



ERASMUS UNIVERSITY ROTTERDAM

Erasmus School of Economics

Bachelor Thesis International Bachelor Economics and Business Economics (IBEB)

## **Supporting Social Entrepreneurship in Developing and Developed Countries**

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Date final version: 17/08/2020

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## Abstract

This paper reviews the effect of different institutional factors on social entrepreneurship in developing and developed countries and aims to answer the question, *“To what extent do macro-level institutional factors contribute differently to the prevalence of social enterprises in developing and developed countries?”*. This is done via two main perspectives: institutional void and institutional support. This research will be useful for policy makers from institutions in different contexts to predict and explain better, the prevalence of social entrepreneurship. The research carries out a multivariate regression analysis using the GEM Adult Population Survey in 2015 as the primary source of data. Findings indicate that the interaction effect between institutional variables and the type of economy has a stronger association with social entrepreneurship than their individual association to social entrepreneurship. This suggests that indeed the type of economy matters in assessing the effect of institutional factors on the prevalence of social entrepreneurship. The results also point towards more evidence for the institutional support perspective in developed countries and institutional void perspective in developing countries. Since these associations lie in opposing directions, there is no straightforward evidence that a single perspective dominates. The dominant perspective depends on the institutional factor at hand.

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# Supporting Social Entrepreneurship in Developing and Developed Countries

## Introduction

### *The Importance of Social Entrepreneurship*

Social entrepreneurship is the field in which entrepreneurs tailor their activities to be directly tied with the ultimate goal of creating social value (Abu-Saifan, 2012). The importance of social entrepreneurship is that it serves to turn a profit and find success while helping others throughout the world without the practice or involvement of misconception and fraud (Pache & Chowdhury, 2012). Since entrepreneurs are considered national assets to the economy, they are encouraged and assisted through local, state and federal agencies. This assistance helps them find success in their start-ups, allowing them to grow by bringing light and visibility to their business venture while providing them with financial support along the way.

Through his book, “The Theory of Moral Sentiments”, Adam Smith describes the process through which altruism towards others proves to be a crucial part of individual action and self-development. Humans have the power to place themselves in other people’s situation and be able to empathize with their problems as well as derive pleasure from their accomplishments (Haveman & Rao, 1997). Through this, we see that the utility of individuals is linked to the well-being of other individuals. The mechanisms behind social entrepreneurship can enable the second invisible hand of a given country’s economy, which turns pro-social behaviour towards socially desirable outcomes (Haveman & Rao, 1997). Since entrepreneurs are considered national assets to the economy, they are encouraged and assisted through local, state and federal agencies. This assistance helps them find success in their start-ups, allowing them to grow by bringing light and visibility to their business venture while providing them with financial support along the way.

### *Institutions and the Prevalence of Social Entrepreneurship*

The institutional configuration can be split into formal and informal institutions. Here, formal institutions refer to the constraints derived from government regulation on entrepreneurial action. Contrastingly, informal institutions refer to more slow paced, culturally exchanged norms. They are further categorized into cognitive, with a match to cultural values; and normative, with the most

desirable social expectations possible from pre-existing practices (Stephan et al., 2015). Institutions provide the opportunities available and constraint human behaviour including entrepreneurial engagement.

In this paper, we focus on the role of formal institutions as well as informal institutions. The quality of formal institutions has a positive association with economic incentives that support the process of decision-making for entrepreneurs (Stenholm et al., 2011). According to Acemoglu and Johnson (2015), formal institutions can help in the development of stable property rights and an effective legal system that are essential for value creation. With regards to formal institutions, there are two theories that are portrayed in existing literature: the institutional support theory and the institutional void theory. Firstly, the institutional support theory indicates a positive relationship between the expansion of the welfare state and the level of economic growth within an economy. In his work, Pierson (1996) mentions “strong economies produce strong welfare states”, suggesting that developed countries characterize the institutional support theory. On the other hand, the institutional void theory refers to a limit in support from the government. This “void” in support allows for unattended social needs. Over time, this leads to the self-organization of different social start-ups (Hoogendoorn, 2013). This suggests that developing countries with governments that are more limited in providing support to social entrepreneurs, characterize the institutional void theory. In the Theoretical Framework section, we will go into these two theories in more depth.

### *Scientific Relevance of the Research*

The main results from current research suggest that social entrepreneurship still lies in its infancy stage as compared to other forms of entrepreneurship. After analysing a few institutional factors that play a role in influencing social entrepreneurship, it can be said that there is still a lack of empirical studies between developing and developed countries. It still remains unclear which institutional context is associated with the prevalence of social entrepreneurship. This research paper aims to make the distinction between developed and developing countries a bit more clear. The findings can prove to be useful to policy makers in institutions across countries with the goal of stimulating social entrepreneurship in the economy.

## *Contributions to Existing Literature*

The contribution of this research paper is twofold.

Firstly, it builds on the work of Stephan et al. (2015) in which they find evidence for the institutional support perspective as compared to the institutional void perspective. However, they suggest future research on a different sample of countries because the one used in their study had excessive innovation-driven countries and a minority of factor-driven countries. This implied that there can be a possible difference in results for the factor-driven (developing) countries. Hence, the chosen sample helps us focus on the distinction between developing and developed countries. In the 2015 data, factor driven economies are better represented with more countries in observation as compared to the 2009 data (GEM, 2015). They also suggest using an interaction term to explore cross-sectional effects between institutional factors. The lack of a known institutional context that characterizes social entrepreneurship may be a barrier to the full recognition and more focused support that might be needed to enable these initiatives to grow to a scale where they can make a substantial contribution. Hence, this paper aims to investigate macro-level institutional factors that contribute to the prevalence of social entrepreneurship in developing and developed countries.

Secondly, the paper will use a more recent GEM (Global Entrepreneurial Monitor) data set of 2015, rather than the earlier used set of 2009. This newer data is a contribution because it is larger in scope of economies taking part in the survey. It includes interviews conducted in the year 2015 with approximately 167,793 adults involved from 60 countries (GEM, 2015).

This leads us to the following research question:

## *Research Question*

To what extent do macro-level institutional factors contribute differently to the prevalence of social enterprises in developing and developed countries?

## *Data and Method*

The paper will use the Adult Population Survey from the GEM in 2015 as the main source of data. In 2015, a cross country study on social entrepreneurship between a total of 60 countries was executed. Our method uses three main models of analysis on the total sample. Model 1 will run a multivariate regression with the Social Entrepreneurial Activity (SEA) being the dependent variable and government activism, and rule of law being the independent variables. Secondly, Model 2 will build on Model 1 by including the type of economy (developing and developed) based on a dummy

variable. Our research will classify the sample size of 60 countries into developing and developed countries based on the GNI per capita as provided by the World Bank in 2015. Hence, the dummy variable for the type of economy will indicate 0 for developing economies and 1 for developed economies. If the coefficient of the institutional factors differs across the various models, it may indicate that the type of economy is significant in detecting the effect of institutional factors on the prevalence of SEA. Lastly, interaction terms will be added in Model 3. Thus, this model will run a multivariate regression with SEA as the dependent variable and the interaction terms as well as the type of economy as the independent variables. If the interaction terms come to be significant, we will be able to see if the institutional factors combined are different between developing and developed countries. This method will allow us to show the type of association (positive or negative) and the strength of the correlation (magnitude of coefficient) between institutional factors and the prevalence of social entrepreneurship.

### *Key Results*

Based on the main results, we can conclude that macro-level institutional factors contribute differently to the prevalence of social enterprises in developing and developed countries. The institutional factor, government activism, has a strong positive association to social entrepreneurship and thus, points towards the institutional support perspective being more applicable in developed countries. On the other hand, the institutional factor, rule of law, has an even stronger negative association to social entrepreneurship. This suggests that the institutional void perspective is more prominent in developing countries and shows the difference in contributions of institutional factors towards the prevalence of social enterprises in developing and developed countries.

### *Structure of the paper*

Following the Introduction, the paper will dive into the Theoretical Framework, Data, Methods, Results, Discussion and Conclusion sections in more detail. The literature review describes the existing literature behind prevalence of social entrepreneurship across countries in which the role of institutions and the differences between social entrepreneurs and regular entrepreneurs is highlighted. After exploring existing literature, two main hypotheses are constructed based on gaps in existing literature to test the effects of institutional factors in different contexts. Once the hypotheses are formulated, the paper describes the various data sources used followed by the method that is most applicable to conduct further analysis. Consequently, the key findings will be

presented. To finish off, the discussion and conclusion section will show the limitations of the research and provide suggestions for improvement in the future.

## **Theoretical Framework**

### *Existing Literature*

Current literature suggests two main theories that explain the prevalence of social entrepreneurship across countries: institutional void and institutional support (Estrin et al., 2013; Zahra et al., 2009; Nissan et al., 2012; Stephan et al., 2015)

Before describing those in depth, it is important to acknowledge the difference in the impact of institutions between regular and social entrepreneurs in developing and developed economies, followed by the role of institutions as a whole.

### *Social vs. Regular Entrepreneurship*

Institutions may have a different effect on social entrepreneurship and regular entrepreneurship. Hence, understanding this effect will help us to further explain the prevalence of social entrepreneurship. To thoroughly understand the difference between social and regular entrepreneurship, we need to distinguish between value creation and value capture (Santos, 2012). Value creation can be defined as the increase in the overall utility of society from an activity after considering the opportunity costs of the resources used (Santos, 2012). On the other hand, value capture occurs when the actor can “capture” a part of the value generated from the activity after considering the actual cost of the resources used (Santos, 2012). The crucial difference here is that value creation is viewed at a societal level, whereas value captured is at the organizational level. Hence, social entrepreneurship focusses more on value creation whereas regular entrepreneurship delves more towards value captured (Santos, 2012).

Formal institutions allow for the possibility to patent inventions which are highly relevant for the appropriability of value created (Shu et al., 2015). Patenting motives may be defined as guiding forces that help firms to apply for a patent (Shu et al., 2015). This make use of an empowerment approach that allows beneficiaries in the economy to be equipped with resources and skills. For example, developing countries with low income population hold a lot in savings (Shu et al., 2015). However, these same low income population cannot use these savings to invest in the economy due to an lack of formal institutions, defined property rights, and patenting opportunities (Santos, 2012). Hence, if

formal institutions were better established in developing countries, value creation would be more prominent. It is important to recognize that this low income population is theoretically as resourceful, if not more, than its counterpart in developed countries. This shows us that formal institutions are highly relevant for the prevalence of social entrepreneurship, but even more so in developing countries as compared to developed countries.

This leads us to the discussion of the next point; the role of institutions.

### *The Role of Institutions*

In this paper, we will define institutions as man-made constraints that shape interactions between the political, economic and social landscape (North, 1991). These institutions form the national framework within which individuals can choose to engage in social entrepreneurship. As suggested by Sud and Baugous (2009), social entrepreneurship is in need of institutions for two crucial arguments: Legitimacy and Isomorphism.

Firstly, the effect of institutions in legitimizing social enterprises is greater in developing countries in comparison to developed countries (Sud & Baugous, 2009). The legitimacy argument bases itself on the finding that the very survival of a particular type of social organization is reliant on the consent of the society and institutions in which it exists (Sud & Baugous, 2009). Within the context of social entrepreneurship, organizational legitimacy can also be viewed as a generalized assumption that the work of an entity is appropriate as well as socially desirable. Their work reflects the social construction of the beliefs and norms within a given country. From the perspective of the institutions, organizational legitimacy can help define the means through which social organizations and entrepreneurs derive and maintain resources from institutions. In fact, social enterprises are considered the most recent form of organizations and are still in search for legitimacy. In the past, the markets within developing countries have often failed in the provision of a certain public good or service. In the contexts where the institutions of the country have not taken initiative to resolve such failures, social entrepreneurs have stepped in to make these goods and services available. Thus, they are thoroughly gaining more legitimacy within developing countries.

Secondly, the goals of institutions may “morph” with that of social enterprises. Institutional Isomorphism may be defined as the process that pressures one entity within a country to resemble other entities under the same set of political and economic conditions (Sud & Baugous, 2009). Since formal institutions are more defined in developed countries, it suggests that institutional isomorphism in developed countries may be more beneficial for social entrepreneurs there than those in developing

countries. The isomorphism argument goes beyond just the legitimacy stance. Not only do the social entrepreneurs need the approval of institutions to exist, but they are also subject to conform to the existing structure of hierarchy and way of operations. This suggests that social enterprises in a common context will evolve to resemble each other. In reality, however, this finding is still somewhat contested. The effectiveness of the morphism is limited due to the nature of social entrepreneurship by itself. Often, social entrepreneurship is seen as “Schumpeterian entrepreneurship” where there is new innovations and practices that help in the improvement of society (Sud & Baugous, 2009). Like before, Schumpeterian entrepreneurs are also inherently drawn into the process of institutional isomorphism. However, social entrepreneurship runs within different cultures, locations and societal problems which means that it will be subject to the isomorphism in the same context (Kerlin, 2006a; Nicholls, 2010).

### *Institutional Void and Institutional Support*

As seen above, the effect of institutions on social entrepreneurship often differs based on the stage of economic development of the country. Hence, to check if the existence of efficient, formal institutions may lead to the emergence of social entrepreneurs, we analyse various institutional factors from two perspectives. The term, “institutional void”, can be defined as the conditions under which social entrepreneurs receive limited support from the government. This is because of the absence or malfunctioning of formal institutions such as government activism or the rule of law, which will be described more in depth in the following section. In such an environment, societal needs become more abundant, creating higher necessity for social entrepreneurship (Estrin et al., 2013).

In the institutional void perspective, the inactivity of the government gives motivation to social entrepreneurs to fill this “void” in the private sector. Zahra et al. (2009) found that institutional voids benefit social entrepreneurs more than other entrepreneurs. For-profit entrepreneurial activity was found to be narrowed down through market restrictions and competition. Non-profit social entrepreneurship grows under environments that have scarce resources to combat social problems. Less engaged governments can stimulate the need for social programs and thus boost the demand for social entrepreneurship in that country (Zahra et al., 2009). In other words, the institutional void characterizes developing countries as they are more often found to have scarce resources towards social problems as well as less engaged governments (Hajer, 2003; Zahra et al., 2009).

With regards to non-profits in specific, the institutional void perspective often runs parallel to the government failure approach (Nissan et al., 2012). When there is a lack of provision of public goods

from the government, non-profits enter the market to supply these goods. Stephan et al. (2015) found that developed countries with a larger welfare-redistributive state often crowd out social ventures in the private sector. Hence, in an institutional context characterized by the institutional void, the prevalence of social entrepreneurship is expected to be higher compared to contexts of institutional support. This indicates that we expect developed countries to have less space for a “void” needed for social entrepreneurship to prevail.

On the other hand, we have the “institutional support” perspective. In this perspective, the role of the government lies in the provision of public goods as well as ensuring the welfare of the citizens. The role of social entrepreneurs lies in the creation of new ventures that match the needs of society. From this, governments and social entrepreneurs can be viewed as partners that have the same social goals (Zahra et al., 2009). Institutional support has the capability to improve tangible resources owned by the social entrepreneur or even intangible resources gained through informal networks, such as networking events, created by the government. In terms of tangible resources, there are grants, funding or subsidies which mostly comprise of financial resources necessary to start a social venture. On the other hand, intangible resources may include assistance to apply for grants, sponsorship opportunities, and networking events that motivate new, interested social entrepreneurs to enter the market.

Moving further, it is important to see how some institutional factors are associated with both these perspectives and social entrepreneurship in general. A broad overview of these factors is provided below.

#### *Overview of Institutional Factors associated with Social Entrepreneurship*

##### *1. Government Activism*

The work of Fogel et al. (2006) identifies the government size (seen through their expenditure) as a measure of how active the government is. They argue that social entrepreneurship can have a negative relationship with government activism because of some form of crowding out that takes place. A more active government absorbs a higher fraction of resources that the private sector also competes for (Fogel et al., 2006; Dacin et al., 2010; Estrin et al., 2013a; Zahra et al., 2009). This additional competition of resources from an active government increases the prices of supply and financial capital in need by entrepreneurs as a whole. Entrepreneurs may feel this competition more heavily due to a lack of networking, official contacts, and experience in their respective industries (Fogel et al., 2006). From the work of Estrin et al. (2013), we see that there is a negative correlation

between an active government and the start-up efforts from upcoming social entrepreneurs. As developed countries have more state revenues and a more supportive welfare system in place, this is indicative of a higher level of government activism. This suggests that the negative association between government activism and social entrepreneurship should increase the prominence of social entrepreneurs in developing countries in comparison to developed countries.

From this we derive our hypothesis 1A.

**H1A: The negative association between government activism and prevalence of social entrepreneurship at country level is stronger in developing as compared to developed countries**

In their work, Stephan et al. (2015) indicated that government activism shows a stronger association with the prevalence of social entrepreneurship through the institutional support perspective. From this perspective, the institutional factor, government activism, can directly affect the demand sought for social entrepreneurship. This type of activism demonstrates how far formal institutions can redistribute money within the economy either through public spending or through the use of progressive tax structures (Evans, 1996; Korosec & Berman, 2006; Zahra & Wright, 2011). Both these ways have the final goal of enhancing the welfare of the citizens. Through this enhancement, we are able to witness the ability of a government to overcome social issues as well as provide sufficient amounts of public goods. Government activism has the capability to improve tangible resources owned by the social entrepreneur or even intangible resources gained through informal networks, such as networking events, created by the government (Korosec & Berman, 2006, Zahra & Wright, 2011). In terms of tangible resources, there are grants, funding or subsidies. These mostly comprise of financial resources necessary to start a social venture. On the other hand, intangible resources may include assistance to apply for grants, sponsorship opportunities, and networking events that motivate new, interested social entrepreneurs to enter the market (Korosec & Berman, 2006; Zahra & Wright, 2011). As described by Sud et al. (2009), social entrepreneurs and the government go hand in hand as “natural partners”. Hence, in developed countries where there is a higher level of government activism, we expect the institutional support perspective to play a more dominant role in increasing social entrepreneurship.

From this, we derive our hypothesis 1B.

**H1B: The positive association between government activism and prevalence of social entrepreneurship at country level is stronger in developed as compared to developing countries**

2. *Corruption*

Existing as an informal institution, corruption occurs when patterns of certain behaviour are adapted by those in power and end up becoming a norm within the country. In this atmosphere, institutional officials attempt to benefit themselves at the cost of other enterprises and businesses. In this paper, we characterize developing countries with having a higher level of corruption within their government as compared to developed countries (Olken & Pande, 2012). When corruption in the country is high, citizens build expectations that it will remain and prevail in the future as well (Anokhin & Schulz, 2009). Corruption may also be looked upon as a “tax” that reduces transactions within the economy, including transactions within social entrepreneurship. For example, a more corrupt country will have higher transaction costs for new social entrepreneurs to come up and set their business. The negative effect of corruption is more severe to upcoming, new enterprises as compared to existing ones (Anokhin & Schulz, 2009). This is because existing firms are more accustomed to corrupt practices and hence, are more likely to develop contacts that can reduce or mitigate the harmful effects of corruption. This is why the level of corruption may play a role in determining the level of social entrepreneurship.

Next, we need to establish the association between corruption and social entrepreneurship. There exists a negative association between corruption and social entrepreneurship (Misangyi et al., 2008; Tonoyan et al., 2010). This finding has two crucial reasons. Firstly, in the work of Misangyi et al. (2008), it is found that the spread of maleficent business ethics in developing countries can increase the level of corruption amongst social entrepreneurs. This suggests that inefficient financial institutions with excessive paperwork that is time consuming increases the likelihood of corruption (Tonoyan et al., 2010). This higher likelihood of corruption reduces the possibilities for new social entrepreneurs to emerge. Secondly, Tonoyan et al. (2010) found that in developed countries where social entrepreneurs can find legal aid, the likelihood of corruption is lower which incentivizes new social entrepreneurs to emerge. Both these reasons point towards the institutional support perspective in developing and developed countries. However, existing literature also indicates that there may be a positive association between corruption and social entrepreneurship. As mentioned by Spiller (1990), the use of bribery and corruption in developing countries can also increase the level of economic activity amongst social entrepreneurs. With bad business climates often found in developing countries, inefficient rules barricade the prominence of social entrepreneurship (Rose, 2000; Radaev, 2004). Under these circumstances, social entrepreneurs can only emerge by getting government officials to bend or ignore the rules (Rose, 2000; Radaev, 2004). Hence, this suggests evidence towards the institutional void perspective. There could be a link between the level of the corruption and the broader concept of the rule of law (Weingast, 2013). Therefore, we explore the institutional factor of rule of law in more depth in part three.

### 3. Rule of Law

The rule of law will be used as a proxy for corruption. According to Acemoglu and Johnson (2005), property rights are important in emphasizing the risk of expropriation by any given institution. This expropriation can be limited by constraining institutional actions that unlawfully confiscate wealth of entrepreneurs. Through this perspective, the enforcement of property rights can be linked to the broader concept of rule of law. In this paper, we characterize developed countries to have a stronger rule of law in comparison to developing countries (Weingast, 2013). This rule of law signifies the strength of institutional quality (Estrin et al., 2013). Estrin et al. (2013) found that a strong rule of law can foster innovation and manage to support social entrepreneurs showing a positive association between rule of law and social entrepreneurship. A higher rule of law restrains the abuse of power by institutional officials. This finding about the rule of law builds on the earlier findings of Misangyi et al. (2008), Tonayan et al. (2010), and Anokhin and Schulz (2009), regarding corruption in a country. Rather than through increasing transaction costs in corrupt places, Acemoglu and Johnson (2005) suggest that a lack of a rule of law (indicating higher levels of corruption) increases the likelihood of expropriation. Social entrepreneurs have more scope to lose in such an environment leading to demotivation in starting a venture in the first place. This points towards the institutional support being more prominent.

From this, we derive hypothesis 2A.

**H2A: The positive association between the rule of law and prevalence of social entrepreneurship at country level is stronger in developed countries as compared to developing countries**

Contrastingly, existing literature also indicates a negative association between the rule of law and social entrepreneurship (Estrin et al., 2013; Puffer, McCarthy, & Boisot, 2010). These authors found that the effect of a weak rule of law is compensated with the development of informal social relationships ((Estrin et al., 2013; Puffer, McCarthy, & Boisot, 2010). This suggests that developing countries with a weaker rule of law can still have high prominence of social entrepreneurship through informal social relationships. This finding is supported by the work of Stephan et al. (2015) who found that formal institutions need to be complemented with informal institutions in order for social entrepreneurship to thrive. This suggests further evidence towards the institutional void perspective.

From this, we derive hypothesis 2B.

**H2B: The negative association between the rule of law and prevalence of social entrepreneurship at country level is stronger in developing as compared to developed countries.**

## **Data and Methods**

### *Dataset*

Initiated in 1998, the Global Entrepreneurship Monitor (GEM) research program had the purpose of designing a detailed assessment of entrepreneurship in relation to economic growth. Due to a lack of cross-country datasets regarding entrepreneurship, the mechanisms that existed between entrepreneurship and economic growth were far from completion. Hence, the conceptual model provided in this research program demonstrated a range of factors that were associated with entrepreneurial activity. In order to test the various factors involved, the program had four main data collection techniques. These included adult population surveys, interviews with experts, self-administered questionnaires and the assembly of existing cross-country data sets. (Reynolds et al., 2005)<sup>1</sup>

For this paper, we will use the adult population survey of 2015 as the main source of data. This type of population surveys helped in the identification of active entrepreneurs using specific criteria and processing to obtain harmonized counts amongst 60 different countries (Reynolds et al., 2005). This population survey consists of three core elements regarding entrepreneurial activity in a given country: the main pool of respondents, the schedule for interviews to be conducted at an individual level, and the use of measures that can indicate the prevalence of social entrepreneurship at the national level. Although individuals are randomized in part of this survey, the method of sampling depends on the conditions of the country. Thus, individuals are either interviewed through the phone or directly in person (Reynolds et al., 2005).

In the research, we will also use data collected from the Organization for Economic Co-operation and Development (OECD) and the World Justice Project. The OECD is a forum where governments of various economies come together to promote economic growth and development (OECD, 2015). Over time, the OECD database has become a reliable source to compare statistical figures across countries, keep track of trends and predict developments in trade (OECD, 2015)<sup>2</sup>. Consequently, the World

<sup>1</sup> <http://www.gemconsortium.org>

<sup>2</sup> [https://ec.europa.eu/knowledge4policy/organisation/oecd-organisation-economic-co-operation-development\\_en](https://ec.europa.eu/knowledge4policy/organisation/oecd-organisation-economic-co-operation-development_en)

Justice Project is a private, independent project with the mission of building knowledge and awareness about the state of law in a given country and thereupon developing their rule of law.

### *Dependent Variable: Social Entrepreneurial Activity (SEA)*

SEA is a measure used for the prevalence of social entrepreneurship at a country level. To screen the population for SEA, specific questions were added to the questionnaire that nudged respondents to indicate their involvement with organizations that had a social mission (Lepoutre et al., 2013). SEA measures the “early stage entrepreneurial involvement” which included two main phases of entrepreneurship including those entrepreneurs who are just starting their business and those that have been up and running for up to three and a half years. The data collected on SEA consisted of 167,793 adults from 60 different countries (GEM, 2015). The main question was, “Are you, currently trying to start or currently managing any kind of activity, organization or initiative that has a social, environmental or communal goal?” (Lepoutre et al., 2013). If the respondent answers, “Yes”, they are categorized as a social entrepreneur. However, in order to derive SEA, further follow up questions were required. These questioned the type of product/service being offered by the organization, the percentage of total income received from sales, and whether the respondent identified as a social or regular entrepreneur. These follow up questions are described in more detail as follows:

1. “Does your organization depend on any kind of product or service?”. A negative answer to this question would suggest that the social enterprise in question functions on subsidies from the government or some form of membership fees.
2. “What is the percentage of total income received from your product or service?”. This subsequent question helped in representing organizations where the revenue generated from sales would have a marginal effect on growth, but were not vital for survival. Essentially, it targets the respondents who give a positive answer to the previous question.
3. “Do you identify as a regular entrepreneur or a social entrepreneur?”. This last question ensures that there is no double counting in the dataset.

### *Independent Variables*

#### **Government Activism**

Government Activism will be operationalised by measuring the fiscal freedom and the size of the government (Aidis et al., 2012). Both of these variables are continuous variables that demonstrate the

ability of the government to provide resources that can help in the prevalence of social enterprises (Stephan et al., 2015). Data regarding these two variables can be found using the OECD statistics in 2015 per country. According to Beach and Kane (2008), these two variables were the main indicators of activism as stated in the Index of Economic Freedom. The first indicator, fiscal freedom, is a variable based on taxes and the redistribution of wealth within a country. This variable was measured by calculating the revenue from taxes as a percentage of GDP. The second indicator, government size, is a variable based on the expenditure of the government as a percentage of GDP. This expenditure focused on public goods such as healthcare, education and unemployment insurance (Beach and Kane, 2008). A higher level of fiscal freedom and government size indicated a higher level of government activism.<sup>3</sup>

### Rule of Law

The rule of law signifies the strength of institutional quality. Adding this as an independent variable would help in seeing the association of formal institutions between developing and developed countries. This indicator shows the perceptions of citizens on the enforcement of property rights, justice through policing and courts, as well as the probability of disobeying the law (Stephan et al., 2015). In our data, we use the “Rule of Law Index, 2015” from the World Justice Project (World Justice Project, 2015). In this index, answers are drawn randomly from a sample of 1000 citizens from three of the biggest cities per given country. Based on the responses, each country is then ranked between 0 to 1, where 0 represents the worst possible rule of law, and 1 representing the best rule of law (World Justice Project, 2015)<sup>4</sup>.

### Type of Economy

In order to measure and indicate the type of economy, we will use a dummy variable with the value of 0 for developing countries and the value of 1 for developed countries. To allocate the value of 0 or 1, we will use the World Bank’s classification system. In this system, the ranking of countries based on their stage of economic development is referred to as a development taxonomy. Additionally, the

<sup>3</sup> <https://data.oecd.org/tax/tax-revenue.htm>

<sup>4</sup> <https://worldjusticeproject.org/our-work/publications/rule-law-index-reports/wjp-rule-law-index-2015-report>

criteria that is associated with the level at which an economy is considered developed is known as the development threshold (Nielsen, 2013). Here, developed countries are considered high income countries whereas developing countries embody low and middle income countries. The development threshold is set at US\$12,475 Gross National Income (GNI) per capita in absolute terms. The GNI per capita calculates the amount of total income that is earned by the nationals of a country, individuals or businesses, no matter where it is earned (Nielsen, 2013). This is used as a development indicator due to its effectiveness in capturing all the income related to a given country's factors of production. This includes salaries earned by workers working internationally and profits being repatriated (Nielsen, 2013). This data regarding the GNI per capita is collected from the World Bank for 2015. Based on the development threshold (using the GNI per capita), developing and developed countries are segregated in Table 1 presented in Appendix A.

This research goes on to present descriptive statistics of the entire sample followed by the variable overview according to the type of economy. These are shown in Table 2 and Table 3 as follows.

**Table 2**

*Descriptive Statistics of the Whole Sample*

Variable	Observations	Mean	Minimum	Maximum
SEA (0% - 100%)	60	3.201 (0.025)	0.200	10.100
Fiscal Freedom (0% - 100%)	60	17.418 (0.051)	9.800	27.300
Government Size	60	33.073 (0.102)	12.300	53.500
Rule of Law (0-1)	60	0.605 (0.130)	0.400	0.870

*Note.* Standard deviations are in parenthesis

**Table 3**

*Variable Overview per Type of Country*

Variable	Observations	Mean of	Observations	Mean of	Mean of Difference	T statistic	P value
		Developing		Developed			
		Countries		Countries			
Social Entrepreneurial Activity (SEA) (0% - 100%)	38	3.334 (0.021)	22	2.972 (0.029)	0.362 (0.007)	0.114	0.455
Fiscal Freedom (0% -100%)	38	16.729 (0.048)	22	18.607 (0.054)	-1.878 (0.015)	1.828	0.036
Government Size (0% -100%)	38	29.708 (0.091)	22	38.885 (0.111)	-9.177 (0.027)	3.445	0.001
Rule of Law (0 - 1)	38	0.550 (0.112)	22	0.715 (0.148)	-0.165 (0.028)	6.596	0.001

*Note.* Standard errors are in parenthesis

The descriptive statistics and the T-test from Table 2 and Table 3 help indicate the existing effects of different variables between developing and developed countries in a bivariate way. In the two sample T-test with equal variances, the null hypothesis states that the difference in the means of developed and developing countries for the variables involved is 0. The alternative hypothesis is that this difference is not zero. The T-test of equal variances is used in order to test the equality of the variances between the developing and developed sample on the basis of the institutional factors. At a 95% significance level and with P values less than 0.05, we find that the values of all of the institutional variables apart from SEA differ significantly between the two sub samples of developing and developed countries. This difference suggests stronger fiscal freedom, government size, and rule of law in developed countries in comparison to developing countries. When we look at our dependent variable, SEA, we see that the mean difference between developing and developed countries is only 0.362%. In addition, the P-value for SEA is greater than 0.05 which means that the level of SEA does not differ significantly between the two sub-samples.

### *Multivariate Regression*

In order to test the hypotheses, three main models will be used. If the coefficient of the institutional factors is different across the three models, it may suggest that the type of economy (developing or developed) is important for the effect of institutional factors on the prevalence of social enterprises. If the type of economy is found to be significant, interaction terms will be added in Model 3 so that this model contains SEA as the dependent variable, and the interaction terms as the independent variables. If these interaction terms come to be significant, we will be able to see if rule of law and government activism are different between developing and developed countries as hypothesized. These models are shown below:

- (1) Social Entrepreneurial Activity (SEA) =  $\beta_0 + \beta_1 FF + \beta_2 GS + \beta_3 ROL + \epsilon$
- (2) Social Entrepreneurial Activity (SEA) =  $\beta_0 + \beta_1 FF + \beta_2 GS + \beta_3 ROL + \beta_4 TOE + \epsilon$
- (3) Social Entrepreneurial Activity (SEA) =  $\beta_0 + \beta_1 FF + \beta_2 GS + \beta_3 ROL + \beta_4 TOE + \beta_5 FF*TOE + \beta_6 GS*TOE + \beta_7 ROL*TOE + \epsilon$

Where,

FF = Fiscal Freedom

GS = Government Size

ROL = Rule of Law

TOE = Type of Economy

In the research, an Ordinary Least Squares (OLS) analysis will be conducted using multiple linear regressions. This method will be used to see the association between different institutional variables and the level of SEA. This regression aims to estimate a coefficient through the comparison of social entrepreneurial activity for countries with different levels of institutional factors. The use of a multivariate regression is also useful for creating variables that show the interaction effect between the institutional factors and type of economy. Analysis conducted through a multivariate regression assumes that the Conditional Independence Assumption (CIA) holds. This assumption states that after controlling for all the possible differences between the control and the treatment groups, the effect of the treatment is randomized. This assumption often does not hold in real life. There is generally a probability that there are unobserved factors that may influence the outcomes of the treatment. There may be other institutional factors that play a role in determining the prevalence of social entrepreneurship. Hence, even the addition of more independent variables can not be viewed as causal due to the possibility of omitted variable bias. Nevertheless, the use of multivariate regression is more applicable than other methods because through this study, we aim to find an association

between the variables rather than a causal effect of the institutional factors on social entrepreneurship.

## **Results**

Moving forward, our results can be interpreted through the three main models. Firstly, Model 1 will indicate the individual effect of the institutional factors on SE. Moving on, Model 2 will segregate the effects of the institutional factors by developing and developed countries. And lastly, Model 3 will see the association of interaction between the institutional factors and social entrepreneurship. These results are provided in Table 4 as follows.

**Table 4**

*Linear Regression Results for the Association between Institutional Factors and Social Entrepreneurship in Developed and Developing Countries*

<b>Variable</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Fiscal Freedom	-4.498 (4.490)	-4.219 (4.431)	-3.198 (3.801)
Government Size	8.743 (8.100)	8.181 (7.592)	7.299 (6.628)
Rule of Law	-1.285** (0.981)	-1.236** (0.959)	-0.821** (0.643)
Type of Economy		-2.243** (2.018)	-1.911** (1.774)
Type of Economy *			5.219
Fiscal Freedom			(4.083)
Type of Economy *			7.557*
Government Size			(5.385)
Type of Economy *			-10.912*
Rule of Law			

(4.641)

<i>Observations</i>	60	60	60
<i>R Squared</i>	0.233	0.412	0.689
<i>Adjusted R Squared</i>	0.136	0.365	0.575

*Note.* Standard errors are in parenthesis; \* p<0.05; \*\* p<0.01

From the results of Model 1, we see that the only significant institutional factor is the rule of law. Rule of law has a negative association with social entrepreneurship with a magnitude of -1.285 suggesting that in countries with a strong rule of law, the prevalence of social entrepreneurship is lower compared to countries with a weak rule of law. This negative association suggests evidence towards the institutional void perspective.

The results of Model 2 suggest that adding the type of economy is significant at a 5% interval. The magnitude of the coefficient is -2.243 which means that as economies switch from developing to a developed, there is negative association of 2.243% with social entrepreneurship. When we look at most institutional factors other than the rule of law, they do not independently play a role towards the prevalence of social entrepreneurship. This is because the majority of the institutional factors do not have a P-value of less than 0.05 and are therefore not associated with the prevalence of social entrepreneurship. The exception, rule of law, still has a negative association to SEA as seen in Model 1, however, this association weakens in Model 2 when the type of economy is added.

In Model 3, we add interaction terms between the type of economy and the institutional factors. In addition to the interaction term with the rule of law, the interaction term with government size is also significant. The interaction term with government size has a positive association of 7.557% with SEA. This implies that the positive influence of the government size is stronger in developed countries and suggests evidence towards the institutional support perspective. On the other hand, the interaction term with rule of law now has an even stronger negative association of 10.912% with social entrepreneurship. In this case, the interaction effect suggests that the negative influence of rule of law is stronger in developing countries. Contrastingly, this points in the direction of the institutional void perspective. Both these variables from Model 3 are significant at a 1% level.

## Discussion and Conclusion

## Main Findings

Before we go on to discuss the main findings, we can revisit our research question which states, *“To what extent do macro-level institutional factors contribute differently to the prevalence of social enterprises in developing and developed countries?”*. To answer this question, it is important to provide an overview of the key findings.

By observing the main results in Model 1 for the whole sample, we see that most institutional factors do not have an association to social entrepreneurship by themselves. The only significant institutional factor is the rule of law which has a negative association with social entrepreneurship. At first, this finding suggests evidence towards the institutional void perspective. When we add the dummy variable with the type of economy (developing or developed) in Model 2, it is observed that there is a significant association to SEA. This suggests that when underdeveloped economies transition into developed economies, there is a negative association with the overall social entrepreneurship. Hence, both Model 1 and Model 2 from Table 4 indicate evidence for the institutional void perspective. This suggests that stronger formal institutions and rule of law found in developed countries disincentivizes social entrepreneurs to prevail. This finding contradicts that of Stephan et al. (2015) who found more evidence for the institutional support perspective.

Since most institutional factors apart from the rule of law are insignificant in Model 1, the addition of the interaction terms in Model 3 are significant. Now, in Model 3, the interaction terms between the type of economy and rule of law as well as government size are significant. While the interaction term with rule of law still suggests a negative association with SEA, the interaction term with government size is indicative of a positive association to SEA. From this, we see that there is no direct evidence that either the institutional support or the institutional void perspective dominates. The dominant perspective is dependent on the institutional factor that we have at hand. Since this points that there is no dominant perspective evident, it could also explain why earlier research by Stephan et al. (2015), Estrin et al. (2013), Puffer, McCarthy, and Boisot. (2010), all offer mixed results.

To continue, we can revisit the earlier formulated hypotheses:

**H1A: The negative association between government activism and prevalence of social entrepreneurship at country level is stronger in developing as compared to developed countries**

**H1B: The positive association between government activism and prevalence of social entrepreneurship at country level is stronger in developed as compared to developing countries**

Hypothesis 1A is rejected and Hypothesis 1B is partially rejected. Government activism as measured by government size and fiscal freedom have no significant association to social entrepreneurship. However, the interaction term between government size and the type of economy has a significant, positive association to social entrepreneurship. Hypothesis B is partially rejected because only one proxy for government activism, namely government size, has a stronger positive effect for developed countries as compared to developing countries. Since this association is positive, it hints the institutional support perspective. This finding, therefore, partially supports the work of Stephan et al. (2015) who indicated that government activism shows a stronger association with the prevalence of social entrepreneurship from an institutional support perspective.

**H2A: The positive association between the rule of law and prevalence of social entrepreneurship at country level is stronger in developed as compared to developing countries.**

**H2B: The negative association between the rule of law and prevalence of social entrepreneurship at country level is stronger in developing as compared to developed countries.**

Hypothesis 2A is rejected, whereas Hypothesis 2B is not rejected. For both developing and developed countries, we see that there is a significant, negative association between rule of law and social entrepreneurship. However, this negative association is stronger in developing countries. The rule of law is significant by itself as well as when it interacts with the type of economy. At the macro level, this could indicate that the institutional factor of rule of law often has a negative relationship with SEA. This finding comes in line with the works of Estrin et al. (2013); Puffer, McCarthy and Boisot, 2010 that indicate a negative association between the rule of law and social entrepreneurship.

### *Limitations and Suggestions for Future Research*

The research has three key limitations. These limitations will be discussed as follows:

#### *Sample Size*

The Adult Population Survey collects data on social entrepreneurship from 60 countries. However, as a rule of thumb, this small number of countries only allows for three main institutional factors to be investigated in this paper. Since some variables are not included in the regression, there may be a reduction in the accuracy of the findings. Complementing this, using a larger amount of institutional factors could also have a positive impact on the R-squared of the regression model. Hence, as a suggestion for future research, we can conduct the sample multivariate regression with a larger sample size of countries involved.

### *Clustering Bias*

Since the paper makes use of cross sectional data from 2015, there is a possibility of a clustering effect which exists when individuals from the same country report similar experiences leading to bias. This may possibly lead to a correlation in the outcomes from participants with similar backgrounds that take part in the survey.

### *Ordinary Least Squares (OLS) Regressions*

In the research, the paper utilizes a regression analysis that is used to provide an association between the dependent and independent variables. This association is not useful for the investigation of a causal relationship. Although we cannot draw any conclusions on causality, it seems very unlikely that high levels of SEA causes any changes in institutions. Hence, this choice of methodology seems appropriate for this and future research. On the other hand, it is likely that there are other institutional factors that are not analysed which could have also had an association to social entrepreneurship. Similarly, economic or political factors could have a possible disturbance on the dataset thereby influencing the results. For this reason, other methods of investigating causality or association could be utilized for future research such as the use of instrumental variables. This could be beneficial as using instrumental variables helps in estimating the treatment effect without having complete data on missing variables and can also account for reverse causality between SEA and institutional factors.

### *Conclusion*

In conclusion, it can be said that the topic of social entrepreneurship still lies in its infancy and there is still a lot to be known about the factors that constitute to the prevalence of social entrepreneurship at a national level. The research is conducted from a macro level perspective to further understand the role of institutions towards the prevalence of social entrepreneurship. The contribution of this research is useful to policy makers especially in developing countries where the quantitative findings can be used to help alleviate social issues. Building on existing literature regarding the institutional void and institutional support perspective, this research makes an extension by investigating the association of various institutional factors with the type of economy. Taking the suggestion of Stephan et al. (2015), this research uses a different, larger sample of factor driven, developing countries. The primary dataset is received from the Adult Population Survey from the GEM in 2015, that is larger in scope of economies taking part of the survey as compared to the same survey conducted in 2009. In order to test the hypotheses, an Ordinary Least Squares Regression is conducted using multiple linear regressions. This method helped in understanding the associations between different variables and

the level of SEA. To answer the research question, it can be said that the macro-level institutional factors of rule of law and government size contribute differently to the prevalence of social enterprises in developing and developed countries. The interaction terms between the type of economy and rule of law as well government size demonstrate an association to social entrepreneurship. However, since these associations lie in opposing directions, there is no straightforward evidence that a single perspective dominates. The dominant perspective depends on the institutional factor at hand. This could also explain why existing research produces mixed results. Nevertheless, further investigation is required to more thoroughly understand the relationship between the different variables and social entrepreneurship. For instance, adding more formal institutional variables to the regression could provide a better indication of social entrepreneurial activity or the research could be replicated at a micro level which would help governments design policies. This could also highlight the influence of certain institutional factors in more detail.

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## Appendix A

**Table 1**

*Classification of Developing and Developed Countries*

Number	Name	Classification
1	Argentina	Developing
2	Australia	Developed
3	Barbados	Developing
4	Belgium	Developed
5	Botswana	Developing
6	Brazil	Developing
7	Bulgaria	Developing
8	Burkina Faso	Developing
9	Cameroon	Developing
10	Canada	Developed
11	Chile	Developing
12	China	Developing
13	Colombia	Developing
14	Croatia	Developing
15	Ecuador	Developing
16	Egypt	Developing
17	Estonia	Developing
18	Finland	Developed
19	Germany	Developed
20	Greece	Developing
21	Guatemala	Developing
22	Hungary	Developing

23	India	Developing
24	Indonesia	Developing
25	Iran	Developing
26	Ireland	Developed
27	Israel	Developed
28	Italy	Developed
29	Kazakhstan	Developing
30	Latvia	Developing
31	Lebanon	Developing
32	Luxembourg	Developed
33	Macedonia	Developing
34	Malaysia	Developing
35	Mexico	Developing
36	Morocco	Developing
37	Netherlands	Developed
38	Norway	Developed
39	Panama	Developing
40	Peru	Developing
41	Philippines	Developing
42	Poland	Developing
43	Portugal	Developing
44	Puerto Rico	Developed
45	Romania	Developing
46	Senegal	Developing
47	Slovakia	Developed
48	Slovenia	Developed

49	South Africa	Developing
50	South Korea	Developed
51	Spain	Developed
52	Sweden	Developed
53	Switzerland	Developed
54	Taiwan	Developed
55	Thailand	Developing
56	Tunisia	Developing
57	United Kingdom	Developed
58	United States	Developed
59	Uruguay	Developing
60	Vietnam	Developing