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An updated quantitative analysis of Kerlin's macro-institutional social enterprise framework

Kerlin's MISE

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Abstract

Purpose – This paper aims to improve upon the initial quantitative assessment of Kerlin's macro-institutional social enterprise (MISE) framework (Monroe-White *et al.*, 2015) to test for the effect of country-level institutions on the social enterprise sector. Major improvements are the inclusion of the civil society variable and expansion of the culture component in the analysis.

Design/methodology/approach – By following Kerlin's (2013) original work that draws on the theory of historical institutionalism, this paper employs multi-level regression analysis to test the effect of country-level institutional factors on organizational-level social enterprise across countries. This analysis uses new macro-level data specifically for civil society and culture components.

Findings – The initial assessment of the framework found that several country-level factors had a significant effect on the variance in the size of the social enterprise sector across countries. The analysis provided here additionally shows a significant positive influence of civil society on the size of the social enterprise sector and shows that formal institutions capture the effect of informal cultural institutions when included in the model together.

Practical/implications – This analysis provides policymakers, development actors and researchers with a better understanding of the influence of civil society on social enterprises and the interaction between formal and informal institutional underlying factors.

Originality/value – This paper's significant contribution is the addition of civil society in the MISE analysis, which was not possible before owing to lack of data, and additional cultural analysis.

Keywords Global entrepreneurship monitor, Social enterprise, Historical institutionalism, Macro-institutional framework, Multi-level regression analysis

Paper type Research paper

Introduction

Social enterprise, using market-based models to generate revenue with the primary goal of addressing a social problem, has come to be acknowledged as a promising model to address

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social problems, which also helps to achieve sustainability through financial independence (Kerlin, 2009; Martin and Osberg, 2007; Zahra, *et al.*, 2009). Though the social enterprise sector is seeing increasing importance, little is known about the underlying factors behind its development. Given the cross-country variations in the shape and size of the social enterprise sector, comparative research across countries based on differences in institutional context has become a prominent area of exploration (Borzaga and Defourny, 2001; Chell *et al.*, 2010; Gidron and Hasenfeld, 2012). Along with qualitative case studies (Chell *et al.*, 2010; Dacanay, 2004; Defourny and Kim, 2011; Defourny and Nyssens, 2010; Galera and Borzaga, 2009; Kerlin, 2006, 2009; Mair *et al.*, 2012; Nyssens, 2006), there have also been quantitative analyses that explore the relationship between country level differences in institutions and variation in social enterprise sectors (Hoogendoorn and Hartog, 2011; Estrin *et al.*, 2013; Hechavarría, 2016; Monroe-White *et al.*, 2015; Puumalainen *et al.*, 2015; Stephan *et al.*, 2015). This article seeks to add to this discussion by drawing on and quantitatively testing a more comprehensive, theory-based framework for understanding the influence of macro-level institutions on social enterprise sectors across countries.

Literature review and theory

Among various theories offered in the analyses of cross-country variation in social enterprise sector, institutional theory is prominently employed. Institutions are defined as “regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life” (Scott, 2008, p. 49), and include both formal and informal structures. Formal institutions are defined as “structures of codified and explicit rules and standards that shape interaction among societal members” (North, 1990 in Hechavarría, 2016). Informal institutions are:

Enduring systems of shared meanings and collective understandings that, while not codified into documented rules and standards, reflect a socially constructed reality that shapes cohesion and coordination among individuals in a society (Scott, 2005 in Hechavarría, 2016).

It is proposed that formal institutions are shaped by informal institutions as the latter influence the rational base to the former (Scott, 2005; North, 1990). Moreover, these formal and informal structures constitute the underlying context that shapes new organizational forms (North, 1990).

Previous studies of social enterprise, which use institutional theory, propose explanations for the current state and growth patterns of social enterprises based on formal and informal institutional contexts in each country (Defourny and Nyssens, 2010, 2016; Estrin *et al.*, 2013; Kerlin, 2009, 2013; Puumalainen *et al.*, 2015; Stephan *et al.*, 2015). Among these, Kerlin’s macro-institutional social enterprise (MISE) framework is a prominent example that explores cross-country differences in social enterprise by drawing on historical institutional theory (Kerlin, 2013). According to historical institutionalism

Effective institutions influence – at the individual as well as the collective level – beliefs, normative commitments, and preferences. Their major effect at the macro-level is to create and maintain power disparities and to broadly structure shared and antagonistic interests (Rueschemeyer, 2009, p. 207).

Historical institutional theory posits that formal and informal institutions determine participant actors and their action choices in decision processes, which shape organizational forms and thus future institutional settings, creating path-dependent trajectories (Steinmo *et al.*, 1992). In the context of social enterprise, the historical institutional theory proposes that the varying formation and size of the social enterprise sector across countries is shaped

by existing institutional settings, which are initially influenced by varying histories of culture, governance mechanisms and political-economic structures.

The original MISE framework contains formal national institutional variables (economy, government and civil society), as well as informal ones (culture), which influence the development of social enterprise over time. The framework primarily shows how a country's social enterprise model flows from the role of the state as it proposes that the type of government and its actions over time shape the model of civil society and the stage of economy which influence the model and size of the social enterprise sector in a country (Kerlin, 2013). In conjunction with the theory of historical institutionalism, the framework postulates connections between institutional settings such as culture, civil society, government and market and social enterprise to develop a pilot typology of social enterprise models, which differentiates various types of social enterprise models found in different countries (Kerlin, 2013). As the original MISE framework attempted to discover large institutional processes shaping social enterprise it included power structures based on elements of culture, global, regional and local hierarchies and previous political economic history as underlying factors behind the type of government, stage of economic development and civil society, which, in turn, shapes the social enterprise sector in a country.

Although the original framework was successfully applied and tested on early country case studies, more recent case studies raised some issues that resulted in revisions to the framework. Changes to the framework include additional micro- and meso-level factors that influence the shape of social enterprise in a given country in a manner that cannot be captured by macro-level analysis, and the inclusion of more informal cultural institutions (Kerlin, 2017). The original MISE framework included culture elements of individualism–collectivism and uncertainty–avoidance, which are considered more macro-level as their variance can be measured at the national level (House *et al.*, 2004; Hofstede, 2001). In the revised framework, the culture component takes a more significant position as a main institution. Also, individualism–collectivism is identified as the primary cultural factor on a macro-level (Kerlin, 2017). Other revisions to the framework were additions of new social enterprise country models and new approaches to apply the framework to analyze the social enterprise sector in selected country cases that allows for more dynamic and regional perspectives.

An early quantitative analysis of the original MISE framework applied multi-level regression analysis to large data sets, which include the Global Entrepreneurship Monitor (GEM) data for social enterprise specifically and several other data sources that provided macro-level socioeconomic data. This quantitative analysis showed that a significant part of the between-country variance in social enterprise could be attributed to macro-level national institutional factors (Monroe-White *et al.*, 2015). However, the analysis had a major limitation as it failed to include the important macro-level institution of civil society owing to the lack of sufficient civil society data. Moreover, the study included only two culture variables to capture the effect of informal institutions as the culture component was not included as a main institution in the original framework.

This research improves upon the initial quantitative analysis of the original framework by drawing on newly released data on civil society, which allowed us to test for that institution for the first time. This research also extends the cultural analysis by including new culture variables through the use of additional data sets. The analysis also discusses the interaction between formal and informal institutions with regards to their respective influence on the variation in social enterprise at a national level. This updated quantitative analysis provides support for the revised MISE framework that was recently updated on the

basis of qualitative country case studies applying the framework (Kerlin, 2017). Overall, the analysis shows that a significant part of the variation in social enterprise across countries is explained by variation in macro-level institutions. With this analysis, civil society and culture are additionally shown to be effective main institutions which influence social enterprise.

Though the analysis provided here improves on the previous one by also including elements from the revised MISE framework, the analysis is not without its own limitations. The revised framework includes meso- and micro-level influences which cannot easily be captured from accessible global databases; so, the analysis is confined to macro-level factors only. The meso- and micro-level factors mentioned in the revised framework can still be accounted for in individual country studies that draw on subnational data and stakeholder knowledge on these topics. Indeed, a lack of readily available data on factors at meso- and micro-levels across many countries indicates that the macro level will still be referenced here as the main level of analysis; thus, the macro emphasis in the name of the framework is still relevant.

Methodology and hypotheses

This paper uses logistic multilevel modeling allowing us to analyze the effects of country-level institutional factors on the organizational-level social enterprise variable, which is constructed as a binary variable. The nature of multilevel regression analysis allows us to analyze the effects of higher level factors, national institutional variables – on the lower level variables – social enterprise organizations, using nested data, meaning that organizations in the first level are grouped in countries at the second level of analysis. The updated analysis supplements the organizational and national level institutional data sets used in the initial assessment of the original framework with new national-level institutional variables, specifically for civil society and culture components, using additional data sets.

The analysis continues to use the same estimation method as employed in the initial assessment (Monroe-White *et al.*, 2015). Specifically, logistic multilevel modelling is used assuming a binomial distribution to predict a binary response for the dependent variable, social enterprise organizations, which was constructed using the 2009 GEM Adult Population Survey. The hierarchical model used in the analysis consists of two levels, with social enterprise organizations assigned to the lower level (Level-1) and institutional country variables to the higher level (Level-2) of analysis. National institutional variables in the model include formal institutions, such as government welfare, economic competitiveness, international aid receipt and civil society, as well as informal institutions accounted by various culture components taken from data sources described below in detail.

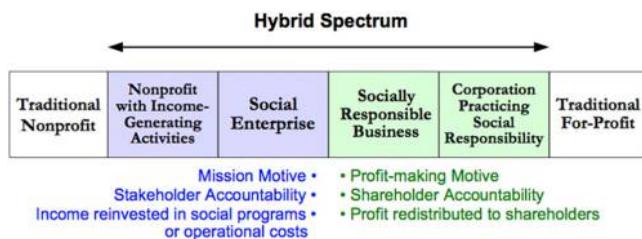
In a multilevel model, suggested sample size for variables at the higher level is at least 30 to obtain optimal results (Maas and Hox, 2004; Hox and Maas, 2002; Snijders and Bosker, 2012) because, otherwise, hypothesis tests become uninterpretable (Bowers and Drake, 2005). In the original study, although most models included country-level institutional variables, with at least 40 observations, some institutional variables were problematic as they were missing values for several countries, which reduces the Level-2 sample size below 30, thereby causing estimation problems. Although this problem was overcome for some of the variables by imputing values for the missing cases, the civil society variable had to be removed from the empirical analysis owing to a large number of missing cases (Monroe-White *et al.*, 2015). Here, the analysis overcomes this problem and includes civil society as one of the main institutions of the framework to be tested by using a newly available data set that approximates civil society via a civil society participation index produced by V-Dem (Bernhard *et al.*, 2015; Coppedge *et al.*, 2016a, 2016b). Therefore, this current analysis is an

improvement over the original by allowing testing for the effect of civil society at the country level. Moreover, as the revised MISE framework includes culture as a main institution, the analysis here expands the culture component by including additional culture variables. Results provide estimations for the respective effects of formal and informal institutional variables on social enterprise by including them in the model separately, as well as in relation to each other by including them all together.

Dependent variable

Following the previous study, we define social enterprise organizations as “the use of nongovernmental, market-based approaches to address social issues” (Kerlin, 2013, p. 84). Figure-1 presents Alter's (2007) spectrum of organizational forms, in which organizations are sorted according to their key motives, mission or goals (Alter, 2007). The profit-making motive increases to the right side of the spectrum. On the far left are traditional nonprofit organizations followed by nonprofits that generate earned income. The main goal of for-profit firms is to make profit and redistribute it among shareholders, whereas the primary motive of nonprofits is their social mission for which they are accountable to their stakeholders. The primary motive (i.e. economic, social and/or environmental value creation) of an organization determines how the success of the organization is measured on the basis of achievements in that area, and it is the leading factor for organization to attract and retain talent, customers and investors (Hull and Lio, 2006; McDonald, 2007). Moving from left to right in the spectrum, organizations become more reliant on market revenue (i.e. sales of goods and services).

The primary source used to construct the dependent variable is the 2009 GEM Adult Population Survey (Bosma and Levie, 2010), “which captures, among other things, existing national differences in entrepreneurial behavior and characteristics of the entrepreneurs aged 18 to 64” (Monroe-White *et al.*, 2015). Following Alter's (2007) spectrum and using five variables from the 2009 GEM data set, three types of organizations were identified, as in the previous analysis conventional business, social organization and social enterprise (Monroe-White *et al.*, 2015)[1]. Conventional businesses are organizations with the primary aim of making profits through the sale of goods and services without an explicit social purpose. Social organizations include traditional nonprofits, nonprofit equivalents or organizations, with an explicit social purpose, which do not generate market revenue (equivalent to traditional nonprofits in Alter's spectrum; see Figure 1). Third, social enterprises are organizations with an explicit social purpose, which also generate market revenue. Following the definition of social enterprise given by Kerlin (2013), an organization is defined as a social enterprise if the respondent of the GEM survey answered that their



Source: Alter (2007)

Figure 1.
Typology of social enterprises

organization earns market revenue from sales and their organization has an explicit social purpose. Responses from nascent entrepreneurs were excluded from the analyses.

Two measures in the GEM data were combined to determine if an organization is a social enterprise; the social and/or environmental goal orientation is used as the primary indicator along with percentage sales revenue, which is used as a secondary indicator of social enterprise. The GEM data allows two ways to define a social enterprise: implicit social enterprise and explicit social enterprise, both of which generate market revenue. Implicit social enterprises are those with 50 per cent or greater social and/or environmental goals. Our data include around 7,000 implicit social enterprises. Explicit social enterprises are all social organizations with a particularly social, environmental or community objective that also generates market revenue. Our data include around 1,200 explicit social enterprises. Following the previous analysis (Monroe-White *et al.*, 2015), we restrict the analysis to explicit social enterprise to capture only organizations with a deliberate social mission.

In several instances, it was not possible to confidently determine whether an organization was a social enterprise because either the respondents did not indicate whether their organization generated earned income, or there was conflicted information. We dropped these organizations from the sample, resulting in the loss of approximately 300 unclassifiable social entities. In the case of serial entrepreneurs, the survey asked respondents to speak for the organization they were the most familiar with. However, in a small number of cases, respondents were managers of both existing social businesses and existing conventional businesses. If the two organizations were different or unknown, these entities were also excluded from the analyses because it was impossible to attribute subsequent responses on sales revenue and goal orientation to either the social or the conventional business.

Independent variables – national-level institutional data

The national-level predictor variables in this study include those used in the previous analysis (Monroe-White *et al.*, 2015), along with newly added civil society and culture variables. Similar to the previous analysis data for economic competitiveness, government welfare, aid and culture came from World Bank's World Development Index (WDI), the World Economic Forum's Global Competitiveness Index, the Global Leadership and Organizational Behavior Effectiveness (GLOBE) Research Program survey on culture. The data for civil society are taken from the Varieties of Democracy (V-Dem) Institute's civil society indicators. Moreover, additional sources include data on culture from The Hofstede Centre, the World Values Survey (WVS) and international aid data from the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee's (DAC) data.

Civil society: The most significant improvement of this paper over the initial assessment of the original MISE framework is the inclusion of the civil society variable in the empirical analysis. Previously, this important element of the macro-institutional framework had to be excluded from the analysis owing to the lack of data. The preliminary data consisted of the identification of a civil society model for 30 countries based on five categories created by Salamon and Sokolowski (2009). However, the number of countries with available data further decreased with the addition of each variable in the models, which made estimation results from multilevel modelling problematic. Therefore, the civil society variable had to be dropped from the previous analysis. Here, we restore a civil society variable to the empirical analysis by using a recently released data set by the Varieties of Democracy (V-Dem) Institute.

Previous work on the MISE framework defined civil society as all informal and formal, religious and secular, member and public-serving organizations performing expressive or service functions and further categorized it in five models: liberal, social democratic, welfare partnership, deferred democratization and traditional (Salamon and Sokolowski, 2009; Kerlin, 2013; Monroe-White *et al.*, 2015). These five models of civil society mainly distinguish countries according to government involvement and volunteer activity in civil society. In the present study, civil society is measured mainly by citizen involvement in civil society organizations, thus focusing on the voluntary aspect.

The V-Dem project aggregates independent subjective ratings from country experts to measure latent country characteristics to produce indicators related to democratic governance and institutions. These experts' ratings are aggregated into point estimates by employing Bayesian item response theory models to detect and correct for rater disagreement patterns and random error caused by the difference between raters' perceptions and the true value of the variable or coding mistakes (Pemstein *et al.*, 2015). The present analysis uses the civil society participatory environment indicator (v2csptrcpt) included in the new V-Dem Data set (Coppedge *et al.*, 2016a). This indicator is developed to measure the level of citizen involvement in civil society organizations (CSOs) in a country (Bernhard *et al.*, 2015).

With the civil society participation indicator, the degree of citizen engagement in CSOs in a country is assessed by asking experts to assign a rating from zero to three, with zero meaning most organizations are state-sponsored and participation is not completely voluntary, and three indicating the existence of many diverse CSOs and citizens who occasionally participate in them (Bernhard *et al.*, 2015)[2]. This participation indicator is particularly selected for the analysis because the level of public involvement in civil society is expected to reflect the strength of civil society in each country. The relationship between five civil society models and associated social enterprise forms established in the previous work suggests that more state sponsored and less voluntary civil society models are associated with a smaller and less diverse social enterprise sector (Monroe-White *et al.*, 2015). In parallel with that, this paper hypothesizes that more voluntary participation in civil society is associated with a larger social enterprise sector:

H1. The more participatory the civil society environment, the more social entrepreneurship activity; leading to a larger social enterprise sector.

Welfare state: This institutional variable captures the extent of government involvement in welfare provision in a country. Following the previous study, two variables about expenditure on public health and public education are combined to construct the welfare state institution identified by Kerlin (2009, 2013). Public education expenditure data are taken from the UNESCO Institute of Statistics and covers the per cent of gross national income spent on public education, including subsidies provided to private organizations for education-related spending. Public health expenditure data are taken from the World Health Organization's (WHO's) Global Health Expenditure Database. The large presence of a welfare state is expected to restrict the development of social enterprise activities as postulated by Kerlin's original work (2013).

H2. Greater welfare state is expected to lead to a smaller social enterprise sector in a country, as the former would narrow the space for the development of the latter.

Economy: The institutional variable that captures the stage of the economy in a country is the economic competitiveness index. Economic competitiveness data came from the World

Economic Forum's Global Competitiveness Index (GCI), which defines competitiveness as "the set of institutions, policies and factors that determine the level of productivity of a country" (Schwab and Sala-i-Martin, 2011, p. 4). The GCI ranks countries according to a weighted system of 12 pillars of productivity: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation. The lower the GCI rank, the more competitive a country is, which should promote primarily commercial entrepreneurial activity and consequently providing less incentive for social entrepreneurship, so a positive coefficient is expected for this variable:

- H3.* Lower GCI rank indicates higher economic competitiveness, which is expected to be associated with higher commercial entrepreneurial activity, and with lower incentive for social entrepreneurship. Thus, lower GCI is expected to lead to a smaller social enterprise sector, and hence a positive coefficient.

International aid: The final formal institutional variable included in the analysis is the net per capita official development aid receipt of a country, which captures the flow of official and private financial assistance from the members of the OECD Development Assistance Committee (DAC) to developing economies. Official assistance includes aid from state, local and executive agencies aiming to promote economic development. Figures include aid in cash and commodities, but exclude aid given by recipients to other developing nations and aid for military assistance. International aid often supports micro-level entrepreneurial activity especially in developing countries, which is mostly in the form of social entrepreneurship:

- H4.* Greater international aid flow to a country is expected to increase the size of the social enterprise sector.

Informal institutions-culture: Previous research has shown national-level culture to be an important factor to understand entrepreneurship variances across countries, both in the context of conventional entrepreneurship (George and Zahra, 2002; Hayton *et al.*, 2002; Thomas and Mueller, 2000; Tiessen, 1997) and social entrepreneurship (Delhey, 2009; Hoogendoorn and Hartog, 2011; Stephan *et al.*, 2015; Puumalainen *et al.*, 2015). Along with formal institutions mentioned above, the MISE framework includes informal institutional components, which are captured under the main institution of culture in the revised version. The initial assessment of the framework only included two culture variables, in-group collectivism and uncertainty avoidance taken from the GLOBE database, developed by House *et al.* (2004, p. 15). Kerlin's revised MISE framework emphasizes culture as a main institution, which specifies individualism–collectivism as the primary factor on a macro-level (Kerlin, 2017). Therefore, this paper includes new culture variables in the analysis using additional data sets to thoroughly assess the culture component in the framework.

The GLOBE database originally established nine dimensions of culture used to compare similarities and differences in norms, values, beliefs and practices among various societies. The authors defined culture as "shared motives, values, beliefs, identifies and interpretations of meanings of significant events that result from common experiences of members of collectives that are transmitted across generations" (House *et al.*, 2004)[3]. Among the nine dimensions of culture in the GLOBE database, Kerlin (2013) choose to focus on uncertainty avoidance and in-group collectivism, which are expected to affect entrepreneurship the most. Uncertainty avoidance refers to the degree to which a society,

organization or group attempt to avoid anxiety caused by the unpredictability of the future by relying on social norms, rules and procedures. In-group collectivism is defined as “the degree to which individuals express pride, loyalty and cohesiveness in their organizations or families” (House *et al.*, 2004). Uncertainty avoidance has been negatively associated with innovation at the individual level (Shane, 1993; Taras, Kirkman and Steel, 2010). Therefore, countries with high levels of uncertainty avoidance are expected to have lower levels of social entrepreneurship, which positively depends on innovation (Lepoutre *et al.*, 2013 quoted in Kedmenec and Sebastjan, 2017).

This research extends the culture component in the analysis, as suggested by the revised MISE framework by including two variables among the Hofstede's six cultural dimensions (1980). Specifically, power distance (PDI) and individualism versus collectivism (IDV) data as published in Cultures and Organizations third edition (Hofstede, Hofstede and Minkov, 2010). The power distance index measures the attitude of the members of a society who have a lower position in the power hierarchy and their views on the unequal distribution of power, which is inequality in the society. The higher the power–distance measure, the more hierarchically structured the social order in which everybody knows their position and nobody questions it. The lower this index is, a more equal distribution of power is desired in the society and inequalities need to be justified on some legitimate basis. An inclusive society where power is distributed more equally is expected to better cultivate social entrepreneurship, because social entrepreneurship activity is inherently inclusive and participatory (Shaw and Carter, 2007). The individualism versus collectivism index, on the other hand, measures preferences of members of a society in extending their care beyond themselves and their first-degree relatives. A higher individualism (IDV) score indicates that individuals prefer to tend for themselves and their immediate family members in “a loosely knit society”. A lower IDV score that indicates collectivism, shows the opposite case where members of the society are expected to care for relatives beyond immediate families as well as particular group members, thus a “tightly knit society” (Hofstede, 2001). In fact, the updated analysis replaces the in-group collectivism variable used in the previous work with Hofstede's individualism variable (1980). This decision is justified as the GLOBE in-group collectivism variable shows a strong negative correlation with Hofstede's individualism (1980), while avoiding the previously faced lack of data problem, which caused the initial analysis to fail to test for the in-group collectivism variable. While individualism encourages innovative entrepreneurial activity, collectivism might also support entrepreneurship by leveraging resources through external connections (Tiessen, 1997). As social entrepreneurship mainly aims to improve social conditions by helping others (Bargsted *et al.*, 2013), societies with lower individualism are expected to have more social enterprise activity, as suggested by Kedmenec and Strasek. (2017).

This paper further investigates the culture aspect of the framework by including trust-in-others variable from the World Values Survey (2013). The trust variable is calculated as the percentage of total cases in each country who have opted to say “Most people can be trusted” rather than “Need to be very careful” (WVS, 2013). The World Values Survey (WVS) Wave 5 data collected from 1995 through 2008 is used to compute these two variables. Trust is expected to relate to social entrepreneurship positively as these values align with the main motives working for the well-being of others beyond private benefit (Stephan *et al.*, 2015; Delhey, 2009):

- H5.* The likelihood of social entrepreneurship is expected to decrease in counties with higher scores of uncertainty avoidance; power–distance and individualism, and to increase in countries with higher values of trust.

Analysis

A binomial logistic multilevel regression was conducted to assess whether and to what extent national level formal institutional variables, specifically economic competitiveness (GCI Rank), welfare state, civil society and international aid, as well as informal institutional variables, uncertainty avoidance (UNCRTA), individualism (IDV), power distance (PDI) and trust (TRUST) have an effect on the probability of an organization being a social enterprise, controlling for total country population. Owing to the small sample size (i.e. fewer than 100 country cases), a Satterthwaite approximation was used[4], along with robust fixed effects estimations (Heck *et al.*, 2012). The use of a multilevel model estimation method is justified by estimating an initial empty model which suggests that 46.7 per cent of the variance in organization type (Level-1) can be attributed to between country differences (Level-2)[5], thus the probability of an organization being a social enterprise varies by country.

Informal institutional fixed-effects

Given the variation in social enterprise between countries, it is then examined if this variation could be explained by informal institutions only. A series of models with national-level culture predictors were estimated by considering each culture variable separately as well as in combinations. An estimation result is also provided showing all culture variables in one regression. In each of these models, culture effects are controlled for GDP and population and all variables are centered around the grand mean (Enders and Tofghi, 2007). Moreover, gender and age of the entrepreneur were also added as Level-1 controls in all below models.

Estimation results for informal institutions in Table I show that the variation of the intercept is significant in all cases, meaning that there still remains between-country variance in organization type after controlling for the effect of culture variables. For the individual culture fixed-effects estimations each culture variable, except power distance (PDI), by itself explains a significant amount of the variance in organization type among countries[6]. Both individual controls are significant. Specifically, females are more likely to own a social enterprise as opposed to other type of organizations, which confirms previous findings about female dominance in social entrepreneurship sector (Hechavarria *et al.*, 2012).

Individualism (IDV) is positively related with the probability of an organization being a social enterprise, whereas the effect of uncertainty avoidance is negative on the same

Culture fixed effects	UNC	IDV	PDI	TRST†	IDV PDI UNC	IDV PDI UNC TRST
Female	***1.25	***1.23	***1.23	***1.25	***1.23	***1.25
Age	***0.99	***0.99	***0.99	***0.99	***0.99	***0.99
GDP	1.000	1.000	**1.000		1.000	1.000
IDV		**1.030			**1.038	**1.034
PDI			0.998		1.020	1.008
UNCRTA	**0.204				0.888	0.709
TRUST				*14.83		6.04
Population	0.860	0.837	0.881	0.934	0.806	0.811
Intercept	***0.015	***0.03	***0.026	***0.020	***0.030	***0.029
Variance in intercept	2.658	1.695	1.908	1.671	1.629	1.148
Number of countries	52	38	38	30	38	28

Table I. Informal institutional fixed-effects models

Notes: Coefficients (Odds Ratio): >1 means positive effect, =1 neutral effect, <1 negative effect. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$. All variables are grand-mean centered. All variances in intercepts are significant. †Trust is significant only with population

probability. This finding suggests that, contrary to what is hypothesized above, individualism affects the size of a social enterprise sector positively similar to arguments in previous literature about entrepreneurship in general (Tiessen, 1997). However, uncertainty avoidance affects social enterprise negatively, as hypothesized, in agreement with previous findings about its negative affect on innovation (Shane, 1993).

Similarly, trust has a positive influence on the odds of having a social enterprise as opposed to another organization supporting *H5*. This finding about trust is aligned with previous findings in the literature which attribute a positive effect to trust as it furthers activities in the society that support the well-being of others, including the social enterprise sector (Stephan *et al.*, 2015; Delhey, 2009).

Another important result shown in Table I is that when individualism (IDV) is included in the model along with the other culture variables it dominates over them, that is it remains the only culture variable with a significant effect on organization type, leaving other culture variables insignificant. This shows that individualism is the strongest cultural value overall, a fact that justifies its inclusion in Kerlin's revised MISE framework as the most important cultural dichotomy that differentiates social enterprise across countries. Though individualism–collectivism was discussed as a cultural influence in the original MISE model it was not indicated under the culture component in the framework and culture itself was not treated as a main factor. This finding supports the revision of the MISE framework to give culture a more prominent position along with inclusion of the individualism–collectivism variable as the main macro-level culture factor, which is made under the guidance of recent country case studies and relevant literature. Indeed, the cross-cultural psychology literature has found the individualism–collectivism question to be the richest cultural factor in terms of explanatory value (Gorodnichenko and Roland, 2011a; Heine, 2008, 2010; Oyserman *et al.*, 2002). Moreover, economists Gorodnichenko and Roland (2011a, p. 2; 2011b, 2010) find that:

The individualism–collectivism cultural dimension has an important and robust causal effect on innovation and long run growth [...] and that other cultural dimensions not correlated with individualism and collectivism have no robust effect on long run growth.

The analysis does not show a significant relationship for uncertainty–avoidance referenced in the original MISE discussion, so it was not included in the revised version. Neither was there a significant relationship for other cultural variables when they were included along with the individualism variable in the analysis. Therefore, though it is important to acknowledge the presence of other cultural values at work owing to the discussion in the country case studies (Kerlin, 2017), here the model focuses on individualism because of its strength in explaining social enterprise phenomena across countries. The argument is that the influence of other cultural values can vary greatly by country, and therefore, some may be more influential in some countries than others.

Formal institutional fixed-effects

After running the model with informal institutions (the culture variables), we turn to the effect of formal institutions on organization type. First, formal institutional variables are included in the model along with culture variables; then, the model is estimated with formal institutions alone to determine their isolated effect. In this manner, it is possible to interpret the relative effect of each type of institutions on the likelihood of an organization being a social enterprise. To begin with a cautionary remark, the model could not include GDP as a control variable along with formal institutions owing to severe multicollinearity between GDP and GCI-rank[7]. As such, GDP is excluded from the models that include formal institutional fixed-effects.

Country-level formal institutional variables include economic competitiveness (GCI-rank), welfare state, civil society and international aid. Using grand mean centering, models are estimated including formal institutions alongside informal institutions as well as with formal institutions alone in isolated form, controlling for population. Level-1 controls such as gender and age were also included. The first regression in [Table II](#) includes all formal institutional variables and the most prominent culture variable: individualism. Here, individualism loses its significance and two formal institutions, economic competitiveness and government welfare remain with a significant effect on organization type. Similarly, in a second regression, power distance and uncertainty avoidance are added to the model and overall the culture variables are insignificant, except power distance, which is only significant at the 10 per cent level. On the other hand, the formal institutions of government welfare and civil society participation have a strong significant effect in this model. When the other culture variable, trust, is also included, it does not have a significant effect, and most formal variables become significant only at 10 per cent level. This is owing to two reasons: first, a high correlation between variables becomes more problematic as more variables are included in the model, and, second, missing data for latter culture variables reduce the number of countries in the multilevel model to 26, which causes serious estimation problems making confidence intervals and significance uninterpretable ([Bowers and Drake, 2005](#); [Maas and Hox, 2004](#); [Hox and Maas, 2002](#); [Snijders and Bosker, 2012](#)).

Overall, culture variables lose their significance once economic competitiveness, welfare state and civil society variables are included in the model. This might suggest that the effect of culture variables is embedded in formal institutions such that their direct effect on social enterprise organizations remains insignificant when we control for formal institutional factors. This supports the relationship as implied by Kerlin's framework (2013) and mentioned by other researchers ([Puumalainen et al., 2015](#)) that these informal institutions like social behavioral patterns and cultural values and norms, are deeply engrained and play a profound role in shaping formal institutions like economic and regulatory frameworks ([Hofstede, 2001](#); [Salimath and Cullen, 2010](#)). However, to be cautious, the loss of significance of culture variables might also be caused by model specification, interaction effects and

Formal/informal fixed effects	Formal and IDV	Formal IDV PDI and UNCT	Formal and informal	Only formal
Female	***1.24	***1.24	***1.26	***1.24
Age	***0.99	***0.99	**0.99	***0.99
GCI-rank	*1.019	1.015	*1.020	**1.023
Welfare	***1.583	***1.531	*1.342	***1.577
CSPART	1.564	**1.819	*1.803	**1.636
INTAID	0.888	0.892	0.779	0.894
IDV	0.997	1.007	1.008	
PDI		1.022	1.007	
UNCRTA		0.927	0.685	
TRUST			0.296	
Population	0.862	0.804	0.751	0.952
Intercept	***0.023	***0.022	***0.022	***0.022
Variance in intercept	0.836	0.784	0.652	0.862
Number of countries	35	35	26	43

Table II.
The reduced model with institutional variables predicting social enterprise

Notes: Coefficients (Odds Ratio): >1 means positive effect, =1 neutral effect, <1 negative effect. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.10$. All variables are centered at grand mean. All variances in intercepts are significant

measurement issues. Therefore, this finding requires further testing to attain a higher level of confidence.

The model including formal institutional variables was re-run without the culture variables, so that 43 countries were retained with data on 20,874 organizations (both social and conventional). The reduced model showed a significant effect for economic competitiveness, welfare state and civil society participatory environment variables. The significant negative intercept coefficient suggests that a business or organization in a country with an average economic competitiveness rank, average size welfare state (i.e. spending on public health and education), average civil society participation rate, average levels of international aid and an average population size is 50 times more likely to not be a social enterprise than to be a social enterprise.

The effect of economic competitiveness matches what we expected in *H3*, in the positive direction. For every additional unit increase in national economic competitiveness (GCI Rank), the likelihood of an organization being a social enterprise is multiplied by 1.02 (GCI rank = 1 is the most competitive). Thus, the more economically competitive a country, the smaller the social enterprise sector will be. Likewise, consistent with [Monroe-White et al. \(2015\)](#), the effect of government welfare spending on social enterprise is also positive, contrary to what we expected in *H2*. For every one-unit increase in welfare state (i.e. the amount of funding dedicated to public education and public health), the likelihood of an organization being a social enterprise is multiplied by 1.57. Finally, our newly added civil society participation variable has the expected positive effect on the size of the social enterprise sector, as expected in *H1*. For each additional civil society participation national rating increase, the likelihood of an organization in that country being a social enterprise is multiplied by 1.63. The international aid variable does not have a significant effect in any formal and mixed institutional fixed-effects models tested, so *H4* is not confirmed. The results of this reduced model are presented in [Table II](#). In particular, the finding that civil society participation has a positive influence on the frequency of social entrepreneurship is a substantial improvement over the previous analysis of the framework. It is also a significant contribution to the literature in the area of the comparative study of social enterprise sectors across countries. Moreover, the positive role of a more participatory civil society on social enterprise supports the inclusion of civil society in the original MISE framework ([Kerlin, 2013](#)).

Discussion and conclusion

Kerlin's MISE framework aims to explain cross-country differences in social enterprise sectors from the perspective of the theory of historical institutionalism (2013). This framework develops a comprehensive understanding of how formal and informal institutional contexts in combination shape organizational maps of social enterprise across nations, hence producing a typology of social enterprise models in different countries. Through the guidance provided by recent country case studies ([Kerlin, 2017](#)), the framework has been revised and updated to address criticisms. Revisions include acknowledging micro- and meso-level factors that cannot be captured by macro-level analysis but still influence a social enterprise sector, and attributing a more significant role to the culture component. The revised framework sets the culture component in a more prominent position as a main institution where individualism–collectivism is indicated as the primary cultural factor on the macro-level ([Kerlin, 2017](#)).

This research builds on an initial quantitative critique of Kerlin's original MISE framework ([Monroe-White et al., 2015](#)) to extend the empirical analysis to account for newly accessible data and revisions in the framework. The most significant contribution is the

inclusion of the civil society institution in the analysis by using newly released data on civil society participation. Owing to the emphasized role of culture in the revised framework, this paper also extends the analysis on the culture component by including new culture variables from additional data sets. It also further discusses the interplay between the respective influences of formal institutions (economic competitiveness, welfare state and civil society) and informal institutions (culture) on the variation in social enterprise at a national level.

The analysis tested the culture component by evaluating the effect of informal institutional variables (uncertainty avoidance, individualism–collectivism, power distance and trust) on social enterprise (controlling for total population). Results showed that informal cultural institutions have a significant effect on the number of social enterprises in a country only when each is separately included in the model. When all culture variables are included in the model together, only individualism–collectivism remains significant. This finding supports the role of individualism–collectivism as the primary macro-level factor that affects social enterprise, and suggests that it may be sufficient to consider the individualism–collectivism dimension of culture to account for informal institutions when conducting cross-country analyses. The results for culture contrast with the findings of previous studies that find a significant effect for other culture variables when controlling for formal institutions (Stephan *et al.*, 2015; Puumalainen *et al.*, 2015); this is mostly owing to their selection of countries and variables to account for formal institutions.

Further, in this study, culture variables were included along with formal institutional variables (i.e. economic competitiveness, welfare state, civil society and international aid) in the same regression analyses. These models showed that informal institutional variables lose their significance when they are tested in the same model with formal institution variables. This finding might suggest that formal institutions absorb the influence of cultural values thus providing support for our assertion and that of the institutional literature that cultural values undergird and shape formal institutions (North, 1990). However, it might also be owing to model specification and measurement issues. Overall, cultural values are still important especially when considering countries individually, even though they are not significant when run with formal institutions.

When formal institutional variables are run by themselves on the other hand, they emerge as meaningful, distinct influences because organizational type significantly varied by economic competitiveness, size of the welfare state and civil society participation level. In particular, the less economically competitive a country, the larger the welfare state, the more participatory the civil society environment, the more likely a business/organization is found to be a social enterprise leading to a larger sector size. Collectively, these findings suggest that countries that spend more on public welfare (education and health care), that are more individualistic in their cultural orientation, less economically competitive and allow more voluntary involvement in civil society are more likely to have larger social enterprise sectors. One should be careful, however, not to interpret the economic competitiveness rank of a country as a proxy for wealth; it is rather a ranking based on an aggregation of sub-indices.

Overall, this analysis provides added support and insight for Kerlin's revised MISE framework (Kerlin, 2017), which together provides a comprehensive theoretically grounded quantitative analysis of macro-level influences on social enterprise. This information is important for practitioners, policymakers and international development actors who seek to support the development of social enterprise.

Limitations

Similar to other country-level comparative studies, findings in this paper establish correlational links between variables rather than causal determinations. Moreover,

although drawing on various data sources provide opportunities to explore more relationships care should be given to methodological differences between data collection process and measurement scales. Furthermore, there are some limitations with the GEM data, such as issues about the validity of responses in GEM data (Reynolds *et al.*, 2005) and representativeness issues. The countries of the Global South are underrepresented in the GEM data set, which makes it hard to generalize findings over that region. Another issue about the GEM data are related to a lack of consensus on the definition of social enterprise (Hoogendoorn and Hartog, 2011); therefore, constructing a social enterprise variable that is consistent across all countries is difficult and an inhibition in making comparisons.

The analysis provided here also has additional limitations in testing the revised MISE framework owing to lack of data. Specifically, the revised MISE framework includes meso- and micro-level institutions, in the culture, government, economic and civil society components of the framework to account for lower-level factors which influence social enterprise (Kerlin, 2017). However, it was not possible to test for these lower level factors in the analysis because of a lack of data below the national level. For future studies, researchers can draw on country literature and stakeholder knowledge and experience to assess the effects of these subnational level factors in country case studies. Indeed, until data become readily available on factors at these levels across many countries the macro level will still be used as the default level of analysis when applying Kerlin's macro-institutional framework.

Notes

1. The GEM variables used are: sestart, seowndif, seonincm, seonsale and ownmge.
2. CSO participatory environment:
 Question: Which of these best describes the involvement of people in civil society organizations (CSOs)?
 Responses:
 0: Most associations are state-sponsored, and although a large number of people may be active in them, their participation is not purely voluntary.
 1: Voluntary CSOs exist, but few people are active in them.
 2: There are many diverse CSOs, but popular involvement is minimal.
 3: There are many diverse CSOs, and it is considered normal for people to be at least occasionally active in at least one of them.
3. In the case of multicultural countries, GLOBE researchers sampled the subculture with the greatest amount of commercial activity. However, in certain countries, more than one subculture was surveyed. For example, in South Africa, both White and Black South Africans were surveyed.
4. A Satterthwaite approximation is useful when Level-2 units vary considerably in size. Specifically, it corrects for calculating degrees of freedom providing a more conservative estimate of standard errors.
5. In multilevel modelling, an empty (unconditional) model estimation is run to assess if any of the variance in the dependent variable (in this case organization type, i.e. whether a business or organization is a social enterprise or not) is due to nesting by level-2 clusters (in this case countries) (Raudenbush and Bryk, 2002). Results showed an estimate of 2.89 for the variance in

the random intercept of the empty model, resulting in an intraclass correlation coefficient (ICC) of 0.467.

6. Because Level-1 variance is fixed at 3.29 for binary and ordinal logistic models, the percentage accounted for between two different models is not comparable. That is, the percentage is rescaled for each model.
7. Pearson correlation coefficient between GDP and economic competitiveness was -0.83 , with VIF score of $\text{GDP} = 9.88$. Likewise, correlation between GDP and government welfare spending was 0.85 .

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