Ostromian polycentricity and Hayekian knowledge, we first find the main strength of social entrepreneurship is that local, decentralized social entrepreneurs usually are the most appropriate and best-positioned—indeed, the most efficient—actors to solve their communities' social problems. Also based on the work of the Ostroms and Hayek, we identify the main weakness of social entrepreneurship: the lack of institutional safeguards to social entrepreneurship. The localized decision-making process, however, might mitigate to some degree the potential for large-scale abuse.

## Keywords

social entrepreneurship, polycentricity, knowledge, Elinor Ostrom, Vincent Ostrom, Friedrich Hayek

Muhammad Yunus and Lamia Karim in their books set up a fundamental and apparently contradictory account of microfinance that goes to the heart of the social entrepreneurship movement. Yunus in *Creating a World Without Poverty* (Yunus, 2007) advocates the development of social businesses owned by the poor to address poverty

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alleviation. He asserts that conventional instruments—for example, government, charity, multilateral institutions like the United Nations and the World Bank, corporate social responsibility—have all failed in their purpose. Like the microfinance institution (MFI) Grameen Bank he founded, Yunus believes that a profit-maximizing business owned and managed by the poor—the same poor whom it was set up to serve—is an efficient and effective instrument to alleviate poverty. The presumption is that the local owners know their community better than a distant, centralized authority and are therefore more effective in producing social change from the bottom-up for their community. “Social businesses,” Yunus (2007) concludes,

may become a source of the strong counter-voice that we are looking for. They can be a credible source that people can believe, because they know that those who speak aren't trying to manipulate them in search of personal gain. (p. 215)

Karim in her *Microfinance and Its Discontents* (2011) levels a strong critique of Yunus's bottom-up social entrepreneurship through microfinance. Rather than a bottom-up solution for poverty alleviation, she argues that social businesses like Grameen Bank operate unchecked and unregulated in rural Bangladesh. MFIs “are not grassroots organizations that the poor create and control for their welfare; rather, they are institutions that facilitate globalization at the grassroots level” (Karim, 2011, p. xx) through the surreptitious rise of “governmentality” and an unelected “shadow state” (Karim, 2011, p. 1). In this way, Karim asserts that social entrepreneurship like Yunus's social businesses can transmogrify into instruments of abuse at the local level without any sort of constraints, checks, or systems of accountability. Whose stance on microfinance as social entrepreneurship is accurate? Is social entrepreneurship a bottom-up process to produce social good as Yunus advocates? Or is it an undemocratic and unaccountable quasi-governmental process that produces social bad as Karim condemns it?

The argument put forth in this article validates *both* Yunus's and Karim's stances. Specifically, using the concepts of polycentricity by the Vincent and Elinor Ostrom and the economics of knowledge by Friedrich Hayek, we examine the function and practice of social entrepreneurship as the movement has matured over the past few decades and offer a critical assessment of social entrepreneurship that reveals both the main strength and weakness of social entrepreneurship. In our view and those of others (e.g., Wagner, 2005), Ostromian polycentricity and Hayekian knowledge perfectly complement one another much like form and content do. Ostromian polycentricity as form is a structural, institutional concept that guides and shapes Hayekian knowledge as content: the latter is subject to the structural and institutional arrangements of the former. And, as both concepts can be judged by efficiency considerations, both also have descriptive as well as normative implications. This article is not another exercise in defining social entrepreneurship; others have already done that very well (e.g., Dacin, Dacin, & Matear, 2010; Martin & Osberg, 2007). Nor is this a celebration of social entrepreneurship that treats it as a global panacea for seemingly all social problems; perhaps that has been done too much already. Rather, this article is a critical

assessment of social entrepreneurship guided by the concepts of Ostromian polycentricity and Hayekian knowledge.

Our article proceeds in three parts. In Part 1, we begin our critical assessment of social entrepreneurship by framing social entrepreneurship as a knowledge problem. We also maintain that social entrepreneurship is analogous to social policy making in that the objective of each is to produce social welfare for a target community or population. A fundamental difference between social entrepreneurship and social policy making, however, is the source of information on which the social entrepreneurship or social policy is based. We elaborate on this distinction and locate the role of knowledge in a non-market institutional setting<sup>1</sup> of social entrepreneurship that the concepts of Ostromian polycentricity and Hayekian knowledge help us to evaluate in Parts 2 and 3. In Part 2, we deploy Ostromian polycentricity and Hayekian knowledge to elucidate the main strength of social entrepreneurship. In over four decades of research in what came to be known as defined as the Bloomington School (Aligica & Boettke, 2011), Elinor and Vincent Ostrom consistently come to the conclusion that sustainable results to economic and social problems remain elusive unless local decision makers—and entrepreneurs—make decisions and engage in collective action. In other words, the Ostroms illuminate our understanding of how multiple centers of decision making, or “polycentric systems,” function. Similarly, Friedrich Hayek writes about the role of knowledge in society critiquing the ability of central planning to aggregate all the necessary information pertinent to establishing a “rational economic order.” Hayek explains this knowledge problem as the primary obstacle to establishing an economic system of resource allocation and, most importantly, a social system that coordinates the actions of countless actors with equally varying wants and desires. Supporting Yunus’s position on microfinance above, we find that the concepts of Ostromian polycentricity and Hayekian knowledge lead to the proposition that *local, decentralized social entrepreneurs usually are the most appropriate and best-positioned—indeed, the most efficient—actors to solve their communities’ social problems.*

In Part 3, we continue to use the work of the Ostroms and Hayek to identify a critical weakness of social entrepreneurship: *the lack of institutional safeguards to social entrepreneurship.* Ostromian polycentricity is embedded in their larger work in political economy. Their work on metropolitan governance (V. Ostrom, Tiebout, & Warren, 1961), governing common-pool resources (E. Ostrom, 1990a), institutional analysis, and public administration (V. Ostrom, 1974) focus on the normative implications of decentralized decision making in non-market contexts. “For [Vincent] Ostrom,” Wagner (2005) comments, “liberal governance in modern, complex societies can only be accomplished through institutional arrangements that are polycentric” (p. 176). Similarly, Hayekian knowledge is integral to his broader project in constitutional economics. Social entrepreneurs at the local, decentralized level might be the most efficient actors to solve their communities’ social problems (Part 2), but there are little to no safeguards protecting against abuse and misuse and ensuring transparency and accountability, supporting Karim’s analysis. As Hayek (1960) himself puts it, “It is that the case for individual freedom rests chiefly on the recognition of the inevitable

ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends” (p. 29). We bring everything together in the conclusion to construct a microfoundation of social entrepreneurship. Integrating our findings from Parts 2 and 3 illuminated by Ostromian polycentricity and Hayekian knowledge, we conclude that the strength of social entrepreneurship in Part 2 at least partially mitigates the critical weakness identified in Part 3. That is to say, Ostromian polycentricity and Hayekian knowledge at least partially offset the lack of institutional safeguards.

## Social Entrepreneurship and the Knowledge Problem

We posit that the relationship between social policy making and social entrepreneurship gives rise to a knowledge problem. Social entrepreneurship is analogous to social policy making in that the objective of each is to produce social welfare for a target community or population. In other words, social entrepreneurship can be seen as an instrument of social policy making. A crucial difference between social entrepreneurship and social policy making, however, is the *direction and source of information* on which the social entrepreneurship or social policy is based. Social entrepreneurs typically are embedded in the circumstances they seek to ameliorate. Generally and simplistically, social entrepreneurship is a bottom-up process originating in a target community as the resulting social welfare originates from immediate, firsthand knowledge from within the target community, such as in the microfinance initiatives of the Grameen Bank in rural Bangladesh (Shockley & Frank, 2011, pp. 192-193). By contrast, social policymakers (like all policymakers) generally are positioned centrally and outside of a community and use information provided to them. Resulting social-welfare policies are implemented from the top-down as policymakers consider a range of external factors such as “the characteristics of the society within which implementation takes place,” “the range of access points where formulators and implementers can influence form the course of events,” and “overarching social and institutional factors in a specific implementation effort” (Mazmanian & Sabatier, 1989, p. 19).<sup>2</sup> Gathering this information centrally and from outside the target community questions the quality of information for producing social policy. Is social welfare from decentralized, bottom-up social entrepreneurship more effective than centralized, top-down policy making? How do social policymakers from a centralized or external perspective truly understand a local community’s problems? In this way, we problematize social entrepreneurship in terms of the political economy of knowledge. Therefore, social entrepreneurship is a bottom-up process that fundamentally addresses the limited ability of centralized decision making to comprehend localized and context-sensitive knowledge of social problems.

Information problems are based on the basic acceptance of “the uncertainty and complexity of the social world, and the complexity of our approaches to understanding and changing it” (Moulaert, MacCallum, & Hiller, 2013, p. 21). (See also Koppl, 2006; Koppl & Minniti, 2008 for the operation of entrepreneurship in all human endeavors.) Here, we conceive of social entrepreneurs as *decentralized aggregators of*

*localized knowledge addressing social problems in their community.* This conceptualization of social entrepreneurship points to two qualities of social entrepreneurship. First, social entrepreneurs are relatively efficient consumers of information with respect to their communities' social problems. Whether in institutional contexts of a strong (Hawn, 2011; Wolk, 2008; Wolk & Ebinger, 2010) or weak (Shockley & Frank, 2011) governance, social entrepreneurs can more efficiently deal with information problems inherent to policy making because they reside at the local level and thus by definition are closer to the social problem that needs to be addressed. Second, and relatedly, social entrepreneurs offer an alternative, decentralized decision-making apparatus with respect to addressing social problems. The relative efficiency (in terms of proximity to information) of social entrepreneurs is similar to the distinction between small-group logic and big-group logic that Hayek draws in *The Fatal Conceit* (1988) that Beckmann and Zeyen (2014) identify. To these authors, small-group logic is ends-connected decision making based on informal group norms while big-group logic is rule-connected, formal decision making based on abstract rules. Thus, social entrepreneurs are aggregators of localized knowledge, and this decentralized decision making is necessary because only then "can we ensure that the knowledge of the particular circumstances of time and place will be promptly used" (Hayek, 1945, p. 524). Social entrepreneurship might address information problems from centralized, external social policy making, but higher quality localized and decentralized information quite possibly produces more effective social welfare and more efficient outcomes by solving the problems that a community prioritizes.

In some contexts, social entrepreneurship can complement social policy making. In its most simplistic, traditional form, any type of policy making is a government-managed, top-down policy tool focusing on the social objectives of its citizenry. Modern governments in developed societies are characterized as welfare states as they "are now predominantly occupied with the production and distribution of social well-being" (Esping-Andersen, 1990, p. 1) and its predominant instrument has been policy making. "The process of policymaking," Sabatier (1999) states, "includes the manner in which problems get conceptualized and brought to government for solution; governmental institutions formulate alternatives and select policy solutions; and those solutions get implemented, evaluated, and revised" (p. 3). Again, in its ideal form, government policy making addresses problems from the top-down. Research from particularly the social economy perspective attempts to "bottom-link" these top-down policy-making processes. For example, Miquel, Cabeza, and Anglada (2013) seek to "develop social innovation by public, private and civil-society actors as they find more space for intervening in the design and implementation of urban policies" (p. 155). Thus, in developed countries with high-capacity states, bottom-up social entrepreneurship can address the knowledge problem as a complement to the social policy-making apparatus of the state by legitimating policies and improving their efficiency. As Bornstein (2007) suggests,

the emergence of the citizen sector and social entrepreneurship are an adaption to the changing demands of the global environment, a departure from the top-down, centralized

problem-solving model that dominated the past century. They favor an integrated, decentralized approach that harnesses the efforts of creative problem solvers far and wide. (pp. xviii-xix)

In countries with less developed state capacity, social entrepreneurship can serve as a substitute for a social policy-making apparatus. In these circumstances, social entrepreneurship alone addresses social problems at the local level. Instead of a policy-making body such as a legislature, a government agency, or council devising or implementing from a policy from above, social entrepreneurs initiate their project at the “street level”—to borrow Lipsky’s (1980) term—and outside of government at least in the formative stages. Social entrepreneurs operate with a degree of discretion and autonomy at the local level as they attempt to solve community problems in the absence of government. Social entrepreneurs at the local level address the information problem as they are closest to a given communities’ problems. For example, Shockley and Frank (2011) demonstrate that less developed states lack the state capacity to drive and sustain social goals, especially in rural areas. The lack of state capacity (including in many instances the absence of government) has left both basic social needs (e.g., prenatal care and education) unmet and emerging social problems (e.g., malaria and HIV/AIDs) unaddressed. Social entrepreneurship has constituted itself as a vital bottom-up response to unmet basic social needs and unaddressed emerging social problems. The problem, of course, is that without some state capacity supporting the local social entrepreneurs that effective strategies for the implementation, enforcement, and replication of successful, localized solutions (devised by the social entrepreneurs) become extremely difficult to attain.<sup>3</sup> When social entrepreneurship is the substitute for a state policy-making apparatus, practical problems of implementation and administration arise as the information problems disappear. Either as a substitute for or a complement to social policy making, social entrepreneurship fundamentally addresses the knowledge problem. Ostromian polycentricity and Hayekian knowledge will help us understand why this is so.

## **Ostromian Polycentricity and Hayekian Knowledge**

Guided by Ostromian polycentricity and Hayekian knowledge, we seek to explain how social entrepreneurship fundamentally addresses information problems in providing social welfare that, formally, fall within the broad area of collective action (Olson, 1965/2000). Polycentricity in its essence gives rise to spontaneous order. Michael Polanyi, the philosopher and economist, has written extensively on these ideas by drawing from the physical sciences. Polanyi (1951/1998) first discusses spontaneous order by using an analogy between social phenomena and molecular chemistry. Elements in nature spontaneously and efficiently give rise to an order that would take intentional, deliberate human behavior much longer and with far less success. “Such a task,” Polanyi writes, “would keep the whole of humanity busy for years; yet a similar result is accomplished spontaneously in a few seconds, by internal forces acting between the molecules” (p. 191). Polanyi continues to explain that, as in chemistry

where an overarching authority cannot sort the molecules into neat piles, social phenomena cannot be organized into some ideal outcome. Decision makers must interact freely, and progress is the outcome of a trial-and-error-process (Aligica & Tarko, 2012). Where multiple centers of decision-making authority are active, it is crucial to allow for individuals and groups to gather the relevant information necessary to make the best decision possible. And the relevant information is the knowledge unique to a polycentric arrangement: Hayekian knowledge.

Hayekian knowledge is “the knowledge of the particular circumstances of time and space”<sup>4</sup> (Hayek, 1945, p. 521). The particular circumstances of time and space of Hayekian knowledge makes a claim to the efficient organization and use of information. Polanyi’s argument regarding the problem of economic calculation under a socialist economy links closely with Hayek’s economics of knowledge. Just as Polanyi argues that one cannot deliberately organize molecules but must rather let them spontaneously order themselves, Hayek argues that one cannot neatly organize how economic resources should most efficiently be utilized from a centralized position using scientific information. Since Hayekian knowledge is not organized and collected information, it “cannot possibly be called scientific in the sense of knowledge of general rules” (Hayek, 1945, p. 521). Rather, it is the kind of knowledge that is unorganized, context-dependent, and derives from multiple, localized sources of information—in a word, polycentric. Polycentricity provides a level of spontaneous order to Hayekian knowledge. Hayek (1960) advocates “piecemeal, rather than total, construction” (p. 70). In Jensen and Meckling’s (1996) terms, Hayekian knowledge is “specific” knowledge that, because it is difficult and therefore costly to disseminate, “requires decentralizing many decision rights in both the economy and in the firms” (p. 17). Hayek writes of the limitations of an individual or group to attain the knowledge necessary to make collective decisions on how to allocate resources in an economy from a centralized position. Knowledge in a market, and the necessary information needed to make efficient allocation decisions, is impossible to aggregate by a central authority. Hayek (1945) observes,

If we can agree that the economic problem of society is mainly one of rapid adaptation to changes in the particular circumstances of time and place, it would seem to follow that the ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and of the resources immediately available to meet them. We cannot expect that this problem will be solved by first communicating *all* this knowledge to a central board which, after integrating all knowledge, issues its orders. (p. 524, emphasis in the original)

Hayek explains that this unique knowledge is dependent on the circumstances of time and place, and some mechanism of gathering all the dispersed information is necessary. The market mechanism that can coordinate all the dispersed knowledge unique to the circumstances of time and place, Hayek explains, is the price system. How are social phenomena brought to order outside of a market context? The answer lies, in part, in the intersection of the work of Hayek and the Ostroms and their

research into polycentric decision making. The Ostroms utilize polycentricity by applying it in two primary contexts: administering managing common-pool resources (Elinor) and the governance of metropolitan regions (Vincent). Vincent's work will be discussed first.

Polycentricity features prominently in Vincent's work on public administration. He sets the stage for the importance of polycentricity in his classic book *The Intellectual Crisis in American Public Administration* (V. Ostrom, 1974) by arguing against the "unitary sovereign" system of government—urged for in Woodrow Wilson's *Congressional Government* (1885)—in which "some sovereign body which will exercise 'ultimate supremacy' and have the last say in making collective decisions" (p. 99). Polycentricity countered the unitary sovereign by removing "government as a locus of ultimate knowledge and final authority" (Wagner, 2005, p. 179). Polycentricity to Vincent is not simply decentralization, which still assumes hierarchy, but rather assumes a system "where different organizations have independent jurisdiction" (Bish, 2014, p. 229). Polycentricity requires "fragmentation of authority among diverse decision centers with multiple veto capabilities within any one jurisdiction and the development of multiple, overlapping jurisdictions of widely different scales" (V. Ostrom, 1974, p. 112). Vincent Ostrom (1974) insists that decentralized, democratic administration would be more efficient (and is therefore preferred) if public administration makes the members of the public as consumers of their central focus. In a social context, polycentricity offers the potential of giving access and voice to marginalized subgroups as they could more easily establish a center of authority in a community than in a centralized policy-making structure. This knowledge problem cannot be solved by a central planner. Similarly, "provision of public goods and services depends upon decisions taken by a diverse sets of decision makers . . ." (V. Ostrom, 1974, p. 112). Thus, very much like Hayek, polycentricity necessitates dispersed information from multiple sources. As Wagner (2005) observes, "In pursuing this orientation toward the pivotal importance of knowledge and intelligence, Ostrom would seem to be complementing such luminaries as Hayek and Knight" (p. 178).

Just as Vincent and Hayek argue that dispersed information renders it impossible for a centralized agent to aggregate all the knowledge necessary to make informed decisions, Elinor Ostrom demonstrates that the self-organization of polycentric decision sites repeatedly provides public goods and sustainable common-pool resources (E. Ostrom, Gardner, & Walker, 1994). Elinor demonstrates the viability of polycentricity in her famous example of water management in the Central and West Basin Water Replenishment District as "the process of problem-solving and negotiation involved in the establishment of this new district and the series of agreements with existing agencies" (E. Ostrom, 1990b, p. 127). This polycentric arrangement informed policy by including diverse decision makers and dispersed information was better suited to the complexity of the situation (E. Ostrom, 1990b). In a situation where multiple actors—whether they are agencies or individuals interested in the use of a resource—are present, self-correction features prominently in the polycentric arrangement to result in the most preferable outcomes. In her acceptance speech for the Frank E. Seidman Distinguished Award in Political Economy (E. Ostrom, 1998), Elinor



asserts the superiority of public economies with multiple centers of power at small and medium scales that provide opportunities for innovation and the co-production of services between citizens and public officials as well as correctives for the misallocation of authority and inefficient distribution of outcomes throughout a jurisdiction. Elinor's notion of multiple centers of power intersects with Hayekian notions of dispersed knowledge of the particular circumstances of time and place while her contentions on the misallocation of authority and the inefficient distribution of outcomes intersects with the Hayekian understanding of the local knowledge needed to avoid "malinvestment" resulting from centralized decision making. Wagner (2005) observes that Vincent "construes the problem of governance as more significantly one of the generation and utilization of knowledge in society" (p. 177). This just as easily applies to Elinor. The key point of polycentricity is that "the combined involvement of various actors" (Libman & Obydenkova, 2014, p. 300) with their particular knowledge of time and place—indeed, their Hayekian knowledge. Yunus's social businesses, owned and operated by the local communities, embody the notion of combined involvement of multiple actors with their Hayekian knowledge.

The value of polycentricity, in turn, is giving rise to non-market entrepreneurship as local entrepreneurs find Kirznerian opportunities utilizing their Hayekian knowledge. A polycentric system will enhance the ability of resource-users to shape institutions over time (i.e., implement rules governing the use of these resources) increasing the likelihood for sustainable outcomes because these institutions will be matched with the specific local contexts. Aligica (2015) argues that Austrian theory (to which Hayek belongs and the Ostroms are at least complementary) offers "an alternative vision of social order" to mainstream economic theories of nonprofits in which "an open-ended, non-deterministic evolutionary process emerging as an aggregate result of ideas, preferences, and values materialized into the voluntary decisions of the social actors" (p. 1035). Polycentricity advances this notion further by laying down an institutional basis for dispersed knowledge and multiple centers of authority. In his earliest work explaining this polycentric framework applied to the diverse entities providing services in metropolitan areas, Vincent et al. (1961) writes that multiple centers of decision making in a polycentric arrangement will coalesce institutionally into a system. Polycentric systems, just as self-corrective behavior in a market context, tend to "enhance innovation, learning, adaptation, trustworthiness, levels of cooperation of participants, and the achievement of more effective, equitable, and sustainable outcomes . . ." (E. Ostrom, 2010b, p. 552). And, again, as in Hayek, this requires dispersed knowledge. "Participants in a polycentric system have the advantage of using local knowledge and learning from others who are also engaged in trial-and-error learning processes" (E. Ostrom, 2010b, p. 552). This in a similar way is how Kirzner (1997, 1973) places entrepreneurs as the main actors in the "systematic process" of market participants acquiring "more and more accurate and complete mutual knowledge of potential demand and supply attitudes" (p. 62). The localized knowledge (unique to the firm, local government, association, or non-governmental organization) provides information that a monocentric framework is unable to attain. Just as in the Hayekian market process, the social entrepreneur here is the agent of coordination in a non-market context. Much like

market-based entrepreneurship, progress in the public sphere must come from trial and error, from an evolutionary process in which many agents interact freely. This polycentric process enables non-market entrepreneurs to emerge from the bottom-up given the existence of localized knowledge and continual feedback. In polycentric arrangements, Elinor points to “the possibility of local public entrepreneurs devising effective ways of providing, producing, and encouraging the co-production of these essential goods and services” (E. Ostrom, 2005b, p. 2). This coordination of decision making in the public sphere provides the conceptual framework for other forms of non-market entrepreneurial behavior, that is, social entrepreneurship.

## **Social Entrepreneurship and the Lack of Institutional Constraints**

The integration of Ostromian polycentricity and Hayekian knowledge coordination provides a microfoundation of social entrepreneurship by, first, giving a complete picture of the bottom-up practice of social entrepreneurship. Polycentric decision making is the process of knowledge coordination for local entrepreneurs as they search for innovative and better solutions to social problems. Therefore, the complementarity of Ostromian polycentricity and Hayekian knowledge strengthen our understanding of social entrepreneurship and the development of civil society. The work of the Ostroms and Hayek lead us to the position that local, decentralized social entrepreneurs usually are the most appropriate and best-positioned—indeed, the most efficient—actors to solve their communities’ social problems. Novy, Habersack, and Schaller (2013) write that “place-based or at least bottom-linked knowledge can be best mobilized for social innovations in favour of inclusion and empowerment of subaltern interests of class, gender and ethnicity” (p. 431). It would be difficult to find a more succinct description of the microfoundation that Ostromian polycentricity and Hayekian knowledge produces for social entrepreneurship. The level of order and coordination that polycentricity provides enables knowledge *competition*. In the marketplace of ideas, the better policy-making solutions can triumph over the weaker ones. Validated by bottom-up processes and enhanced by competition between multiple centers of authority, social welfare and outcomes can be improved.

The work of the Ostroms and Hayek, however, also illuminates a critical vulnerability of social entrepreneurship: the lack of institutional safeguards to constrain social entrepreneurship. Ostromian polycentricity is embedded in the Ostroms’s larger work in political economy. Lancaster (2014) articulates that “the Ostroms’ notion of ‘good governance’ incorporated a ‘bottom-up’ approach to collective decision making and system maintenance” (p. 254). This we have already established in Part II. But he continues, “They argued ‘good governance’ requires the rules and regulations of governance to be agreed upon by the participants” (Lancaster, 2014, p. 254). Social entrepreneurship crucially lacks these “rules and regulations of governance,” Karim’s critique (from the introduction) argues.

Two examples, one from Elinor’s work and one from Vincent’s, demonstrate that the Ostroms intend polycentricity to be part of a larger institutional setting, not a

free-standing concept. Elinor's polycentricity is a critical part of her well-developed framework for institutional analysis. The polycentric solution to the Central and West Basin Water Replenishment District discussed above in Part II "was in effect a 'constitution' for a multiple-agency management system to operate a coordinated program" (E. Ostrom, 1990b, p. 132). Multiple agencies with overlapping jurisdictions used the dispersed information uniquely available to them in a "polycentric public-enterprise game" to most efficiently manage the common-pool resource. Polycentricity must be overlaid with institutions to provide

sets of working rules that are used to determine who is eligible to make decisions in some arena, what actions are allowed or constrained, what aggregation rules will be used, what procedures must be followed, what information must or must not be provided, and what payoffs will be assigned . . . (E. Ostrom, 1990b, p. 51)

By contrast, social entrepreneurship operates with few if any rules govern social entrepreneurship as the state in which it operates largely lacks the capacity to enact or implement them (Shockley & Frank, 2011). Identically, Vincent intended that polycentricity be institutionally constrained. In his *The Political Theory of a Compound Republic: Designing the American Experiment* (V. Ostrom, 2008), Vincent sought to distinguish the "logic of productive relationships" from "logic of destructive relationships" (p. 40). Social entrepreneurship as a polycentric, bottom-up process utilizing localized Hayekian knowledge should fall within the former category of productive relationships. However, as in Elinor's work, polycentricity without being subject to the appropriate political institutions could transmogrify into the latter category of destructive relationships. In the same book, Vincent offers some basic propositions for the design of political institutions. Based on the *Federalist Papers* 41, his seventh proposition cautions that "a power to advance the public happiness involves a discretion which may be misapplied and abused" (p. 68). Social entrepreneurship unchecked is vulnerable to being misapplied and abused. Both Elinor and Vincent "emphasized monitoring as a means to hold fellow participants and public officials' feet to fire" (Lancaster, 2014, p. 252). Social entrepreneurship lacks the institutional safeguards to hold its practice accountable. No one with authority is watching the social entrepreneurs.

Hayek was no less concerned than the Ostroms with a weak institutional environment. Hayekian knowledge is tied to liberty; liberty, in turn, is tied to a strong constitutional order. Hayek's ideal of democracy rests on the principle that "government is constrained by a constitution, which presupposes the existence of just rules and provides machinery for their enforcement. The single aim is to preclude arbitrary action by the government" (Steele, 1993, p. 50). Hayek defines liberty as an individual's "independence of the arbitrary will of another" (Hayek, 1960, p. 12). It is obvious that a centralized authority furnished with scientific knowledge that imposes policies on individuals impedes the exercise of their liberty. But social entrepreneurship without any institutional checks on its practice, even using localized knowledge, could be no less coercive. As Hayek (1960) puts it,

Such control of the environment or circumstance of a person by another that, in order to avoid greater evil, he is forced to act not according to a coherent plan of his own but to serve the ends of another. (pp. 20-21)

There is nothing to ensure that the social entrepreneur is less tyrannical than a despotic state.

Yet polycentricity to a certain extent can mitigate a lack of institutional safeguards. Indeed, the spontaneous order of polycentricity can give rise to institutions to hold social entrepreneurship accountable as multiple centers of inchoate authority develop at the local level that can facilitate knowledge competition. Kaleem and Ahmed's article "The Quran and Poverty Alleviation" (2010) demonstrate how this competition can operate in two kinds of MFIs in Bangladesh, charity-based and interest-based MFIs. In contrast to interest-based MFIs (like Yunus's Grameen Bank) that "depend on foreign donors or loans on subsidized rates" and promote primarily women empowerment, charity-based Islamic MFIs are "driven entirely spiritual motivation and satisfaction rather than any commercial objectives" and emphasize family empowerment rather than only women empowerment, "as Islam declares men and women equal partners in terms of financial income and its usage" (p. 420). Hence, these represent two competing MFI solutions seeking to address poverty alleviation in the Bangladesh from the bottom-up. The competition enabled by polycentricity should improve the outcome of alleviating poverty. The competition at the local level in polycentricity is much weaker than a strong Hayekian constitutional order. It also does not address problems of scaling that Beckmann and Zeyen (2014) identify or one local solution is favored over another for political (i.e., non-efficiency) reasons. Yet polycentricity holds the potential to mitigate a lack of institutional safeguards to some extent.

## **Conclusion: Social Entrepreneurship as Coordination of Dispersed Knowledge**

Through the concepts of Ostromian polycentricity and Hayekian knowledge, we find that local, decentralized social entrepreneurs can be the most appropriate, best-positioned, and most efficient actors to solve their communities' social problems. This supports Yunus's stance because the most efficient social entrepreneurship occurs from the bottom-up and includes those with the most localized knowledge of the problems and issues their social entrepreneurship is addressing, such as the poor owners in many Grameen ventures. Social entrepreneurship thus can lead to powerful social change. The actions of entrepreneurs, guided by the information available to them at the community level, help to initiate some form of social innovation moving the overall social system closer to stability if not (Pareto) optimality. Hayek (1948) again provides useful clarity:

under certain conditions, the knowledge and intentions of the different members of society are supposed to come more and more into agreement or . . . the expectations of the people and particularly of the entrepreneurs will become more and more correct. (p. 45)

That is the main strength in the microfoundation of social entrepreneurship. However, the larger work of the Ostroms and Hayek also reveal the main weakness in the microfoundation of social entrepreneurship: the lack of institutional safeguards to constrain social entrepreneurship. Karim's critique of Yunus's microfinance initiatives presumes this weakness. Yet, the difference between main strength and the main weakness of social entrepreneurship can be lessened, and indeed the oppositional positions of Yunus and Karim on social entrepreneurship can be tempered. *The localized decision-making process can mitigate, to some extent, the potential for large-scale abuse.* In this way, Yunus and Karim are both correct but the scale of abuse and misuse has the potential to be less severe at using the bottom-up approach to solving social problems.

The coordinating role of social entrepreneurship is one where innovators, drawing on the localized knowledge unique to their context, act to bridge the gap where social-welfare provision falling within the purview of modern welfare states is absent or insufficient. The fundamental link in the coordination of dispersed knowledge must be a trial-and-error evolutionary process of many agents interacting freely. While existing institutions direct this process toward potentially greater (or lesser) overall impact (Baumol, 1990), it is the entrepreneur's agency that drives the possibility for change. Elinor argues that to unlock human potential, we must unlock the way we think about non-market institutional arrangements (E. Ostrom, 2005a). An institutional framework that incentivizes bottom-up agency to address solutions to many social problems facilitates a more efficient use of resources and a greater chance for system-wide change. It is the institutions that direct social entrepreneurial decision making leading to the most efficient and therefore most effective outcomes. While Elinor never specifically wrote about social entrepreneurship, though she did tackle public entrepreneurship in her dissertation (E. Ostrom, 1964), late in her career, she encapsulated her lifelong intellectual journey by examining the varying frameworks that explain the complex structures and arrangements leading to social change. Her work furthers our understanding of how entrepreneurs coordinate information under specific institutional arrangements (E. Ostrom, 2010a).

It is hard to overstate the importance of this coordinating role that social entrepreneurs play. As the complexities within society increase, more and more knowledge must be gathered to understand social problems, initiate possible solutions, and alleviate the suffering of under-resourced peoples. Whether social needs are strictly localized or reach a larger scale, a mechanism of information aggregation is crucial. The social entrepreneur, acting outside of a pure market or governmental framework, searches for ways to allocate resources to address social or community needs. Social change can occur at many different levels and can be catalyzed by many different agents of change. Social change is also a knowledge problem in that it must involve the aggregation of multiple sources of information (and centers of decision making) and the ability to perceive and act upon the knowledge available in a local context. Social entrepreneurs are the catalysts for social change in this process. Ostromian polycentricity and Hayekian knowledge thus provide a useful microfoundation for understanding social entrepreneurship.

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## Notes

1. Shockley, Frank, and Stough (2008) define non-market entrepreneurship as all forms of entrepreneurship not exclusively for profit. Their definition therefore allows for profit to be a motive, like many forms of social entrepreneurship and social enterprise, just not the primary motive.
2. Although top-down policy making is only a crude simplification, it is largely accurate even in decentralized policy making such as local policy making, federalist policy-making structures, or participatory policy making. The main point being conveyed is that they do not originate *from within* a target population, however proximate they are to it.
3. Martinelli (2013) reminds us that this can happen even in developed societies as inclusive social entrepreneurship can mask the scaling back of government.
4. Oguz (2010) provides an excellent account of how Hayek's view of "inarticulate knowledge" changed over time "knowledge of the particular time and place" and "dispersed information" into finally "tacit knowledge" in his later work. Any version of Hayek's notion of inarticulate knowledge qualifies as Hayekian knowledge in this article and works in the argument. We will use his first definition of inarticulate knowledge: the knowledge of particular time and place.

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