Our paper seeks to apply Elinor and Vincent Ostrom’s concept of polycentricity (e.g., E. Ostrom, 1999; V. Ostrom, 1991) with Friedrich Hayek’s insights into the economics of knowledge (e.g., Hayek, 1945) to understand the process of social entrepreneurship leading to social change and ultimately the advancement of civil society. The Ostroms posit the normative concept of polycentricity as a preferred organizing principle of governance in which decisions for complex systems should be made at multiple, decentralized sites instead of a few sites or a single site. Relatedly, Hayek develops the notion of dispersed knowledge as he explains that in efficiency terms localized knowledge of particular circumstances are preferable to centralized decisions with aggregated knowledge. The social innovations behind social-welfare provision and the effective conduct of social policy presume a certain level of institutional development and state capacity that varies greatly from state to state. Prior research examining this correlation between state capacity and social-welfare provision has found that social entrepreneurship has become an effective, and often superior, tool of social-welfare provision in the absence of sufficient state capacity (Shockley & Frank, 2011). In other words, social entrepreneurship can be seen as bottom-up social policy when the capacity for top-down, governmental social policy-making is lacking due to centralized decision-making. Our paper will utilize the Ostrom’s concept of polycentricity and Hayek’s notion of dispersed knowledge in order to better understand the microfoundations of how social entrepreneurship operates.

Much like market-based entrepreneurship, progress must come from trial and error, from an evolutionary process in which many agents interact freely. Hayek argues that the amount of information to manage the production and efficient allocation of resources is enormous and cannot be attained and analyzed in a centralized manner. The polycentric, decentralized processes like social entrepreneurship enable social change to emerge from the bottom-up based on localized knowledge and feedback processes.

While the case studies and theory-building literature on social entrepreneurship has become vast, we would focus on the subarea of the literature that explores the intersection of social entrepreneurship and governance institutions. Other relevant literatures on which we will draw are those on non-market entrepreneurship and public sector entrepreneurship. Therefore, just as governance institutions link the work of Hayek and the Ostroms, they also link social entrepreneurship and polycentricity in that they illuminate how governance institutions and non-market entrepreneurship (such as social and public sector entrepreneurship) join to create social change in societies and communities.

This research is embedded in the broader field of how social entrepreneurship advances civil society, and in particular how these entrepreneurs are both, responders to the given institutions within a country, and drivers of institutional change. Research on the foundations of entrepreneurial behavior that operates outside the market or government is a crucial contribution to understanding the development of civil society.