



EUROPEAN POLICYBRIEF



CONTEXT AND SOCIAL ENTERPRISES: WHICH ENVIRONMENTS ENABLE SOCIAL ENTREPRENEURSHIP?

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INTRODUCTION

Societal challenges such as inequalities, poverty, poor health and environmental degradation are growing. Social enterprises – organisations that use market based-based activities to alleviate societal needs – and social entrepreneurs – individuals working for their own account to pursue prosocial goals to benefit others – can help to address such societal challenges. But how can social entrepreneurship be supported through policies and other support measures?

To start answering these questions, we explored which environments enable social entrepreneurship across countries globally and across European regions. We did so by taking an institutional perspective, considering (1) formal institutions such as regulation, the welfare state and the rule of law, (2) informal institutions including cultural values and norms, social capital and religiosity, as well as (3) the alignment of formal and informal institutions. We also examined similarities and differences with commercial entrepreneurship to help start understand whether both types of entrepreneurship benefit from similar contexts, or whether there may be competing effects.

EVIDENCE AND ANALYSIS

Methodology

The methodological basis for this research are (1) large-scale population representative datasets that capture different types of social entrepreneurs (the Global Entrepreneurship Monitor, and the EU Flash Barometer on Entrepreneurship both 2009), as well as independent data (2) on formal institutions drawn from databases such as the Polity IV, Freedom House, and the World Bank, and (3) data on informal institutions derived from internationally recognized, large scale projects such as the World Values Survey, the European Social Survey and the Global Leadership and Organisational

Behaviour Effectiveness (GLOBE) project. Depending on the focal analysis, sample sizes vary from 17,800 individuals to over 100,000 individuals, 26 to 38 countries, and 184 European regions. The focus in this research is on the occupational choice by individuals to engage in social entrepreneurship – in other words, on individual social entrepreneurs rather than on social enterprises as organisations. Details on the methodology are reported in the publications listed under ‘further reading’ at the end of this policy brief. All analyses employed latest multilevel modelling statistical techniques and paid attention to the temporal ordering of variables such that data on institutions were collected in years prior to when social entrepreneurship was measured. The results are summarized along two key research questions in this research stream.

Findings

Which dimensions of context are particularly relevant for social enterprises? What are the underlying market and psychological processes?

Broadly speaking social enterprises thrive in supportive country contexts characterized by larger redistributive welfare states, socially supportive cultures (rich in weak-tie social capital) and supportive cultural values (of post-materialism, Stephan, Uhlaner & Stride, 2015). In these country contexts, weak-tie social capital lowers transaction costs and also helps to access a diverse range of ideas and support, while widespread post-materialism cultural values ensure the ‘supply’ of pro-socially motivated individuals to start and lead social enterprises. Furthermore, in such contexts social enterprises can collaborate with the state as well as may receive resources from the state for their activities. Local state representatives also help to legitimize the social causes social enterprises pursue (thereby legitimizing social enterprises) and help them to access markets (Folmer & Stephan, 2016). The positive effects of redistributive welfare states also replicate for the regional level (Folmer, Rebmann & Stephan, 2017). Overall, our findings speak for the ‘institutional support’ view: More redistributive welfare states broadly signal to their citizens that it is ‘good to care’ and that social needs are joint ‘collective’ problems; thus they ‘crowd in’ private social initiative such as social entrepreneurship instead of ‘crowding it out’ (Folmer et al., 2017; Stephan et al., 2015). We also find evidence for synergies between formal and informal institutions. The rates of social entrepreneurs are highest in countries in which redistributive welfare states are supported by cultures rich in weak-tie social capital and post-materialism cultural values (Stephan et al., 2015).

Are there similarities and differences how contexts impact social as opposed to commercial entrepreneurship?

Our work comparing how institutions influence social entrepreneurship across countries and across European regions reveals some common drivers, but also starkly different antecedents with regard to commercial entrepreneurship. In terms of commonalities, *socially supportive cultures* rich in weak-tie social capital and a *strong rule of law* equally benefit social and commercial entrepreneurship (Estrin, Mickiewicz & Stephan, 2016; Stephan et al., 2015). Differences are evident in the role of the welfare state and cultural attitudes supporting solidarity and pro-sociality.

The role of the *welfare state* differs markedly for social and commercial entrepreneurship as well as possibly across the phases of social entrepreneurship. First, for the reasons outlined above strong welfare states appear to support higher rates of social entrepreneurship, whilst the relationship is typically observed to be in the opposite direction for commercial entrepreneurship (Folmer et al., 2017; Stephan et al., 2015). Second, earlier work found that early-stage social entrepreneurship¹ appears to be triggered by social need and smaller welfare states (Estrin, Mickiewicz & Stephan, 2013). However, this relationship flips when we consider the level of operating social enterprises. For early stage efforts to be translated into operating social enterprises requires the support of larger welfare states (Stephan et al., 2015). This makes sense when considering that widespread visible social need (associated with smaller welfare states) may foster individual’s motivation to start a social enterprise, but these individuals then likely lack the support (both resources and legitimacy) that larger welfare states can offer to turn start-up initiatives into viable operating social enterprises.

¹ Early-stage social entrepreneurship is measured through the nascent social entrepreneurship indicator in the Global Entrepreneurship Monitor (Lepoutre, Justo, Terjesen & Bosma, 2013) - as opposed to focusing on social entrepreneurs leading operational social enterprises (as in Stephan et al., 2015).

Both across European regions and across nation states, *cultural attitudes supporting solidarity* are positively associated with the level of social entrepreneurship. However, these attitudes are either not or negatively related to the level of commercial entrepreneurship (Folmer et al., 2017; Stephan et al., 2015). The cultural attitudes supporting solidarity range from measures of informal support for welfare state redistribution to cultural religiosity and post-materialism cultural values.

POLICY IMPLICATIONS AND RECOMMENDATIONS

The research summarized in this policy brief provides a complementary view to the valuable in-depth work that maps ecosystems for social entrepreneurship across countries². It suggests overarching generalizable relationships that re-affirm mutually beneficial and collaborative relationships between different levels of government, informal solidarity, and social enterprises.

One implication is that a rolling back of the welfare state, for instance, as observed in reaction to the 2008 financial crisis and subsequent austerity politics in many countries, will not be compensated by a surge in social entrepreneurship. This is because social entrepreneurs benefit from the support provided by active governments (and possibly the 'norms of caring' signalled by expansive welfare states). Such support can be both tangible and intangible and may take various forms. First, local state actors such as policy makers and commissioners can take an active role in 'championing' social entrepreneurship. For example, by buying products and services from social enterprises government commissioners enhance legitimacy and provide market access to social enterprises. This legitimacy may then diffuse to other areas of society, enabling social enterprises to access (financial) resources and gain access to wider markets. Second, collaborations between state agencies and social enterprises can result in effective social service provision on a local level. Tailored solutions to complex social needs likely emerge when complementarities between existing government infrastructure to deliver services on the one hand, and social entrepreneurs' in-depth knowledge of local social needs on the other hand are combined and joined up.

The findings also highlight that a focus on formal institutions such as government is insufficient and that informal institutions play a critical role. In particular, social entrepreneurs thrive in what may be summarized as 'caring societies' that is cultures which further cooperation and solidarity. While culture is often seen as slow to change, wider evidence is consistent with the view that norms of caring and cooperation can be effectively fostered. Examples are initiatives that socialize such norms for instance in schools and universities, and in the workplace through workplace culture initiatives; as well as more broadly through expanding volunteering initiatives and through role models in public life and politics that endorse a more caring and cooperative stance as opposed to self-interest. Such a stance does not preclude being competitive and entrepreneurial at the same time, it does however focus on achieving high performance for others and the self, instead of solely for one's own benefit.

RESEARCH PARAMETERS

SEFORIS is a flagship multi-disciplinary, multi-method international research project on social enterprise funded by the European Commission. Through the generation of robust evidence and internationally leading research, SEFORIS aims to better understand the role that social enterprises play in the EU and beyond in the development and evolutions of inclusive and innovative societies.

² For instance academic work by Kerlin J.A. (2017). *Shaping Social Enterprise*. Emerald Publishing. Work by the European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2016): *Social Enterprises and their eco-systems: developments in Europe* <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7934&furtherPubs=yes> as well as for the European Parliament McCracken, K., Marquez, S., Kwong, C., Stephan, U., Castagnoli, A. & Dlouhá, M. (2015). *Women's Entrepreneurship: Closing the Gender Gap in Access to Financial and Other Services and in Social Entrepreneurship*. European Parliament, Policy Department C: Citizens' Rights and Constitutional Affairs, Committee on Women's Rights and Gender Equality, [http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU\(2015\)519230](http://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU(2015)519230)

SEFORIS investigated key processes through which social enterprises deliver inclusion and innovation (spanning a range of domains, from organisation and governance, over financing and innovation to behavioural change) as well as the contexts in which social enterprises thrive. In terms of methodology, we started from policy and social enterprise practitioner questions and challenges together with critically scrutinising existing academic literature. We used this first step to develop theoretical frameworks that then serve as a basis for thinking systematically about innovation and inclusion processes in context. This was followed by field and lab experimentation with social enterprises and in-depth case studies to expand and enrich our understanding of social enterprises. Unique longitudinal survey data will be collected across 9 distinct countries to test new (and at times counterintuitive) hypotheses to reach novel insights and generalizable conclusions. We engage policy makers and social enterprises throughout the research process to ensure that our research is relevant for them and can inform their practice. The project is divided into 10 work packages. WP1 to WP3 are mainly concerned with data collection. WP4 through WP8 different themes are studied and analysed. In WP9 results are disseminated and timely transfer of knowledge is ensured, while the objective of WP10 is to ensure successful delivery of the project through effective coordination.

- WP1: Development of new evidence through interaction with key stakeholders
- WP2: DEEP DIVE: Development of 25 in-depth cases of SEs in Europe and beyond
- WP3: SELUSI 2.0 DATA on 1000 social enterprises in 9 nation states
- WP4: The organization of social enterprises in market and society
- WP5: The private and public finances of social enterprises
- WP6: The innovations of social enterprises
- WP7: Social enterprise in context
- WP8: Social enterprises and their impacts
- WP9: Dissemination and valorization
- WP10: Governance and project management

PROJECT IDENTITY

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| PROJECT NAME | Social Entrepreneurship as a Force for more Inclusive and Innovative Societies (SEFORIS) |
| COORDINATOR | Koenraad Debackere, KU Leuven Leuven, Belgium koenraad.debackere@kuleuven.be |
| CONSORTIUM | Aston University – Aston – Birmingham, United Kingdom Centre for Economic and Financial Research – CEFIR – Moscow, Russia Hertie School of Governance – HSOG – Berlin, Germany I-Propeller NV – I-Propeller – Brussels, Belgium Katholieke Universiteit Leuven – KU Leuven – Leuven, Belgium Libera Università Internazionale degli Studi Sociali Guido Carli – LUISS – Rome, Italy NESsT Europe Nonprofit Korlatolt Felelossegu Tarsasag – NESsT – Timisoara, Romania Non-Profit Incubator – NPI – Shanghai, China Oksigen Lab - Brussels, Belgium Stockholm Institute for Transition Economics – SITE – Stockholm, Sweden The Foundation for Social Entrepreneurs LBG – UNLTD – London, United Kingdom Universidade de Aveiro – UAVR – Aveiro, Portugal |

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| BUDGET | EU contribution: 2,483,908.40 €. |
| WEBSITE | www.seforis.eu |
| FOR MORE INFORMATION | <p>Contact: Prof. Dr. Ute Stephan Professor of Entrepreneurship & Director Aston Centre for Research into International Business and Entrepreneurship (ACRIEB) Aston University, Aston Business School, Birmingham, UK U.Stephan@aston.ac.uk Dr Emma Folmer, Aston University, Aston Business School, Birmingham, UK E.Folmer@aston.ac.uk</p> |
| FURTHER READING | <p>Estrin, S., Mickiewicz, T. & Stephan, U. (2016). Human Capital, Social and Commercial Entrepreneurship. <i>Journal of Business Venturing</i>, 31(4), 449-467. http://www.sciencedirect.com/science/article/pii/S0883902616300192</p> <p>Estrin, S., Mickiewicz, T. M., & Stephan, U. (2013). Entrepreneurship, social capital, and institutions: Social and commercial entrepreneurship across nations. <i>Entrepreneurship: Theory and Practice</i>, 37(3), 479–504. http://onlinelibrary.wiley.com/doi/10.1111/etap.12019/abstract</p> <p>Folmer, E., Rebmann, A. & Stephan, U. (2017). A Model of Solidarity and Social Entrepreneurship. <i>Academy of Management Best Paper Proceedings</i>. DOI: 10.5465/AMBPP.2017.217 Recipient of the 2016 Best Paper Award for ‘Public Policy’ awarded by the Babson College Entrepreneurship Research Conference (BCERC) and the Journal of Small Business Management.</p> <p>Folmer, E. & Stephan, U. (2016). <i>Bringing the State back in: How Hybrid Organizations Navigate Plurality in Institutional Environments</i>. Paper presented at the Academy of Management Annual Meeting, Anaheim, USA.</p> <p>Stephan, U., Uhlaner, L.M. & Stride, C. (2015). Institutions and Social Entrepreneurship. The Role of Institutional Voids, Institutional Support and Institutional Configurations. <i>Journal of International Business Studies</i>, 46, 308–331. https://link.springer.com/article/10.1057%2Fjibs.2014.38 ‘Highly Commended’ for the 2015 GLOBE Best Research Paper Award.</p> |