



Does the Hope of Profit Produce Better Economic Outcomes? Incentives, Innovation, and Enterprise Performance Across for-Profit, Charitable, and State-Owned Models

Shaunya Sood

Carmel Convent School, Chandigarh, India

Email: shaunyaschool@gmail.com

<http://dx.doi.org/10.47814/ijssrr.v9i4.3338>

Abstract

This essay examines whether the “hope of profit” leads to superior economic and organizational outcomes compared to charitable and state-owned models. Drawing on economic theory, behavioural insights, and historical case studies, it argues that profit-driven incentives play a crucial role in fostering innovation, efficiency, and long-term sustainability. The analysis highlights how financial incentives align individual and organizational goals, encouraging risk-taking, cost control, and technological advancement. In contrast, charitable and government-operated organizations, while often mission-focused, tend to face structural limitations such as resource constraints, weaker incentive mechanisms, and bureaucratic inefficiencies. Empirical examples—including the collapse of Kids Company and comparative growth trajectories of France and the United States—demonstrate the challenges faced by non-profit and state-led models in maintaining consistent performance. The essay concludes that, although non-profit and public enterprises serve essential social purposes, profit-oriented firms are generally more effective in driving innovation, adaptability, and sustained economic growth.

Keywords: *Profit Incentive; Entrepreneurship; Innovation; Economic Growth; For-Profit Firms; Non-Profit Organizations; State-Owned Enterprises; Behavioural Economics; Public Choice Theory*

Introduction

Entrepreneurial behaviour is defined as a set of behaviours exhibited by an individual that allows them to innovate and improve upon existing ideas to market a product or a service in the competitive market effectively.¹ Across competitive free-markets and industries, the hope of profit is what fuels this behaviour.² But is this behaviour counter-productive for firms or provokes healthy competition? Are these characteristics possessed by charity-run and government-operated firms? Some economists, like Muhammad Yunus³ and Karl Polanyi⁴, argue that if all enterprises were run by charities or governments, driven by purpose rather than profit, society might be more progressive and just. Is this substantiated by historical accounts and these firms’ behaviours?

This essay argues that the behaviour engendered by the hopes of profit is positive and catalyses the growth and innovation of the firms, leading to better societal and economic outcomes, whereas charity-run and government-owned organisations are unable to match these results. While non-profit and government-owned firms are undeniably effective when it comes to focusing on their mission, they often lack the resources and mechanisms required to keep up with the market forces. Drawing on behavioural economics, historical case studies, and empirical evidence, this essay argues that profit-driven behaviour is more productive for firms seeking results and long-term sustainability in the market.

Innovation and Economic Growth

Entrepreneurial behaviour is characterised by innovation, risk-taking and the pursuit of opportunities, which fuels economies and shapes cultures.¹ The hope for profit drastically shapes and affects this behaviour. Classical economic theory, that is the Neoclassical theory of the firm incentive alignment⁵ which is rooted in Agency theory⁶, and Entrepreneurial incentives⁷, suggests that managers, when given financial incentives, are encouraged to develop new products, seek efficiencies, and take calculated risks- all in the expectation of financial gain to outperform the competitors.⁸

Shleifer (1998) argues that private ownership should be “preferred to public ownership when the incentives to innovate and to contain costs must be strong,” which highlights innovation as a very important aspect of capitalist firms.⁹

Though sometimes, the pursuit of profit may cause individuals to generate profit at the cost of human misery-operating in illegal trades such as drugs and trafficking, which has been described by Baumol as destructive entrepreneurship¹⁰, it must be noted that these individuals are a part of the minority. According to OECD’s 2025 findings, counterfeit goods reached about 467 billion dollars in 2021. Even though this appears to be a huge amount, it represents only 2.3% of the world’s imports (down from 2.5% in 2019). In other words, 96-98% of global trade is clean, and the profits from illicit fakes, while dangerous, lie within a tiny niche of the market.¹¹

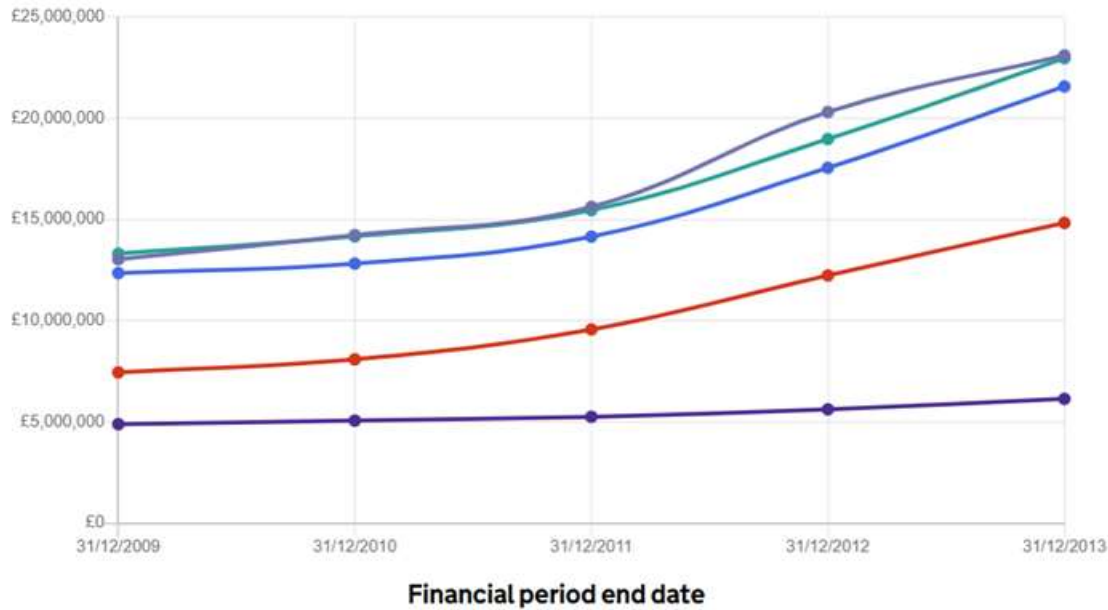
Profit-driven entrepreneurs face a lot of challenges with respect to competition, financial fluctuations, and market dynamics. To ensure financial gains, entrepreneurs must cultivate strong willpower, perseverance, and make smart decisions to overcome these risks.¹² Charity-run organisations, however, are unable to keep up with these challenges due to their inability to generate adequate resources on a scale which are reliable enough to cope with problems of an advanced industrial society.¹³

This argument is evidenced by the organisation “Kids Company,” which was originally founded to provide practical, emotional, and educational support to vulnerable young people. The firm initially witnessed a rapid growth, with the organisation growing almost tenfold in less than a decade. Their revenues rose from about £13 million in 2009 to £23.1 million in 2013. Expenditures rose at a similar rate, from £13.31 million to £22.96 million.¹⁴

However, this rate was not matched by reserves, which funded only £14.8 million of the £23.1 million income in 2013.¹⁴ The disaster arose when the company had to dip into government grants to meet the basic requirements as payroll, and even request early grant payments.¹⁵ A 2022 charity commission report suggested that trustees had allowed expenditure to increase without a secure stream of income and had kept only a low level of reserves, making the charity vulnerable. Auditors and MPs had warned that any funding hiccup would be fatal.¹⁶

And as predicted, by mid-2015, the funding gap became a crisis. A 3-million-pound grant from the government was delayed, and a major private donor pulled out amid a scandal. With no reserves to fall back on, Kids Company shut down in August 2015.¹⁷

Year-on-Year Financial Trends of Keeping Kids Company (2009–2013): Total Income vs. Expenditure (Fig 1)



Income / Expenditure	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013
<input checked="" type="checkbox"/> Total gross income	£13.04m	£14.23m	£15.63m	£20.31m	£23.10m
<input checked="" type="checkbox"/> Total expenditure	£13.31m	£14.17m	£15.46m	£18.98m	£22.96m
<input checked="" type="checkbox"/> Income - Donations and legacies	£7.45m	£8.09m	£9.57m	£12.24m	£14.83m
<input checked="" type="checkbox"/> Income - Charitable activities	£4.89m	£5.07m	£5.26m	£5.62m	£6.14m
<input checked="" type="checkbox"/> Expenditure - Charitable activities	£12.35m	£12.82m	£14.15m	£17.56m	£21.57m

Graph Data

This issue has raised the prospect of volunteer employees being replaced by professional management. However, this raised concerns about the firm drifting away from its mission and core values

to solely financial motives, which can potentially harm the goodwill, reputation, and effectiveness of the charity-owned firm. Bruce & Chew (2011) and Bush (1992) argue that business-like approaches may threaten the ability of charities to carry out their mission.¹³ Furthermore, Jager et al (2013) suggest that professionalisation in charities, including hiring staff with business backgrounds, is often aimed at coping with tension between mission and market orientation.¹³

During the post-war period, the government took up a huge role in production throughout the world. In some of these economies, such as Japan, the United States, and Germany, this ownership was restrained. Whereas, in Italy, France, and Austria, the government assumed significant control. However, for these countries, the control of the government led to under-investment, bureaucratic sluggishness, and weak incentives for cost control.⁹

A country like France, which initially saw growth in GDP in the initial years of state ownership, and then a subsequent sharp decline. Due to government ownership and nationalisation of coal, electricity, gas, transportation, insurance, and large banks, France’s GDP grew by 5% per year from 1950 to 1973.¹⁸ As a result, the living standard rose rapidly.

Post 1973, the government’s role started leading to problems. In the early 1980s, the socialist government of Mitterrand again nationalised key industries and banks (e.g., CGE, P  chiney), but by the late 1980s, many of these firms were under strain. The nationalized bank, Cr  dit Lyonnais, made international deals that went sour, suffering huge losses. The French government had to inject tens of billions of francs in 1993 in order to bail the company out. As a result, many state enterprises had to be sold for privatization. For the firms that are continuing to be operated by the government, like the railway SNFC, occur high-costs leading to reduced efficiency.¹⁸

Conversely, the United States, which operated freely post-war, saw steady GDP growth over the post-war era, with much less of a long-term deceleration. The US economy grew at a rate of around 3% real growth per year in the decades after 1945 and remained resilient throughout shocks, opposite to France’s decline. The long-run US expansion can be credited to its largely market-driven model. Thus, even when recessions occurred, recovery tended to restore the expansion.¹⁹

Fig 2

Growth gaps between France and the United States, by period
(Annual average)

	Real GDP Growth		Growth gaps
	France	United States	
1950-1973	5,4%	3,7%	1,6%
1974-1982	2,3%	2,3%	0,0%
1983-1993	2,1%	2,9%	-0,8%
1994-2003	2,3%	3,3%	-1,0%
2000	4,7%	3,8%	0,9%
2001	1,8%	0,3%	1,6%
2002	1,0%	2,4%	-1,5%
2003	0,5%	3,1%	-2,6%
2004e	2,0%	4,7%	-2,7%

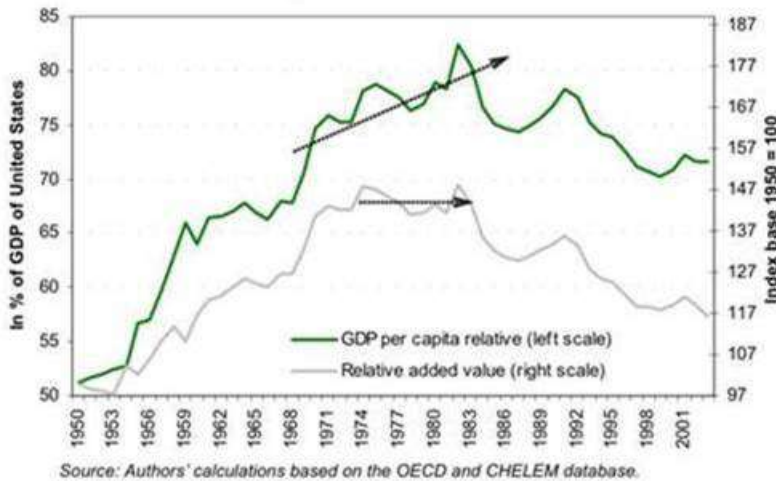
Source: Authors’ calculations and OECD estimate (e).

As depicted by the above table, the pace of growth in France fell from a yearly average of nearly 5.4% between 1950 to 1973 to 2.3% between 1974 and 1982. In contrast, the US only fell from 3.7 to 2.3%. Furthermore, the data depicts a consistent decrease in the real growth rate of France between 1973-2004 and an increase in the United States' Real GDP growth during the same years. The given evidence shows that though the 1970s were a difficult decade for most industrialised economies (as they were adjusting to the sudden price changes due to the oil price shocks in 1973), France was hit harder than other economies. Primarily because the state-run post-war growth model had run out of steam, leading to a slowdown in labour productivity gains, failed investments, declining returns on capital, and high inflation¹⁹.

Thus, from 1983 onwards, the growth gap in France's favour turned to a growth deficit. Whereas the US economy coped better with the shocks linked to the cyclical economic situation¹⁹

Fig 3

Gaps in living standards between France and the United States and changes in relative added value

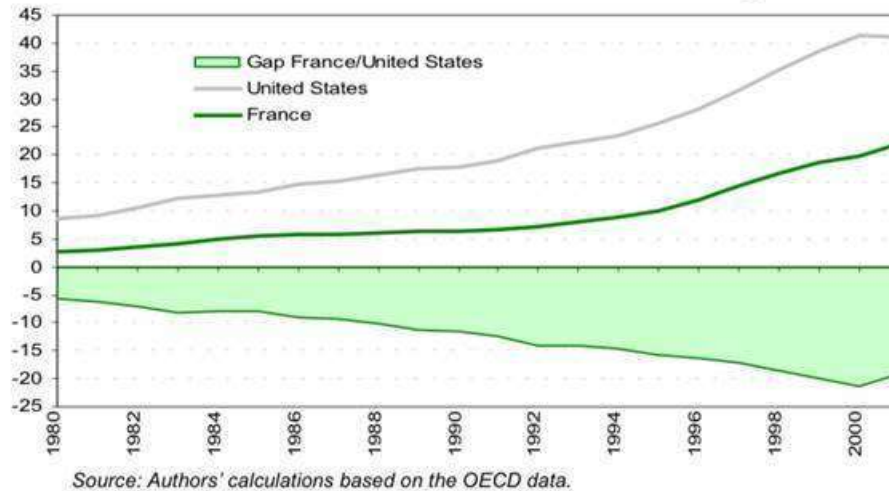


It is clearly evident from the graph, the GDP per capita relative was deteriorating from 1980-2001, coming back to the level of 1970. In fact, even during the period 1974-1980 - the trend line showed no real addition and the increase in GDP was misleading as it was actually due to decrease in population. The findings from the table above are confirmed by this graph depicting the relative development of production in France as compared with the production in the United States. France has grown at a slower pace from 1974 onwards. However, a favourable impact on France's per capita GDP only existed because the population grew at a slower rate than the US.¹⁹

France's mediocre GDP growth rate since the 1980s stems from its inability to change to a new system of growth. As in the 1970s, macroeconomic difficulties were due to a combination of internal factors and exogenous shocks. Yet above and beyond macroeconomic trends, various indicators, such as lower investment volume, labour force participation rate, relative living standards, Product-market regulation, etc, show that, unlike the US, France has not yet moved to innovation-driven growth. Lower investment volume is one of the key reasons why the two economies had different growth paths.

Fig 4

Share of Information and Communication Technologies in GFCF



In the 1990s, investment picked up in the US, but nature is also part of the reason for the performance gap between the two countries. The figure shows that the gap between the share of information and communication technologies (ICTs) out of overall investment in France and the US has widened over the past twenty years or so.

Insufficient investment in ICTs has limited the growth of the stock of these types of capital goods, which are characterized by rapid obsolescence. France has therefore lagged in disseminating the new technologies offering productivity gains. The gap between France and the US widened at a faster clip in the 1990s, and by 2001, ICTs accounted for twice as large a share of capital stock in the economy in the US as in France¹⁹

Employee and Organization Behaviour

According to the principle of public choice and bureaucratic self-interest, many government officials and non-profit managers seek personal incentives often tied to maximizing their budget, staff, or authority, at the cost of efficiency. Economist William Niskanen famously argued that bureaucrats act as “budget maximisers,” prioritizing the growth of their agency over cost-effectiveness or public welfare. This can lead to overly large and wasteful programs as well as resistance to cost-cutting.²⁰

In the case of for-profit firms, personal goals can only be achieved if the organisational goals are met. Self-interest is also conditional on the person’s performance; the employees only get rewards if the company thrives. Thus, public choice theory supports the view that for-profit organisations harness self-interest more productively, whereas government/nonprofit sectors can suffer from internally driven inefficiencies or “government failure”.

This is also supported by the principle of *skin in the game*. Skin in the game refers to having a personal stake in the outcome, typically financial. This exists in profit-driven enterprises as the owners and employees stand to gain if the organisation succeeds and lose if it fails. Which affects their behaviour, resulting in decision makers acting more prudently, working hard, and focusing on long-term success when their own money or career advancement is tied to the results.²¹

Conclusion

Therefore, we can conclude that the behaviour engendered by the for-profit firms is better than the behaviour we should expect if all enterprises were owned by charities or the government. While non-profits are essential in situations where equity and mission are concerned, their structural fragility, limited scalability, and reliance on external funding often constrain their impact.

In the world of currency & capitalism, the pro-profit firms' employees are driven to ensure the targets are achieved as the incentives are the direct variables associated. Whereas the non-profit sector is heavily involved in government-public funded collaborations which categorises it as volunteer work with rigid stipends.

As Milton Friedman rightly said, “*There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.*”²²

Citations

1. Simon Stockley, “Understanding Entrepreneurial Behaviour and Why It Is Important,” The Mastering Entrepreneurship Blog, May 5, 2021, <https://masteringentrepreneurship.blog.jbs.cam.ac.uk/understanding-entrepreneurial-behaviour-and-why-it-is-important/>.
2. Green, Laura. “Advantages of a Market Economy.” *Investopedia*, 2015, www.investopedia.com/ask/answers/033015/what-are-some-advantages-market-economy-over-other-types-economies.asp?utm
3. Rod Morley. “Muhammad Yunus: Charity with a Business Engine.” *CFA Institute Enterprising Investor*, 22 Nov. 2016, blogs.cfainstitute.org/investor/2016/11/22/muhammad-yunus-charity-with-a-business-engine/
4. Andor, László. “Karl Polanyi against the “Free Market” Dystopia.” *Social Europe*, 23 Apr. 2024, www.socialeurope.eu/karl-polanyi-against-the-free-market-dystopia
5. Alchian, Armen A., and Harold Demsetz. “Production, Information Costs, and Economic Organization.” *The American Economic Review*, vol. 62, no. 5, 1972, pp. 777–795, www.jstor.org/stable/1815199
6. Eisenhardt, Kathleen M. “Agency Theory: An Assessment and Review.” *Academy of Management Review*, vol. 14, no. 1, Jan. 1989, pp. 57–74, [journals.aom.org/doi/abs/10.5465/amr.1989.4279003](https://doi.org/10.5465/amr.1989.4279003), <https://doi.org/10.5465/amr.1989.4279003>
7. Joseph A. Schumpeter. “The Theory of Economic Development; an Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle : Schumpeter, Joseph A., 1883-1950 : Free Download, Borrow, and Streaming : Internet Archive.” *Internet Archive*, 2020, archive.org/details/theoryofeconomic0000schu
8. Boettke, Peter J., and Nicholas A. Snow. “Classical Political Economy.” SSRN, 2010, papers.ssrn.com/sol3/papers.cfm?abstract_id=2662732
9. Shleifer, Andrei. “State versus Private Ownership.” *Journal of Economic Perspectives*, vol. 12, no. 4, Nov. 1998, pp. 133–150, <https://doi.org/10.1257/jep.12.4.133>
10. McCaffrey, Matthew. “William Baumol’s “Entrepreneurship: Productive, Unproductive, and Destructive.” *Foundational Research in Entrepreneurship Studies*, 2018, pp. 179–201, https://doi.org/10.1007/978-3-319-73528-3_9
11. OECD, “Illicit Trade Mapping Global Trade in Fakes 2025 Global Trends and Enforcement Challenges”, 2025 https://www.oecd.org/en/publications/mapping-global-trade-in-fakes-2025_94d3b29f-en.html

12. Heart Sanlorenzo, and Alexandra Philline Targa. "(PDF) Passion or Profit: The Driving Force behind Entrepreneurship?" *ResearchGate*, 15 Mar. 2024, www.researchgate.net/publication/378968493_PDF_Passion_or_Profit_The_Driving_Force_Behind_Entrepreneurship.
13. Lambert, Vicky, and Irvine Lapsley. "Charities, Altruism and Becoming Business-Like: Tensions and Contradictions." *Qualitative Research in Accounting & Management*, vol. 20, no. 4, 27 June 2023, <https://doi.org/10.1108/qram-04-2020-0040>.
14. Registrar of Charities. "KEEPING KIDS COMPANY - Charity 1068298." *Prd-Ds-Register-of-Charities.charitycommission.gov.uk*, 2023, register-of-charities.charitycommission.gov.uk/en/charity-search/-/charity-details/3947701/full-print
15. Government of United Kingdom. "Charity Inquiry: Keeping Kids Company." GOV.UK, 21 May 2025, www.gov.uk/government/publications/charity-inquiry-keeping-kids-company/charity-inquiry-keeping-kids-company
16. The Charity Commission. "Official Report Criticises Former Trustees of Kids Company." GOV.UK, 10 Feb. 2022, www.gov.uk/government/news/official-report-criticises-former-trustees-of-kids-company
17. Rawlinson, Kevin. "Kids Company Closure: Government "Knew £3m Grant Was to Go to Pay Staff." *The Guardian*, *The Guardian*, 6 Aug. 2015, www.theguardian.com/society/2015/aug/06/kids-company-closure-government-knew-3m-grant-pay-staff
18. Cohen, Paul. "Lessons from the Nationalization Nation: State-Owned Enterprises in France." *Dissent Magazine*, 2010, www.dissentmagazine.org/article/lessons-from-the-nationalization-nation-state-owned-enterprises-in-france/
19. Miotti, Luis, et al. "Growth in France: 1950-2030". Nov. 2004. https://www.ifri.org/sites/default/files/migrated_files/documents/atoms/files/sachwaldgb2.pdf
20. Shughart, William. "Public Choice - Econlib." *Econlib*, 2013, www.econlib.org/library/Enc/PublicChoice.htm
21. "Skin in the Game: No Risk No Learning - Sprouts - Learning Videos - Social Sciences." *Sprouts - Learning Videos - Social Sciences - Videos That Teachers Can Play Free of Charge*, 2 Mar. 2022, sproutsschools.com/skin-in-the-game-no-risk-no-learning/
22. Mckinsey. "Social Responsibility of Business: 50 Years of Thinking | McKinsey." *Www.mckinsey.com*, 11 Sept. 2020, www.mckinsey.com/featured-insights/corporate-purpose/from-there-to-here-50-years-of-thinking-on-the-social-responsibility-of-business.

Copyright Notice

This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.