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BEYOND SHAREHOLDER VALUE MAXIMIZATION: ACCOUNTING FOR FINANCIAL/SOCIAL TRADE-OFFS IN DUAL-PURPOSE COMPANIES

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A growing number of companies choose to pursue financial and social goals simultaneously. These dual-purpose companies face inherent trade-offs as they are caught between the competing expectations of different stakeholders. We build a theory predicting the intensity of such trade-offs faced by dual-purpose organizations located in different institutional settings and adopting different governance mechanisms. We theorize that the intensity of the financial/social trade-offs experienced by dual-purpose companies increases with the level of economic liberalism of the institutional setting in which they operate. We further theorize that the influence of the institutional setting on the intensity of the financial/social trade-offs experienced by dual-purpose companies is filtered by their governance arrangements. We conclude by discussing changes in the surrounding ecosystem that could help to reduce the intensity of the trade-offs that companies experience, thereby paving the way for a new form of capitalism.

Shareholder value maximization has been the dominant model in management practice in the past decades. In much of the world, it has become the norm and expectation for publicly traded companies to put maximizing shareholder value above any other organizational goal and for privately held companies to pursue maximization of financial gains for their owners as the overarching organizational goal (Henderson, 2020; Stout, 2003). Yet, shareholder value maximization has not always been the taken-for-granted primary goal of companies. Rather, the perception of what goals a company should pursue has varied over time, based on the social context in which the company is embedded.

In the past decades, corporate leaders who have questioned an exclusive focus on profit maximization (like Yvon Chouinard, founder of Patagonia; Emmanuel Faber, former CEO of Danone; Paul Polman, former CEO of Unilever; or the late Anita Roddick, founder of the Body Shop) seemed like outliers. Yet, such questioning of corporate purpose is not new. The wider responsibility of businesses toward various stakeholders was, for example, already being debated in 1932 by Merrick Dodd in a *Harvard Law Review* article entitled "For Whom Are Corporate Managers Trustees?" In this article, Dodd challenged the shareholder-centric view, arguing in contrast that:

> Public opinion, which ultimately makes law, has made and is today making substantial strides in the direction of a view of the business corporation as an economic institution which has a social service as well as a profit-making function. (Dodd, 1932: 1148)

However, this balanced view of the financial and social responsibilities of corporations lost momentum in the second half of the 20th century with the rise of what Freeman, Martin, and Parmar (2020) referred to as "investor capitalism."

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In recent years, especially in the face of the environmental crisis that threatens our ecosystem and the 2008 Great Recession that has further increased inequalities (Stiglitz, 2012), the social context of business has started to shift once again, with intense calls from various actors for companies to embrace both financial and social purposes as core to their mission. Not only government officials and social activists but also millennials (Deloitte, 2019), global investors (Mudaliar & Dithrich, 2019), and even CEOs of corporate giants (Business Roundtable, 2019) are calling upon companies to account for their effects on people and the planet and to take actions that positively impact society in addition to serving their shareholders. Some have been communicating about such actions mostly for public relations purposes in response to these calls, while others have been genuinely pushing for change. Since the start of 2020, the COVID-19 crisis has brought a new sense of urgency to the need for this change.

Over the past decade, companies have thus been encouraged to embrace a dual purpose, combining the pursuit of profits with the pursuit of social goals. Social goals may be as diverse as lifting poor clients or suppliers out of poverty, ensuring employees' well-being, developing eco-friendly technologies, promoting healthy living, or protecting the environment. At a minimum, social goals entail "not knowingly do[ing] anything that could harm stakeholders" and rectifying any harm that companies cause to their stakeholders if or when "harm is discovered and brought to their attention" (Campbell, 2007: 951). They can also take more ambitious forms of willingly engaging in behaviors that produce value for society (Kaplan, 2019).[1] The pursuit of social goals may hence require a company to take actions both inside the company, like improving the eco-efficiency of production, and outside the company, such as investing in local communities that surround the company's operations.

Despite the growing expectation that companies pursue both financial and social goals, this model is still far from dominant. Contemporary companies are embedded in pluralistic environments (Kraatz & Block, 2017; Pache & Santos, 2021) where different stakeholders hold different views of what goals companies should pursue. Dual-purpose companies are thus likely to experience difficult trade-offs stemming from the competing expectations of their various internal and external stakeholders. Although a growing number of voices argue that financial and social goals can become synergetic (e.g., Freeman et al., 2020; Porter & Kramer, 2011), most dual-purpose companies continue to operate in contexts where financial and social goals are often perceived as being in tension, and sometimes even as incompatible. As a result, these companies face situations in which they are caught between the competing expectations of their key stakeholders regarding what goals they should pursue and what means they should use to achieve these goals. Trade-offs stem from the fact that attending to a stakeholder's demand may defy the demands of other stakeholders. Specifically, for dual-purpose companies, acting upon financial goals sometimes requires violating expectations from social stakeholders, whereas acting upon social goals can violate demands from shareholders. Such an experience of financial/social trade-offs tends to be "the rule rather than the exception" in dual-purpose companies (Hahn, Figge, Pinkse, & Preuss, 2010: 217).

Research shows that this experience can be draining and paralyzing for companies (e.g., Battilana & Dorado, 2010; Hahn, Pinkse, Preuss, & Figge, 2015). Even more challenging, it can result in organizations losing sight of social goals in the quest for survival and efficiency (e.g., Weber, 1904/2002). Selznick (1957: 134) famously warned of the "cult of efficiency" that leaders must transcend in order to "[create] a social organism capable of fulfilling [its] mission." This risk of abandoning social goals is now often referred to as "mission drift" (Grimes, Williams, & Zhao, 2019).

The perception of incompatibilities between financial and social goals and ensuing risk of mission drift is neither new nor unique to dual-purpose companies. It has been shown to be a common experience in the context of medieval monasteries (Rost, Inauen, Osterloh, & Frey, 2010), not-for-profits (Battilana & Sengul, 2006), and professions (Abbott, 1988). Nonetheless, the challenge that dual-purpose companies face today stands out because they attempt to diverge from practices deeply rooted in the dominant narrative that has characterized the past 50 years. Hence, it is not just that financial goals are perceived as different from social goals. Rather, as financial goals, and corresponding economic

[1] Note that this distinction has broad theoretical implications, as the former implies maximizing financial performance subject to constraints on social performance while the latter may imply a concurrent pursuit of multiple maximands. In this paper, because of our explicit focus on dual-purpose companies, we abstract away from this important distinction.

assumptions, have become the sole lens through which we see business, contemporary dual-purpose companies have to navigate a business environment that has become decoupled from the social sphere. If we are to understand how dual-purpose companies can thrive, it is thus key to understand the specific challenges that they face, as well as how these challenges can be mitigated.

In this paper, we take a step in that direction and explore the conditions that influence the intensity of the financial/social trade-offs experienced by companies that simultaneously pursue financial and social goals. Building on institutional theory and accounting for the social construction of organizational goals, we first theorize that the institutional setting in which a dual-purpose company operates influences the intensity with which it experiences these trade-offs. We elaborate on the observation that financial/social trade-offs, rather than being uniform, depend on the context (Wry & Zhao, 2018). Specifically, we propose that the intensity of the financial/social trade-offs experienced by dual-purpose companies increases with the level of the economic liberalism of the institutional setting in which they operate. Level of economic liberalism matters for the experience of trade-offs because it affects the way in which private interests are organized in society, how they relate to the central state and how concertation on these interests is achieved (Scott & Meyer, 1991).

Building on the observation that institutional processes are filtered and enacted differently by different organizations (Greenwood & Hinings, 1996; Lounsbury, 2001), we also posit that, in a given institutional setting, not all organizations experience financial/social trade-offs in a similar way. Governance arrangements—which define the ends toward which the organization is directed, the people who make key decisions in the organization, and the means employed to achieve the desired ends (Aguilera, Rupp, Williams, & Ganapathi, 2007; Cornforth, 2003; Kraatz & Block, 2008)—have been identified as one of the key sets of organizational attributes filtering institutional influences in pluralistic contexts (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). This is because they inscribe into organizational features the value commitments of the organization (Greenwood & Hinings, 1996) and thereby help the organization mitigate internal tensions that are unsettled within the broader environment. Accordingly, we propose that the influence of the institutional setting on the intensity of the financial/social trade-offs experienced by dual-purpose companies is filtered by their governance arrangements.

Taken together, our study contributes to the literature by recognizing the specific role played by institutional environments in shaping the experience of financial/social trade-offs in dual-purpose companies and unpacking how governance choices can mitigate this effect across companies. We see this as a critical step in predicting the sustainability and prevalence of these dual-purpose companies, in turn shaping the likelihood that they become a recognized and legitimate template, i.e., an institution in their own right. We conclude by discussing required changes in the surrounding ecosystem that could help reduce the frequency and intensity of the trade-offs that companies face, thereby paving the way for a new form of capitalism.

THE SOCIAL CONSTRUCTION OF ORGANIZATIONAL GOALS

Research has long pointed to the socially constructed nature of what we take for granted in organizations and, more broadly, in society (Berger & Luckmann, 1966). Practices often become institutionalized when they come to be perceived as solutions that address collective problems (Meyer & Höllerer, 2010), and when, over time, people tend to consider them as the natural order of things, even when they have long ceased to satisfactorily solve any problem (Douglas, 1986). Indeed, practices and structures in organizations reflect myths derived from their social environment (Meyer & Rowan, 1977). Although taken-for-granted norms and practices are enduring, stable, and difficult to change (Greenwood & Hinings, 1996), they nevertheless evolve over time, under the influence of external shocks (Greenwood, Suddaby, & Hinings, 2002), legal innovations (Scott, 2013), cultural processes (Hirsch, 1986), and social movements pushing for change (Schneiberg & Lounsbury, 2017). As such, like most myths, the dominant conception of what goal a company ought to pursue has evolved over time.

How Shareholder Value Maximization Became Dominant

We tend to take it for granted today that maximization of economic value is the primary goal of companies. However, this was not always the case. In fact, there are many historical examples of conceptions of organizations and companies in which the production of economic and social value coexisted. Shareholder-centrism, which has been at the heart of

the neoliberal paradigm over the past half century, is historically specific and has not always been the norm (Amable, 2011; Mudge, 2008).

During the late 19th and early 20th centuries, technological advances in communication and transportation paved the way for growth of companies in size and scope, leading to the emergence of "managerial capitalism," characterized by large enterprises managed by hierarchies of salaried managers (Chandler, 1984). The particular structure of the corporate legal form, with provisions to encourage investment and enduring contracts, was originally meant to support large-scale ventures, such as banks or railroads. These early corporations were often understood to be in the service not only of their investors, but also of their communities and society more broadly (Dodd, 1932; Stout, 2003). Such a dual orientation was echoed by those who pioneered business schools and business education at the beginning of the 20th century, intending to imbue management with the moral legitimacy and authority to serve society (Khurana, 2007).

It was the 1950s that marked the beginning of the proliferation of "management science," with technical capabilities meant to be the basis for moral legitimacy. This trend spearheaded a broader change from professional ideals to professional knowledge in management thought and practice. As a result, "managerialism"—the reliance on professional managers and the concepts and methods they use—became the new norm for companies. By the 1970s, "managers with little or no equity in the enterprises administered made decisions about present production and distribution and the allocation of resources for future production and distribution" in the advanced industrial economies (Chandler, 1984: 503). The rise of managerialism coincided with the rise of the finance conception of control in large companies based on the use of financial tools to evaluate product lines and divisions. This led to the proliferation of diversified multidivisional companies as managers pursued growth by diversifying on the basis that "financial performance was all that mattered" (Fligstein, 1990: 226).

The increased dominance of the finance conception of control was associated with the growing influence of the field of economics (Fourcade, 2006). Economists' "increased, if contested, interpenetration" into business life became especially prominent with the ascendancy of neoclassical economics that shaped managers' and shareholders' view of what effective management was supposed to look like (Fourcade & Khurana, 2013: 123). The fundamental approximation behind neoclassical economics was that an average individual is rational, makes choices based on full and relevant information, and maximizes utility (Weintraub, 2007). Building on this set of assumptions, in the 1970s and 1980s, some economists ushered free-market economics into academia, as well as into popular culture and the legal landscape. This view was foreshadowed in Milton Friedman's (1970) widely discussed *New York Times Magazine* article entitled "The Social Responsibility of Business Is to Increase its Profits."

Friedman's statement became a dictum over time, and one that few managers could publicly question until recently (Davis, 2009). Support for his argument was largely provided by the emergence of agency theory in the 1970s as the main lens through which to evaluate corporations and corporate governance. In a strong rebuke of managerialism, financial economists Michael Jensen and William Meckling (1976) cautioned against the conflicting interests of owners and managers, who, in principle, were assumed to have little interest in anyone's gains but their own. By understanding companies as a nexus of contracts, agency theory scholars created the conceptual tools underpinning the emergence of the interests of shareholders onto center stage in the following decades (Lazonick & O'Sullivan, 2000). They also cautioned managers that a lack of full commitment to shareholder value creation (and associated higher market valuation) would likely result in a greater cost of capital for their companies and a greater chance of failure or being taken over (Jensen & Ruback, 1983), thus further reinforcing the focus on this sole performance criterion. Indeed, agency theory "underlies the entire intellectual edifice in support of shareholder value maximization" (Ghoshal, 2005: 80).

Over the second half of the 20th century, this understanding was reinforced by the introduction and diffusion of practices and tools that infused shareholder value maximization inside the companies and their ecosystems (Ferraro, Pfeffer, & Sutton, 2005). For instance, much of the workings of the contemporary financial markets have been informed by option pricing models developed by Black, Scholes, and Merton in the early 1970s (Taleb, 1998). The development of these models and the introduction of a listed options exchange in 1973 moved options from obscurity to "an expansion unprecedented in American securities markets" (Cox, Ross, & Rubinstein, 1979). Interestingly, what became known as the Black–Scholes formula used to fit the data rather poorly in its early days. Over time, however, the

model began to fit the data much better (Rubinstein, 1985) and option pricing became "the most successful theory … in all of economics … when judged by its ability to explain the empirical data" (Ross, 1987: 332). This remarkable precision did not come from improvements made to the model or from relaxing its assumptions. Rather, it came from the markets' increasing adoption of model's assumptions as truths and the formula as a guide in trading practice (MacKenzie & Millo, 2003). Thus, the model became a self-fulfilling prophecy, further legitimizing the dominance of the shareholder value maximization paradigm.

The strength of the paradigm was such that it also shaped the use of new tools. Consider the adoption of the balanced scorecard as an accounting measurement process in the 1990s. Popularized by Kaplan and Norton (1996), the initial premise of the "balanced scorecard" was overcoming limitations of traditional performance measurement tools based solely on financial metrics by including additional metrics for dimensions such as customer satisfaction or, improvement of internal processes. It also provided managers with tools to quantify the relative importance of various metrics for overall firm performance. Over time, the balanced scorecard has become "the tool of choice for evaluating how managers are performing in the pursuit of various corporate social responsibility (CSR) goals and for motivating them in the pursuit of these goals" (Bento, Mertins, & White, 2017: 769). However, the subjectivity allowed in setting weights to different performance measures favored an increasing focus on short-term financial goals (Ittner, Larcker, & Meyer, 2003). As a result, the widespread adoption of the balanced scorecard further reinforced the shareholder value maximization paradigm by aligning the incentives of management with those of the owners (Budde, 2007).[2]

Overall, shareholder value maximization, which was recognized as an "import" from the United States, springing, in large part, from neoliberal economic theories (Djelic & Etchanchu, 2017; Meyer & Höllerer, 2010), became the norm for companies not only in the United States but across the globe (Dobbin & Zorn, 2005; Fligstein, 1990). As a result of this evolution, the world economy has become increasingly controlled by financial markets (Battilana, 2015; Davis, 2009). This further shaped the perceived divide between financial and social values within companies. Financial and social values came to be perceived as belonging to radically different institutional spheres. Companies were now expected to focus on financial goals, while not-for-profits and public organizations would focus on social goals. On top of this, despite overwhelming empirical evidence that most companies concurrently pursue multiple goals (Meyer & Gupta, 1994; Obloj & Sengul, 2020), organizations were expected to prioritize a single objective since any other alternative would lead to "confusion and lack of purpose" (Jensen, 2002: 238; see also Sundaram & Inkpen, 2004).[3] As a result, financial and social goals have become increasingly perceived as incompatible (Brown, 2015).

This overview of the evolution of the social construction of companies' goals over the past centuries suggests that the distinction between financial and social goals is mainly a "vocabulary of motive" (Mills, 1940), which reflects the dominant norms and values of a given context at a particular point in time. This vocabulary directly translates into different perceptions of how compatible financial and social goals are (Besharov & Smith, 2014; Smith & Besharov, 2019). As appeals to make both goals central for companies become ubiquitous today, a fundamental question emerges: How can these calls translate into an actual change of norms and values that would make dual-purpose companies legitimate and accountable to both their owners and the society in which they operate? This shift is particularly challenging in a context where financial and social goals have become increasingly perceived as disconnected and conflicting.

The Salience of Financial/Social Trade-Offs

In contemporary Western societies, the joint pursuit of financial and social goals exposes companies to multiple and potentially conflicting demands because these goals are perceived to belong to distinct institutional spheres (Brown, 2015). In the absence of agreement on whether such dual goals are

[2] In documenting an almost-complete lack of adoption of this widely popular tool in France (in favor of a domestically developed Tableau du Bord, which pre-dated the balanced scorecard), Bourguignon, Malleret, and Nørreklit (2004) pointed to the fundamental ideological differences underlying American and French societies and different drivers of social order as one of the potential explanations for this separation.

[3] More specifically, Jensen (2002) advocated maximizing "total value," which refers to the sum of the values of all financial claims on the company, including equity, debt, preferred stock, and warrants.

legitimate, different stakeholders hold different views on what goals should be embraced, which results in the experience of intense trade-offs for companies. Take the example of the company Veja, which sells sneakers made with organic material (mainly rubber and cotton) sourced under fair trade and environmentally friendly conditions from small cooperatives in Brazil (Battilana, Pache, Sengul, & Kimsey, 2019). As Veja decides the price it will pay for the organic rubber and cotton that it purchases from the local cooperatives, it faces the difficult choice of satisfying the demand for better revenues from poor Brazilian producers that constitute these cooperatives (which were set up to serve as part of the company's social goal) or satisfying the demand for higher profits from the shareholders of the company and for lower end prices from customers.

Any company engaging today in the dual pursuit of financial and social goals is likely to experience such financial/social trade-offs. Satisficing the demands of some stakeholders may undermine the demands of others, which may be crucial to their survival (Pfeffer & Salancik, 1978). This experience of financial/social trade-offs has important consequences for dual-purpose companies. Research suggests that, when faced with contradictions between financial and social demands, companies often end up prioritizing financial demands (Grimes et al., 2019). When this is the case, a dual-purpose company is less likely to be perceived as an appropriate vehicle to achieve social goals. In addition, the experience of financial/social trade-offs may make the achievement of high levels of financial (or social) performance more difficult than it is for companies focusing only on financial (or social) goals. As such, companies that experience financial/social trade-offs are likely to be perceived as less legitimate than their single-purpose counterparts (Pache & Santos, 2013b). Moreover, even if a dual-purpose company manages to reach satisfactory levels of performance on both goals, the presence of trade-offs creates a higher risk for the company to be perceived by external or internal stakeholders as illegitimate (Hsu, 2006; Rao, Monin, & Durand, 2005), because it deviates from the dominant template of what a company "should" be. The resulting perception of illegitimacy may translate into a higher risk of losing access to important resources, such as investments, talent, or authorization to operate.

In the past decades, some scholars and business leaders have attempted to promote two alternative conceptions of dual-purpose companies to address the perceived incompatibility of financial and social goals.[4] The first line of thinking has advocated that companies can alleviate societal ills by explicitly incorporating social goals into their objective function, such as shareholder welfare (Hart & Zingales, 2017) or enlightened shareholder value (Jensen, 2002). To do so, companies need to define clearly the "exchange rates" between the objectives and specify a corresponding aggregation rule (Obloj & Sengul, 2020). For example, a company producing sugar-rich products such as carbonated soft drinks needs to specify their internal exchange rates between lost profitability resulting from decreasing sugar content in their products and the possible beneficial impact of such change for youth obesity. However, this approach requires unrealistic levels of rationality and ignores the descriptive reality that organizations (and individuals) are incapable of integrating multiple goals into one composite metric (Simon, 1972).

The second line of thinking has suggested that companies can focus on win–win scenarios to overcome financial/social trade-offs (Freeman et al., 2020; Porter & Kramer, 2011). This line of thinking takes a positive (as opposed to normative) approach, considering when and how it may "pay to do good"—that is, when the achievement of social goals enhances a company's financial performance (e.g., Cheng, Ioannou, & Serafeim, 2013; Flammer, 2015; for reviews, see Margolis & Walsh, 2003; Orlitzky, Schmidt, & Rynes, 2003). This stream thus suggests that CSR actions can lead companies to realize increased financial gains (Baron, 2001). There are circumstances in which this is the case. For example, employee wellness programs frequently both increase employee welfare and contribute to the company's bottom line by reducing health care costs and absenteeism and increasing productivity (Porter & Kramer, 2011). However, as noted above, it is often impossible to make financial/social trade-offs disappear because these trade-offs are often inescapable (Hahn et al., 2010; Kaplan,

[4] The roots of such attempts go back to the 1950s, when "corporate responsibility" became the framing for how academics in economics, law, and business questioned the limits of the dominant conception of corporations (Bansal & Song, 2017). The early normative theory of CSR was rooted in moral theory, welfare economics, and theology. It called for the need to develop the ethical responsibility of managers and companies to society and the environment, yet this normative conception failed to challenge the status quo and remained marginal.

2019). Taken together, the existing approaches offer little guidance with respect to lessening the experience of financial/social trade-offs.

In this paper, we take a different approach. We posit that the key challenge for dual-purpose companies is to understand the conditions that shape the intensity of financial/social trade-offs that they experience and to find ways to mitigate them. As such, our theorizing departs from approaches that assume the presence of win–win scenarios and focus on making a business case for sustainability (Kaplan, 2020). Instead, our conceptualization of the challenges faced by dual-purpose companies is akin to the protagonist of Johann Wolfgang von Goethe's (1795–1796) *Wilhelm Meister's Apprenticeship* and his efforts to embrace, in James March's (2015: 34) words, "contradictory values wholeheartedly enough to discover ways of maintaining them, rather than simply determining their exchange rates." Accordingly, we offer a perspective to understand the degree to which dual-purpose companies experience these trade-offs.

IDENTIFYING THE CONDITIONS THAT AFFECT DUAL-PURPOSE COMPANIES' EXPERIENCE OF FINANCIAL/SOCIAL TRADE-OFFS

Institutional Conditions Affecting the Intensity of Financial/Social Trade-Offs

The experiences of financial/social trade-offs in dual-purpose companies are likely to be driven in important ways by the norms and values of the environments in which they operate (Wry & Zhao, 2018). Decades of research in institutional theory has shown that organizations are, in large part, the product of common understandings and shared interpretations of acceptable behavior in the social context in which they are embedded (DiMaggio & Powell, 1991; Meyer & Rowan, 1977). As such, companies tend to "reflect the myths of their institutional environments instead of the demands of their work activities" (Meyer & Rowan, 1977: 341). Some of their core features are, at least in part, a reflection of the prevailing norms and values in their environments, enforced by public opinion and important institutional referents, such as regulatory bodies, schools, universities, and professional organizations (Scott, 2013). Complying with the dominant prescriptions in their environment is a way for companies to gain legitimacy and garner the resources that they need to operate (DiMaggio & Powell, 1983). When it comes to defining what goals companies should pursue as well as how to get organized to pursue them, different environments thus come to take different behaviors for granted and prescribe different organizational templates (Greenwood & Hinings, 1996).

The level of economic liberalism of societies plays a critical role in shaping the organizational templates that are considered as legitimate (Polanyi, 1944). Societies differ greatly regarding their level of economic liberalism as characterized by the nature and the extent of organization of private interests, their relation to the central state, and the manner and degree of interest concertation achieved (Scott & Meyer, 1991). This spurs considerable variation across nation states in the form and role of markets and companies (Hollingsworth & Boyer, 1997). Accordingly, we focus on the level of economic liberalism of the institutional context in which dual-purpose companies operate.

Three key characteristics of liberal economies are pertinent to the experiences of financial/social trade-offs in dual-purpose companies. First, when it comes to organizing private interests, they primarily depend on market relationships that "are characterized by the arm's-length exchange of goods or services in a context of competition and formal contracting" to coordinate their activities and build competencies (Hall & Soskice, 2001: 8). Non-market modes of coordination that entail more collaborative relationships and incomplete contracting are largely sidelined. Second, regarding the relation between the society and the state, non-state actors (including market actors) have a significant influence over the public realm (Dyson, 1980; Jepperson, 2002; see also Jepperson & Meyer, 1991).[5] As a result, access to the public realm is less restricted to the state and more open to market actors in liberal economies (Cassirer, 1966). Finally, when it comes to the way in which interest concertation is achieved, the social organization of liberal economies is more emergent than planned (Jepperson, 2002), with emphasis being placed on the system of actions that stems from commitments and capacities of individual actors.

We argue that the intensity of the financial/social trade-offs experienced by dual-purpose companies increases with the level of economic liberalism in

[5] State involvement is a given in any country, even though states vary greatly in the way they are organized and tied to society. Building on this observation, Evans (1995) drew attention to the kind of state involvement, rather than its magnitude, juxtaposing predatory and developmental states. As such, "different kinds of state structures create different capacities for action" (Evans, 1995: 11).

the institutional setting in which they operate, for four main reasons. First, the reliance of liberal economies on markets for coordination directly implies a lesser role for other actors (such as regulatory agencies or trade associations) in their functioning. In the absence of involvement and negotiation of such coordinating actors, liberal economies are more likely to be fragmented institutional environments (Scott & Meyer, 1991). Demands and expectations of diverse stakeholders remain disparate, exposing companies to multiple and potentially conflicting demands, thus increasing the intensity of the financial/social trade-offs that they experience.

Second, and relatedly, non-market actors, such as regulatory agencies, NGOs, social movement organizations, and the press, are relatively less powerful in liberal economies and play a less salient role in monitoring companies' actions. This is consequential for the experience of financial/social trade-offs because non-market actors can play an important role in counterbalancing the demands of market forces on the behavior of companies (Campbell, 2007; Schneiberg & Bartley, 2001), thereby reducing the perceived contradiction between financial and social demands for dual-purpose companies. In liberal economies, the relative weakness of these counter powers leaves market forces more dominant, thereby enhancing the perception of contradictions between financial and social goals, and in turn strengthening the experience of trade-offs by dual-purpose companies.

Third, normative pressures for companies to comply with the financial goals promoted by market logic are stronger in liberal economies. In general, organizational solutions to organizational problems are affected by the norms institutionalized in business elite networks as well as through academic institutions, professional groups (e.g., trade or employer associations), workers' responses (including unions), and/or broader community groups (Campbell, 2007; Guillén, 1994). In more liberal economies, the combination of fragmentation and weaker influence of non-market actors is likely to make market forces particularly salient. For example, the state's ability to push for a greater emphasis on societal goals, like reducing unemployment, improving the environment, and increasing equality, is diminished. In these contexts, companies embracing social goals in addition to financial ones are thus more likely to be perceived as deviating from the dominant norms and to be sanctioned for that deviance. In turn, they are likely to experience financial/social trade-offs with more intensity.

Finally, the belief in well-functioning and efficient free market mechanisms, which provides the ideological foundation for economic liberalism, has come to be associated with the norm of maximizing shareholder value by companies. The process of financialization of companies has been backed by the taken-for-granted beliefs that rational action requires "a single-valued objective" and that maximizing shareholder value is the best way to "enhance the well-being of society" (Davis & Kim, 2015: 2009). Accordingly, the greater embeddedness in economic liberalism characterized by arm's-length transactions and dependence on contractual relationships has led to a stronger salience of financial motives (Polanyi, 1944; Epstein, 2005). This, in turn, intensifies the experience of financial/social trade-offs by dual-purpose companies. Taken together, we thus propose:

> *Proposition 1. The intensity of the financial/social trade-offs experienced by dual-purpose companies increases with the level of the economic liberalism of the institutional setting in which they operate.*

The Role of Organizational-Level Factors in Mitigating the Experience of Financial/Social Trade-Offs in Dual-Purpose Companies

Organizations do not experience the environmental demands of a given context in a uniform fashion, since institutional processes are filtered and enacted differently by different organizations (Greenwood & Hinings, 1996; Hallett & Ventresca, 2006; Lounsbury, 2001). Organizations are not mere instantiations of environmental demands, but, rather, are "places where people and groups (agentic actors, not 'institutional dopes') make sense of, and interpret, institutional 'vocabularies of motive'" (Binder, 2007: 551). Thus, organizations can be seen as a set of attributes that filter institutional pressures (Greenwood et al., 2011). These filters include a variety of organizational attributes, such as hiring policies, incentives, or board structures, whose forms have been shown to vary greatly across organizations (Kraatz & Zajac, 1996). In turn, these differences influence how organizational members experience and respond to environmental demands, thereby shaping organizations' internal dynamics, including interests, values, power dependencies, and capacity for action (Greenwood & Hinings, 1996).

Building on these observations, we propose that specific organizational attributes filter the influence of the institutional context on the experience of

financial/social trade-offs in dual-purpose companies. With this inquiry, we do not aim to depict a world where certain organizational attributes could make trade-offs disappear or allow dual-purpose companies to avoid them. As we noted earlier, financial/social trade-offs are often unescapable, especially in more economically liberal economies. We instead argue that dual-purpose companies that operate in the same institutional setting but have different sets of organizational attributes are likely to experience these trade-offs with varying degrees of intensity.

Out of the organizational attributes that participate in filtering environmental pressures, governance arrangements play a critical role (Greenwood et al., 2011) because they are concerned with questions of organizational purpose and control (Selznick, 1992). They define three essential pillars of the organization: (1) the ends toward which the organization is directed, (2) the people who make key decisions in the organization, and (3) the means employed to achieve the desired ends (Kraatz & Block, 2008). As such, they inscribe value commitments into organizational features (Greenwood & Hinings, 1996), where "value commitments" refers to widely shared assumptions about "the nature of the enterprise—its distinct aims, methods, and role in the community" (Selznick, 1957: 55). In the context of dual-purpose companies, which, by definition, embrace both financial and social purposes at their core, these value commitments serve as a compass as these companies navigate competing conceptions about what goals they should pursue and how these goals should be achieved. Governance arrangements thus play a critical role when it comes to shaping the experience of trade-offs by organizational members because, by assigning value to specific goals and means, they can help lessen internally tensions that are unsettled within the broader environment.

Accordingly, we theorize that governance arrangements filter the influence of the institutional context on the experience of financial/social trade-offs in dual-purpose companies. More specifically, we focus on the three governance pillars that we defined above. Below, we highlight the ways in which each of these pillars and corresponding arrangements can contribute to strengthening the commitment of a company to its dual purpose. In doing so, they may filter some of the tensions that are imposed on the company by its external environment and thereby reduce the experience of trade-offs.

Goal setting. Governance arrangements defining organizational ends pertain to the way in which organizational goals are set. Organizational goals communicate what the organization stands for and help clarify whether an organization's actions and choices are aligned with its objectives, for both those inside and outside the company—employees, customers, contractors, investors, regulators, and shareholders alike. When goals are specific and explicit, they affect actions and choices through multiple mechanisms, including directing thinking and behavior to relevant activities and away from irrelevant ones, energizing people to exert more effort, directing attention and resource allocations, and increasing persistence in prolonged efforts (see Locke & Latham, 2002, for a review).

The way in which organizational goals are set is particularly important and challenging for dual-purpose companies. This is because, more than their single-purpose peers, they attempt to embrace both financial and social purposes at their core, which introduces complexity inside the organization and exposes organizational members to multiple and potentially conflicting demands. Hence, translating organizational purpose into specific organizational goals is a daunting task for dual-purpose companies. To address this challenge, some dual-purpose companies set specific financial and social goals, some set specific financial goals similar to many of their competitors and limit the statement of their social goals to a mere aspiration, and others state a general intention to embrace a dual purpose, without setting specific financial and social goals.

Research in organizational studies suggests that the absence of specific social goals alongside financial ones is consequential for dual-purpose companies because, when this is the case, they are likely to give priority to their financial goals (Battilana, 2018). Prioritization of financial targets may result from the "cult of efficiency," which leads organizations to overemphasize the actions, operational procedures, and technologies that increase financial outcomes (Selznick, 1957). In a company where organizational members predominantly adhere to financial logic because of their training or past experience, prioritization of financial targets may also result from perception of financial outcomes as more legitimate and deserving more attention (Friedland & Alford, 1991; Thornton & Ocasio, 1999). Alternatively, dual-purpose companies may give priority to social outcomes through their goal setting, thereby lose sight of financial outcomes, and run the risk of bankruptcy. This may happen when organizational members predominantly adhere to the social logic and emphasize the social

purpose of the company (Pache, Battilana, & Spencer, 2019).

We argue that the presence of specific and explicit financial *and* social goals serves as an important factor that filters the influence of the institutional setting on the experience of the financial/social trade-offs by dual-purpose companies. This is because the presence of such specific and explicit goals helps challenge the taken-for-grantedness of a sole institutional logic promoting and drawing attention to a single purpose. By infusing values aligned with the company's dual purpose, the setting of dual goals affects the "distinctive outlooks, habits, and other commitments" of the company, and may color "all aspect of organization life and [lend] it a social integration that goes well beyond formal coordination and command" (Selznick, 1957: 40). Furthermore, by explicitly setting both types of goals, a company commits publicly to pursuing both of them (Battilana et al., 2019). In doing so, it reduces the ambiguity and risk of decoupling that may be associated with such a joint pursuit (Crilly, Zollo, & Hansen, 2012). Thus, setting specific and explicit financial and social goals clearly states to both internal and external stakeholders the organization's value commitments, thereby mitigating the financial/social trade-offs experienced by dual-purpose companies. Accordingly, we propose:

Proposition 2a. Holding the level of economic liberalism constant, the more specific and explicit the financial and social goals of a dual-purpose company are, the lower the intensity of the financial/social trade-offs experienced by the company.

A distinct and equally important aspect of goal setting in dual-purpose companies is its "time horizon," which encompasses "that distance into the future to which a decision-maker looks when evaluating the consequences of a proposed action" (Ebert & Piehl, 1973: 35). Mirroring individual-level biases such as hyperbolic discounting (e.g., Dasgupta & Maskin, 2005), studies suggest that managers tend to excessively discount projects with long time horizons (Levinthal & March, 1993). This resonates with the propensity to overvalue instant gratification, which is particularly strong in dynamic decision-making contexts (Herrnstein, Loewenstein, Prelec, & Vaughan, 1993), such as those faced by dual-purpose companies.

Although focusing on long-term outcomes has become a general recommendation for any type of organization, consideration of time horizon is especially important for dual-purpose companies because, as Geradts, Battilana, and Kimsey (2018) documented in the context of a large multinational, adopting a longer time horizon may result in a lessened experience of financial/social trade-offs. There are at least two reasons for this. First, the trade-offs inherent to the pursuit of dual goals are likely to be stronger in the short term than in the long term. This is because social performance tends to be less amenable to short-term influencing than financial performance, particularly if it involves behavioral or environmental changes (Kim, Bansal, & Haugh, 2019). For example, substantial changes in the condition of the beneficiaries of a social intervention may take time, whether they involve an improvement in their health, in their economic situation, or in their mastery of new skills. Similarly, many changes in environmental conditions—such as reductions in carbon emissions—can only occur over long periods of time. As investments leading to increased social performance may involve short-term financial costs (and vice versa), companies that operate with a short-term horizon may be more liable to decision-making stalemates and mission drift. Slawinski and Bansal (2015) documented that, in Canada, as oil sands companies attempted to respond to growing pressures to address climate change, those that treated its long-term implications as separate from their short-term decision-making focused on lowering costs, even when this led to more greenhouse gas emissions.

Second, and relatedly, the commitment value of organizational goals increases with their time horizon. When organizational goals of a dual-purpose company have a short time horizon, organizational members are likely to anticipate that the priorities of the company may shift in the near future. When this is the case, the company's ability to build its dual-purpose into its social structure will be reduced. Furthermore, a dual-purpose company that adopts a short time horizon in its goal setting is more likely to be assessed by the dominant norms and values of its institutional environment, rather than its own distinct competencies and position. This exposes the company to conflicting demands, especially in settings where the pursuit of social goals is considered illegitimate. However, as Kraatz and Block (2008: 248) noted, organizational legitimacy problems that a pluralistic organization (such as a dual-purpose company) faces "may be mitigated, transformed, or even eliminated" if it is able to forge a durable identity of its own and emerge as an institution in its own right. This is only possible if the company credibly commits to its unique identity by adopting a long time horizon in its goal pursuit, because each organization

is held "hostage to [its] own history" (Selznick, 1992: 232). Hence, the presence of specific and explicit financial and social organizational goals is further reinforced in mitigating legitimacy concerns that underlie the financial/social trade-offs when they have a long time horizon. Accordingly, we propose:

Proposition 2b. Holding the level of economic liberalism constant, the longer the time horizon of financial and social goals of a dual-purpose company, the lower the intensity of the financial/social trade-offs experienced by the company.

Composition of leadership. The people who make key decisions in an organization play a critical part in its governance. Accordingly, research on governance arrangements has traditionally focused on the profiles and roles of people at the apex of the organization. The importance of the top management team was reflected in the title of the catalytic work of Hambrick and Mason (1984) on strategic leadership, "Upper Echelons: The Organization as a Reflection of Its Top Managers." A rich body of research has since explored when and how corporate executives influence organizational choices and outcomes (see Finkelstein, Hambrick, & Cannella, 2009, for a review).

In dual-purpose companies, top executives may be especially consequential, for two main reasons. First, top executives play a central role in filtering separate and often conflicting demands stemming from the company's various stakeholders. It is their responsibility to mobilize support from a wide range of external stakeholders that may help the company achieve its dual goals, such as investors, suppliers, and business partners, as well as governments and NGOs. Depending on the degree to which the external environment supports dual goals, top executives may also make the case for the legitimacy of their company's dual purpose to key external stakeholders (regulators, investors, etc.) to obtain favorable evaluations. Second, they play a central role in channeling the company's resources to both financial and social goals. Top executives can thus translate the company's dual purpose into actionable activities, and, when financial and social goals come into conflict in the enactment of these activities, they can ensure that neither goal is abandoned.

This complex role can be enacted more or less aptly depending on the profile of top executives. More specifically, we argue that "hybrid" top executives (Blomgren & Waks, 2015; McGivern, Currie, Ferlie, Fitzgerald, & Waring, 2015), who have been socialized in both financial and social logic through prior experience and/or training, are more able to deal with the multiple external demands that dual-purpose company face, compared with those managers who have been solely exposed to one type of logic. "Socialization" consists of the transmission of work skills, norms, and values that characterize the various organizational settings in which people have worked throughout their career (Feldman, 1981). As such, it shapes individuals' perspectives (Berger & Luckmann, 1966). A recent study of a cooperative bank showed that, following the acquisition of a typical commercial bank, an influx of new organizational members who had not been socialized in both the financial and social logics threatened the cooperative's ability to pursue its dual purpose. It was able to overcome this challenge by putting decision-making power in the hands of managers who had been socialized into both logics (Bacq, Battilana, & Bovais, 2018). This suggests that hybrid executives are more attune to the norms and vocabularies associated with both the financial and social logics (Pache & Santos, 2013a; Lee & Battilana, 2020), enabling them to interact in an intelligible way with organizational members and external stakeholders who may predominantly adhere to one of the two logics. As such, hybrid top executives play a valuable bridging role (Besharov, 2014), enabling them to mitigate financial/social trade-offs as they emerge. We therefore propose:

Proposition 3a. Holding the level of economic liberalism constant, the more that top executives of a dual-purpose company are socialized in both financial and social logics, the lower the intensity of the financial/social trade-offs experienced by the company.

In addition to top executives, board members also play a key role in filtering institutional pressures in companies that have a board of directors, including most large and all publicly traded companies. The board helps the company to balance its goals by mitigating agency problems caused by the separation of ownership and control and by providing resources such as advice, counsel, legitimacy, information, or support from external actors (see Hillman & Dalziel, 2003, for a review). Moreover, by articulating *for what* a company is accountable as well as *to whom* it is primarily accountable (Ebrahim, Battilana, & Mair, 2014), the board helps the company set some of its fundamental value commitments.

As the guardians of organizational purpose, board members help the company maintain these commitments through their role in the allocation of the requisite attention to a limited number of critical organizational issues (Tuggle, Sirmon, Reutzel, &

Bierman, 2010). Decision-makers' sustained attention to organizational goals is a requirement for their successful execution. This is because, according to the attention-based view of the firm (Ocasio, 1997), organizational attention affects firm behavior and strategy by establishing which issues and pressures decision-makers perceive and prioritize, and their corresponding actions. Hence, the board serves as a conduit through which pressures from the institutional environment are represented, interpreted, and examined.

Board members play a key role in enabling or inhibiting the pursuit of financial and social goals in dual-purpose companies (Forbes & Milliken, 1999). The extent to which board members focus on various dimension of performance, how they attribute weights to financial and social outcomes, and how they prioritize their internal and external relationships is likely to affect the extent to which the institutional environment in which a dual-purpose company operates shapes its experience of financial/social trade-offs. Furthermore, boards play a crucial role in structuring the representation of the interests of all stakeholders, through providing resources and access that enable pursuit of financial and social performance and subsequently monitoring that the interests of multiple stakeholders are represented.

Thus, board members' sustained attention to dual organizational goals is essential in the process of arbitrating the financial/social trade-offs inherent to most strategic decisions (Wry & Zhao, 2018). Dual-purpose companies are better shielded from institutional pressures when board members are committed to both financial and social goals, allocate the requisite attention to both, and hold the company accountable for both. Indeed, a comparative study on French work integration social enterprises suggested that, in organizations where board members manage to maintain their attention on both social and financial goals because they collectively represent both financial and social logics, the experience of financial/social trade-offs may be lessened (Pache et al., 2019). We thus propose:

Proposition 3b. Holding the level of economic liberalism constant, the more the attention of the board is focused on the achievement of both financial and social goals, the lower the intensity of the financial/social trade-offs experienced by dual-purpose companies.

Compensation of organizational members. Governance arrangements defining means to achieve organizational ends build fundamentally on organizational members—in particular, how they are selected and incentivized. This is because organizational ends are ultimately achieved through the actions and choices of organizational members who execute the activities required for the organization to exist and function as intended. In addition to the technological aspects of the task environment, the alignment of organizational members throughout the organizational hierarchy with the goals and values of the organization is thus consequential as a means to achieve organizational ends. Such an alignment reduces not only monitoring costs by complementing formal control mechanisms but also the intensity of the trade-offs experienced inside the organization.

Dating at least back to Barnard (1938), monetary incentives (such as pay for performance) and non-monetary incentives (such as awards, promotions, and status-granting perks) have long been recognized to play a key role in socializing and setting direction, and hence contribute to creating and fostering shared goals and values for organizational members (see Gibbons, 2005, for a review). Through their sorting properties (e.g., affecting who joins and who stays with a focal organization), incentive systems also affect organizational identity and intra-organizational dynamics. As such, incentives act as a buffer to environmental influences, as they clearly state internal expectations and potentially decouple them from external ones when they are in conflict.

Dual-purpose companies that set incentives tying rewards to performance on both financial and social dimensions may thus be better shielded from the experience of financial/social trade-offs than those companies that do not set explicit incentives or that tie rewards solely to financial or social performance (Flammer, Hong, & Minor, 2019). However, while setting such dual incentives is intuitive, their desired level of "power," which refers to the strength of the link between performance and rewards, is not straightforward.[6] Building on a growing literature that argues that an excessive reliance on incentives as a motivating device may offset the incentives' potential benefits (e.g., Gubler, Larkin, & Pierce,

[6] The power of incentives corresponds to their strength in linking performance and rewards. For example, when an organizational member is compensated solely with a fixed salary, incentive power is minimal. Conversely, when their entire compensation depends on realized performance (e.g., piece rates), incentive power is highest. Moderate incentive solutions put only a small, but not negligible, share of managers' income at risk.

2016; Obloj & Sengul, 2012), we contend that the experience of financial/social trade-offs may be attenuated when organizational members are rewarded for the attainment of financial and social goals with moderate, instead of strong (i.e., high-powered), incentives, for two main reasons: (1) multi-task distortion and (2) crowding out.

Multi-task distortions, which arise due to asymmetry in the extent to which different tasks or metrics associated with goals can be measured (Holmstrom & Milgrom, 1991), are particularly strong for dual-purpose companies. This is because financial metrics are often perceived to be more easily measurable than social ones (Delmas & Blass, 2010). Such asymmetry in measurability distorts the focus of organizational members toward financial metrics as the basis of their compensation. As a result, strong incentives, even ones that put equal weights on financial and social metrics, may actually backfire. In parallel, crowding out, which arises when extrinsic rewards lead to dampened intrinsic motivation for a particular course of action, is also a highly salient issue in dual-purpose companies. There is a growing body of evidence suggesting that intrinsic motivation may be crowded out by monetary incentives (e.g., Ariely, Bracha, & Meier, 2009; Gubler et al., 2016). This implies that strong financial rewards toward achieving social goals may result in organizational members' sense of purpose being crowded out by the perceived prevalence of financial logic inside their company. Taken together, these mechanisms suggest that both the absence of explicit rewards and the presence of high-powered incentives are likely to lead to an increased experience of financial/social trade-offs. Accordingly, we propose:

Proposition 4. Holding the level of economic liberalism constant, the more organizational members of a dual-purpose company are incentivized to attain both financial and social goals with moderate powered incentives, the lower the intensity of the financial/social trade-offs experienced by the company.

DISCUSSION

The historical evolution of the institutional divide between the for-profit and not-for-profit sectors—two spheres characterized by their own institutions—has reinforced the belief, and associated practices, that businesses should focus on economic value creation, whereas not-for-profits should focus on social value creation. Yet, recent developments have challenged this assumed dichotomy. A growing number of companies are attempting to embrace both financial and social purposes at their core, and these dual-purpose companies are becoming more and more visible and influential in contemporary economies. Even traditional publicly traded for-profit companies are openly questioning assumptions and redefining the goals that they pursue, incorporating social goals alongside their financial ones. Regulators are part of this trend as well, introducing, in some countries, laws and regulations that facilitate this joint pursuit (Marquis, 2020). However, many of these dual-purpose organizations are still struggling to achieve legitimacy for such a dual pursuit of goals. They experience strong trade-offs in their day-to-day operations as different stakeholders hold competing expectations regarding what goals they should pursue and what means they should use to achieve these goals (Pache & Santos, 2010).

In this paper, we begin to address this gap by building on the central premise that dual-purpose companies inevitably face financial/social trade-offs. This premise echoes Rangan's (2015: 279) observation that "any reconciliation of business performance with societal progress will require trade-offs between competing objectives." Achieving both financial and social goals, we argue, crucially depends on the intensity of these financial/social trade-offs: as the intensity of the trade-offs increases, companies are likely to prioritize one goal over the other. Accordingly, such companies are condemned to "confusion and lack of purpose" (Jensen, 2002: 238), and may experience mission drift or bankruptcy. We theorize that the intensity of the financial/social trade-offs experienced by dual-purpose companies increases with the level of economic liberalism of the institutional setting in which they operate, and that the influence of the institutional setting on the intensity of the financial/social trade-offs experienced by dual-purpose companies is filtered and mitigated by specific governance arrangements. Our theory development, and its boundary conditions, present several opportunities for future theoretical and empirical work.

The Institutional Context

While there may be many practices within a company's control to sustain the pursuit of dual goals (Battilana et al., 2019), the institutional environment in which a company operates can either facilitate or hinder these practices. If the institutional environment supports the joint pursuit of financial and social goals, the trade-offs that dual-purpose

companies experience will be less intense. Ecosystems that encourage the development of dual-purpose companies thus play an important enabling function. Consequently, our theory offers some guidance with respect to the impact of the intensity of trade-offs on the relative prevalence and longevity of dual-purpose companies in the population of organizations. The decision of an entrepreneur to create a dual-purpose company is endogenous to the intensity of trade-offs that she expects to experience and that she has been socialized to perceive. The ability of the company to sustain its operations is also likely to be strongly impacted by these pressures. Thus, we suspect that institutional environments that are characterized by relatively less intense experience of trade-offs will also be the ones that will be home to the largest concentration of dual-purpose companies.

We have focused, in this paper, on the level of economic liberalism in dual-purpose companies' institutional context, but other aspects of the institutional environment are also likely to affect the intensity of financial/social trade-offs experienced by these companies. For example, the ease of accessing financial capital, mediated by expectations and behaviors of banks and the presence of social impact investors, as well as government incentives around taxes, subsidies, and public service procurement, are all likely to be critical to support dual-purpose companies. The pool of talent available is also critical for these companies to be able to manage financial/social tensions. The available talent pool is dependent on how families and educational institutions prepare future workers, on the social status and recognition attached to different career trajectories, and on the corresponding skills and values held by potential hires. Future research could thus examine the links between the evolution (or lack thereof) of the curricula of business schools and the experience of trade-offs in companies over time and across geographies.

The legal context in which companies operate is another factor that may drive the intensity of financial/social trade-offs, as it plays a central part in granting or denying mandate to companies to pursue the creation of economic and social value at the same time. The legal form of a company (such as corporation, limited liability company, or benefit corporation) determines its rights and obligations, including the perceived importance of different stakeholders. Recently, new legal forms have emerged for companies around the world, such as the benefit corporation in the United States, the community interest company in the United Kingdom, the *societa benefit* in Italy, and the *sociétés à mission* in France (Levillain & Segestrin, 2019; Triponel & Agapitova, 2017). Future research will need to examine whether the inclusion of a social mission in the legal foundation of a company is associated with a lower intensity of trade-offs, and, in turn, a higher likelihood to achieve both financial and social goals.

Another consequential aspect of the institutional environment, besides the availability of resources and regulatory frameworks, is the nature of external standards and associated monitoring. Longstanding research has noted that companies frequently react to new institutional demands with symbolic compliance, whereby they take action to appear to comply—distinct from fundamentally doing so (Bromley & Powell, 2012; Meyer & Rowan, 1977). Shared standards and certifications can prevent such decoupling. Governments play a central role here, and so can other third parties. The emergence of shared norms like the Sustainable Development Goals set by the United Nations (Griggs et al., 2013) and external standards like those developed by B Lab (Marquis, 2020), the Global Reporting Initiative, and the Sustainability Accounting Standards Board are also part of a wider movement (Battilana et al., 2019). By developing metrics that companies, investors, and public authorities alike can use to measure both financial and social performance of companies, these new standards could play a crucial role in reshaping the institutional environment and the experience of trade-offs in companies therein.

Changing the accounting rules is also important to systematically account for both financial and social performance (Serafeim & Trinh, 2020). Such a change would also allow governments to account for these different aspects of performance as they reform their tax systems. Such initiatives are presently being launched across the world. Future research will need to track the development of these methodologies across countries, the ways in which they will contribute to changing the institutional environment, and the impact they will have on the companies' experience of trade-offs.

The Organizational Context

We theorize that the influence of the institutional setting on the intensity of the financial/social trade-offs experienced by dual-purpose companies is filtered by specific organizational features. While we have focused in this paper on various governance arrangements, other organizational factors are also

likely to play a role. One key characteristic that we abstract away from in this paper, but that has been extensively studied by scholars of institutional complexity, is an organization's structural position within its institutional field (Greenwood et al., 2011). More central actors are often exposed to a different set of institutional demands than their more peripheral counterparts. Thus, centrality may affect the intensity with which companies experience financial/social trade-offs, in various ways. On the one hand, it may increase the intensity of the financial/social trade-offs experienced by dual-purpose companies, holding the level of economic liberalism constant. This is because central actors may be more connected to other entities experiencing strong institutional expectations and may thus be more embedded in existing institutional arrangements (Davis, 1991). On the other hand, central organizations may have more leeway when it comes to diverging from the dominant institutional pressures (Zuckerman, 1999). We leave for future work a full investigation of this fascinating question.

Future research will also need to more systematically account for the role of a company's organizational culture. Companies that have developed and maintained a dual culture committed both to financial and social purposes may not experience the same intensity of trade-offs as others (Battilana et al., 2019). Relatedly, companies that are characterized by a more inclusive and democratic culture, in which workers have the power to participate in the decision-making process together with the top management and the representatives of the shareholders, may face a lesser intensity of trade-offs. This is because the involvement of a more diverse set of decision-makers combined with more democratic decision-making processes is likely to facilitate a sustained pursuit of multiple goals (Battilana, Sengul, Pache, & Model, 2015; Davis, 2021; Ferreras, Battilana, & Méda, 2020). However, in some instances, companies with democratic cultures could also experience more intense trade-offs, as participation may exacerbate fault lines between diverse organizational members and lead to polarization (Pache & Santos, 2010). Future research should thus pay closer attention to the evolution of power distribution within dual-purpose companies to examine the conditions under which more democratic ways of organizing help lessen the trade-offs that they experience.

Finally, another potentially promising line of future research is to distinguish between "born" dual-purpose companies that are established with a dual purpose and companies that are transitioning from a more traditional single-purpose form to a dual-purpose one. Born dual-purpose companies are more likely to position themselves in an ecosystem that supports and legitimizes their dual identity. In contrast, transitioning companies are likely to be more deeply embedded in a web of stakeholders that have expectations in line with their initial, single-purpose form. Consequently, in a given institutional setting, transitioning companies are likely to experience more intense financial/social trade-offs. Future research could investigate the factors that may enable them to overcome this challenge.

Empirical Examination of Financial/Social Trade-Offs in Dual-Purpose Companies

Taken-for-granted assumptions, like the ones on which agency theory is based, continue to reinforce a world in which they have become self-fulfilling prophesies, with very little empirical support (Daily, Dalton, & Cannella, 2003). Incorporating an understanding that trade-offs are an enduring part of dual-purpose companies' reality, rather than an obstacle to be solved, implies a fundamentally different perspective. All of the propositions we have put forward are meant to be tested and, potentially, falsified.

To do so, future studies will need to develop measures that capture the intensity with which organizations experience financial/social trade-offs. Although decision-makers in organizations act on their subjective (interpreted) perceptions of trade-offs, they also experience feedback from the actual strength of trade-offs that their institutional fields embody. Accordingly, we propose that there are at least two complementary approaches to measure the intensity of trade-offs that organizations experience. The first approach consists of measuring perceptions (either at the company level or at a higher level of aggregation) of financial/social trade-offs. Here, researchers could use a variety of methods, such as text analysis (see also more on this method below), qualitative insights, and survey methodology. Development and testing of specific scales measuring subjective perceptions of such tensions await future research. The second approach relies on an assumption that the intensity of the experience of trade-offs is reflected, to some degree, in the patterns of realized outcomes across financial and social dimensions of performance. This implies that the intensity of experienced trade-offs can be partially inferred from the context- and company-specific temporal covariance of performance metrics (Obloj & Sengul, 2020). For example, measures of financial

and social performance are readily available in the context of work integration social enterprises (Battilana et al., 2015). Changes in intensity of financial/social trade-offs could thus be inferred from patterns of covariance in these metrics.

Future empirical work will also have to link the experience of trade-offs with resulting performance on multiple dimensions, including financial and social. Without maximization as a guiding principle and without setting exchange rates across metrics, the exact demarcation of what constitutes high (as opposed to low) levels of performance may be imperfectly defined and may differ across organizations. This is because companies may vary in how they perceive trade-offs and set satisficing performance levels for their goals in alignment with the expectations of their key stakeholders. Adequately measuring performance on multiple dimensions and the associated trade-offs will thus constitute a formidable empirical challenge for the future generation of scholars, and yet a critically important one (Ebrahim, 2019; Nason, Bacq, & Gras, 2018).

What's Next for the Field of Management?

The field of management is uniquely positioned to study the joint pursuit of financial and social objectives. Yet, most management research on firm performance has continued to focus exclusively on the factors affecting financial performance only. Some vibrant pockets of research have diverged from this approach, including research on stakeholder theory (for a review, see Parmar, Freeman, Harrison, Wicks, Purnell, & de Colle, 2010), CSR and corporate sustainability (for a review, see Bansal & Song, 2017), and hybrid organizations (for a review, see Battilana, Besharov, & Mitzinneck, 2017). However, even the studies that account for both financial and social outcomes often tend to focus on win–win scenarios, thereby failing to account for the prevalence of financial/social trade-offs that are part of these companies' everyday experience (Kaplan, 2019). As a result, we lack theories that accounts for the experience of these trade-offs and the factors that mitigate it.

It is time for scholars to account for these trade-offs and, in doing so, to revisit the very foundations of research and teaching in management. In a posthumously published article entitled "Bad Management Theories Are Destroying Good Management Practices," the late Sumantra Ghoshal (2005) emphasized that ideas emerging from business school academics have a significant influence on managers and their companies, and the worst managerial excesses, such as the Enron scandal, have their roots in such ideas. His assessment was based on the observation that some of the fundamental theories taught in business schools (agency theory and shareholder value maximization being the primary examples) are based on, at best, questionable assumptions, and are often detached from reality. As a result, both the research and teaching of business school academics have increasingly been "separate from the practical needs of their students or the positive needs of the society" (Ghoshal, 2005: 89). We agree with this observation. The increasing salience of the joint pursuit of financial and social goals over the past decade has laid bare the urgency and need for renewed thinking about management research and education. What is at stake for the field is using and refining our conceptual apparatus and methods to contribute to recasting capitalism as we know it.

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