



Revenue drift, incentives, and effort allocation in social enterprises

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Abstract

Revenue drift, whereby insufficient attention is given to economic, relative to social, goals, threatens social enterprise performance and survival. We argue that financial incentives can address this problem by redirecting employee attention to commercial tasks and attracting workers less inclined to fixate on social tasks. In an online experiment with varying incentive levels, monetary rewards succeed in directing worker effort to commercial tasks; high-powered incentives attract less prosocial employees, but low-powered incentives do not alter workforce composition. Social enterprises combining monetary rewards with a social mission not only attract more workers but are also able to guard against revenue drift.

1 | INTRODUCTION

Responding to consumer, employee, and investor pressures, many companies adopt responsibility practices, often as part of their core activities (Baron, 2007; Calveras & Ganuza, 2018). Yet, social enterprises that simultaneously pursue profits and purpose face the difficult challenge of allocating scarce employee attention and effort among often-competing commercial and social tasks (Besley & Ghatak, 2017; Giné et al., 2022; Karlan et al., 2023). When the incentive system is geared towards mission motivation, employees frequently trade off operational concerns for beneficiary needs and ultimately allocate insufficient effort to promoting vital economic goals (Smith et al., 2013;

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Staessens et al., 2019; Stevens et al., 2015; Tracey et al., 2011). “Revenue drift”—the neglect of revenues caused by focusing on social mission (Ebrahim et al., 2014)—is common across missions and business models, affecting companies tackling homelessness, work integration, youth development, and fair trade (Beer et al., 2017; Bruneel et al., 2016; Davies & Doherty, 2019; Tracey & Jarvis, 2006). Revenue drift threatens social enterprises’ long-run financial viability, survival, and ability to deliver social impact, so managing employee effort allocation is crucial for social enterprises to achieve their promise.

Conflicts between social and commercial interests are widespread in social enterprises. Examples include microfinance loan officers balancing financial returns with assisting underprivileged borrowers (Battilana & Dorado, 2010; Canales, 2014; Pache & Santos, 2010; Wry & Zhao, 2018); work integration social enterprise managers ensuring effective operations while simultaneously developing “hard to employ” workers’ skills (Battilana et al., 2015; Bruneel et al., 2016; Pache & Santos, 2013; Tracey et al., 2011); “base of the pyramid” firm employees selling products at prices above cost, yet still within the reach of the target population (McMullen & Bergman, 2017; Santos et al., 2015); and environmental venture employees striving to make their firms financially sustainable while incurring costly ecological protection actions (York et al., 2016).¹ With limited time available, an employee who spends more time on one task necessarily spends less on the other; but when social entrepreneurs have imperfect information on employees, they cannot be sure the optimal balance of effort between tasks is attained.

One organizational solution to the employee effort allocation problem is to hire workers who specialize in one task only. This would require that: the firm can afford to hire additional workers to perform distinct tasks; there is slack managerial capacity to coordinate specialists and maximize their joint product; tasks can be split without productivity losses; and specialization does not damage cross-group communication. These conditions may hold in larger established firms, but are not commonly observed in the smaller ventures we study. Job separation typically requires significant resources (Battilana et al., 2015), but most social enterprises are small-scale, informally organized, resource-constrained outfits (Doherty et al., 2014; Santos et al., 2015; Smith et al., 2013).² Managerial attention is typically scarce in these ventures, so the monitoring and coordination of employees attending different tasks is limited (Austin et al., 2006; Doherty et al., 2014; Santos, 2012). Many social enterprises also struggle with job separation because knowledge of commercial tasks is needed to perform social tasks well, and vice-versa (Battilana & Dorado, 2010; Besharov & Smith, 2014).³ Splitting workers between tasks also increases communication costs for managers and employees (Battilana et al., 2015), especially when different organizational units become disconnected, generating subgroup identity conflicts (Battilana & Dorado, 2010; Ethiraj & Levinthal, 2009; Wolf & Mair, 2019).⁴

For these reasons, we focus on the common situation where specialization is too costly and employees enjoy discretion about how to allocate effort between social and commercial tasks (Giné et al., 2022; Henderson & Van den Steen, 2015). In such contexts, social entrepreneurs may consider contractual solutions based on financial incentives to influence employee attention. Conventional multitasking models without socially motivated agents predict that commercial task incentives induce an effort shift away from the social task towards the commercial one (Holmström & Milgrom, 1991; Kerr, 1975). However, it is theoretically unclear if and when incentives achieve the desired result when employees are prosocially motivated, as is common in social enterprises. Monetary rewards may direct effort towards incentivized tasks by increasing worker utility from performing commercial actions without abandoning social tasks if prosociality cushions incentives’ distorting effect. But if they crowd out workers’ prosocial motivation, (larger) monetary rewards risk over-correcting the initial effort allocation, creating an imbalance in the opposite direction (Besley & Ghatak, 2017; Brolis, 2018; Frey, 1997; Giné et al., 2022; Miller et al., 2012). Incentives may also adversely affect social enterprise workforce composition if they induce too strong an outflow of prosocial workers. Along both intensive and extensive margins, the appropriate incentive strength to align workers’ and social entrepreneurs’ desired effort allocation is not obvious a priori.

We therefore ask: Can financial incentives for commercial action help social enterprises facing revenue drift obtain employee effort allocations less concentrated in social tasks? If so, how “steep” should incentives be? To answer these key questions, we draw on organizational economics and incorporate core social enterprise features to analyze “incentive” and “selection” effects. Rewards’ attention-directing role induces *shifts in a given workforce’s effort allocation*, while their sorting role induces *changes in workforce composition* by attracting possibly less compassionate workers (Cadsby et al., 2007; Gerhart & Fang, 2014; Lazear, 2000). We propose that when tasks are complementary for firms but place competing demands on employee attention, the absence of monetary rewards skews effort allocations as employees favor social impact over revenue generation. We posit that social enterprises facing revenue drift can deploy low-powered rewards (i.e., small bonuses) to gently shift employee effort across tasks along both incentive and

selection channels. In contrast, high-powered rewards (large bonuses) risk distorting effort too far towards commercial imperatives and may attract a less prosocial workforce.

We test our predictions in a preregistered online experiment. This approach overcomes the limited availability of data on compensation practices and individual effort allocations in social enterprises, and the endogeneity of incentive scheme adoption; moreover, it allows us to unpack the channels linking incentives to effort allocation. We recreate essential social enterprise features in an online laboratory using salient missions and a labor market framing, where subjects act as employees of firms whose realistic descriptions match typical for-profits, nonprofits, and social enterprises. Subjects move sliders to allocate real effort between commercial and social tasks associated with own and “good cause” payoffs, respectively, and our treatments manipulate the strength of commercial incentives (own payoffs) in social enterprises and employees’ ability to choose their preferred organizational form, keeping good cause payoffs constant.

We find that, in the absence of incentives, social enterprise employees are highly prosocial. They allocate roughly 70% of their effort to social tasks, and a large fraction (30%–40%) expend effort on social tasks only, supporting our baseline revenue drift expectation. Monetary rewards reduce effort concentration in social tasks regardless of strength, and we detect a small, but significant decline in the workforce’s average compassion with high-powered incentives. Although monetary rewards attract progressively more workers to social enterprises (from 28.8% of subjects without incentives to 71.4% with high-powered ones), strikingly we find that sorting effects play a small role for effort allocation overall. The primary incentive channel effect on effort allocation is robust to extensive sensitivity analyses and a supplementary study where we increase the number of sliders, impose a strict time limit, allow subjects to choose total effort, and explore stronger rewards. Overall, our evidence supports an attention-directing role of incentives.

1.1 | Related literature

Albeit widespread (Bruneel et al., 2016; Davies & Doherty, 2019; Tracey & Jarvis, 2006), revenue drift has not received as much or as systematic attention as “mission drift” (Ebrahim et al., 2014; Grimes et al., 2019).⁵ We cast social enterprises as repositories of a multitasking problem, drawing on incentive theory to highlight revenue drift caused by agents’ mission preference. With prosocial employees (Besley & Ghatak, 2017; Miller et al., 2012; Stevens et al., 2015), financial incentives help correct revenue drift, adding to a burgeoning literature on social enterprise rewards (Brolis, 2018; Giné et al., 2022; Karlan et al., 2023; Roumpi et al., 2020; Wolfolds, 2018) and alternative solutions to multiple-goal trade-offs, such as job separation, monitoring, or hiring and socialization (Battilana & Dorado, 2010; Battilana et al., 2015; Ebrahim et al., 2014; Newman et al., 2018). Monetary rewards need not crowd out social motivation or cause mission drift, but instead attract *more* employees, which could facilitate talent attraction and retention. This challenges a typical normative pressure to avoid incentives, often seen as controlling, unfair, or incongruent with social enterprise values (Austin et al., 2006; Bacchiega & Borzaga, 2001; Brolis, 2018; Dees, 2012; Tracey et al., 2011). It also reinforces the need to develop social ventures’ commercial capabilities (Åstebro & Hoos, 2021).

By focusing on prosocial agents’ *effort allocation* and implementing an experimental design that causally isolates rewards’ incentive and workforce composition effects (Cadsby et al., 2007; Lazear, 2000), we contribute to work on multitasking and incentives (Bénabou & Tirole, 2016; Holmström & Milgrom, 1991; MacDonald & Marx, 2001)—including in mission-oriented contexts. Our work is most closely related to recent papers by Giné et al. (2022) and Jones et al. (2023). Giné et al. (2022) propose a multitasking model with cross-task production spillovers, where the effort on commercial and social tasks can be complements, independent, or substitutes. Their model predicts a positive effect of rewards on incentivized task outcomes, but an ambiguous one on nonincentivized task outcomes, depending on the direction and strength of production spillovers and cost complementarities. In a field experiment with a microfinance organization, credit incentives improve (harm) credit (social) outcomes, consistent with the model for one specific pattern of parameters. Unlike their study, ours addresses the problem of allocating a fixed amount of effort between competing tasks. We consider the initial effort allocation (absent incentives), its value under incentives of varying intensity, and—instead of “crowding out or in” via production spillovers—the possibility that workers perceive incentives as inappropriate, which Giné et al. (2022) discuss as a model extension. We conceptually and experimentally explore the role of prosociality heterogeneity, consider different outside options, and allow individuals to sort across contracts matching for-profits, nonprofits, and social enterprises. These elements would be prohibitively costly to

capture in a field experiment but are important ex ante and an often-expressed concern within the social enterprise community.

Jones et al. (2023) analyze the effects of pay for performance on effort exerted on substitute tasks equivalent to “quantity” and “quality” in environments differing in the presence of a mission. In a word task experiment that varies incentives (i.e., flat wage vs. piece rate) and the possibility of donating to charity based on quality (“mission”), pay for performance operates as theorized—increasing quantity, but lowering quality—albeit with empirically muted effects in mission-oriented settings. Our work differs from theirs in several ways. We consider the initial effort allocation conceptually and experimentally; measure effort directly under incentives of varying strength; and allow (prosocial) workers to sort across heterogeneous organizational forms in a rich, realistic context, cleanly identifying different mechanisms' relative importance.

2 | THEORETICAL FRAMEWORK

2.1 | Environment

We study a mission-oriented multitasking setting where employees exercise discretion over how to trade-off costly effort between commercial and social tasks, assuming total effort is limited: even for the most motivated employees, there are only so many hours in a day, so spending more time on one task carries the opportunity cost of spending less time on the other.⁶ Whereas for-profits (nonprofits) require only commercial (social) effort to be supplied, social enterprises want employees to devote effort to these tasks in a specific way: depending on business model or cost structure, the desired effort split could be, for example, 30:70, 40:60, or 50:50. Prosociality—the “desire to protect and promote others' well-being” (Grant, 2007)—varies across individuals, influencing their firm type preference (Barigozzi et al., 2018). Relative to a baseline that pays a fixed wage regardless of effort allocation, incentives comprise a combination of fixed-wage and variable pay for commercial actions, ranging from low-powered (small bonus tied weakly to task effort) to high-powered (large bonus tied closely to task effort). Employees may suffer from mission mismatch and a distaste for incentives but derive utility from exerting social effort and, when rewarded, commercial effort.⁷ We use verbal reasoning to develop our hypotheses, but formalize our logic in a simple model in Supporting Information: Appendix A (with proofs in Supporting Information: Appendix B).

2.2 | No incentives in social enterprises

The social enterprise incentive system is typically heavily geared towards prosocial motivation. Compassionate founders seek to maximize the social returns on their investments (Grimes et al., 2013; Miller et al., 2012) and imprint the venture with other-oriented values favoring social goals (Stevens et al., 2015). Despite often acknowledging market mechanisms' importance for financial sustainability, social enterprises rely on the mission they champion to acquire resources (Barberá Tomás et al., 2019; Fosfuri et al., 2016) and attract employees who are frequently as prosocial as nonprofit workers (Brolis, 2018; Roumpi et al., 2020). Experience in settings where “doing good” trumps “doing well” may then lead “dangerous idealists” to emphasize the firm's “social” rather than “enterprise” aspects (Battilana & Dorado, 2010; Besharov, 2014).

Mission emphasis can have important consequences. The social enterprise environment views commercial activity as instrumental, not fundamental, fails to punish inferior financial performance to the same extent as commercial marketplaces, and questions the use of typical business tools (Smith et al., 2013). Founders are generally averse to incentives perceived as incongruent with firm values that may induce mission drift (Andersson et al., 2017; Grimes et al., 2019)—an incentive channel effect consistent with shifts away from less easily measured and rewarded social tasks (Holmström & Milgrom, 1991). They also worry that incentives attract financially driven employees, risking mission drift via a selection channel (Austin et al., 2006).

In a multitasking context that motivates employees solely through its mission, organizational economics suggests prosocial workers have a higher net benefit of exerting social, rather than commercial, task effort (Murdock, 2002; Schnedler, 2008). This distortion is a form of “adverse specialization” (MacDonald & Marx, 2001). Our baseline prediction is that *in the absence of incentives, employees predominantly allocate effort to the social task, at the commercial task's expense*. We neither assert what firms' optimal balance should be, nor contend that an equal effort split is ideal;

we simply posit that regardless of each social firm's specific desired outcome (Grimes et al., 2019; Shepherd et al., 2019), mission motivation may lead workers' effort allocation away from target. When employees are charged with and enjoy discretion over executing both tasks, exerting effort *solely* on social tasks implies a deviation from the target.

2.3 | Incentives in social enterprises

In the realistic context we study, where a firm emphasizes its mission and employees are prosocial, incentives for commercial activity affect employees in opposing ways. In theory, rewards make it financially attractive for employees to perform commercial tasks *regardless of their prosociality* (Canton, 2005). Indeed, evidence from job training agency employees, public health agents, and experiments matches this intuition (Ashraf et al., 2014; Heckman et al., 1997; Jones et al., 2023). Workers can, however, be *too* responsive to rewards (Giné et al., 2022), which could crowd out prosocial motivation, especially when perceived to have a controlling nature (Deci et al., 1999; Frey, 1997; Gneezy et al., 2011) or contrast with expectations in prosocial situations (Deserranno, 2019; Ganguli et al., 2021; Hossain & Li, 2014).⁸ The question is then how strong incentives must be to achieve a less skewed effort allocation, but not a dramatic imbalance towards the rewarded task, as in classic multitasking models (Holmström & Milgrom, 1991; Kerr, 1975).

We argue that for prosocial workers low-powered incentives locate an intermediate position along this trade-off relative to high-powered ones, without complete social task abandonment. Low-powered incentives only gently shift worker effort towards the commercial task through the benefit of additional income and lower satisfaction from reduced effort devoted to social action, whereas high-powered ones make commercial activities significantly more attractive. The former are less likely to be seen as controlling and may be presented as supportive of mission by promoting an even-handed approach to achieving company goals.⁹ These arguments suggest that social enterprise employees respond to low-powered rewards along the incentive channel by shifting only part of their effort away from the social task, while high-powered ones lead to disproportionate effort devoted to the commercial task:

Hypothesis 1. Relative to no incentives, incentives generate a shift in effort allocation towards commercial tasks through the incentive channel; these effects are stronger for high-powered incentives relative to low-powered incentives.

Monetary rewards may also direct effort choices through a selection channel (Bénabou & Tirole, 2016; Lazear, 2000), in line with social entrepreneurs' concerns about their demotivating effects. Introducing financial incentives can induce in-selection into the venture of both extrinsically (i.e. financially) motivated workers, as well as weakly prosocially motivated workers who also place some value on financial incentives. However, rewards perceived as unfair or mission-incompatible endanger identification with firm goals for highly prosocially motivated workers, who may be less likely to find a match with the venture (Akerlof & Kranton, 2005; Andersson et al., 2017), tilting the composition of the workforce in a less prosocial direction. This might rectify an over-reliance on social tasks in the baseline case; but it might also reduce the benefits the venture obtains from hiring more prosocial workers (e.g., greater social task productivity or lower remuneration costs). Hence, the social entrepreneur faces a trade-off bearing on the appropriate strength of incentives.

Consider first high-powered incentives. These allow extrinsically motivated workers to reap personal rewards from commercial effort while exerting less social effort.¹⁰ Such individuals' presence may lead prosocial employees to believe their other-oriented values are being disregarded, at the same time as large rewards contrast with a norm of "doing good" (Brolis, 2018). High-powered incentives may thus deter prosocial workers from joining social enterprises and encourage current employees to quit, decreasing (increasing) the share of employees focusing on social (commercial) tasks. In the extreme, only financially motivated workers focused solely on commercial tasks would join social enterprises deploying high-powered incentives. This outcome risks "over-correcting" for revenue drift and creating a new imbalance, with *too little* effort allocated to the social task.

In contrast, low-powered incentives limit the in-selection of extrinsically motivated employees into social enterprises, as well as out-selection of prosocial ones. Small rewards are only weakly attractive for extrinsically motivated employees who normally do better working in for-profits, where high-powered incentives abound. This restricts their willingness to join social enterprises, diluting their influence on organizational goal focus and reducing the negative impact on prosocial employees' selection (Jones et al., 2023). A loose coupling of pay and performance is

also less likely to challenge social norms, maintaining the organization's prosocial tone. The overall effect is a smaller compositional change after the introduction of low-powered incentives:

Hypothesis 2. Relative to no incentives, incentives generate a shift in effort allocation towards commercial tasks through the selection channel; these effects are stronger for high-powered incentives relative to low-powered incentives.

3 | EXPERIMENTAL DESIGN

Our analysis uses an online experiment with a labor market framing, replicating core contextual elements of social enterprises to enhance external validity (Ariely & Norton, 2007; Levitt & List, 2007). Subjects allocate effort to commercial and social tasks as hypothetical employees of fictional companies, whose descriptions typify those of for-profits, nonprofits, or social enterprises. These firms (“contracts”) provide similar services but have different goals, corresponding to a realistic labor market choice. For instance, a workforce integration social enterprise is described as follows: “Imagine you are working for a company aimed at reintegrating long-term unemployed people into the workforce by hiring them to provide garbage collection services that are then sold in the market. It is in the best interest of the organization that both ensuring the professional development of the long-term unemployed and generating revenue through the sale of services receive attention from employees.” In this case, attending solely to one task implies some form of drift. The equivalent for-profit and nonprofit descriptions emphasize revenue generation by providing services and the charitable goal of improving disadvantaged groups' welfare, respectively. Both tasks are available to subjects in each contract and are described in relation to the services the company provides and the attendant payoffs.¹¹

The experiment consists of four parts, summarized in Table 1. In Part 1, subjects choose the good cause they can earn money for throughout the experiment (i.e., the good cause payoff) and which provides the realistic context for the fictional firms, thereby ensuring the salience of the social task. In Part 2, all subjects perform the effort allocation task under *each* of the three different contracts (for-profit, nonprofit, social enterprise), displayed randomly to avoid order bias effects. Worker self-selection is ruled out in this setting, allowing us to study the incentive channel by varying the social enterprise bonus between (randomly selected) subjects. In contrast, in Part 3, subjects pick their preferred contract from those encountered in Part 2 and perform the effort allocation task again, allowing us to study the selection channel. Finally, in Part 4 we collect information about demographics and social preferences. We describe our experimental design below and provide the detailed experimental instructions in Supporting Information: Appendix C.

3.1 | Task

We use a task inspired by Gill and Prowse (2012) to measure effort allocation. Our task consists of 15 horizontal sliders, labeled from 0 to 100 and initially positioned at 50, that can be moved to positions equivalent to exerting commercial or social effort. The former requires placing the slider at exactly 25 and carries a payoff for the subject, determined by the commercial task incentive level (“bonus”) in a given contract. The latter requires placing the slider at exactly 75 and carries a payoff for the selected good cause. Incorrectly placed sliders carry no payoffs.¹² Each slider has a number to its right, showing its current position. Subjects can move the mouse in any way they like to drag sliders and can readjust each slider's position as many times as they wish. Subjects drag sliders in a way that reflects their preference, such that they perform an actual action, as opposed to just stating their preference. While neither action has a monetary cost, both tasks require the subject to physically move a slider, that is, real effort. The social task entails foregoing the commercial task monetary rewards, capturing a salient trade-off.

3.2 | Treatments

The experiment features two different dimensions, designed to tackle (i) the total effect of incentives on effort allocation, and (ii) the contributions of the incentive and selection channels. First, beyond the participation fee (equivalent to a fixed wage), we vary the strength of the social enterprise commercial task incentive between subjects. At one extreme, the social enterprise contract offers “no incentives” (£0 bonus), broadly in line with

TABLE 1 Experimental design.

Actions and measures	Own payoff (commercial task)	Good cause payoff (social task)
Part 1		
Choose good cause		
Practice slider task		
Comprehension check		
Part 2		
For-profit contract	£1	£1
Nonprofit contract	£0	£1
Social enterprise contract	£0/£0.25/£0.50/£1	£1
Part 3		
Choose preferred contract		
For-profit contract (if selected)	£1	£1
Nonprofit contract (if selected)	£0	£1
Social enterprise contract (if selected)	£0/£0.25/£0.50/£1	£1
Part 4		
Demographics		
Social preferences		
<i>Compassion</i> : subscale of public service motivation scale		
<i>Altruism</i> : incentivized £10 dictator (giver)		
<i>Inequality aversion</i> : hypothetical £10 ultimatum (receiver)		
<i>Hypothetical altruism</i> : hypothetical £1000 lottery		
<i>Willingness to share</i> : without expecting anything in return		
<i>Prosocial behavior</i> : observed prosocial behavior		
Risk and time preferences		
Attention and manipulation checks		
Recruitment: Prolific Academic, UK-based online platform (https://www.prolific.com/)		
Stratification: by gender, for comparison purposes		
Target number of subjects: 800 in total, 200 per bonus level, 100 per gender × bonus level		
Restrictions: UK resident, age 18–64, active labor force (not homemaker, disabled, retired)		
Prior approval rate: > 90%, to ensure high-quality answers		
Participation fee: £3 for 15–20 min		
Bonuses: 5% or 1 in 20 subjects, up to £80, from slider task and dictator (giver/receiver)		
Good causes: The Big Issue Foundation, Fairtrade Foundation, Water Aid		
Preregistration: Open Science Framework (https://osf.io/fdjk4/?view_only=7c1f202ae73249ce89dfc1b52948a40a)		

Note: We randomize the order of Part 2 contracts and Part 3 options. The good cause choice determines the charity receiving the good cause payoffs and the fictional (social) enterprises' mission, that is, workforce reintegration, fair and equitable trade, and water quality and environment. Each subject is randomly allocated a social enterprise incentive level (£0, £0.25, £0.50, or £1) as they enter the experiment and is only exposed to this incentive throughout. Subjects never see the labels used (for-profit, nonprofit, social enterprise), and only infer company type from the description.

current social enterprise practice and identical to the experimental nonprofit; at the other extreme, the social enterprise contract offers the same “high-powered incentives” (£1 bonus) as the experimental for-profit; we refer to intermediate levels as “low-powered incentives” (£0.25 or £0.50 bonus). Subjects are randomly assigned to a given incentive level they face throughout the experiment. While the maximum £1 payment per slider serves as a

normalization and is easily understood by subjects, the *relative* strength of incentives allows us to test our hypotheses, not their absolute value.

Second, we allow subjects to choose their preferred contract from the previously encountered for-profit, nonprofit, and social enterprise contracts. Part 3 incentives and company descriptions are the same as in Part 2, but we now allow for individual self-selection across company types (captured by the binary variable *Sorting*). Thus, in Part 3, employees perform the slider task in their preferred contract only. We fix the for-profit bonus at £1, the nonprofit bonus at £0, and the good cause payoff in all contracts at £1 per slider throughout the experiment. The £1 for-profit bonus allows us to benchmark the social enterprise incentive strength (i.e., the bonus is 0%, 25%, 50%, or 100% of the for-profit bonus) across the range of possible incentives. The £1 good cause payoff, symmetrical to the for-profit bonus, reflects the high social returns to social task effort and is kept constant across contracts to ensure that the only difference between the various contract terms is the extent to which commercial effort is rewarded.

Before each slider task is carried out, we explain how payoffs are calculated. In addition, we inform subjects that each slider offers a commercial task bonus between £0 and £1 when we initially describe the task. As the maximum possible bonus per slider is thus known, subjects can infer the total possible benefit for the organization; they are also aware when a social enterprise uses high-powered incentives (£1), allowing us to detect selection channel effects. We measure *Commercial effort* and *Social effort* as counts of the number of sliders (out of the 15 overall) moved to the commercial and, respectively, social task.

3.3 | Preferred mission

To ensure social task salience, we allow subjects to choose their preferred good cause (Cassar, 2019; Tonin & Vlassopoulos, 2015). The three options available—The Big Issue Foundation, Fairtrade Foundation, and Water Aid—are selected as charities whose social goals match representative social enterprise missions, namely workforce reintegration, fair and equitable trade, and environmental protection (Mair et al., 2012; Shepherd et al., 2019). These missions thus likely resonate with a broad share of potential social enterprise employees.¹³ They also have a clear multitasking component and can be pursued through a for-profit, nonprofit, or social enterprise model, allowing us to construct realistic and comparable descriptions of each contract. Furthermore, the actual charity organizational form allows us to credibly commit to donating the good cause payoffs generated by subjects in the experiment.

3.4 | Social preferences

As our theoretical framework assigns an important role for individual motivation, we elicit subjects' social preferences in various ways. Following the social enterprise literature (Grimes et al., 2013; Miller et al., 2012), we measure *Compassion* using Perry's (1996) compassion scale, a sum of eight items on a five-point scale.¹⁴ For example, one item asks subjects how strongly they agree with the following statement: "I seldom think about the welfare of people whom I don't know personally." We measure *Altruism* in a standard incentivized dictator game, where subjects decide how to split a £10 endowment with another randomly paired subject (Galizzi & Navarro-Martinez, 2019). We also use a set of hypothetical and direct questions. We measure *Hypothetical altruism*, where subjects make a hypothetical donation after winning a £1000 lottery, self-reported *Willingness to share* with others without expecting anything in return on a 0–10 scale (Falk et al., 2018), *Inequality aversion* as the recipient's minimum acceptable amount in a hypothetical ultimatum game (Fehr & Schmidt, 1999), and actual *Prosocial behavior* through past social sector experience, including donations, volunteering, and working for or with nonprofits and social enterprises (Tonin & Vlassopoulos, 2015).

These measures capture different aspects of social motivation, so we aggregate them into a composite *Social motivation* measure using common factor analysis with an orthogonal varimax rotation. This approach produces a single factor with an eigenvalue larger than 1, explaining more than 80% of the variance, and on which *Compassion*, *Hypothetical altruism*, and *Willingness to share* load strongly (see Supporting Information: Appendix G, for details and robustness checks). For brevity, we discuss *Compassion* and *Social motivation* in our main analysis and report results for other measures as robustness checks. We measure self-reported risk-taking (*Risk*) and future discounting (*Time*) preferences on a 0–10 scale (Dohmen et al., 2011; Falk et al., 2018), as they may affect individuals' perception of incentives and effort allocation.

3.5 | Procedure

We recruit subjects on Prolific Academic, a UK-based online platform designed for surveys and experiments and geared towards researchers and startups. Prolific compares favorably with Amazon MTurk in response times, data quality, and access to diverse and representative respondents (Palan & Schitter, 2018; Peer et al., 2017). Social enterprises are an established organizational form in the United Kingdom (Ganguli et al., 2021; Roumpi et al., 2020; Tracey et al., 2011), and an online experiment allows us to reach a broad, realistic sample of potential employees whose behavior matches that of student or population-representative samples (Farrell et al., 2017; Snowberg & Yariv, 2021). We restrict the subject pool to UK residents aged 18–64 who are students or active in the labor force. To achieve balance and perform comparisons between men and women, we stratify the randomization using subjects' reported gender on Prolific. Finally, to ensure high-quality answers, we require participants to have a history of taking Prolific studies seriously, as evidenced by approved submissions in past studies, and consider eligible only those with platform approval rates higher than 90%; we also include attention and manipulation checks.

Subjects receive a flat £3 participation fee (around \$4/€3.50 at the time of the experiment). In addition, the sliders allow subjects to earn up to an additional £60 (15 sliders \times 4 contracts \times £1 per slider) and the dictator game produces own payoffs up to £20 (£10 as giver, £10 as receiver). To use these rather large sums as incentives, we randomly select 40 out of the 796 subjects for bonus payment, with a maximum potential bonus of £80. We, therefore, compensate some participants with larger sums but a smaller likelihood (≈ 1 in 20), a procedure that Charness et al. (2016) find fully equivalent to paying smaller sums with certainty; our additional study uses a larger likelihood of payment (≈ 1 in 10) with similar results.¹⁵

We impose several restrictions to arrive at our final sample. First, we require subjects to have placed at most 10 (out of 60) sliders in an incorrect position, considering sliders placed at 23–27 and 73–77 as indicative of strong intentions to exert commercial or social effort and thus correct. Second, subjects must not have failed both attention and manipulation checks. Third, we require consistency between our gender variable and the Prolific variable used for stratification; in other words, a subject must have answered both questions in the same way. Finally, to ensure subjects paid attention, we require them to have completed the experiment in between 10 and 40 min. This leaves us with a sample of 708 subjects (out of 796 responses) for whom data quality is likely to be sufficiently high, distributed roughly evenly across treatments.¹⁶

4 | RESULTS

4.1 | Descriptive statistics

Table 2 presents the descriptive statistics for our experimental sample. Out of 708 subjects, 49.9% are female and 16.5% are students. Subjects are fairly well educated, cover the range of incomes, and tend to be young. The average *Compassion* score is 29.2 (out of 40) and subjects donate on average £4.2 (out of £10) in the dictator game; 24.4%, 10.5%, and 16% of subjects have previous experience working in a nonprofit, in a social enterprise, or with a social organization, respectively. *Compassion* is positively correlated with most social preference measures and loads strongly on *Social motivation*, together with *Willingness to share*, *Hypothetical altruism*, and *Prosocial behavior*. Subjects took on average 18.5 min to complete the study. 25%, 18.6%, and 56.4% of subjects chose workforce reintegration, fair trade, and environmental good causes, respectively, with similar choices across treatments.

4.2 | The incentive channel: Social enterprise effort allocation

Figure 1 plots average social enterprise *Social effort* across incentive levels and sorting conditions, with 95% confidence intervals. Absent incentives, the effort allocation is skewed towards the social task, as subjects exert more than 70% of their effort on this task (11 out of 15 sliders), in line with our baseline prediction. However, subjects allocate effort roughly equally between commercial and social tasks at all incentive levels, with confidence intervals that include a fully balanced allocation, plotted as a dashed line. Table 3, Panel A reports the average *Social effort* across contracts, together with the number of subjects in each condition. The *t* tests in the first row of Panel B shows that more balanced social enterprise effort allocations are elicited regardless of incentive strength or whether self-selection is possible

TABLE 2 Descriptive statistics.

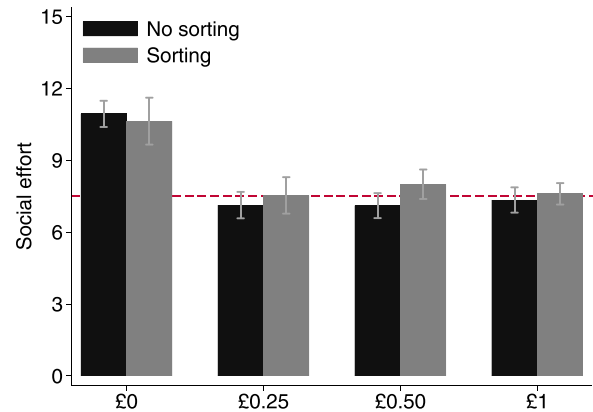
	Mean	Std. dev.	N	Min	Max
A. Demographics					
Female	0.499	(0.500)	708	0	1
Student	0.165	(0.372)	708	0	1
Education					
High school	0.359				
Bachelor degree	0.398				
Master degree	0.127				
Income					
<£10,000	0.215				
£10,000–£25,000	0.329				
£25,000–£50,000	0.307				
£50,000–£75,000	0.077				
>£75,000	0.025				
Age					
18–24	0.216				
25–34	0.356				
35–44	0.226				
45–54	0.140				
55–64	0.062				
B. Social preferences					
Compassion	29.195	(4.969)	708	12	40
Altruism	4.207	(2.181)	708	0	10
Inequality aversion	2.698	(2.275)	708	0	10
Hypothetical altruism	134.859	(159.739)	708	0	1,000
Willingness to share	6.404	(2.354)	708	0	10
Nonprofit employment	0.244	(0.430)	708	0	1
Social enterprise employment	0.105	(0.306)	708	0	1
Volunteer	0.226	(0.419)	708	0	1
Donate	0.520	(0.500)	708	0	1
Work with social organization	0.160	(0.366)	708	0	1
Prosocial behavior	1.254	(1.159)	708	0	5
Social motivation (factor)	0.000	(0.757)	708	–2.450	2.307
Compassion (standardized)	0.000	(1.000)	708	–3.460	2.174
Risk taking	5.130	(2.474)	708	0	10
Time discounting	6.532	(2.193)	708	0	10
C. Experimental parameters					
Practice time	40.049	(31.011)	708	0.000	608.147
Comprehension check time	67.419	(37.004)	708	18.617	300.324
Questions time	28.359	(23.547)	708	8.341	280.372

TABLE 2 (Continued)

	Mean	Std. dev.	N	Min	Max
Experiment time	1,111	(351.909)	708	600	2,399
Own payoff (£)	28.894	(12.342)	40	3	60
Good cause payoff (£)	33.025	(12.305)	40	6	60

Note: Times given in seconds. Education and income coded as “other” for 11.58% and 4.66% of subjects.

FIGURE 1 Social effort in social enterprises by treatment and sorting condition, with 95% confidence intervals; the dashed line represents a fully balanced effort allocation.



($p < .001$). In the remaining rows of Panel B, differences in *Social effort* between the £0.25, £0.50, and £1 treatments are negligible (p values between .286 and .956). These findings provide initial evidence for incentive channel effects or an attention-directing role of incentives in social enterprises.

Table 3 also allows us to compare behavior in different organizational forms. For-profit and nonprofit workers exert 30% and, respectively, 90% of their effort on the social task in each treatment; social enterprise social effort levels are in between and significantly different from for-profit and nonprofit levels ($p < .001$ in Panel C).¹⁷ To quantify where social enterprises lie on the for-profit/nonprofit continuum, we use t tests to compare social enterprise social effort with the average of for-profit and nonprofit social effort in Panel D, where a positive difference indicates the social enterprise is closer to a nonprofit. Indeed, we find a positive difference for the £0 bonus ($p \leq .001$) and a negative one (p values between .000 and .118) for steeper incentives. Social enterprises occupy the middle ground between for-profits and nonprofits with regard to effort allocation when financial incentives are in place and highlight the adverse specialization problem social enterprises face when they do not use monetary rewards.

We further probe the nature of adverse specialization: does imbalance result from a skewed effort allocation for all workers or only a minority? Figure 2 plots the distribution of social enterprise social effort by treatment. Between 30% and 40% of subjects in the £0 treatment exert only social effort, whereas the distribution is roughly normal and centered around a balanced allocation for other subjects. Adverse specialization therefore only affects a fraction of workers, rather than shifting the entire distribution of social effort upwards. Our theoretical framework suggests that subjects with higher other-regarding preferences are more likely to exert social effort and, thus, to exhibit adverse specialization. In Supporting Information: Appendix H, we show that this is indeed the case for individuals in the top *Compassion* decile, especially if they self-select into the social enterprise. The remaining panels of Figure 2 suggest that all positive incentives reduce the fraction of social enterprise workers exerting only social effort, producing significantly different distributions, centered more tightly around a balanced effort allocation.

As hypothesis 1 predicts, low-powered incentives induce a shift in effort towards commercial tasks, alleviating the adverse specialization occurring in the absence of monetary rewards. Yet, contrary to a common view in social enterprises, the commercial task does not gain prominence with stronger incentives: effort does not concentrate in commercial tasks even when the social enterprise pays as much as a for-profit, mitigating mission drift concerns. We now analyze the link between monetary rewards and the other-regarding preferences of workers attracted to the social enterprise and the potential for self-selection to influence effort allocation.

TABLE 3 Social effort, by contract and treatment.

	No sorting				Sorting			
	(1) £0	(2) £0.25	(3) £0.50	(4) £1	(5) £0	(6) £0.25	(7) £0.50	(8) £1
A. Social effort levels across contracts								
For-profit	4.918 (4.506)	5.152 (4.479)	5.227 (4.435)	5.640 (4.613)	3.956 (3.836)	4.131 (3.735)	4.100 (3.672)	4.846 (4.846)
<i>N</i>	170	178	185	175	90	84	70	26
Social enterprise	10.935 (3.612)	7.129 (3.727)	7.108 (3.595)	7.343 (3.534)	10.633 (3.408)	7.534 (3.262)	8.000 (3.002)	7.600 (2.527)
<i>N</i>	170	178	185	175	49	73	94	125
Nonprofit	13.306 (2.939)	12.719 (3.169)	12.984 (3.303)	12.697 (3.503)	13.355 (2.537)	13.762 (2.364)	13.367 (3.851)	13.458 (3.413)
<i>N</i>	170	178	185	175	31	21	21	24
B. Social enterprise social effort <i>t</i> tests of equality of means across treatments, <i>p</i> values								
Vs. £0		0.000	0.000	0.000		0.000	0.000	0.000
Vs. £0.25			0.956	0.581			0.340	0.874
Vs. £0.50				0.533				0.286
C. Social enterprise social effort <i>t</i> tests of equality with for-profit and nonprofit, <i>p</i> values								
Vs. for-profit	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Vs. nonprofit	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
D. Social enterprise social effort <i>t</i> tests of equality with for-profit and nonprofit average, sign and <i>p</i> values								
	+0.000	−0.000	−0.000	−0.000	+0.001	−0.006	−0.118	−0.013

Note: Standard deviations in parentheses. We use matched pair *t* tests for the no sorting condition, since all individuals performed the slider task in all contract types. In the bottom row, we compare social enterprise social effort with the average of for-profit and nonprofit social effort to show where the social enterprise lies on the continuum between for-profit and nonprofit: “+” means the social enterprise is closer to the nonprofit than to the for-profit, and “−” means the social enterprise is closer to the for-profit than to the nonprofit. All *p* values are two-sided.

4.3 | The selection channel: Worker sorting

One reason social entrepreneurs may be reluctant to use financial incentives relates to their potential attraction of less prosocial individuals. To assess the validity of this concern, Table 4 displays average *Compassion* (standardized to have a mean of 0 and a standard deviation of 1) and *Social motivation* levels across treatments. In Panel A, we find no significant differences in mean social preferences across treatments in Part 2 of the experiment (Kruskal-Wallis $p = .635$ and $.725$), indicating successful randomization. Panel B displays social preferences separately for subjects selecting into the for-profit, social enterprise, and nonprofit contracts in Part 3. Social enterprise social preferences are similar for the £0, £0.25, and £0.50 treatments, but are significantly lower in the £1 treatment by about one quarter of a standard deviation, as the *t* tests in Panel C show (*p* values between .002 and .177 relative to the £0 treatment).¹⁸ This shift is consistent with our prediction that more extrinsically motivated employees are attracted to social enterprises when this organization uses higher-powered incentives. Nonetheless, more workers join the social enterprise as incentives become stronger: while a £0 social enterprise bonus attracts 28.8% of subjects (49 out of 170), the £0.25, £0.50, and £1 bonuses attract 41%, 50.8%, and, respectively, 71.4% of subjects, mainly at the expense of for-profits.

We investigate the selection channel further by comparing social preferences across Part 3 contract choices in Panel D of Table 4. As already visible in Panel B, outside of the £1 treatment, self-selected social enterprise workers' social motivation is higher than that of for-profit workers ($p < .05$) and indistinguishable from that of nonprofit workers ($p > .1$), supporting our central contention that the hybrid organizational form attracts highly motivated employees. However, social enterprise workers' *Social motivation* in the £1 treatment is lower than that of nonprofit workers ($p = .014$) and more similar to that of for-profit workers ($p = .080$). As noted above, this is driven by a large shift in subjects choosing the social enterprise relative

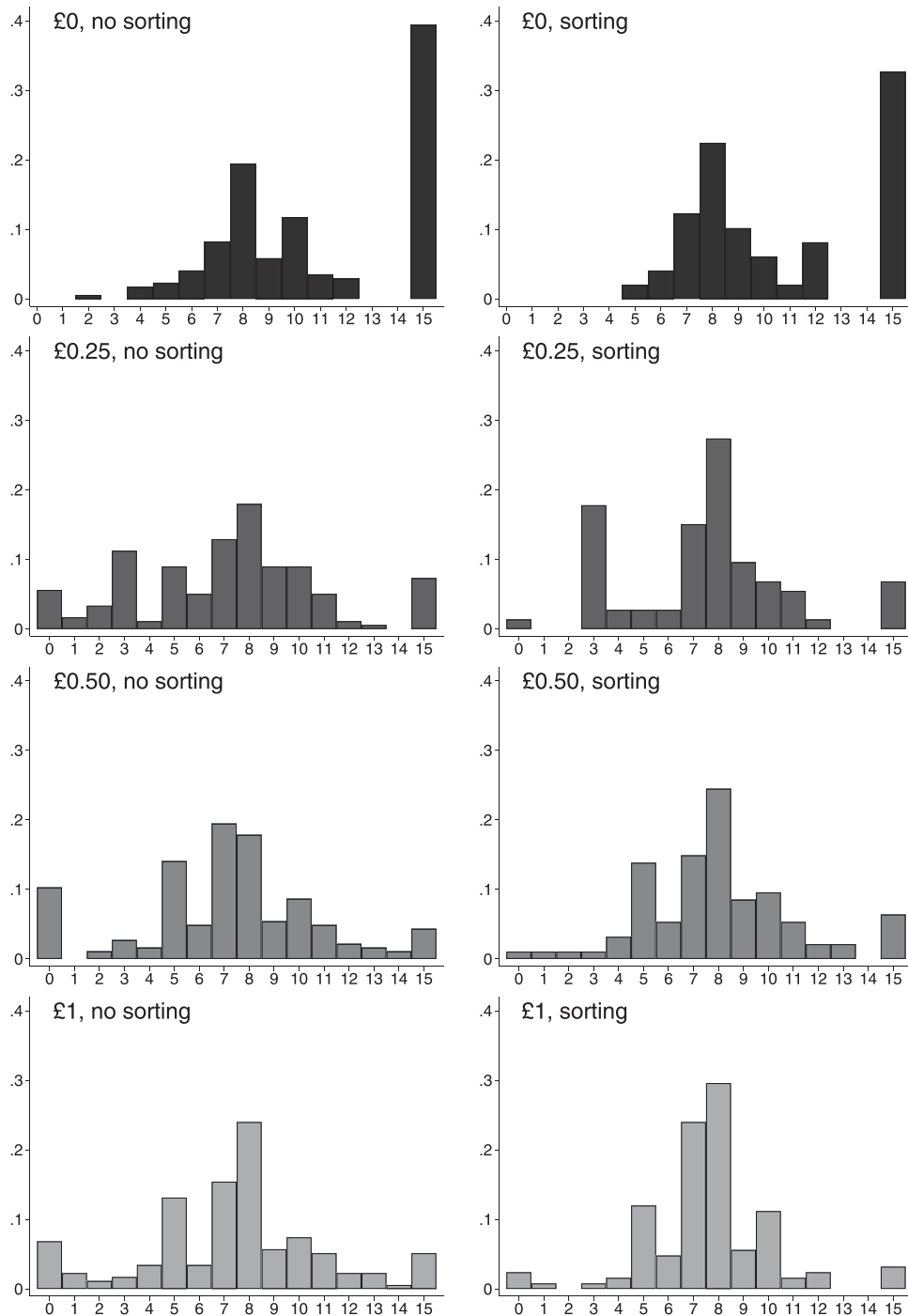


FIGURE 2 Distribution of social effort in social enterprises. The £0 distribution is different from the £0.25, £0.50, and £1 distributions (Kolmogorov-Smirnov $p < .001$, no sorting; $p < .01$, sorting). The latter distributions are not different from each other ($p > .1$).

to the for-profit when social enterprise and for-profit contract terms are the same. In Panel E we inquire once again whether social enterprises are closer to for-profits or nonprofits in social preferences by comparing the former with the mean of the latter. While social enterprises are indistinguishable from this average in terms of *Compassion*, they are significantly closer to nonprofits with regard to *Social motivation* when the bonus is £0, £0.25, or £.50 ($p = .025, .025, \text{ and } .068$). Thus, the scope for selection channel effects appears limited, with only high-powered incentives leading to a small, but significant decrease in social enterprise employee social motivation.

As Figure 1 shows, allowing for employee self-selection does not alter the relationship between monetary rewards and *Social effort*, although it leads to an effort allocation closer to full balance. To formally test for differences, columns

TABLE 4 Motivation and contract choice.

	Compassion (standardized)				Social motivation (factor)			
	(1) £0	(2) £0.25	(3) £0.50	(4) £1	(5) £0	(6) £0.25	(7) £0.50	(8) £1
A. Motivation across contracts, without sorting								
All contracts	0.038 (0.953)	-0.025 (1.015)	0.050 (1.086)	-0.065 (0.937)	0.020 (0.752)	-0.036 (0.768)	0.049 (0.827)	-0.035 (0.670)
N	170	178	185	175	170	178	185	175
B. Motivation across contracts, with sorting								
For-profit	-0.185 (0.949)	-0.255 (1.088)	-0.266 (1.159)	-0.318 (0.989)	-0.237 (0.768)	-0.282 (0.745)	-0.254 (0.871)	-0.293 (0.763)
N	90 (52.9%)	84 (47.1%)	70 (37.8%)	26 (14.8%)	90 (52.9%)	84 (47.1%)	70 (37.8%)	26 (14.8%)
Social enterprise	0.272 (0.863)	0.150 (0.902)	0.209 (0.970)	-0.031 (0.920)	0.292 (0.637)	0.196 (0.705)	0.222 (0.742)	-0.046 (0.624)
N	49 (28.8%)	73 (41%)	94 (50.8%)	125 (71.4%)	49 (28.8%)	73 (41%)	94 (50.8%)	125 (71.4%)
Nonprofit	0.311 (0.965)	0.287 (0.917)	0.392 (1.114)	0.036 (0.960)	0.333 (0.605)	0.145 (0.796)	0.284 (0.763)	0.303 (0.682)
N	31 (18.2%)	21 (11.7%)	21 (11.3%)	24 (14.1%)	31 (18.2%)	21 (11.7%)	21 (11.3%)	24 (14.1%)
C. Social enterprise motivation <i>t</i> tests of equality of means across treatments, <i>p</i> values								
Vs. £0		0.458	0.699	0.047		0.443	0.575	0.002
Vs. £0.25			0.692	0.177			0.815	0.012
Vs. £0.50				0.063				0.004
D. Social enterprise motivation <i>t</i> tests of equality with for-profit and nonprofit, <i>p</i> values								
Vs. for-profit	0.006	0.013	0.005	0.156	0.000	0.000	0.000	0.080
Vs. nonprofit	0.854	0.547	0.449	0.745	0.782	0.777	0.736	0.014
E. Social enterprise motivation <i>t</i> tests of equality with for-profit and nonprofit average, sign and <i>p</i> values								
	+0.147	+0.320	+0.319	-0.506	+0.025	+0.025	+0.068	-0.653

Note: Standard deviations in parentheses. We standardize *Compassion* to have a mean of 0 and a standard deviation of 1. In the bottom row, we compare social enterprise motivation with the average of for-profit and nonprofit motivation to show where the social enterprise lies on the continuum between for-profit and nonprofit: “+” means the social enterprise is closer to the nonprofit than to the for-profit, and “-” means the social enterprise is closer to the for-profit than to the nonprofit. All *p* values are two-sided.

(1) and (2) of Table 5 regress social enterprise *Social effort* on treatment dummies, the *Sorting* condition, and their interactions, with and without demographic and good cause controls. Some participants perform the social enterprise contract twice, so we cluster standard errors at the individual level. If the selection channel were unimportant, we would expect *Sorting* and its interaction with each bonus level to be jointly insignificant. The first three rows replicate the results in Table 3 in a regression framework: incentive channel effects are both significant and substantial ($p = .000$). In the next four rows, where we add the main and interaction sorting effects, we find some evidence of additional influence on effort allocation, mainly in the £0.50 treatment ($p = .039$ and $.049$). The joint significance test *p* values show that sorting differentially affects effort allocation only in the £0.50 treatment, where subjects exert higher *Social effort*. Comparing the main and interaction coefficients ($|\beta_{\text{Sorting} \times \text{Incentive}} / \beta_{\text{Incentive}}|$) in column (1) indicates that selection channel effects are 18.6% ($p = .217$), 31.2% ($p = .029$), and 15.6% ($p = .280$) as large in absolute terms as incentive channel ones across the £0.25, £0.50, and £1 treatments, respectively. Overall, most of the action is concentrated in monetary rewards' incentive channel effects on effort allocation.

Columns (3)–(6) of Table 5 present the results using two other dependent variables. First, we account for potential differences in total effort—which may shift social effort downwards in absolute, but not necessarily relative terms—by computing social effort as a share of total effort. The results in columns (3) and (4) perfectly match those obtained using units of social effort, suggesting that total effort does not represent an important margin of adjustment, in line with our

TABLE 5 Incentive and selection channel effects.

	Social effort units		Social effort share		Absolute balance	
	(1)	(2)	(3)	(4)	(5)	(6)
£0.25	-3.806 (0.394)	-3.934 (0.397)	-0.252 (0.026)	-0.260 (0.026)	-2.197 (0.587)	-2.389 (0.587)
£0.50	-3.827 (0.383)	-3.934 (0.389)	-0.254 (0.026)	-0.261 (0.026)	-2.570 (0.589)	-2.823 (0.591)
£1	-3.592 (0.385)	-3.670 (0.392)	-0.237 (0.026)	-0.241 (0.026)	-2.717 (0.591)	-2.885 (0.600)
Sorting	-0.303 (0.471)	-0.240 (0.464)	-0.020 (0.031)	-0.017 (0.031)	-0.935 (0.838)	-0.856 (0.822)
Sorting × £0.25	0.708 (0.588)	0.639 (0.586)	0.047 (0.039)	0.043 (0.039)	0.005 (0.972)	0.177 (0.948)
Sorting × £0.50	1.195 (0.577)	1.128 (0.572)	0.081 (0.038)	0.077 (0.038)	0.047 (0.930)	0.005 (0.913)
Sorting × £1	0.560 (0.537)	0.489 (0.531)	0.034 (0.036)	0.030 (0.035)	-0.778 (0.904)	-0.837 (0.886)
Constant	10.935 (0.277)	11.545 (0.631)	0.729 (0.018)	0.770 (0.042)	7.894 (0.467)	7.899 (0.929)
Tests of joint significance of Sorting + Sorting × treatment, <i>p</i> values:						
£0.25	0.250	0.266	0.251	0.274	0.059	0.153
£0.50	0.008	0.008	0.007	0.007	0.027	0.034
£1	0.321	0.344	0.408	0.436	0.000	0.000
Controls	No	Yes	No	Yes	No	Yes
<i>N</i>	1,049	1,049	1,049	1,049	1,049	1,049
<i>R</i> ²	0.152	0.177	0.151	0.175	0.066	0.113

Note: Subject-clustered standard errors in parentheses. The baseline category is the £0 treatment when sorting is not possible. The dependent variable is social enterprise *Social effort* in columns (1)–(2), social enterprise social effort as share of total effort in columns (3)–(4), and absolute balance (absolute value of the difference between social and commercial effort) in columns (5)–(6). Controls include age, gender, studentship, education, income, risk and time preferences, and good cause choice. These models include 708 observations where sorting is not possible and 341 where it is possible (for individuals who select into the social enterprise contract).

assumption in Section 2. Second, since one could be concerned with deviations from balance in the direction of either commercial or social task effort, we also consider the absolute value of the difference between social and commercial effort, where a lower value implies better balance. Columns (5) and (6) provide additional evidence against self-selection as the main mechanism by which incentives affect effort allocation; however, they suggest that sorting does contribute to better absolute balance in the £0.50 and £1 treatments.

In summary, low-powered incentives have no effect on selection and high-powered incentives engender a loss of prosociality, but do not skew employee effort too far towards the commercial task. These results contradict Hypothesis 2, but may allay concerns of mission drift for social entrepreneurs considering using low-powered incentives. In our mission-driven context, monetary rewards work mainly through the incentive, rather than the selection channel, directing attention towards the remunerated commercial task in a way that reduces social effort concentration.

4.3.1 | Sensitivity and heterogeneity

Our results are robust to a wide set of alternative sampling restrictions (Supporting Information: Appendix F), factor extraction/rotation techniques and social preference measures (Supporting Information: Appendix G), outcome

measures and estimation techniques (Supporting Information: Appendix H), and multiple hypothesis testing adjustments (Supporting Information: Appendix I). As women are often found to be more other-oriented than men and more likely to engage in social, rather than commercial activities (Croson & Gneezy, 2009; Dimitriadis et al., 2017), we stratified our randomization by gender. We find no substantial differences between women and men in incentives' effect on effort allocation in mission oriented contexts (Supporting Information: Appendix I). While we did not stratify our randomization by prior social sector experience or social mission, results are similar along these dimensions (Supporting Information: Appendix I). To investigate the role of larger incentives and analyze total effort as a possible margin of adjustment, we perform an additional study (Supporting Information: Appendix J). We do not allow for sorting but add a £2 per slider treatment, increase the number of sliders, and impose a time constraint, thus inducing variation in total effort. We replicate our incentive channel results under these alternative experimental parameters: the effort allocation remains balanced even with a larger bonus, while total effort is unaffected. Overall, our results paint a clear picture: low-powered incentives reduce effort concentration in social tasks without an associated decline in social motivation.

5 | DISCUSSION

To strike their desired balance between imperfectly aligned economic and social value creation goals, social enterprises must allocate scarce employee effort to both commercial and social tasks. Owing to their mission emphasis, reluctance to employ practices stemming from a commercial setting, and strong other-regarding preferences among founders and employees, social enterprises often pay insufficient attention to revenue generation. As employees often prioritize purpose over profits, revenue drift may hinder social ventures' ability to deliver on their mission and threaten their survival. Why, then, do so few social enterprises employ monetary rewards, and why does the scholarly literature pay relatively little attention to incentives in these organizations?

We build on incentive theory to argue that social enterprise employees allocate most of their effort to social rather than commercial tasks due to social mission salience and high prosociality when monetary rewards are absent, then theorize about incentives' impact on effort allocation. We test our predictions experimentally, isolating incentive and selection channel effects. Both low- and high-powered incentives reduce effort concentration, with effort split roughly equally between tasks, and attract additional workers. Low-powered incentives do not affect workforce composition, but high-powered ones lead to a small decline in workers' prosociality; sorting plays a minor role for understanding how workers allocate effort, however. Weak financial incentives can help social entrepreneurs concerned about revenue drift strike a better balance.

The tension between social and economic value creation and its implications for firm success are core social enterprise problems (Dacin et al., 2011; Shepherd et al., 2019; Short et al., 2009). While the risk of mission drift engendered by commercial goal pursuit has received substantial attention, few studies address revenue drift beyond noting threats to economic viability when firms put purpose ahead of profits (Battilana et al., 2015; Smith et al., 2013; Stevens et al., 2015; Tracey et al., 2011). Yet, social entrepreneurs perceive incentive tools as incompatible with social impact and liable to attract less prosocial agents (Austin et al., 2006; Bacchiega & Borzaga, 2001; Brolis, 2018; Ganguli et al., 2021; Tracey et al., 2011). Our work highlights a possible explanation for revenue drift emergence, a phenomenon that deserves additional inquiry.

By modifying incentive theory to reflect the social enterprise context, we argue that monetary rewards can stave off revenue drift when commercial and social activities are imperfectly aligned. Existing studies show that firms' social missions elicit higher employee effort (Besley & Ghatak, 2005; Burbano, 2016; Cassar, 2019), but the *nature* of that effort has been largely overlooked. Social enterprises relying solely on mission to attract and motivate employees are vulnerable to revenue drift, posing obstacles to growth and survival. Combining mission and monetary rewards can instead help workers match their effort allocation to firm preferences and, more generally, multiple-goal organizations should consider using multiple tools to motivate employees in pursuit of their specific goals (Battilana et al., 2022). Beyond limiting adverse specialization at minimal cost, low-powered incentives—via the selection channel—can also help expand social enterprises' potential employee pool and alleviate their talent attraction and retention concerns.

Inasmuch as it engenders a deviation from firms' core social mission focus, a move towards commercial action may still be considered problematic. Giné et al. (2022), for instance, reveal that strong incentives to improve credit outcomes in a development microfinance organization achieved their target, but led to a small decline in social empowerment goals. However, a weaker emphasis on social actions can afford social enterprises the resources needed for growth,

allowing them to achieve long-run social impact more reliably and sustainably (McMullen & Bergman, 2017; Santos, 2012). This shift is especially important in light of evidence that social enterprises often use financial resources inefficiently and rarely deliver on their earned income commitments (Foster & Bradach, 2005; Mair & Martí, 2006; Staessens et al., 2019). Our results reinforce the need to move away from viewing mission drift as unequivocally bad and towards appreciating situations where it may be helpful or even necessary (Grimes et al., 2019).

Our experimental design causally isolates the channels through which incentives affect effort allocation. Integral to organizations' structural distribution of attention (Ocasio, 1997), monetary rewards signpost to employees which tasks are valuable, performing a normative function (Ethiraj & Levinthal, 2009; Kaplan & Henderson, 2005); they may also play a sorting role, attracting less prosocial agents (Cadsby et al., 2007; Ganguli et al., 2021; Lazear, 2000). Rewards may moderate workers' social focus if motivation crowd-out is small, but may backfire if self-selected workers are extrinsically motivated. In our study, low-powered incentives suffice to reduce effort concentration without reducing prosociality; high-powered incentives improve effort allocation, but attract less prosocial workers, which could create long-run challenges. Our evidence aligns with an attention-directing role of monetary rewards. By conveying a particular task's importance, low-powered incentives act as a valuable coordination device when firms face conflicting goals or a dominant goal prescribes and legitimates nonoptimal practices (Kogut & Zander, 1996; Lounsbury, 2007)—conditions that characterize many social enterprises.

Commercial action incentives are but one tool available to social entrepreneurs. Additional means to guide employee effort include hiring and socialization practices (Battilana & Dorado, 2010; Hsieh et al., 2018), governance tools (Battilana et al., 2015; Ebrahim et al., 2014; Smith & Besharov, 2019), and (where quantifiable) rewards for achieving social or operational goals (Giné et al., 2022; Karlan et al., 2023; Wolfolds, 2018). Assessing these practices' complementarity and comparative efficacy with incentive tools across social enterprises with diverse business models is important for future research. Our multitasking framework can aid such investigations, as it can incorporate different organizational forms, activity costs, and employee preferences to predict when deviations from desired balance are more likely and what solutions work best.

To causally isolate if and how monetary incentives affect effort allocation, we purposely simplified the nature of social enterprises at the expense of their hybrid complexity and considered a one-shot task. One could question our study's external validity, given the multitude and relative difficulty of the tasks that employees perform, the dimensions in which they differ, possible differences between short- and long-term responses to incentives, and firms' nuanced real-life presentation of objectives. Nonetheless, we believe our experiment captures the fundamental tension between commercial and social tasks and employee effort allocation in a simple, transparent way; we also conceptually cover the full range of relevant incentive intensities in social enterprises, from weak as in nonprofits to strong as in for-profits. While we attempted to alleviate external validity concerns by recruiting participants from a representative potential employee pool and offering realistic choices of company types and missions, field replications with alternative designs, missions, or tasks represent a natural extension. Our work provides interesting avenues for future research on team versus individual incentives, employee heterogeneity and social comparisons, or the role of impact measurement and drift potential.

To conclude, we posit and provide evidence that social enterprises can address revenue drift—an excessive focus on social impact at the expense of revenue generation—by deploying monetary rewards. Low-powered incentives redirect employee attention to commercial tasks and reinforce social enterprises' commitment to achieving their mission via market-based mechanisms without attracting less prosocial employees. Our findings question a common social entrepreneurship view that incentives are incompatible with social impact and attract the 'wrong' workers. This study adds to a growing literature on the challenges of managing social enterprise tensions and opens up interesting questions on their compensation practices and organizational design.

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NOTES

- ¹ For example, a housing worker quoted in Beer et al. (2017) remarked: “We need to get support workers on board with the importance of rent collection... everyone needs to have a common message [with the young people].” Another stated: “They [support workers] say: ‘Our job is not to collect rent, it is to get them on a course’. They need to understand that money is what keeps [Youth Futures] going.”
- ² Social Enterprise UK (2021, 2023) reports indicate the modal United Kingdom-based (UK) social enterprise has fewer than 10 full-time paid staff, revenue below £100,000, no or limited revenue or staff growth expectations, and a short runway in terms of cash flow or financial reserves.
- ³ Giné et al. (2022, p. 750) observe that “[b]ecause both credit and social activities require deep community and client knowledge, specialization would be too costly” in a microfinance organization tackling social mobilization and credit goals. More generally, the assumption that tasks are prohibitively difficult to separate is common in the multitasking literature (Besley & Ghatak, 2018; Dewatripont et al., 2000), including in relation to social sector organizations (Dixit, 2002; Giné et al., 2022; Henderson & Van den Steen, 2015; Jones et al., 2023).
- ⁴ Implementing alternative hiring and socialization strategies (Battilana & Dorado, 2010; Besharov, 2014; Hsieh et al., 2018; Newman et al., 2018) is similarly challenging owing to scarce managerial attention.
- ⁵ Mission drift occurs when firms succumb to powerful interest group pressures diverting organizational actions away from their original social goals and toward profit-seeking (Ebrahim et al., 2014).
- ⁶ Our results do not depend on this assumption and subjects in our experiment can partly choose their labor supply, not just divide a fixed stock of effort. Moreover, when we specifically allow subjects to choose total effort in an additional study (Supporting Information: Appendix J), we confirm that total effort is not an important margin of adjustment.
- ⁷ In principle, incentives can be attached to either task (Giné et al., 2022; Karlan et al., 2023; Wolfolds, 2018), but tend to be applied to commercial tasks, as social impact is difficult to measure in a timely and standardized manner (Austin et al., 2006; Beer et al., 2017; Dacin et al., 2011).
- ⁸ Tools and rewards for social performance may also backfire if poorly understood or perceived to limit (social) effort’s ability to signal prosociality (Giné et al., 2022; Karlan et al., 2023).
- ⁹ More subtly, firm mission effectively elicits social norms mitigating financial incentives’ “distorting” effect in social effort under-provision (Bénabou & Tirole, 2016; Brügggen & Moers, 2007; Nellas & Reggiani, 2015). Small rewards are less at odds with social norms than large ones and reduce the risk that prosocial employees “over-react” and predominantly expend commercial effort.
- ¹⁰ Deserranno (2019) finds that financial incentives lower candidates’ perceptions of a new public sector job’s positive effects on society and discourage strongly prosocial agents from applying; in contrast, higher wages and career benefits attract intrinsically motivated workers to government jobs (Ashraf et al., 2020; Dal Bó et al., 2013).
- ¹¹ To avoid priming, we did not use “for-profit,” “nonprofit” or “social enterprise” labels in our study. The latter label likely evokes a strong motivation to exert social task effort (Lee et al., 2020), amplifying revenue drift when incentives are absent. Label avoidance makes it harder to detect revenue drift, rendering our tests conservative.
- ¹² The workforce reintegration commercial task is described as follows: “By placing the slider exactly at position 25 you can generate revenue for the company through the sale of services; each slider you position at 25 will give you a payoff of ...”. The equivalent social task is described as follows: “By placing the slider exactly at position 75 you can contribute to the professional development of its employees; each slider you position at 75 will give a payoff of £1 to the good cause.” As instructed, subjects are only rewarded for sliders placed at precisely 25 or 75.
- ¹³ More specific, narrower social concerns are likely to attract employees with even stronger matching preferences, potentially exacerbating the revenue drift problem. Our choices are, therefore, rather conservative.
- ¹⁴ These items, with Cronbach $\alpha = .75$, are available in Supporting Information: Appendix C.
- ¹⁵ The expected total payoff is £7 for a duration of around 20 min. The maximum own payoff is attained when subjects exert only commercial effort in the £1 treatment. If subjects exert only social effort, the maximum good cause payoff is £60. In practice, the average own and good cause payoffs are £29 and, respectively, £33.
- ¹⁶ To ensure transparency and commitment in our analysis, we preregistered our design and hypotheses within the Open Science Framework (https://osf.io/fdjk4/?view_only=7c1f202ae73249ce89dfc1b52948a40). Supporting Information: Appendix D indicates that our randomization procedure was successful. Supporting Information: Appendix E details power calculations performed before running the experiment: our sample sizes allow us to detect relatively small changes in social effort (half of a standard deviation) with more than 80% power at 5% significance. Supporting Information: Appendix F shows that results are robust to tightening or relaxing sample

restrictions on gender, slider placement, and attention checks, and discusses the similar results we obtained in our pilot study. The latter explicitly required subjects to allocate equal effort to commercial and social tasks: even with this benchmark, the absence of incentives generated social task effort concentration in social enterprises.

- ¹⁷ Interestingly, company descriptions matter beyond the incentives offered, even when commercial and social tasks produce the exact same payoffs per slider. The £0 bonus social enterprise is equivalent to the nonprofit in the contract terms offered, but subjects exert significantly more *Social effort* in the nonprofit than in the social enterprise (Table 3, Panel C, columns (1) and (5)). The £1 bonus social enterprise and for-profit are equivalent in contract terms, but subjects exert significantly more *Social effort* in the social enterprise than in the for-profit (Table 3, Panel C, columns (4) and (8)). This is probably due to subjects' ability to contrast contracts: no such differences arise in our additional study when subjects are exposed to one contract only (Supporting Information: Appendix J).
- ¹⁸ Equality of variance *F* tests do not indicate a wider social preference dispersion across treatments, but Kolmogorov-Smirnov tests for equality of distributions suggest a different distribution of *Social motivation* in the £1 treatment ($p = .060, .081, \text{ and } .063$). In Supporting Information: Appendix G, we show that the £1 bonus social enterprise attracts more (fewer) individuals from the bottom (top) 25% of the *Social motivation* distribution.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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