Social enterprises

The effect of the institutional framework on the prevalence of social enterprises, at country level.

What's your story?

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Cite as:
Ancher, J. (2017). *Social enterprises, the effect of the institutional framework on the prevalence of social enterprises, at country level.* Rotterdam: Erasmus University Rotterdam.

Acknowledgement

Over the past few months, I have finished my master thesis with which I end my time at the Erasmus University Rotterdam. After having studied four years at this institute this master thesis is the result of those years and combines the knowledge I have gathered in a research into social entrepreneurship, that I have conducted over the past few months.

In order come to this result I have to thank two people in particular. First my supervisor, Dr. Brigitte Hoogendoorn, who has guided me through this thesis process with constructive feedback and critical questions along the road. Her guidance and effort were crucial in the completion of this thesis. Secondly, I want to thank Robin Molenaar, of the Ministry of Social Affairs and Employment, for the opportunity of my internship. The internship he has provided to me has shown me the governmental view on social entrepreneurship which I have used to guide and strengthen my thesis with. Besides this, the months at the Ministry have been very helpful for me to learn the functioning of the government.

Finally, I would like to thank my family and friends who supported me through all my years at college and especially during the final stages of my master thesis. They motivated and supported me to finish this thesis and I am very thankful for their wisdom and support.

Abstract

This research investigates the effect of the institutional context on the prevalence of Social Entrepreneurial Activity (SEA) at macro level. By analysing data from the Global Entrepreneurship Monitor report of 2015, this paper takes a cross-national approach in investigating this relationship. Using the reasoning and methodology of multiple scholars that have investigated this relationship in the past this research focuses on formal institutions via *government spending* and the more general *public and private institution scores* (of the Global Competitiveness Index 2014-2015). The analysis shows that *governmental spending* has a positive relationship with the prevalence of SEA. In contrast, the quality of *public and private institutions* seem to have a negative significant relationship with this SEA measure. In general, the results seem to indicate that government spending is favouring SEA. While better functioning public institutions – in terms of less corruption, more trust from inhabitants and better property protection rights – do not seem to stimulate individuals to take part in SEA. These findings, therefore, seem to be a mix of the institutional void and support theory when it comes to SEA.

Keywords: Social Entrepreneurial Activity, institutional theory, formal institutions, property rights

Content

1. Introduction

"Almost one in fifteen Europeans is officially poor, but even more individuals are struggling to survive on a monthly basis. This is seen by the increase in child poverty, the bad prospect of getting work, increase of the general psychosocial stress, unhealthy lifestyles, and a bad general social mobility. The awareness is increasing that the group of individuals that needs help, due to economic issues, cannot be ignored anymore. Even the liberal The Economist openly suggest that the tension between the rich and the poor has become too large, a redistribution of wealth is necessary to boost the economy. In other words, social inequality is today not only a social issue anymore, but increasingly becoming an economic one." (Serneels, Colruyt, Moyersoen, Huysentryut, & Michiels, 2016).

The call for action, above, in *everyone social 3.0* shows that currently, the differences regarding inequality are reaching a tipping point. The economic engine is most likely to shut down if nothing will be done to stop this increasing inequality. As entrepreneurs continuously increase their business scope to come with new business ideas this inequality is nowadays seen as an opportunity for individuals to exploit instead of a thread for society (Serneels, Colruyt, Moyersoen, Huysentryut, & Michiels, 2016). These new businesses often are characterized by a socially responsible business execution. This concept of social entrepreneurs has been raising increasing interest in various regions of the world over the past two decades (Defourny & Nyssens, 2010). Since the Harvard Business School started a 'Social Enterprise Initiative', in 1993, large universities and foundations have set up funds and training programs to stimulate – and investigate the added value of – social entrepreneurs (Nyssens, 2006). As a result, social entrepreneurs are increasing in numbers and their position within society is getting more accepted and appreciated by the general public. This worldwide tendency of upcoming social entrepreneurs is best seen on both sides of the Atlantic, especially within the European Union and The United States of America (Defourny & Nyssens, 2008). In those areas social entrepreneurs use – broadly speaking – nongovernmental and market-based approaches to address social issues (Kerlin, 2006).

Within Europe, social entrepreneurs are very often seen as individuals who participate in a ''different way'' of doing business. This is due to the fact that they have social goals as primary targets in their business model (Mendell & Nogales, 2009), besides goals that are environmental- (Defourny & Nyssens, 2008) and cultural of nature (Broadcasting, 2005). The European Commission (2017) has started to identify such social enterprises and classify them by characteristics. On their website, the European Commission states ''*Social enterprises combine societal goals with entrepreneurial spirit*''. In order to facilitate them in achieving these goals, The European Commission is working towards an environment in which there is favourable financing, administration and there are good legal affairs for social entrepreneurs. By doing so social enterprises can operate on equal footing with other types of enterprises in the same sector (European Commision, 2017). A good example of such supportive

initiatives is the EMES network, a spinoff of a European Union initiative, which is a network of established university researchers dedicated to enhancing the theoretical and empirical knowledge about social enterprises (EMES, 2017). More close to home, the academic sector within The Netherlands has increased its focus and interest in the social enterprise sector, since the start of the Social Enterprise Lab[1] in 2010. This has led to an increase in recognized publications about the topic of social entrepreneurship and the first chair in social entrepreneurship at the University of Utrecht in 2016 (McKinsey & Company, 2016). Even more prominent, the Dutch minister of Social Affairs and Employment, Lodewijk Asscher, has asked the SER – the Dutch government advisory board on social and economic issues – to investigate this increasing phenomenon of social enterprises and to what extent the government can (and must) support these enterprises. As social enterprises and governmental institutions are very intertwined, when it comes to mission and goal, this research investigates the effects of institutional context on the prevalence of social entrepreneurial activity (SEA). The research question of this paper is, therefore:

What is the influence of institutional context on the prevalence of social entrepreneurship, at country level?

In order to answer this question, this thesis starts by investigating the entrepreneurial ecosystem as defined by Stam and Spigel (2017), in which productive entrepreneurs play a key role in creating positive welfare outputs. As part of that particular framework, the focus of this work is on formal institutions which is one of the key components in the entrepreneurial ecosystem. Kerlin (2013) has already conducted an investigated into the influence of the type of government on the economic development and civil society within a country border. This thesis will elaborate on this by investigating formal institutions via a more broader approach. By investigating public- and private institutions more facets of formal institutions are taken into account besides the effect of the government on SEA.

By doing so, this thesis answers the call of previous scholars too, first of all, validate their prior works by combining a unique new dataset from the Global Entrepreneurship Monitor 2015 (GEM) with data regarding institutional context at country level, retrieved from multiple sources. Secondly, this thesis takes a more practical approach by starting from practical definitions, in this case, the one of The European Commission, and work backward into defining the social enterprises. By doing so the implications of this paper can more easily be applied to current definition and work structures.

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[1] The Social Enterprise Lab is a cooperation that enhances, validates and spreads the knowledge regarding social Enterprises.

2. Literature review

Since social entrepreneurship is getting more attention within governmental institutions (SER, 2015) this literature review focuses on both the definition of social entrepreneurship and the role of the institutional environment that influences social entrepreneurship. The first section, of this chapter, dives into the characteristics of social entrepreneurship and enterprises. Section 2.2 investigates the institutional context in which social entrepreneurs are currently functioning. This approach forms the basis of the hypothesis that are formulated in the last paragraph of this chapter.
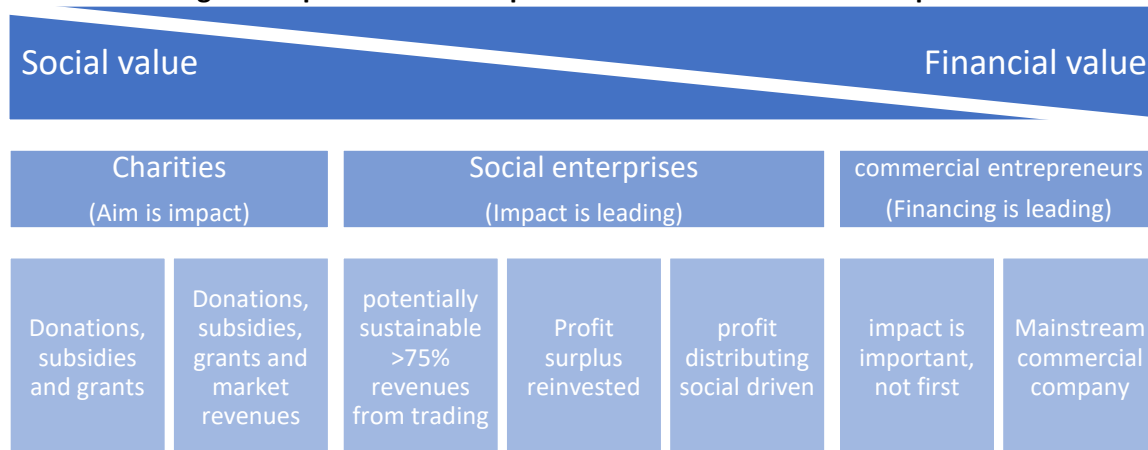
2.1 Defining the characteristics of social entrepreneurship and social enterprises

Social entrepreneurs are, in Europe, seen as individuals who are involved in a ''different way'' of doing business. These entrepreneurs often have innovative and social goals as primary business motivators, while economic goals are not a business motivator (Mendell & Nogales, 2009). The European Commission (2017) uses the term 'social enterprises' to cover three types of businesses:

1. enterprises that use their commercial activity to achieve a social- or societal objective of the common good;
2. businesses that reinvest their profits in order to achieve their social objective;
3. firms in which the method of the organization reflects the enterprise's mission.

Figure 1 shows these classifications, in the middle segment, and indicates how such social enterprises relate to charities and commercial enterprises.

Figure 1: Spectrum of enterprises and the role of social enterprises.

Social value				Financial value	
Charities (Aim is impact)		**Social enterprises** (Impact is leading)		**commercial entrepreneurs** (Financing is leading)	
Donations, subsidies and grants	Donations, subsidies, grants and market revenues	potentially sustainable >75% revenues from trading	Profit surplus reinvested	profit distributing social driven	impact is important, not first	Mainstream commercial company

Based on Social enterprise NL (2017) and McKinsey & Company (2016)

This figure shows that social enterprises are active in the third sector between charities, who solely focus on impact, and commercial enterprises, who primarily focus on gaining financial surplus. In the next few paragraphs the characteristics of social enterprises – as set by the European Commission – are discussed in paragraphs 2.1.1 to 2.1.3. Afterwards, paragraph 2.1.4 will combine these findings into a workable definition of social enterprises, which is used onwards in this paper.

2.1.1 Commercial activity to achieve a social or societal objective of the common good.

The first characteristic that is set by the European Commission (2017) to identify SEA is regarding the commercial activity – the production of a good or service (Social enterprise NL, 2017) – that is used to achieve a social or societal objective of the common good. This first definition already defines the two general premises that separate social enterprises from charities and commercial entrepreneurs, as shown in figure 1. The first premise, that separates social enterprises from charities, is the fact that charities (primarily) receive funding from donations, subsidies, grants, while social entrepreneurs finance their operations primarily via the market. Social entrepreneurs often do so with high levels of social innovation, in the form of sustainability and new types of business models (European Commision, 2017) and only partially via donations, subsidies, and grants (McKinsey & Company, 2016). This results in the fact that social enterprises can work more independently and can be more economically sustainable compared to charities. The second premises separates social- from commercial enterprises. This premise is regarding the mission of social enterprises, which is in the form of a social or societal objective, while commercial entrepreneurs do not have such goals as primary targets (Lepoutre, Justo, Terjesen, & Bosma, 2010). These social and societal objectives are often overlapping with governmental goals (SER, 2015), such as integration of individuals with a large distance to the labour market. Nevertheless, social entrepreneurs differentiate themselves from the government by working autonomous, with economic risk and by having their own decision power (Mendell & Nogales, 2009).

Taking one step back and starting from the 'entrepreneurial' perspective, this paper uses the occupational choice theory to classify individuals as entrepreneurs. As stated by Sternberg and Wennekers (2005) entrepreneurs are those individuals owning and managing a business for their own account and risk. The main goal of these entrepreneurs is described as early as the 19th century by Jean-Baptiste Say, who described them as individuals who *"shifts economic resources out of an area of lower and into an area of higher productivity and greater yield"* (Dees, 2001). Schumpeter (1942), a century later, describes entrepreneurs as *''creative-destructors"* who *"reform or revolutionize the pattern of production''*. In order to achieve this, multiple characteristics are identified as drivers behind this (social) entrepreneurial exploitation (Roger & Osberg, 2007). Table 1 gives an overview of these characteristics (on the next page).

Table 1: Distinctive characteristics of (social) entrepreneurship

'commercial' entrepreneurs	1. Entrepreneurs are inspired to alter the current – unpleasant – equilibrium.
	2. They think creatively, radical and can develop new solutions to the existing problems.
	3. Entrepreneurs are not afraid to take action, instead of waiting patiently on others.
	4. They are courageous, have bold ideas and are not afraid to bear the risk of failure.
	5. Entrepreneur possesses the fortitude to implement new ideas and solutions into the market.
'Social' entrepreneurs	6. Adopting a mission to create and sustain social value.
	7. Financing is a means to achieve the corporate mission (instead of personal enrichment)
	8. Manage their business with participation of the employees or the target group(s)

Based on (Dees, 2001); (Roger & Osberg, 2007); (Santos, 2012) & (European Commision, 2017)

When shifting the focus from the broad definition of entrepreneurship towards a more narrow one of social entrepreneurship the most important notion that differentiates the two is the adaptation of a "*mission to create and sustain social value*" (Dees, 1998). Even though both the commercial- and the social entrepreneur are driven by the opportunity they have identified, commercial enterprises are more often focused on their own (or shareholders) enrichment, while social enterprises are more focused on creating value for society – in the form of large-scale benefits for (a segment of) society (Roger & Osberg, 2007). This makes that compared to commercial entrepreneurs the value creation is the predominant focus of social entrepreneurs, while value capturing is merely a mean to achieve this goal (Roger & Osberg, 2007). Such value creation is described by Santos (2012) as the aggregate utility level of all members of society that increases after accounting for the opportunity costs of all resources used in that activity. This value creation is seen as the primary objective of social entrepreneurship, namely, achieving social impact. As such social impact should not only be the outcome of the operation, social enterprises also manage their business in an accountable and transparent way via which they create impact within their processes (European Commision, 2017).

The Global Entrepreneurship Monitor 2015 has already done empirical analysis into the characteristics and demographics of (social) entrepreneurs. Their analysis has shown that males are more often social entrepreneurs compared to women (respectively 55% versus 45%). This gender gap is significantly smaller compared to regular entrepreneurial activity, where the gender gap is roughly 2:1. Furthermore, the notion that social entrepreneurs are younger is backed by the fact that the social entrepreneurs have a bigger representation in the 18- to 34-year-old age group compared to other age groups in multiple areas. Worldwide the educational level of these entrepreneurs differs substantially. In western regions, social entrepreneurs are highly educated, while in Sub-Saharan African countries social entrepreneurs do not differ much from their commercial counterparts. In general, social

entrepreneurs are currently more visible within society and they are more optimistic about their growth aspirations (Bosma, Schott, Terjesen, & Penny, 2016). Their increased popularity within society is mostly driven by the fact that they have an inherently interesting and appealing story about their mission (Roger & Osberg, 2007). The Schwab Foundation – a not-for-profit organization with the goal to foster social entrepreneurship – also mentioned that social entrepreneurs have an innovative stance to a social problem and have an unwavering belief in the capacity of all people contributing to their economic development (Schwab foundation for social entrepreneurship, 2017).

To conclude, the first characteristic as mentioned by the European Commission distinguishes the social enterprises from charities (via own production) and from commercial entrepreneurs (by including the societal objective). Recent works have shown that social entrepreneurs do not differ much from their commercial counterparts accept the fact that their goal – and the reason for starting their business – lies within the society and/or societal objective. As said well by Santos (2012) social entrepreneurs want to achieve social impact first.

2.1.2   Reinvesting profit in order to achieve a social or societal objective

The second characteristic used by the European Commission to identify social enterprises is the reinvestment of profits to achieve the company's social or societal objective. This definition is in line with the definition given by the UK Department of Trade and Industry (2002):

> ''A social enterprise is a business with primarily social objectives whose surpluses are
> principally reinvested for that purpose in the business or in the community, rather
> than being driven by the need to maximize profit for shareholders and owners.''.

Muhammad Yunus – winner of the Nobel Peace Prize 2006 – takes a more radical approach and argues that social businesses should reinvest their entire profits in order to expand their outreach and improve the quality of their product and/or service. He makes this argument as he expects that, once a social business is recognized by the law, many existing firms will come forward to create a "social enterprise'' that fits such a label. In order to filter in this process, the challenge is to innovate business models and apply them to result in desired social outcomes (Yunus, 2006). This view is radical in the sense that social businesses would only be recognized as such if they would reinvest their profit fully. The GEM special topic report on social entrepreneurship, of 2015, has shown that only an estimated 52% of social entrepreneurs reinvest their profits[2]. When taking full profit redistribution as a measure

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[2] This low percentage is also due to the fact that many social entrepreneurs do not have profits at all. This number should, therefore, be interpreted with caution.
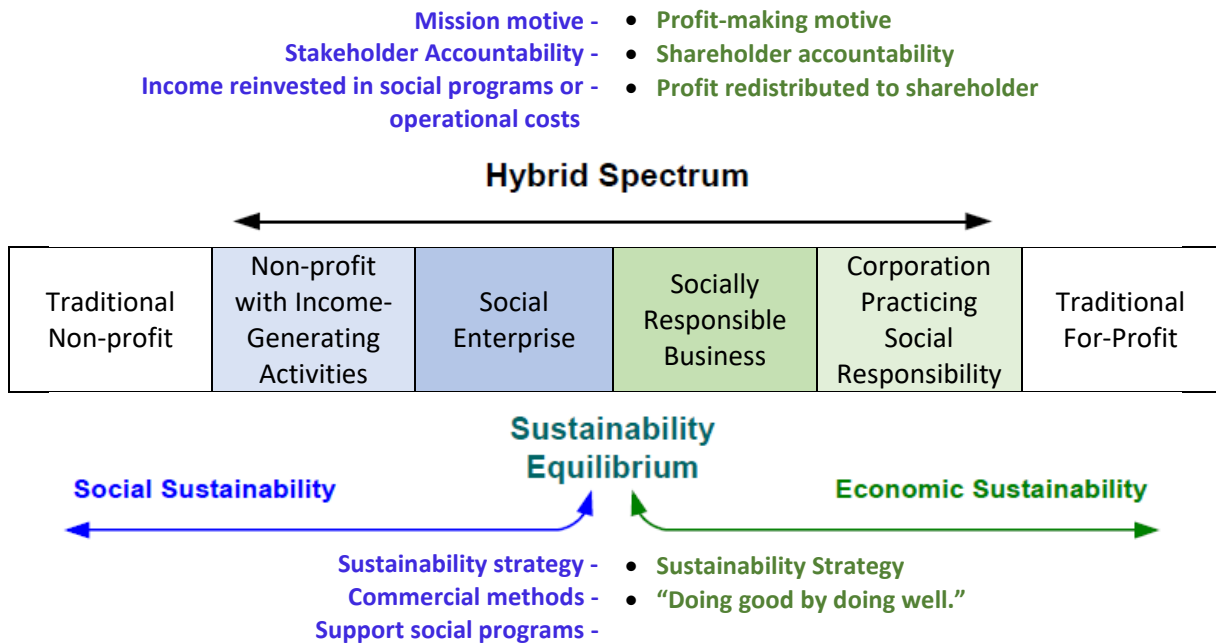
in the definition of social entrepreneurs, the share of social entrepreneurs would drop dramatically (Bosma, Schott, Terjesen, & Penny, 2016). This is also seen in the work of Teasdale, Lyon and Baldock (2013) which shows that 9.6% percent of their sample meet their social entrepreneurship definition and have more than halve of their income from trading, but when adding the reinvestment criteria – more than 50% reinvested to goals – this number drops to 5%. This raises the question: to what extent the criteria of profit reinvestment should be in place as a determinant of SEA?

The current literature on the topic of profit reinvestment does not give one cohesive answer on this question. The reinvestment of profits is often linked to managerial commitment and/or business growth perspective. McCarthy (1993) argues that entrepreneurs, in general, are biased when it comes to profit reinvestment, due to four reasons:

1. The psychological effect of having started a business and want to see it succeed.
2. Business partners, individuals are more likely to reinvest when they have a shared responsibility.
3. Believing in entrepreneurial skills, entrepreneurs often reinvest since they believe that their capabilities will increase the profits even more.
4. Overconfidence, entrepreneurs that have succeeded or facing success are more likely to reinvest profits although the outcomes are not certain.

In this light reinvestment of profits, if it wouldn't be for expected business growth, would be irrational and seen as inadvisable. As social entrepreneurs believe in their objectives they want to pursue this by reinvesting their profits. Kim Alter (2007) explains this by giving a distinction between purely philanthropic, hybrid and purely commercial entrepreneurs – as shown in Figure 2. As this spectrum can be laid over the spectrum of enterprises of Figure 1, the most important contribution to notice here is the reasoning behind the profit reinvestment. The *socially sustainable* businesses, within the hybrid spectrum, reinvest their profits in social programs, while *economically sustainable* businesses distribute profit to shareholders. Taking such a reinvestment goal in mind, the characteristic of profit redistribution as a measurement for social enterprises makes more sense.

Figure 2: Alters Hybrid spectrum and sustainability equilibrium (Alter, 2007)

Mission motive - • **Profit-making motive**
Stakeholder Accountability - • **Shareholder accountability**
Income reinvested in social programs or - • **Profit redistributed to shareholder**
operational costs

Hybrid Spectrum

Traditional Non-profit	Non-profit with Income-Generating Activities	Social Enterprise	Socially Responsible Business	Corporation Practicing Social Responsibility	Traditional For-Profit

Sustainability Equilibrium

Social Sustainability   Economic Sustainability

Sustainability strategy - • **Sustainability Strategy**
Commercial methods - • **"Doing good by doing well."**
Support social programs -

The second dimension of the European Commission as mentioned above, thus, focuses on the distinction between enterprises that are driven by social- versus economic values. When an organization would state to work on social impact, but rewards its stakeholders with the surplus instead of investing it in achieving their goal, the enterprise should not be regarded as socially driven. The extent to which this criterion should be leading – in terms of full profit reinvestment – is not made clear within the literature. The general synthesis of the literature is that the willingness of the operating businesses in achieving their social goals must be leading.

2.1.3   The method of organization reflects the enterprise's mission

The third and last characteristic mentioned by the European Commission (2017) focuses on the method of organization which should reflect the core mission of the enterprise. Compared to the first two characteristics, this third characteristic focuses more on the operational side of the business. According to Galera & Borzage (2009), this new type of "participatory democracy" within social enterprises, in which ownership rights and control power are given to nonfinancial stakeholder[3], is already shaping a new form of internal organization in which employer and employee work together to achieve a common goal. While this sounds like a very good development, it is very difficult to classify when a company has a good (or bad) method of organization

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[3] non- financial stakeholders differ per enterprise and depend upon the type of social enterprise, but could exist of users, workers or donors. The goal of such internal organization is to enhance the role of the stakeholders in shaping the governance model, and so, increase the participation and the desired impact.

Table 2: 'Legal' forms for social entrepreneurs in Europe

Country	Legal form	General criteria
France	"collective interest co-operative"	• multi-stakeholder strategy
Portugal	"social solidarity co-operative"	• Objective to foster the integration of vulnerable groups, such as children, people with disabilities and socially disadvantaged families and communities. • No profit distribution
Spain	"social initiative co-operative"	• any type of co-operative providing social services or developing an economic activity aiming at the work integration of socially excluded persons can use this label • no profit distribution
Greece	"limited liability social co-operative"	• Targeting very specific groups of individuals with psycho-social disabilities and aiming at the socio-professional integration through a productive activity.
Belgium	"social purpose company"	• The company must define a profit allocation policy in accordance with its social purpose and provide for procedures allowing each employee to participate in the enterprise's governance through the ownership of capital shares.

Based on Defourny & Nyssens (2008)

In order to determine which enterprises are social or not, multiple European countries have already created different 'legal' forms. Table 2 gives an overview of these legal forms and labels that have emerged over the last few years. Although the implementation of such legal forms is often a topic of debate, the emerged forms focus on the social enterprise's mission and their financial aspects. Even though these legal forms, thus, do not clearly indicate a type of internal, they all have criteria regarding multi-stakeholder ownership. Combining this with the above-mentioned relationship between the employers and employees in such a multi-stakeholder relationship, the internal organisation needs to reflect the mission and incorporate all stakeholders. As social enterprises often work with employees that come from vulnerable groups in society, who have social-, environmental- (Defourny & Nyssens, 2008) and cultural issues (Broadcasting, 2005) it is not surprising that the European Commission characterizes four types of social enterprises:

1. Enterprises that give training and integrating people with disabilities and unemployed people, this is called the *work integration* segment.
2. The *personal social services,* which focus on the general well-being of individuals such as health care services for elderly- or disadvantaged individuals.
3. Enterprises that stimulate *local development of disadvantaged areas*
4. *Others*

While commercial enterprises base their operations mostly on cost-efficiency and profit maximization, social enterprises operate out of their initial goal to achieve impact and are therefore more focused on the individuals in the process than the profit of the firm. Even though it is very difficult to measure an enterprises performance regarding their internal organization, it is important that a social enterprise organizes its business transparent with its mission as the driver.

2.1.4   Towards a working definition of social enterprises

After having analysed the different characteristics of the European Commission regarding social enterprises, this paragraph focuses on the definition of social entrepreneurship that is used in this paper. In order to do so, the previously discussed characteristics are set against the existing definitions within the work field and academic literature.

As in Holland, many European countries use the definition of the European Commission as starting point when identifying social enterprises. Nonetheless, only a hand full of countries are ''labelling'' entrepreneurship by making certificates and legal forms. The most prominent of factors in their classification is the focus on a specific group in society – often groups that are less fortunate, due to multiple reasons. Furthermore, these definitions clearly state that the financing of the firm should be in line with the mission, which is in correspondence with the third characteristic of the European Commission. Even though the determination does not clearly focus on the internal organization condition, the previously mentioned characteristics need to be backed by an organization that works transparent and with its goal in its processes.

Within the academic literature scholars in the field of social entrepreneurship often use the definition given by Lepoutre, Justo, Terjesen & Bosma (2010) when analysing data regarding social entrepreneurs. These authors have created a measurement of SEA for the Global Entrepreneurship Monitor (GEM). This model was developed especially for the 2009 questionnaire in order to filter SEA from the conducted questionnaire. Their filtering method starts by analysing the mission of the firm by selection those firms that have a *"particular social, environmental or community objective".* This filter corresponds to the first characteristic as described above. Their second step is the screening of the revenue model, by asking socially responsible businesses ''*what percentage of total income will come from the sale of products or services? ''.* In the definition they hold they exclude all businesses with less than 5% dependency on own sales. This is an important notion as the literature suggested that social entrepreneurs should have 50-75% of their income from sales. Finally, Lepoutre et al. (2010) use innovativeness as the measure to identify, as they call it, ''change agents'' in society. Hereby a business is classified as innovative when they offer a new product or service; a new way of production or delivery; etc. This by itself could never determine if a business classifies as a social enterprise. Nevertheless combining all three above-mentioned criteria makes identifying social enterprises more reliable.

As this paper analyses GEM data – more on this in Section 3 – in the same manner as previous scholars, the definition of Lepoutre et al. (2010) is used in identifying social enterprises and entrepreneurs. This

definition takes into account two of the three measures of the European Commission and makes testing in empirical data possible, social enterprises are thus those firms who:

(1) Have a primarily social, environmental or community objective.

(2) Have revenues from own sales of product or service (>5% revenues from sales).

(3) Have an innovative product- or production process/delivery/promotion or unattended customer niche.

2.2 The Institutional context of social enterprises

After having analysed the characteristics of social enterprises, this section zooms out and investigates the institutional context in which these enterprises are operating. In order to start an enterprise, it is important that the entrepreneurial ecosystem and established institutions favour the proposed business model(s) and/or business idea(s). This is even more important for social entrepreneurs, as they function between private- and public entities, and so, are even more linked to the institutional context, compared to commercial enterprises.
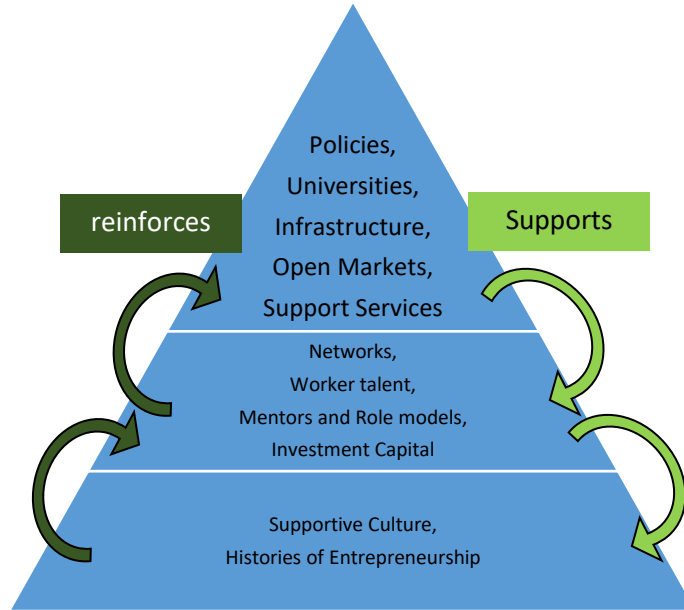
2.2.1 The entrepreneurial ecosystem

The entrepreneurial ecosystem is a relatively new topic amongst academic researchers and is dominated by two lineages, namely: strategy- and regional development literature. The former refers to the business ecosystem, in which firms need to have the ability to coordinate their interactions with other actors that produce complementary products or services. The latter stream of regional development literature focuses on the regional factors that influence the socioeconomic (eco-)systems in order to explain the differential performance of regions (Acs, Stam, & Audretsch, 2017). This topic is mainly driven by policymakers and entrepreneurs themselves as they are interested in their role in this ecosystem. Currently, this ecosystem is rather broadly defined as *''a set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory''* (Stam & Spigel, 2017, p. 1). Even though this stream of literature is not primarily focused on social entrepreneurship the notion of productive entrepreneurs[4] can easily be transferred to – and linked with – social entrepreneurs, as their primary focus is on contributing to the society as a whole instead of focusing on themselves.

The proposed ecosystem builds upon the idea that multiple facets of society are intertwined with each other, as shown in figure 3. From the top down the pyramid, is divided in material-, social-, and cultural attributes. While the higher layers of the pyramid give support to the lower levels, they can only work in a productive manner as they receive reinforcement from the lower levels (Spigel, 2015). Based on this idea, Stam (2015) has created a schematic overview of the entrepreneurial ecosystem that can, according to own saying, be used to guide future literature. Figure 4 displays this overview, which divides the ecosystem elements into two categories: systematic- and framework conditions.

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[4] Productive entrepreneurship "refers, simply, to any activity that contributes directly or indirectly to net output of the economy or to the capacity to produce additional output'' (Baumol, 1993).

Figure 3: Relationships between attributes within entrepreneurial ecosystems.

(Spigel, 2015)

Figure 4: Key elements, outputs, and outcomes of the entrepreneurial ecosystem.
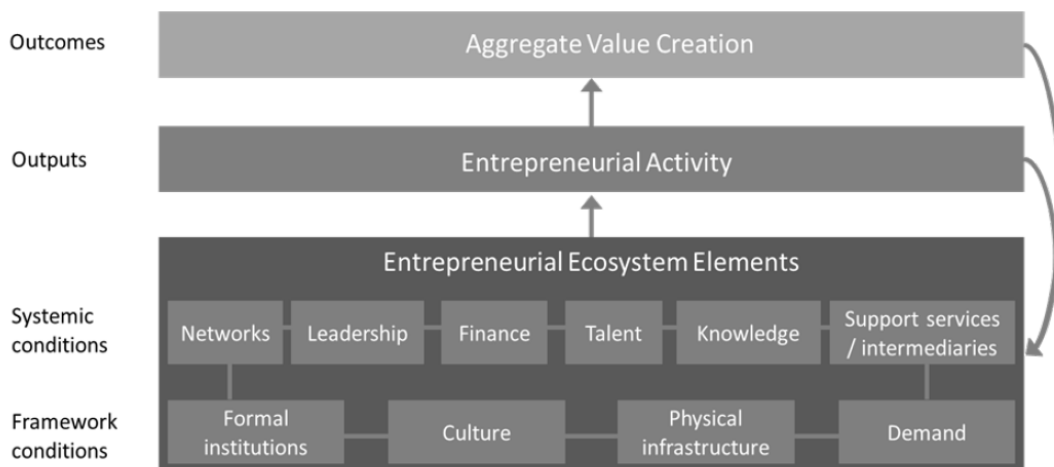
Source: (Stam, 2015)

The framework conditions are the conditions enabling or constraining human interaction. Having these elements present and interact would create an environment in which social entrepreneurship can reach the best outcome – in terms of positive externalities for society – and have the highest aggregate value creation. The Systemic conditions form the heart of the entrepreneurial ecosystem in which actors interact to have the best entrepreneurial outcome. Both types of conditions can be found in the pyramid of Spigel (2015). Investigating all facets of this ecosystem would reach beyond the scope of this thesis. Therefore this research focuses on the framework condition of formal institutions and the influence on the prevalence of SEA. This is in line with the recommendations of Stam and Spigel (2017), who call for more research into the often neglected context surrounding entrepreneurs.

Multiple researchers have already investigated this relationship in prior work. These analyses have shown that entrepreneurs thrive in institutional contexts with a strong rule of law (Estrin, Mickiewicz, & Stephan, 2013) and a strong socioeconomic regime (Kerlin, 2010). This is due to the fact that entrepreneurs benefit from predictability, a level playing field offered by a non-arbitrary government and a sound independent law. Furthermore, Monroe-White, Kerlin, and Zook (2015) have shown that a larger welfare state increases the amount of SEA within a country. Even though these papers argue that a strong institutional framework is needed to support social enterprises, they also showed that large governments are associated with lower numbers of SEA. In the same manner, Estrin, Mickiewicz, and Stephan (2013) argued that government size has a negative effect on social- and commercial entrepreneurship. In the next paragraph, the focus will be narrowed down towards the role of the government in relation to the prevalence of SEA.

2.2.2 Social enterprises and the influence of the government

The entrepreneurial ecosystem is not primarily designed to support (or relate to) social entrepreneurship. Nevertheless, the system that is implied is very interesting to analyse in a social entrepreneurial context, since the proposed systematic- and framework conditions fit the surrounding of social enterprises as described earlier.

Kerlin (2013) has investigated the role and effects of the government – as formal institution – as the key element in understanding a country's social enterprise model. These models relate to and provide explanatory power for the differences in the typology of social enterprise models around the globe. Looking back in history, Woolcock (1998) describes the evolution from the classical economists – which started by identifying land, labour and physical capital as factors shaping economic growth – towards the neo-classical stream of human capital as an economic driver. As this theory of human capital focuses on the individual and does not focus on the surrounding – life at home, on the shop floor, in professional networks, political insiders and cultural elites – sociologists and political scientists have begun speaking of a new driver called social capital. This would mean:

> *''Ceteris paribus, one would expect communities blessed with high stocks of social capital to be safer, cleaner, wealthier, more literate, better governed, and generally "happier" than those with low stocks, because their members are able to find and keep good jobs, initiate projects serving public interests, costlessly monitor one another's behaviour, enforce contractual agreements, use existing resources more efficiently, resolve disputes more amicably, and respond to citizens' concerns more promptly.''* (Woolcock, 1998, p. 155)

This form of social capital can be separated into four segments, namely 1) within local communities; 2) between local communities or groups; 3) between civil society and macro-level institutions; and 4) within corporate sector institutions (Woolcock, 1998). Kerlin (2013) has built her framework focusing

on the third point. Figure 5 shows this theoretical framework of causal paths regarding modelling social enterprises.

Figure 5: Macro-institutional processes and causal paths for models of social enterprise.
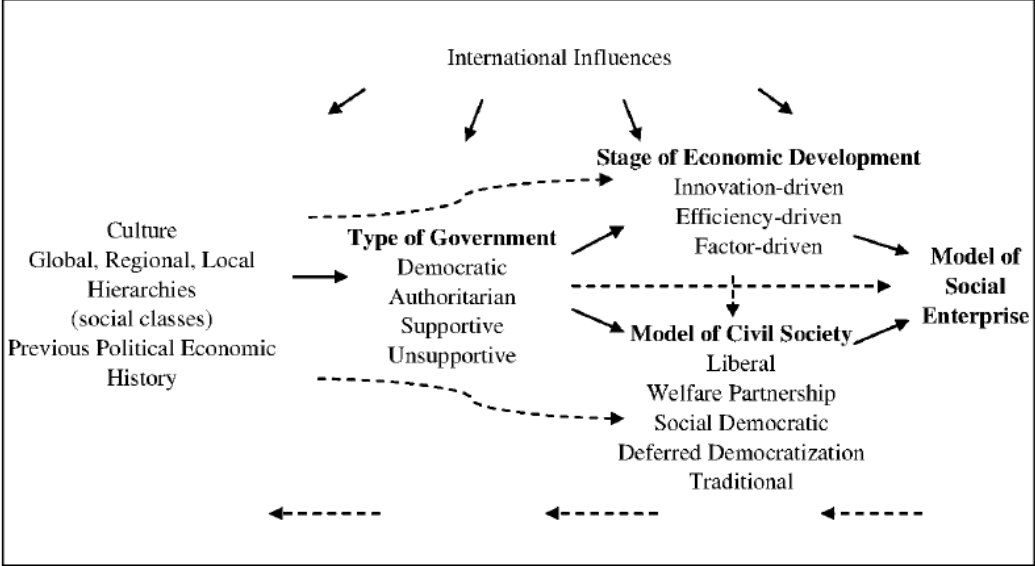
Source: (Kerlin, 2013)

This framework, in Figure 5, showcases the three roads via which the type of government would influence the *Model of Social Enterprise*. This institutional context approach got, according to his own saying, more attention when Coase (1998) renewed the stream of literature. He argued that the basis was, till then, build upon anti-theoretical facts and that interactions needed to be further analysed in order to form more solid academic grounds[5] – in the form of written and unwritten rules, norms, and constraints that humans devise to reduce uncertainty and control their environment. Taking this back to the macro-institutional context of Kerlin (Figure 7), this process shows the influences of internal- and external entities, rules and regulations on the model of social enterprise. The New Institutional Economics literature supports such paths in which the state of a country – its culture, hierarchies, political-economic history and welfare state – shapes the current economic situation and civil society, which in turn both influences social enterprise development (Kerlin, 2013). The split, as mentioned by Kerlin, regarding the *stage of economic development[6]* and *model of civil society* is supported by the Global Entrepreneurship Monitor and Salamon and Sokolowski's model of civil society sector structure.

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[5] This form of institutional economics abandons the assumption that individuals have perfect information, unbound rationality and that transactions are costless and instantaneous (Menard & Shirley, 2008).
[6] Three stages can be distinguished: factor-, efficiency- and innovation-driven. The factor-driven stage is the first stage, in which the advantages are based on endowments of labor and natural resources. The efficiency-driven stage focuses on efficient production and the upcoming of services. The focus is on manufacturing and on outsourced service exports. Innovation is the last stage and has innovative products and services at the global technology frontier.

Starting with the stages of development, the factor-driven economies are characterized by poor supportive policies and internal infrastructure. Furthermore, they rely heavily on the export of mineral goods. The second, efficiency-driven, stage highlights industrialization, resulting in higher product quality and production efficiency, which leads to improvement of policies. Finally, the innovation-driven stage typically comes with high standards of living and a sophisticated business environment in which the products that are being produced are (often) unique. The model thus focuses, firstly, on the classical causal path of state and economy when it comes to shaping the model of social enterprises (Kerlin, 2013). The second path in Figure 7 is via the *civil society*. As empirically analysed by Salamon and Sokolowski (2010) three types of civil society sectors are commonly found in developed countries, namely: a liberal society, a welfare partnership or a social democracy. Their analysis has shown that these sectors are significantly shaped by the welfare state in which they operate. In less developed countries a differed democratic and traditional social sector structures can be found, due to the lesser extent, or absence of the welfare state. Salamon and Sokolowski make the notion that international aid could fill a gap in this separation.

Recent work has already indicated that the model of social enterprises is significantly shaped by the institutions within a country and especially the government. Nevertheless, the literature is thin and many fields, regarding institutions, are under-investigated. This thesis, therefore, focusses on the formal institutions, as mentioned in the previous paragraph. The works of Kerlin (2013) and Stam and Spigel (2017) have stressed out that in order to investigate the relationships of the government one should investigate multiple attributes instead of only one relationship. For this reason, the formal institutions that are discussed in the remainder of this thesis will go beyond the scope of the government alone and take into account multiple facets within these institutions. The next paragraph elaborates more on this and results in the formulation of hypotheses.

2.2.3   The institutional context and hypotheses

The role of the government as described in the previous paragraph is the most prominent when investigating the influence of formal institutions. Over the past few years, many scholars have therefore investigated the role of the government and their influence on the prevalence of social enterprises at macro-level via the GEM 2009. In this paragraph these previous works will be discussed and reviewed in order to formulate hypotheses that answer the main research question: *What is the influence of institutional context on the prevalence of social entrepreneurship, at country level?*

The first hypothesis investigates at the most prominent factor within these formal institutions: the government. The second hypotheses take a broader approach and take multiple factors – regarding formal institutions – into account that can be seen as public institutions. Finally, the third hypothesis focuses on the private institutions and their relationship on the prevalence of SEA. Figure 6 at the end of this paragraph gives a schematic overview of all the hypotheses and the set-up of the analysis.

The government

The governmental role is the most prominent one when investigating formal institutions. Table 3 already shows that many scholars have investigated this relationship. Estrin, Mickiewitz & Stephan (2013) have shown that entrepreneurs, in general, thrive in institutional contexts with a strong rule of law[7] – social start-ups benefit relatively more than regular start-ups from this rule of law (Hoogendoorn, 2016). Furthermore, Ferri & Urbano (2011) and Estrin, Mickiewitz & Stephan (2013) showed that government size is negatively associated with social entrepreneurship. They came to this conclusion by investigating the relationship between governmental spending on public goods and services and the amount of SEA. In this context, Hoogendoorn (2016) makes the remark that policymakers perhaps should focus on micro-policy, when aiming at stimulating diversity in the entrepreneurial start-ups, since macro-policy may have unintended consequences, such as a decrease in the total number of start-ups. In contrast, Monroe-White, Kerlin & Zook (2015) found that economies with a larger welfare state[8] are less economically competitive; are more individualistic in their cultural orientation; and are more likely to have a larger social enterprise sector. Important to keep in mind in this is the difference in used variables between the different academic works. In this thesis the governmental spending on goods and services as percentage of the total expense is used to determine the governmental role on SEA – this is the same measurement as used by Ferri & Urbano (2011) and Estrin, Mickiewitz & Stephan (2013) and gives a better indication of governmental influence

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[7] The rule of law refers to the influence and authority of law within society, in particularly as a constraint upon behavior, including behavior of government officials (http://libguides.nps.edu/ROL).

[8] They define the welfare state by combining the governmental spending on education and healthcare.

compared to only spending on education and healthcare, since social enterprises also produce goods and services. Therefore, their findings and reasoning are leading in this thesis. Since social entrepreneurs and government have (often) overlapping fields of interest, governments that increase their spending on goods and services would take away the potential market for social entrepreneurs. In turn, fewer individuals would have the incentive (and need) to take part in SEA. This reasoning leads to the following hypothesis:

- *H1: Public spending on goods and services is negatively related to the prevalence of SEA.*

Public and private institutions

Besides the previously mentioned relationship between the government as largest determinant in the investigation into the formal institutions, the second and third hypothesis take a broader approach when looking at this entrepreneurial surrounding. In previous empirical literature, such an approach has not yet been used. Table 3 shows that investigations into the surrounding of social enterprises, besides governmental spending, often have focused on needs, norms, and attitudes of individuals instead of the quality of other public institutions that might be of influence. Therefore, in line with the recommendations of Stam and Spigel (2017) the second – and third – hypothesis focuses on formal institutions in a more broader sense than government expenditure alone. Formal institutions are defined as *"the objective constraints and incentives arising from government regulation of individual and organizational actions"* (Stephan, Uhlaner, & Stride, 2015, p. 3). Within the institutional literature, two conflicting perspectives are present when it comes to influencing entrepreneurial activity. The *institutional void* theory argues that SEA increases in environments in which social problems are abundant and strong institutions are lacking, while the *institutional support* theory reasons that an active government will support SEA (Stephan, Uhlaner, & Stride, 2015). The empirical analysis of Stephan, Uhlaner & Stride (2015) showed a positive effect of government activism[9], which supports the *institutional support* perspective. This *institutional support* perspective also seems to be behind the reasoning of the European Commission, since they want to stimulate the environment for social enterprises via governmental support – in the form of favourable financing, public tenders, etc. (European Commision, 2017). Following this argumentation the second hypothesis sounds as follows:

- *H2: The quality of public institutions is positively related to the prevalence of SEA.*

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[9] Government activism was based on mean country scores for ''fiscal freedom" and government size".

Besides the focus on public institutions, also the effect of private institutions is investigated in the context of formal institutions. This third hypothesis follows the same reasoning as the second hypothesis using the *institutional void* and *institutional support* theory. The former theory argues that better private institutions – which would include better corporate ethics and accountability – would diminish the need for individuals to participate in SEA. When all companies would work in a socially responsible manner there would (probably) be less need for social entrepreneurs. The institutional support theory, on the other hand, argues that better private institutions would stimulate and facilitate individuals to take part in SEA. For instance, when corporate ethics would stimulate to incorporate handicapped individuals this could stimulate individuals to do more in this field by starting or take part in such enterprises. The current academic literature has not yet done research on this specific relationship between private institutions and SEA. Therefore this thesis relies on the same reasoning as for the public institutions and expects again a positive relationship between the quality of private institutions and SEA. The third and final hypothesis therefore is:

- *H3: The quality of private institutions is positively related to the prevalence of SEA.*

Figure 6: Overview hypotheses
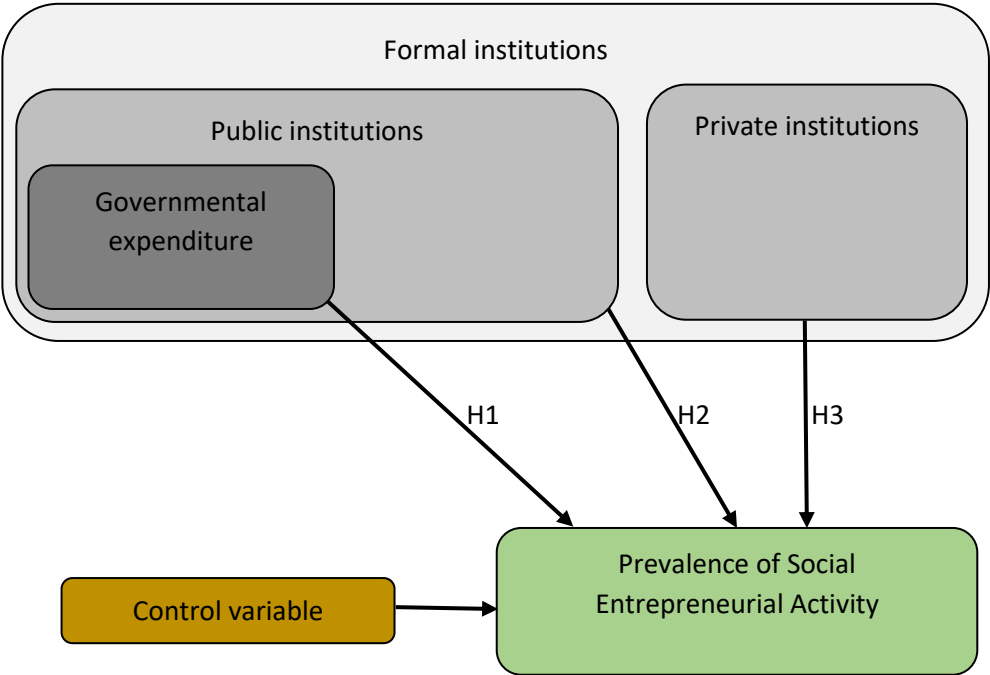
Table 3: Literature review empirical macro-level research on Social Entrepreneurial Activity.

Title and Author(s)	Data & Technique	variable(s) examined	effect on SEA
Social entrepreneurship and environmental factors: a cross-country comparison (Ferri & Urbano, 2011)	GEM 2009 *Linear regression*	public spending *(formal)* access to finance *(formal)* governance effectiveness *(formal)* social needs *(informal)* societal attitudes *(informal)* educational level *(informal)*	-* - + + +* +
Entrepreneurship, Social Capital, and Institutions: Social and Commercial Entrepreneurship Across Nations (Estrin, Mickiewicz, & Stephan, 2013)	GEM 2009 *Logistic Multilevel Bivariate regression*	prevalence rate social entrepreneurship commercial entrepreneurship-country mean government size constraint on the executive	+* +* -* +*
A quantitative critique of Kerlin's macro-institutional social enterprise framework (Monroe-White, Kerlin, & Zook, 2015)	GEM 2009 *Hierarchical linear modelling*	Economic competitiveness welfare state uncertainty (log) International aid Governance In-group collectivism	+* +* + - - -*
Institutions and social entrepreneurship: The role of institutional voids, institutional support, and institutional configurations (Stephan, Uhlaner, & Stride, 2015)	GEM 2009 *Multilevel design*	Government activism post materialism socially supportive cultural norms[1] rule of law	+* +* +* +
The impact of culture on national prevalence rates of social and commercial entrepreneurship (Hechavarria, 2016)	GEM 2009 *Multivariate regression*	traditional societal values self-expression societal values	-* +*
The Prevalence and Determinants of Social Entrepreneurship at the Macro Level (Hoogendoorn, 2016)	GEM 2009 *Multiple linear regression*	public sector expenditure/GDP rule of law (corrected for GDP) survival versus self-expression	+* +* +*

- negative effect, + positive effect, * significant effect

3. Data and methodology

This chapter starts with the description of the three main data sources that are used in this thesis, namely: *The Global Entrepreneurship Monitor 2015*, *The World Bank* and *The World Economic Forum*. The GEM 2015 data is unique because all other papers so far used the GEM 2009 data. After the description of the data sources, paragraph 3.2 describe the main variables of interest of this thesis. The dependent variable is the total amount of Social Entrepreneurial Activity within a country and the independent variables all relate to the formal institutions and are also measured at country level. Finally, section 3.3 closes this chapter by discussing the methodology that is used in the result section.

3.1 Data sources

The Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor (GEM) started in 1999 as a joint research project of the Babson College in America and the London Business School in the UK. Nowadays this project is the world's foremost study on entrepreneurship and is composed of two complementary tools – the Adult Population Survey (APS) and the National Expert Survey (NES). The former tracks entrepreneurial activity, attitudes, and aspirations, while the latter monitors nine factors that are believed to have a significant impact on entrepreneurship.

Besides their 18 years of experience, the GEM has over 200.000 interviews a year in more than 100 countries. As the data is collected in national teams the total number of GEM researchers, working on this monitor, exceeds 500 specialists at more than 300 academic- and research institutions. Their impact is, according to own saying on four different fronts. First and foremost, on the policy towards entrepreneurship. The GEM data is used to make evidence-based policy recommendations to increase the level and quality of entrepreneurial activity. Secondly, as one of the world's largest cross-national collaborative social science research projects the GEM has a significant impact in the field of entrepreneurial scholars. Besides this, the GEM's reliable database makes it a valuable resource for teachers and educators, regarding characteristics of individual entrepreneurs. Finally, GEM is a trusted reference point for multiple journalists and media, such as BBC News, The Financial Times, The Economist, The Wall Street Journal, etcetera. As a trustworthy source, this thesis uses the GEM 2015 national dataset as a determinant of SEA and GDP per capita, at country level.

The World Bank

The World Bank (WB) is an international organization that aims to deliver reliable statistics that meet the growing demand for good-quality statistical data. This data is needed to set a baseline after which progress can be monitored and eventually impacts can be evaluated. In order to do so, the WB works closely with other well-known statistical institutions such as the United Nations (UN), the Organization for Economic Co-Operation and Development (OECD) and the International Monetary Fund (IMF).

The data of the WB comes from a number of macro-, financial- and sector databases, which are collected by national teams within the different regions. These teams are coordinated by the Development Data Group which provides them with professional support to ensure that all data is of sufficient quality and has integrity. For this thesis, the WB provides data on the governmental expense on public goods and services and the ease of doing business, via the world development indicators.

The World Economic Forum

The World Economic Forum (WEF) is established in 1971 and is committed to improving the state of the world. As independent Forum they are not tied to any special interest and try to shape global, regional and industry agendas, by upholding the highest standard of governance and demonstrate entrepreneurship in the global public interest.

Yearly, the WEF publishes the Global Competitiveness Report which assesses the competitiveness landscape of 144 economies. This report is the most comprehensive assessment of national competitiveness worldwide. For this reason, the Global competitiveness report of 2014-2015 – which is the 35th edition of this report – is used in this thesis. The report is constructed via international sources as well as the World Economic Forum's annual Executive Opinion Survey, which captures the perspective of more than 14,000 business leaders on topics related to national competitiveness. This results in 12 pillars which combined create a global competitiveness score. For this thesis, the focus is on the first pillar, which involves public- and private institutions.

3.2 Variables

Dependent variable

As previously mentioned this thesis investigates the effect of formal institutions on the prevalence of Social Entrepreneurial Activity. Within the academic field research into this relationship often has used the Global Entrepreneurship Monitor 2009 data as a measurement of SEA. As this source is seen as thrust worthy within the literature, this thesis uses this source as well but uses the more current available data of 2015. Since this data is not yet publicly available this thesis uses unique data in order to determine the current state of SEA within the world. The GEM (2015) data that is used consists of 58 countries worldwide, in the following regions: Latin America and the Caribbean, The United States, Western- and Eastern-Europe, Sub-Sahara Africa, Middle East and North Africa, South-East Asia and Australia. This dataset is, therefore, a good representation of the worldwide SEA and makes it possible to conduct the cross-national analysis.

Within this dataset, SEA is measured using the methodology of Lepoutre et al. (2010), which was developed for the GEM 2009 data collection method. This measurement combines Alter's (2007) spectrum of social enterprises typology with multiple filters and makes distinction possible between commercial businesses, charities and social enterprises. The SEA is measured in three ways: nascent, operational and total. The nascent activity involves start-ups that are currently trying to start SEA, while operational SEA involves businesses that already have started their activities. For this thesis, the focus is on the total SEA, which is both the nascent and operational SEA summed up. This broad measure of SEA "*considers individuals who are starting or currently leading any kind of activity, organization or initiative that has a particular social, environmental or community objective.''* (Bosma, Schott, Terjesen, & Penny, 2016). Another reasoning behind this choice is that a more narrow definition would leave little, to no, room for statistical analysis as the observation number would decrease to 31 or less.

The total SEA measure is a continuous variable that represents the percentage of the general workforce within a country that is involved in SEA. This does not mean that this number represents the total amount of social entrepreneurs or companies within society, but rather a number of individuals that are involved in SEA. The minimum amount of SEA in the dataset is 1% in Bulgaria. Senegal has the highest score of SEA, with 18%. More figures about this data source are shown in Appendix 1.

Independent variables

Governmental expenditure on goods and services

The government expenditure on goods and services is indicated by the World Bank as the percentage of the total expense and comes from data collected by the International Monetary Fund (IMF). The World Bank defines this variable as: *''all government payments in exchange for goods and services used for the production of market and nonmarket goods and services. Own-account capital formation is excluded.''* (The World Bank, 2017). As can be seen in Table 5 – in the result section – the data shows large differences between countries with the lowest percentage at 2% in Belgium and the highest at 32% in Botswana. These large differences could be the result of the fact that for most countries finance data have been consolidated into one account, while for others only budgetary accounts were available. Nevertheless, this data gives the best overview of the government spending and is, therefore, leading within this thesis. Cameroon, China, Ecuador, Iran, Mexico, Panama, Puerto Rico, Taiwan, and Vietnam are missing variables since the WB has no data reported for these countries.

Public- and Private Institutions

The Global Competitiveness Index (GCI) measures the competitiveness of countries based on a collection of national data. The questionnaire they conduct consists of questions that can (mostly) be answered on a seven-point scale, an example of such a question is given in Box 1 below. The variables that are constructed from this data are, thus, ordinal variables. The country average of the survey indicator *i* for country *c*, denotes $q_{i,c}$, is computed as follows:

$$q_{i,c} = \frac{\sum_{j}^{N_{i,c}} q_{i,c,j}}{N_{i,c}}$$

Where, $q_{i,c,j}$ is the answer to question *i* in country *c* from respondent *j*; and $N_{i,c}$ is the number of respondents to question *i* in country *c* (Browne, Battista, Geiger, & Gutknecht, 2014).

– BOX 1 –
Example of a typical Survey question

In your country, how strong is the protection of intellectual property,
including anti-counterfeiting measures?

Extremely weak   << 1 2 3 4 5 6 7 >>   Extremely strong

Circling 1 … means you agree completely with the answer on the left-hand side
Circling 2 … means you largely agree with the left-hand side
Circling 3 … means you somewhat agree with the left-hand side
Circling 4 … means your opinion is indifferent between the two answers
Circling 5 … means you somewhat agree with the right-hand side
Circling 6 … means you largely agree with the right-hand side
Circling 7 … means you agree completely with the answer on the right-hand side

---

The computation scores that are used are based on successive aggregations of indicator level scores. The categories – which correspond with the categories of the GCI in Appendix 2 – are aggregate arithmetic means of underlying indicators. For the higher aggregate level of public- and private institution score the categories, of the respective institution, are evenly weighted (each of the public institution categories 20% and each of the private institution categories 50%). Table 4 gives an overview of the top three best, and worst, performing countries in the dataset. As can already be seen within a country's aggregate score large fluctuations in indicator scores can exist. For that reason, besides adding the aggregate institution and category score the analysis also investigates the underlying indicators in order to determine the indicators of most importance.

Table 4: GCI category, public- and private institution score *(Top 3: best and worst, within the dataset)*

Rank	Country	Property rights	Ethics and corruption	Undue influence	Government efficiency	Security	**Public institutions**	Corporate ethics	Accountability	**Private institutions**
2	Finland	6,322289016	6,207384924	5,958658042	5,349919473	6,583908728	**6,084432037**	6,423572699	5,745448747	**6,084510723**
4	Qatar	5,985541767	6,218798561	5,778193004	5,564977142	6,47473355	**6,004448805**	5,915581474	5,290180424	**5,602880949**
5	Norway	5,852150336	6,039926158	5,724600563	4,849807995	5,800169301	**5,653330871**	6,195636903	5,802239287	**5,998938095**
…	…	…	…	…	…	…	**…**	…	…	**…**
118	Peru	3,294081292	2,769237919	2,560729868	2,952523305	3,175794623	**2,950473401**	3,470467796	4,881610691	**4,176039244**
137	Argentina	2,557068674	2,026575318	2,014309265	2,239104496	4,021345698	**2,57168069**	3,007511538	3,87500484	**3,441258189**
139	Lebanon	3,097360664	1,818250933	1,897682562	2,307541046	3,343737666	**2,492914574**	2,908106298	3,836666126	**3,372386212**

Ease of doing business
This data is collected by the World Bank Group and measures the distance to frontier[10] (The World Bank Group, 2017). with data from 2015, the worst score within the dataset is 44.127 and belongs to Cameroon and the highest score of 83.686 belongs to South Korea. These absolute values are used in the analysis as continues variable in determining the effect of *the ease of doing business* on the prevalence of social entrepreneurial activity.

Control variable
As control variable, this thesis uses the GDP per capita. This variable is continuous and is measured by the Global Entrepreneurship Monitor as part of their annual survey and gives an indication of the economy and the competitiveness of an economy. For this reason GDP per capita is used as the control variable in nearly all academic research that investigates SEA. The reasoning for this is that GDP is a large determinant of the economic stage within a country, which in turn is of influence on the total amount of SEA (Browne, Battista, Geiger, & Gutknecht, 2014). For this thesis, the variable is altered so the measure is in thousands instead of single euros.

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[10] The distance to frontier represents the distance of a country to the best performance observed on each of the indicators across all economies, and across all time periods. 0 is the lowest score and 100 is the best.

3.3 Methodology

The analysis within this thesis is divided into four segments. The first segment looks at the descriptive statistics and the correlation between the variables. As the Global Competitiveness Index investigated private- and public institutions within country borders, it is not surprising that a country that scores high on, for instance, property rights also scores high on governmental efficiency en vice versa. Both are part of the public institution measure and enhancing one would also mean enhancing the other. As many of the used variables, thus, are related to each other high correlations are present between these variables.

The second segment focuses on the first hypothesis: "*Public spending on goods and services is negatively related to the prevalence of social entrepreneurial activity*". Model 1 test this hypothesis by using an OLS-regression in order to determine the relationship between governmental spending on goods and services and the prevalence of SEA. As the variable of public spending is measured in percentages, OLS-regression is the most suitable type of regression in this case. As continues variable the OLS-regression can give the clearest results that can be interpreted with ease. As control variable in this model (and all other models to come) GDP per capita is used.

In order to answer the second hypothesis, regarding the association between public institutions and SEA, the data of the Global Competitiveness Index is used. As discussed in the previous section these variables are measured on an ordinal scale of 1 − 7. Within the academic literature, there is no consensus when it comes to using such measurement as continues- or dummy variable. In this thesis, the variables of the GCI are used in OLS-regressions as continues variables, as the pros of implementing them as dummy variables do not outweigh the cons, and interpretation of the models are more easily and straightforward with continues variables. Table 8 gives an overview of the aggregate country score of public institutions and the category scores of the GCI, this is shown in models 2 till 7. Model 8 investigates the effect of the ease of doing business on the prevalence of SEA. In order to investigate the found (significant) relationships Table 9 displays the investigation into the underlying indicators – of the significant categories. Model 9 till 15 display the results of this investigation.

In the fourth, and final, segment the third hypothesis is tested using the GCI data. This analysis follows the same methodology as described in the third segment. The results are shown in Models 16 till 18. The combined findings in all four segments formulate an answer on the research question: *"What is the influence of institutional context on the prevalence of social entrepreneurship, at country level?"*

4. Results

Descriptive statistics and correlation

Table 5, on the next page, gives an overview of the variables that are used in the analysis. As can be seen, the Governmental spending variable has a lower number of observations compared to the other variables (49 compared to 58 respectively). Since the World Bank doesn't provide observations for all 58 countries the analysis on this specific topic will have fewer observations. All other variables contain observations for all countries that are measured in the GEM 2015. To give the most "global" picture, these variables are analysed with the full sample.

A second look at the descriptive statistics strengthens the choice for the chosen methodology regarding the Global Competitiveness Index variables. These variables can be found within the Independent variables of H2 and H3. As can be seen, large differences exist between indicators, categories and aggregate institution scores. To give an example, the indicator score of *Public trust in politicians* has a minimum score of 1.4, while the category score of this indicator has a minimum score of 2.04. This difference doesn't seem large at first, but taking in mind the variables are scored on a 7-point scale a difference of 0.64 is quite large. Taking it one step up, the aggregate minimum score of public institutions is 2.49, relating this to the indicator and category score this score is higher than both of them. Since there are, thus, large differences in the indicator, the category and the aggregate institution score all three levels are taken into account in the analysis onwards, as described in the methodology section.

A third and final observation from Table 5 is the large difference in GDP per capita within the dataset, with the lowest GDP per capita in Senegal (€910) and the highest in Luxembourg (€ 95,670). This large variance is no issue for the further analysis but is interesting in a dataset in which most variables have a small range of values.

Table 6 gives an overview of the correlations between the used variables. The table shows that many variables are highly correlated. Since variables 3 till 19 are all related they have a high correlation between them. For the analysis onwards this would mean that these variables cannot be implemented together in one regression. The variable of governmental spending (number 2) has a correlation with the SEA and GDP measure. Besides this correlation of around 0.22, the government spending has only a small correlation with the public and private institution measures.

Table 5: Descriptive statistics data.

Variable	N	Min.	Max.	Mean	St. Dev.
Dependent Variable					
Total Social Entrepreneurship Activity	58	1.00	18.08	5.66	3.88
Independent variable H1					
Governmental spending	49[1]	2.00	32.00	10.85	6.10
Independent variables H2					
Public institutions	58	2.49	6.08	4.10	0.87
Property rights	58	2.88	6.33	4.50	0.88
Property protection	58	3.22	6.38	4.68	0.83
Intellectual property	58	2.18	6.24	4.14	1.04
Ethics and corruption	58	2.04	6.10	3.79	1.09
Diversion of public funds	58	2.02	6.14	3.75	1.22
Public trust in politicians	58	1.40	5.67	3.13	1.13
Irregular payments and bribes	58	2.49	6.65	4.49	1.05
Undue influence	58	2.03	5.93	3.79	1.00
Judicial independence	58	2.28	6.59	4.21	1.25
Favouritism government	58	1.75	5.33	3.36	0.84
Government efficiency	58	2.41	5.61	3.71	0.75
Security	58	2.81	6.55	4.91	0.86
Ease of doing business	58	44.17	83.69	69.35	9.61
Independent Variables H3					
A. Private institutions	58	3.37	6.09	4.51	0.70
Corporate ethics	58	3.08	6.44	4.39	0.89
Accountability	58	3.44	6.19	4.62	0.60
Control variable					
GDP per capita (x1000)	58	0.09	95.67	20.03	21.40

[1] excluded countries – due to missing values: Cameroon, China, Ecuador, Iran, Mexico, Panama, Puerto Rico, Taiwan and Vietnam

Table 6: Correlation table regression variables.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	SEA total	1.0000																			
2	Governmental expenditure	0.2428	1.0000																		
3	Public Institutions	0.0157	0.0752	1.0000																	
4	Property rights	-0.0243	-0.0842	0.9221	1.0000																
5	Ethics and corruption	0.0324	-0.0718	0.9659	0.8773	1.0000															
6	Undue Influences	0.0141	-0.1004	0.9448	0.8782	0.9518	1.0000														
7	Governmental efficiency	-0.0169	0.0793	0.8835	0.8419	0.8772	0.8762	1.0000													
8	Security	-0.0025	-0.1396	0.8065	0.7097	0.7613	0.6931	0.5539	1.0000												
9	Property protection	-0.0052	-0.0853	0.9165	0.9903	0.8814	0.8839	0.8601	0.6971	1.0000											
10	Intellectual property	-0.0532	-0.0793	0.8948	0.9760	0.8364	0.8350	0.7804	0.7017	0.9364	1.0000										
11	Diversion of public funds	0.0699	-0.0896	0.9575	0.8677	0.9894	0.9444	0.8491	0.7654	0.8745	0.8232	1.000									
12	Public trust in politicians	-0.0242	-0.0909	0.9082	0.7978	0.9561	0.9074	0.9025	0.6515	0.8078	0.7509	0.9322	1.0000								
13	Irregular payment and bribes	0.0445	-0.0225	0.9341	0.8795	0.9523	0.9059	0.7896	0.7920	0.8738	0.8540	0.9316	0.8352	1.000							
14	Judicial independence	0.0317	-0.0700	0.9037	0.8757	0.8927	0.9721	0.8038	0.6736	0.8750	0.8425	0.8894	0.8189	0.8799	1.000						
15	Favouritism	-0.0137	-0.1352	0.9070	0.7896	0.9400	0.9364	0.8924	0.6494	0.8042	0.7358	0.9275	0.9442	0.8495	0.8281	1.0000					
16	Ease of doing business	-0.0527	-0.0871	0.5405	0.5752	0.5380	0.4738	0.4418	0.4800	0.5670	0.5656	0.5252	0.4572	0.5820	0.4481	0.4623	1.0000				
17	Private Institutions	0.0019	0.0010	0.9276	0.9307	0.8989	0.9017	0.8833	0.6308	0.9222	0.9076	0.8826	0.8444	0.8802	0.8786	0.8415	0.5632	1.0000			
18	Corporate ethics	-0.0103	-0.1041	0.9534	0.9265	0.9623	0.9584	0.8976	0.6948	0.9233	0.8954	0.9475	0.9193	0.9229	0.9208	0.9138	0.5444	0.9378	1.0000		
19	Accountability	-0.0089	0.1792	0.6544	0.7722	0.6014	0.6564	0.7034	0.3450	0.7645	0.7539	0.5800	0.5390	0.6291	0.6823	0.5484	0.4263	0.8592	0.6936	1.0000	
20	GDP	0.2599	-0.3243	0.4521	0.4783	0.4892	0.4786	0.3437	0.4025	0.5095	0.4105	0.5156	0.4557	0.4409	0.4702	0.4407	0.5277	0.4102	0.5124	0.2026	1.0000

Governmental expenditure

Table 7 below gives the results of the analysis of the association between the governmental expenditure on goods and services and the prevalence of SEA. Model 1 shows a positive significant relationship between these two variables. The explanatory power of this model is quite high with an adjusted R-squared of 15.2%. This would indicate that the regression explains over 15% of the total variance in the dataset. Furthermore, the significant variable indicates that increasing the governmental expenditure on goods and services, as the percentage of the total expense, by one percent increases the prevalence rate of SEA by 0.236 percentage points, which is significant at a one percent significance level, ceteris paribus.

Table 7: Regression result explaining SEA using governmental expenditure

Social Entrepreneurial Activity	Model 1
Government expenditure	0.236***
	(0.105)
GDP	0.067***
	(0.0216)
Constant	2.022*
	(1.112)
Observations	49
R-squared	0.187
Adjusted R-squared	0.152

*** P<0.01, ** P<0.05, *P<0.1, robust standard error in parentheses
Note: This regression includes all countries of appendix 2, except from Cameroon, China, Ecuador, Iran, Mexico, Panama, Puerto Rico, Taiwan and Vietnam.

Public Institutions

The results of the analysis into the effect of public institutions can be found in table 8 and 9, on the next page. What stands out in all models is the negative relation between the public institution determinant and the prevalence rate of SEA. As table 8 gives an overview of the general score for public institutions and the underlying category scores the table showcases significant and insignificant models. The category of *property rights* has the highest significance (with a 5% significance level), while *Public institutions; Ethics and corruption* and *Undue influences* are only significant at a 10% significance level. Before further analysis, this would already indicate that the presumed *institutional support* perspective will not hold with respect to public institutions, while the *institutional void* theory seems to have more grounds – in this context - when it comes to the prevalence of SEA.

Table 8: Multiple OLS-Regression results explaining SEA using Public institution and category scores

Social Entrepreneurial Activity	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Public institutions	-0.797* (0.444)						
- Property rights [category]		-1.005** (0.478)					
- Ethics and corruption			-0.720* (0.387)				
- Undue influence				-0.810* (0.473)			
- Governmental efficiency					-0.789 (0.624)		
- Security						-0.754 (0.506)	
Ease of doing business							-0.108 (0.0739)
GDP (in thousands)	0.0664*** (0.0185)	0.0721*** (0.0182)	0.0694*** (0.0180)	0.0701*** (0.0169)	0.0617*** (0.0199)	0.0641*** (0.0214)	0.0793*** (0.0223)
Constant	7.593*** (2.031)	8.732*** (2.313)	6.997*** (1.694)	7.322*** (2.014)	7.347*** (2.468)	8.070*** (2.496)	11.54** (5.060)
Observations	58	58	58	58	58	58	58
R-squared	0.111	0.125	0.117	0.119	0.105	0.109	0.134
Adjusted R-squared	0.0786	0.0936	0.0848	0.0869	0.0727	0.0763	0.103

*** P<0.01, ** P<0.05, *P<0.1, robust standard error in parentheses

Table 9: Multiple OLS-Regression results explaining SEA using Public institution indicator scores

Social Entrepreneurial Activity	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15
Property rights [category]							
- Property protection [indicator]	-1.083** (0.523)						
- Intellectual property		-0.798* (0.422)					
Ethics and corruption							
- Diversion of public funds			-0.521 (0.392)				
- Public trust in politicians				-0.896* (0.373)			
- Irregular payments and bribes					-0.510 (0.391)		
Undue influence							
- Judicial independence						-0.521 (0.412)	
- Favouritism government							-1.069* (0.542)
GDP (in thousands)	0.0733*** (0.0191)	0.0686*** (0.0179)	0.0674*** (0.0199)	0.0704*** (0.0169)	0.0638*** (0.0201)	0.0670*** (0.0186)	0.0691*** (0.0170)
Constant	9.254*** (2.548)	7.586*** (1.962)	6.263*** (1.634)	7.050*** (1.515)	6.669*** (1.835)	6.511*** (1.895)	7.864*** (2.082)
Observations	58	58	58	58	58	58	58
R-squared	0.125	0.123	0.105	0.143	0.1001	0.1066	0.130
Adjusted R-squared	0.0930	0.0907	0.0725	0.112	0.0674	0.0741	0.0987

*** P<0.01, ** P<0.05, *P<0.1, robust standard error in parentheses

Table 8 provides the regression analysis of the aggregate country score of the public institutions, the underlying category scores and the analysis into the ease of doing business. The table shows that the *general score of public institutions* and the category scores of *property rights*; *ethics and corruption* and *undue influence* all have a significant negative relationship with the prevalence of SEA. These results are interesting, but also needs to be interpreted with caution since the different models only explain between 7.9% and 9.7% of the total variation. The categories of *governmental efficiency* and *security*, show a same negative relationship, but these results are not significant. Finally, the ease of doing business also has a negative relationship with SEA, but this regression is not significant.

Model 2 reports the significant negative relationship between the general score of public institutions and the prevalence rate of SEA. This coefficient is significant at a 10% significance level and indicates that ceteris paribus, an increase in public institution value by one point decreases the amount of SEA by 0.797 percentage points. In words, having higher quality public institutions – which would indicate, amongst other things, better property rights; higher ethical standards of politicians and more governmental efficiency – decreases the number of individuals taking part in SEA.

To investigate this relationship further, the categories and indicator scores are investigated. Model 3, in Table 8, shows the first significant category of this public institution, which investigates the relationship between property rights and the prevalence rate of SEA. The model shows that ceteris paribus, increasing the value of the property rights category by one point decreases the number of individuals taking part in SEA by 1.005 percentage points and this is significant at a 5% significance level. This would indicate that better protection of (intellectual) property has a negative effect on the SEA rate. To validate this result Table 9 investigates the underlying indicators of this category. Model 9 investigates the relationship between general property protection and SEA, while Model 10 investigates the relationship between intellectual property protection and SEA. Both models show significance of which respectively the former at a 5% and the latter at a 10% significance level. Looking at the sign and magnitudes, both models show a negative relationship of which general property protection has a larger effect on the prevalence of SEA compared to intellectual property protection.

In the same manner Model 4 shows that ceteris paribus, increasing the value of the ethics and corruption category by one point decreases the number of individuals that participate in SEA by 0.720 percentage points, which is significant at a 10% significance level. This would indicate that having a government which can be trusted, and in which there are no irregular payments and bribes, results in less SEA. Models 11, 12 and 13 investigate this result further by looking at the underlying indicators. Table 9 shows that only the *public trust in politicians* variable has significant influence, while the

diversion of public funds and *irregular payments and bribes* don't seem to have a significant relationship with SEA. Model 12 shows that ceteris paribus, increasing the value of public trust in politicians by one point decreases the prevalence rate of SEA by 0.896 percentage points, this result is significant at a 10% significance level. In other words, having a government which is trusted by their inhabitant's results in fewer individuals taking part in SEA. This finding clearly supports the institutional void theory which states that better functioning government – in this case, a government that can be trusted – results in less SEA.

Model 5 is the last significant category, of the public institution measure, and shows a significant negative relationship between *undue influence* and the prevalence rate of SEA. The model shows that increasing the score of the undue influence category – which involves a more independent functioning governance and less favouritism in decision-making – by one point decreases the prevalence of SEA by 0.810 percentage points, which is significant at a 5% significance level, ceteris paribus. Investigating the underlying indicators shows that only *favouritism of government officials* is significant in an OLS-regression. Model 15 shows this analysis and reports that, ceteris paribus, increasing the indicator value of favouritism of government officials by one point decreases the prevalence rate of SEA by 1.08 percentage points, which is significant at a 10% significance level. This would mean that fewer individuals take part in SEA when the government of their nation shows less (or none) favouritism when it comes to deciding upon policies and contracts.

A final determinant of public institutions Model 8 reports the analysis of the relationship between the ease of doing business and the total amount of SEA. The Model shows that enhancing the general ease of doing business has no significant association with the prevalence rate of SEA. This result is interesting in the sense that many governments and public entities are stimulating the environment in which (social) entrepreneurs operate. This general measure of such environmental change doesn't seem to have an influence on SEA in particular.

Private Institutions

Table 10 shows the results of the analysis of the association between the private institutions and the total amount of social entrepreneurial activity. Model 16 shows that private institutions, in general, have no significant relationship with the total amount of SEA. Even though this combined score doesn't have an influence the category of *corporate ethics* does. Model 17 shows that having better corporate ethics within existing companies decreases the amount of SEA significantly. Ceteris paribus, an increase in corporate ethics score by one point decreases the percentage of SEA by 1.06 percentage points, this is significant at a 10% significance level. In the same manner, as in the second hypothesis, the private

institutions seem to follow the institutional void perspective. When firms have good corporate ethics individuals have less incentive to participate in SEA.

Table 10: Multiple OLS-Regression results explaining SEA using Private institution category and indicator scores

Social Entrepreneurial Activity	Model 16	Model 17	Model 18
Private institutions	-0.836		
	(0.585)		
Corporate ethics		-1.060*	
		(0.533)	
Accountability			-0.522
			(0.752)
GDP	0.0636***	0.0744***	0.0562**
	(0.0194)	(0.0164)	(0.0217)
Constant	8.159***	8.822***	6.941*
	(2.832	(2.560)	(3.600)
Observations	58	58	58
R-squared	0.104	0.130	0.091
Adjusted R-squared	0.0713	0.0979	0.0577

*** P<0.01, ** P<0.05, *P<0.1, robust standard error in parentheses

5. Discussion and limitations

This thesis has investigated the relationship between institutional indicators and the prevalence rate of social entrepreneurial activity, by conducting a cross-national analysis. The results of this analysis answer the main research question, which is formulated as follows: *what is the influence of institutional context on the prevalence of social entrepreneurship, at country level?* In order to answer this question ,the main results are discussed below.

Public institutions and SEA

Starting with the governmental expenditure analysis in Model 2. This model contradicts the findings of previous scholars, who found a negative relationship between government expenditure and SEA. This difference could be one of two reasons. The first one is the difference in datasets. Previous scholars all have used the GEM 2009 dataset, while this thesis uses the more recent 2015 dataset. Over the past few years, many governments have become more focused on their social impact in terms of social return on investment and by working with the social development goals. Their functioning has therefore changed over the past few years towards more social investment instead of efficiency investment, which could explain the negative relationship as found in this thesis. Another explanation regarding the data is the measurement of the governmental spending. As many previous scholars have investigated the role of governmental spending on goods and services as the percentage of GDP, this thesis has looked at this governmental spending on goods and services as the percentage of the total expense. Even though both measurements are likely to be correlated – as government expenditure is often driven by a countries GDP per capita – having different measurements would likely result in different outcomes. The results, thus, give reason to reject the first hypothesis that government expenditure is negatively related with the prevalence of Social entrepreneurial activity.

The second hypothesis investigated the relationship between public institutions and the prevalence of SEA. In general, the results show a negative relationship between the quality of public institutions and Social Entrepreneurial Activity. Moreover, the different OLS-models have shown that *property rights*, *intellectual property*, *public trust in politicians* and *favouritism of government officials* are all negatively (and significant) related to SEA. Starting with the first two measures, regarding property rights and intellectual property, both show a negative relationship with the total amount of SEA. This could be explained by the fact that many activities that take place in SEA are not built upon high levels of (intellectual) property rights. Investing in property rights, for a company, is often with a vision to make profits in the future. As this is not the core business of SEA increasing property protection would not result in more SEA. On the contrary, having better property protection would (probably) stimulate individuals to take part in a commercial activity, as the possibility to make profits with an innovative

idea increase. In order to stimulate SEA governments should not focus on the general (intellectual) property rights but focus on more specific issues regarding this type activity. In order to determine what these issues are a more in-depth research into specific case studies needs to be conducted.

The third and fourth significant measure, of public trust in politicians and favouritism of government officials, focuses more on the governmental side of public institutions. Both indicators show a negative relationship, which can be explained using the institution void theory. Public institutions and SEA often have overlapping missions and goals. When the government works more efficient and individuals have more trust in the politicians functioning, individuals would see less need to participate in SEA. Looking at the specific case of The Netherlands, the data of the GCI shows that the public trust in politicians and favouritism of government officials is lacking behind – with a respectable score of 3.079 and 3.417 on a 7-point scale. With the results of the analysis, one can argue that low trust in politicians and favouritism of government officials can be a reason for individuals to take part in SEA. Even though the amount of SEA is not extremely high within the Netherlands, these (relatively) low numbers (of the above-mentioned categories) could be an explanation of the present SEA. The government should thus focus on their image and communicate more intensively with the companies that participate in SEA to determine where they can enhance each other's functioning in order to reach the most optimal outcome for society.

The last determinant of SEA in this analysis is the variable of illegal payments and bribes. A government that is driven by independent motivation and goals, instead of self-enrichment through illegal payments and bribes, would be more focused on the issues that are present in society. As these issues are also the terrain of SEA, their presence would be less needed, when governments function more efficient. Combining this reasoning with the findings of the first two measures the second hypothesis – which states that: *The quality of public institutions is positively related to the prevalence of social entrepreneurial activity* – is rejected.

Private institutions and SEA
The third and final hypothesis investigated the relationship between private institutions and SEA. Even though the general measure for the quality of private institutions is not significant, the indicator regarding corporate ethics is. This finding supports the institutional void theory. When corporate entities have higher ethics when it comes to internal organization and business values, fewer individuals would have the incentive to shift towards SEA. In the same manner, as with the second hypothesis, social entrepreneurial activity could be interpreted as a reaction to dysfunctional corporate ethics. When these ethical values increase and more corporates work with higher moral

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values and would stimulate, for instance, social inclusion or sustainability there would be less 'need' for SEA. Although this sounds straightforward, a more in-depth investigation would need to be conducted to determine how to change these corporate ethics. As corporate ethics are influenced by multiple factors within the company and in society it would be interesting to see which of these factors would influence the decision to shift towards SEA. Concluding, this finding thus rejects the third hypothesis regarding the positive relationship between corporate ethics and social entrepreneurial activity.

Taking the rejection of the three hypotheses, this thesis shows a negative relation between formal institutions and the prevalence of SEA, which is in line with the institutional void theory. An exception on this is the governmental expenditure on public goods and services which seems to have a positive relationship with the prevalence of SEA. The reasoning behind this relationship is most likely the fact that many governments have changed their investment strategies towards a more socially responsible investment strategy, instead of a pure efficiency strategy. As this thesis has found multiple relationships that contradict the finding of previous scholars, further research into this new dataset is needed to validate the results as found in this work. Furthermore, a more in-depth analysis, via for instance case studies, is needed to determine the specific effects of certain policy changes on SEA. In the next paragraph, these future research approaches are elaborated on in more detail.

Limitations and recommendations

This study does not come without limitations. Due to the international character of this thesis, the data gave little room for analysis due to the (relatively) a low number of observations. Even though this analysis took into account 58 countries, this number is relatively low for statistical regression analysis. Nevertheless, this number could not be increased as the GEM only reports the SEA measure for these countries. Extending the scope of the GEM research would, simultaneously, strengthen the findings and analysis of any cross-national analysis that uses this data.

A second limitation, due to the number of countries in the GEM 2015 survey, is the amount of useable national data indicators. Since only a few consortia report national data combined with the set number – and preselection – of countries finding indicators that match all these nations limit the possibility of analysis. As many measures were not available for each country, this thesis could not use such incomplete measures. As multiple organisations are working towards more transparency in national indicators future research could focus on better explanatory variables that are 1) available for all GEM countries and 2) are more applicable to SEA.

A third important limitation is concerned the SEA measure. Since this thesis used unique data of the GEM 2015, which is not openly available yet, the construction of the SEA measure could not be altered. Even though the literature pointed towards a slightly different measure of SEA – regarding the amount of own production and finance – this thesis could not change the criteria of a 5% income from own production. For this reason, future research should use the individual level data in which this measure can be altered in order to be more in line with the current working definitions. By doing so future research could change the filtering mechanism and increase the amount of own income to 50 or 75 percent. This would result in a definition of SEA that is completely in line with the practical definition of the European Commission as discussed previously.

Furthermore the findings of this thesis call for further validation and analysis. As the found relationships seem to contradict the findings of multiple scholars, more investigating in this new dataset is needed to validate the results found in this work. Another recommendation for further research is to have an open approach when investigating the association between formal institutions and SEA. As most of the scholars have only focused on governmental expenditure, this research has shown that investigating formal institutions entail more than this expenditure alone.

6. Conclusion

Over the past few years, scholars and policymakers are devoting more attention towards the field of social entrepreneurial activity. As shown in this thesis governments, the social sector itself and multiple national initiatives are trying to understand this concept and try to understand their respective role and contribution within this field. This thesis investigated the roles of the formal institutions within a country on the prevalence of social entrepreneurial activity. The main research question therefore was:

> ➢ *What is the influence of institutional context on the prevalence of social entrepreneurship, at country level?*

In order to answer this question, the analysis has focused on formal institutions as the main area of interest. Formal institutions form one of the four framework conditions of the entrepreneurial ecosystem, according to Stam (2015). Within the formal institution section, the distinction was made between public- and private institutions. The results of the analysis have shown that the answer to the main research question is not one-sided. First of all, contradicting the existing stream of literature, the analysis has shown that governmental expenditure on goods and services is positively related to the prevalence of SEA. This result could hint that governments are investing more in durable and sustainable enterprises, which are involved in SEA.

Furthermore, the analysis has shown that the quality *property right protection, intellectual property protection, favouritism of government officials, undue influences* and *corporate ethics* all are negatively related to the prevalence of SEA. This indicates that having better functional public- and private institutions result in less social entrepreneurial activity. This finding is in line with the institutional void theory but contradicts multiple academic scholars – who argued that the institutional support perspective would be more in place when it comes to SEA.

In general, this work has shown that higher quality institutions are associated with lower prevalence of social entrepreneurial activity. Governmental expenditure, contrasting, has a positive influence which is probably due to the nature of the expense. Further analysis is needed to validate these results and to come to policy implications. As multiple institutions are evolving over time it is important to keep repeating these investigations to determine the current state of the institutions. Finally, this macro-approach also calls for more micro-level analyses in which the effects of specific changes in institutional context can be analysed.

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Appendix 1: Descriptive statistics

Region	Country	economic stage	percentage of social enterprises			observations	
			start-up	*operational*	*total*		
Latin America and Caribbean	Argentina	efficiency	2,23	2,90	4,56	*2,519*	
	Barbados	innovation	0,75	0,55	1,15	*2,000*	
	Brazil	efficiency	0,54	2,21	2,49	*2,000*	
	Chile	efficiency	8,38	6,32	11,53	*5,407*	
	Colombia	efficiency	8,71	5,91	10,82	*3,686*	
	Ecuador	efficiency	1,55	1,86	2,59	*1,931*	
	Guatemala	efficiency	4,22	1,60	5,04	*2,181*	
	Mexico	efficiency	2,16	1,39	2,67	*4,643*	
	Panama	efficiency	0,55	1,35	1,75	*2,000*	
	Peru	efficiency	10,09	5,89	13,10	*2,078*	
	Puerto Rico	innovation	7,12	7,47	10,06	*1,999*	
	Uruguay	efficiency	2,67	4,99	6,46	*1,742*	**32,186**
United States & Australia	Australia	innovation	4,52	8,70	11,11	*1,770*	
	United States	innovation	0,75	0,55	1,15	*2,683*	**4,453**
Western Europe	Belgium	innovation	3,11	4,00	6,21	*2,022*	
	Finland	innovation	4,95	3,48	5,92	*2,007*	
	Germany	innovation	0,82	1,49	2,16	*3,842*	
	Greece	innovation	1,10	0,86	1,59	*2,000*	
	Ireland	innovation	4,94	8,40	11,09	*2,001*	
	Italy	innovation	2,28	4,10	5,52	*2,000*	
	Luxembourg	innovation	7,38	10,28	13,82	*2,016*	
	Netherlands	innovation	2,62	2,18	3,58	*1,754*	
	Norway	innovation	0,38	7,00	7,08	*2,000*	
	Portugal	innovation	2,72	2,50	4,47	*2,005*	
	Spain	innovation	0,88	0,70	1,34	*24,300*	
	Sweden	innovation	3,12	5,29	6,94	*3,716*	
	Switzerland	innovation	2,38	5,10	6,64	*1,886*	
	United Kingdom	innovation	2,29	4,18	5,42	*7,886*	**59,435**
Eastern Europe	Bulgaria	efficiency	0,55	0,70	1,00	*2,001*	
	Croatia	efficiency	6,10	2,13	6,99	*2,000*	
	Estonia	innovation	4,00	4,95	7,39	*2,002*	
	Hungary	efficiency	0,97	2,89	11,31	*2,000*	
	Latvia	efficiency	0,94	2,16	2,83	*2,004*	
	Macedonia	efficiency	1,98	1,34	3,07	*1,998*	
	Poland	efficiency	0,14	6,91	7,47	*2,000*	
	Romania	efficiency	2,53	2,93	4,80	*2,002*	
	Slovakia	efficiency	3,89	4,14	6,44	*2,003*	
	Slovenia	innovation	1,70	3,45	4,65	*2,009*	**20,019**
Sub-Sahara Africa	Botswana	factor	2,91	4,13	6,19	*2,200*	
	Cameroon	factor	6,05	3,25	8,51	*2,325*	
	Senegal	factor	7,23	13,98	18,08	*2,363*	
	South Africa	efficiency	1,63	2,29	2,95	*2,765*	**9,653**
South-East Asia	China	efficiency	5,52	2,91	6,56	*3,365*	
	India	factor	3,77	5,78	6,65	*3,413*	
	Indonesia	efficiency	1,56	2,34	2,98	*5,620*	
	Kazakhstan	factor	2,14	1,55	3,08	*2,101*	
	Malaysia	efficiency	0,72	1,35	1,69	*2,000*	
	Philippines	factor	7,12	7,47	10,06	*2,000*	
	South Korea	innovation	0,25	1,25	1,45	*2,000*	
	Taiwan	innovation	0,46	1,01	1,31	*2,000*	
	Thailand	efficiency	2,18	1,83	2,86	*3,000*	
	Vietnam	factor	1,10	0,65	1,40	*2,000*	**27,499**
MENA	Egypt	efficiency	2,23	2,07	3,39	*2,512*	
	Iran	factor	1,32	0,42	1,71	*3,234*	
	Israel	innovation	6,81	10,59	12,84	*2,055*	
	Lebanon	efficiency	3,04	1,35	4,12	*2,600*	
	Morocco	efficiency	0,74	0,58	1,13	*2,061*	
	Tunisia	efficiency	2,24	4,48	6,01	*1,946*	**14,408**

Appendix 2: Global competitiveness index pillar 1: Institutions

A. Public Institutions

Property rights

> **1.01 Property rights**
> In your country, how strong is the protection of property rights, including financial assets? [1 = extremely weak; 7 = extremely strong]
>
> **1.02 Intellectual property protection**
> In your country, how strong is the protection of intellectual property, including anti-counterfeiting measures?
> [1 = extremely weak; 7 = extremely strong]

Ethics and corruption

> **1.03 Diversion of public funds**
> In your country, how common is diversion of public funds to companies, individuals, or groups due to corruption?
> [1 = very commonly occurs; 7 = never occurs]
>
> **1.04 Public trust in politicians**
> In your country, how would you rate the ethical standards of politicians? [1 = extremely low; 7 = extremely high]
>
> **1.05 Irregular payments and bribes**
> Average score across the five components of the following Executive Opinion Survey question: In your country, how common is it for firms to make undocumented extra payments or bribes in connection with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions? In each case, the answer ranges from 1 [very common] to 7 [never occurs].

Undue Influence

> **1.06 Judicial independence**
> In your country, to what extent is the judiciary independent from influences of members of government, citizens, or firms?
> [1 = heavily influenced; 7 = entirely independent]
>
> **1.07 Favouritism in decisions of government officials**
> In your country, to what extent do government officials show favouritism to well-connected firms and individuals when deciding upon policies and contracts? [1 = always show favouritism; 7 = never show favouritism]

Government efficiency

> **1.08 Wastefulness of government spending**
> In your country, how efficiently does the government spend public revenue?
> [1 = extremely inefficient; 7 = extremely efficient in providing goods and services]
>
> **1.09 Burden of government regulation**
> In your country, how burdensome is it for businesses to comply with governmental administrative requirements (e.g., permits, regulations, reporting)?
> [1 = extremely burdensome; 7 = not burdensome at all]
>
> **1.10 Efficiency of legal framework in settling disputes**
> In your country, how efficient is the legal framework for private businesses in settling disputes? [1 = extremely inefficient; 7 = extremely efficient]
>
> **1.11 Efficiency of legal framework in challenging regulations**
> In your country, how easy is it for private businesses to challenge government actions and/or regulations through the legal system?
> [1 = extremely difficult; 7 = extremely easy]
>
> **1.12 Transparency of government policymaking**
> In your country, how easy is it for businesses to obtain information about changes in government policies and regulations affecting their activities?
> [1 = extremely difficult; 7 = extremely easy]

Security

> **1.13 Business costs of terrorism**
> In your country, to what extent does the threat of terrorism impose costs on businesses? [1 = to a great extent; 7 = not at all]
>
> **1.14 Business costs of crime and violence**
> In your country, to what extent does the incidence of crime and violence impose costs on businesses? [1 = to a great extent; 7 = not at all]
>
> **1.15 Organized crime**
> In your country, to what extent does organized crime (mafia-oriented racketeering, extortion) impose costs on businesses?
> [1 = to a great extent; 7 = not at all]
>
> **1.16 Reliability of police services**
> In your country, to what extent can police services be relied upon to enforce law and order?
> [1 = cannot be relied upon at all; 7 = can be completely relied upon]

B. Private Institutions

Corporate ethics

> **1.17 Ethical behaviour of firms**
> In your country, how would you rate the corporate ethics of companies (ethical behaviour in interactions with public officials, politicians, and other firms)? [1 = extremely poor—among the worst in the world; 7 = excellent—among the best in the world]

Accountability

> **1.18 Strength of auditing and reporting standards**
> In your country, how strong are financial auditing and reporting standards?
> [1 = extremely weak; 7 = extremely strong]
>
> **1.19 Efficacy of corporate boards**
> In your country, how would you characterize corporate governance by investors and boards of directors?
> [1 = management has little accountability to investors and boards; 7 = management is highly accountable to investors and boards]
>
> **1.20 Protection of minority shareholders' interests**
> In your country, to what extent are the interests of minority shareholders protected by the legal system?
> [1 = not protected at all; 7 = fully protected]
>
> **1.21 Strength of investor protection**
> Strength of Investor Protection Index on a 0–10 (best) scale