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## Social Entrepreneurship: Does Institutional Environment Make a Difference?

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## **Social Entrepreneurship: Does Institutional Environment Make a Difference?**

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### **ABSTRACT**

*Social entrepreneurship has been recognized as a helpful instrument of social and economic policy. The European Commission, namely, has recognized very early the importance of social organizations on economic growth and social innovation, through their contribution for the development of societies endowed with better levels of democracy, activism and social cohesion. Having that in mind, the purpose of this paper is to contribute to a better understanding of the link between social entrepreneurship and institutional environment in Portugal. A quantitative approach is used in the study, and primary data were collected through an online survey. A questionnaire was emailed to, both, Portuguese Non-Governmental Organizations and projects available on the Portuguese Social Stock Exchange. In the analysis of the data we used descriptive statistics, factorial analysis and t-student tests to validate (or not) the research hypotheses. The results show that a favorable institutional environment (social, institutional) seems to have a low influence on the decision-making process related to the creation of new social entrepreneurial initiatives. Conversely, the sense individuals hold about the skills required to develop the new venture and the previous knowledge that their action will produce a desirable outcome have a significant weight on their decision. This conclusion supports the idea that many social entrepreneurs can emerge even in developing regions where the institutional environment is weak. Therefore, social entrepreneurship could be an instrument of regional development and contribute to attenuate the social and economic differences among Portuguese regions.*

**Keywords:** Institutional Environment, Social Entrepreneurship, Social and Solidarity Economy; Regional Development, Institutional Void Theory; Entrepreneurial Ecosystems, Public Policy, Non-governmental Organizations for Development, Portuguese Social Stock Exchange, Portugal.

## INTRODUCTION

Social entrepreneurship has been recognized as a helpful instrument of social and economic policy, namely when dealing with unemployment, social exclusion and sustainable regional and local economic development (Alvord, Brown & Letts, 2004; Borzaga & Galera, 2012; Friedman & Desivilya, 2010; Lambro, 2012; Parente, Barbosa & Vilhena, 2012a; Quintão, 2004).

The European Commission EU has recognised very early the importance of social organizations on economic growth and social innovation, through their contribution for the development of societies endowed with better levels of democracy, activism and social cohesion.

Friedman and Desivilya (2010), based on their empirical work, have underlined the importance of social entrepreneurship for regional development in divided societies. Similarly, Azmat (2013) argued that social entrepreneurship could contribute to a more sustainable growth in developing countries. The same author (Azmat, 2013) recognizes the potential of social entrepreneurship to help solving the more persistent social problems and to promote wealth in communities and societies through innovative strategies and creative solutions. According to Azmat (2013), social entrepreneurs usually adopt innovative approaches which have the potential of taking a positive and critical role in poverty reduction, and helping the promotion of sustainable growth in developing countries, even in hostile environments. In the same way, Yiu, Wan, Ng, Chen and Su (2014) argue that social entrepreneurship plays an important role in the community development of emerging economies, and Nega and Schneider (2014) highlight the significant role of social entrepreneurship on economic development.

For McAnany (2012), social entrepreneurship has a great potential for contributing to: (i) social change; (ii) the development of local communities; (iii) the enhancement of economic growth; (iv) poverty reduction; and (v) environmental sustainability. Social entrepreneurship could, then, be seen as an important instrument of regional development and a way of attenuating social and economic differences among Portuguese regions, particularly when dealing with less developed regions and with low levels of economic dynamism.

This paper approaches the before mentioned issue, using empirical data collected through an online survey, which takes as object of analysis the behavior of the promoters of the Portuguese Non-Governmental Organizations and projects available on the Portuguese Social Stock Exchange. Our main goal is to understand whether the institutional environment is capable of promoting or inhibiting the development of social entrepreneurship initiatives.

Social entrepreneurship has its origins on the entrepreneurs' spirit and in the way they face social issues, searching for an innovative response to solve permanent social necessities, and for which classic mechanisms show serious difficulties to give solutions. The incorporation of two apparently opposite approaches (social and economic ones) allow capturing synergies which increase the capacity of creating value for the society as a whole, by using a response model self-sustainable and permanent. To social entrepreneurship has been recognized an enormous potential in terms of economic and social development of a country and their regions, being as well an important instrument of social cohesion.

Academic literature seems to be unanimous on the importance of new social ventures. However, social entrepreneurship is a social phenomenon that influences and is influenced by the environment, which frequently constrains social initiatives. Hence, it is important to understand whether the institutional environment of less developed regions is capable of promoting or inhibiting the development of social entrepreneurship initiatives.

The research question that this paper tries to answer is whether the institutional environment of a region favors (or not) the emergence of new social ventures. To attain this objective we have

proceeded to a review of the literature about the influence of the institutional environment on social entrepreneurship. Then, we present the methodology, the sample, the results and the derived implications for public policy. The paper ends with the conclusions.

## **BACKGROUND**

According to Friedman and Desivilya (2010), entrepreneurship is a social construction, as the entrepreneurial activities influence and are influenced by the institutional environment. This environment comprises all the external influences which affect the entrepreneur's behavior and performance (Cajaiba-Santana, 2010; Covin & Slevin, 1991; Mair, 2010; Welter, 2011).

Attending to its source, environmental influences can be classified into economic, technological, demographic, social, cultural, and governmental/institutional (Hill & Jones, 2013). Indeed, social ventures are not developed in a vacuum (CASE, 2008), being constrained by a particular environment (Weerawardena & Mort, 2006).

As stated by Katz and Kahn (1966) in the Open System Theory, the emergence of organizations (mainly, private companies) derives from the interaction between agents and environment, which suggest a strong influence of the environment on the creation of organizations. The same applies to social entrepreneurship, as the environmental forces could incite or deter the launching of new social ventures (Mair, 2010; Urbano & Ferri, 2011; Ziegler, 2009). Hence, one stream of research has focused on the analysis of environmental variables and their role on the formation of new entrepreneurial initiatives. Another stream has been concentrated on the facts that can contribute to the success of social entrepreneurial ventures.

The institutional void theory tries to explain the emergence of social entrepreneurship initiatives by the incapacity of institutions to solve the existing social problems (Estrin, Mickiewicz & Stephan, 2011; Nissan, Castaño & Carrasco, 2012; Parente, Lopes & Marcos, 2012b; Roy, Brumagim & Goll, 2014). These authors argue that social entrepreneurs search, through an innovative and disruptive model, to explore the social opportunities that emerge from the vacuum left by the existing institutions.

The empirical evidence seems to confirm the institutional void theory, as Estrin, Mickiewicz and Stephan (2013) found a negative correlation between the level of public expenses and the emergence of new social organizations. This suggests that the level of social entrepreneurship is more important in countries where the provision of social services is scarcer.

Similarly, Terjesen, Lepoutre, Justo and Bosma (2012) found that, with some exceptions, entrepreneurship activity is higher in more liberal economies where the State is less effective. These results reinforce the argument that the emergence of social initiatives is due to the incapacity of or absence of the State in providing goods and services (Estrin *et al.*, 2011; Mair, 2010; Terjesen *et al.*, 2012). The same conclusion is obtained by Roy *et al.* (2014), who found that the existing opportunities for start-ups were negatively correlated with social entrepreneurship. Likewise, according to Yiu *et al.* (2014, p. 59) social entrepreneurship is particularly important since "institutional environments generate high levels of uncertainty, risks, limited or nonexistent welfare systems, high unemployment, and hierarchical social systems based on ethnicity, gender, economic, and social status, stimulating entrepreneurs to initiate social change and community improvement". Thus, social entrepreneurship could be regarded as a way to substitute the State vis-à-vis the incipency and fragility of formal institutions, representing a way to fulfill social failures. On the contrary, some authors claim that the presence

of strong formal institutions could encourage and support the emergence of new social organizations, as well as the quality of the results achieved by them (Abdou, Fahmy, Greenwald & Nelson, 2010; Hoogendoorn & Hartog, 2011; Noruzi, Westover & Rahimi, 2010; Shockley & Frank; 2011).

The integration of the territorial dimension in the local/national linkages of social entrepreneur leads to a fundamental break towards the classical approaches to social entrepreneurship (Seelos, Mair, Batillana & Dacin, 2011). Consequently, the way social entrepreneurs relate to their spatial environment is structured according to the logic of necessity, which is determined by social challenges. The decline in the institutional efficacy of national states, especially in advanced countries, provokes a correlated movement in favor of local dynamics, which is structured by the impetus of social entrepreneurs (Quévit, 1991).

The relation of social entrepreneurs to their environment aims not only to adapt them to external constraints but also to create an appropriate environment that facilitates the accomplishment of the mission and objectives of the social organizations.

## **THEORETICAL PERSPECTIVES**

The institutional perspective highlights the critical importance of the environment that surrounds the social entrepreneur in the development of new social ventures. The entrepreneurial ecosystems approach, emphasize the role of governmental and non-governmental institutions in creating an adjusting regulatory frameworks and support system for supporting the activities of social entrepreneurs. These contributions help to explain the role of environment on the promotion of social new ventures as follows.

### **Institutional Perspective**

A common perception of institutions is that they define the rules of the game that shape the economic behavior of society (Baumol, 1990). Institutions are defined as the regulative, normative, and cognitive structures that regulate and constrain human activities to provide stability and meaning to social behavior (North, 1991). Institutions can have direct and indirect effects on the launching of social initiatives. These effects vary according to the levels of poverty, local development, unemployment, among others. For example, the complexity of regulation on the formation of social organizations impacts social entrepreneurial activity negatively.

North (1991) and Doh and Teegen (2002) argue that institutional settings can be divided into two related categories. Formal institutions are the regulatory pillar of institutionalization and consist of constitutions, laws, policies and formal agreements that citizens of different places and political/institutional contexts create. Informal institutions are the embodiment of cultural norms, belief systems, practices, and customs. They generally address behavioral norms and mental models of individuals who may have different cultural heritage, religious or political beliefs or reside in different geographic areas.

Within any institutional setting, organizations are created to attain collective interests, often aiming to have these interests codified as informal practices, formal rules, or both. Moreover, as

institutions are inherently evolutionary, the role of social organizations will evolve, and this evolution will influence the broader institutional setting in which social entrepreneurs operate, contributing to a dynamic and reflexive process (Doh & Teegen, 2002).

Traditionally, governments have played a central role in the provision of social services. However, governments are increasingly unable to supply the services they once provided to their populations. This way, social entrepreneurs can play an extremely important role in regions where governments can no longer sustain their role as the sole provider of social services. Cooperation between social entrepreneurs and governments is, then, critical for the overall social, economic and environmental development of regions and local communities (Leadbeater, 1997).

According to Mair and Martí, (2006, p. 40) social entrepreneurship is a ‘process resulting from the continuous interaction between social entrepreneurs and the context in which they and their activities are embedded’. Urbano, Toledano and Soriano (2010) add that the decision to create a new social venture is conditioned by the existing institutional framework, which constrains the actions of different agents that participate in society through a structure of incentives and opportunities. According to Kostova (1999), the regulatory component of an institutional context reflects the existing laws and rules in a particular local/national environment that promotes certain types of behaviors and restricts others.

Governments can affect the growth and development of social entrepreneurship in three main ways (Abdou *et al.* 2010; Berzin, Pitt-Catsoupes & Peterson, 2014; Borzaga & Galera, 2012; CASE, 2008; Chell, 2007; Estrin *et al.*, 2013; Leadbeater, 1997; Light, Noruzi *et al.*, 2010; 2006; Santos, 2009; Seelos *et al.*, 2011; Urbano & Ferri, 2011; Yunus, 2011): i) creating and enforcing the appropriate regulatory framework for the functioning of social organizations; ii) rewarding successful social entrepreneurs through recognition and partnership; and iii) developing and supporting the broader ecosystem for social entrepreneurship.

Firstly, by providing appropriate regulatory framework for social entrepreneurs (Abdou *et al.* 2010; Borzaga & Galera, 2012; Leadbeater, 1997; Santos, 2009; Seelos *et al.*, 2011), which include existing legal codes that define types of activities, tax policies and fiscal incentives, the rules for establishing, operating and closing an entity, and labor regulations (recognition and promotion of voluntary labor, volunteerism, etc.).

Secondly, through direct partnerships and jointly sponsored activities, government bodies and social organizations can benefit from each other’s relative strengths in delivering goods and services to local communities (Leadbeater, 1997; Nega & Schneider; 2014; Nissan *et al.*, 2012). Also, governments can play a valuable role by supporting award programs, competitions, social challenges, and innovation funds targeted at identifying, screening, and then publicly recognizing and awarding successful social entrepreneurship (CASE, 2008; Estrin *et al.*, 2013).

Finally, government can also be a catalyst in energizing other components of the ecosystem needed for social entrepreneurship to thrive, namely, in education, through the public schooling system and education policy (Berzin *et al.*, 2014; CASE, 2008; Chell, 2007; Kim & Yoon, 2012; Light, 2006; Noruzi *et al.*, 2010; Urbano & Ferri, 2011; Yunus, 2011), and in the media, through state-sponsored social marketing (CASE, 2008). Furthermore, governments can promote transparency by making available information on the regulatory and bureaucratic environment within which social entrepreneurs will operate, including the relevant tax implications (Mair, 2010).

In conclusion, there are a number of ways in which governments can provide an enabling environment for social entrepreneurship and social organizations. These steps include creating and enabling flexible regulatory and legal frameworks, recognizing and systematically engaging social enterprises, and fostering a culture of innovation through public schools and the media.

Educational institutions (universities and other academic institutions) can supply courses and graduate degree programs on social entrepreneurship. These programs and activities will provide the field for social entrepreneurship acting over three components that are critical to its development: raising awareness and building a knowledge base; building a social entrepreneurial culture and developing skills; and providing services and creating pathways for development.

Social entrepreneurship education programs can do more than impart knowledge and skills to their students. They can also offer activities and services within the greater community, thereby helping to create useful contacts, networks and communities of practice (CASE, 2008; Chell, 2007; Kim & Yoon, 2012; Light, 2006; Noruzi *et al.*, 2010; Urbano & Ferri, 2011; Yunus, 2011).

### **Entrepreneurial Ecosystems Approach**

Alternatively to the Institutional Perspective, we have the Entrepreneurial Ecosystems Approach, an emergent theoretical framework (Feld, 2012; Isenberg, 2011; Kantis & Federico, 2012; Mason & Brown, 2014; Napier & Hansen, 2011). An entrepreneurial ecosystem is “a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organizations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g., the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell-out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment” (Mason & Brown, 2014, p.5).

An approach developed by Isenberg (2011) identifies six domains within the entrepreneurial system: culture (success stories and societal norms); finance (financial capital); policy (government and leadership); markets (early customers, networks); human capital (labor and educational institutions); and supports (infrastructure, support professions, non-governmental institutions). Every ecosystem is unique, as many of the components will differ from one ecosystem to another. Local cultural attitudes, the structure of local banking systems and educational policies will all affect the nature of these local ecosystems (Isenberg, 2011).

Developing entrepreneurial ecosystems has to be a blend of top-down and bottom-up approaches. The first, includes appropriate supporting conditions by non-government institutions (entrepreneurship promotion in non-profit organizations, business plan contests, conferences, entrepreneur friendly-associations), the essential role of government (institutions, financial support, regulatory framework incentives, research institutes, venture-friendly legislation), or the excellence of educational institutions (professional and academic general degrees, specific entrepreneurship training). However, there is also a need of bottom-up initiatives to improve the environment, such as the active role of social entrepreneurs (social legitimacy, entrepreneurs networks, etc.).

The social entrepreneurship policy is concerned with supporting entrepreneurs that require relational rather than transactional assistance. Moreover, they are likely to benefit most from peer-based support for experiential learning and tacit knowledge sharing (Mason & Brown, 2014).

Based on Institutional Economics and on the Entrepreneurship Ecosystem Approach, we argue that the institutional environment is essential to understand how new social ventures are created, defined and limited on their action. So, the adoption of these two perspectives could enhance our understanding how institutions affect the emergence and implementation of social entrepreneurship in Portugal.

## **METHODOLOGY**

Literature review suggests that there are external variables that trigger on a particular individual (the social entrepreneur) the commitment to create a social venture. By analyzing the institutional environment, the individuals will build their perception of the favorability of the entrepreneurial ecosystem.

As said, this research aims to understand the extent to which the institutional environment of a region favors (or not) the emergence of new social ventures in Portugal. In order to respond to this research question, a null hypothesis is proposed stating that the launching of new social ventures is positively influenced by the presence of a favorable institutional environment (H1).

Putting other way, we envisage analyzing the social entrepreneurial ventures existing in Portugal and, from there, to inquiry on the significance that the institutional environment assessment has (had) on the decision of someone endowed with entrepreneurial spirit to go ahead with social ventures. Although social entrepreneurship represents a reality with a growing recognition, there are not enough instruments for identifying and quantifying this phenomenon (Parente, Costa, Santos & Amador, 2011; Perista & Nogueira, 2009; Quintão, 2004).

Following the European tradition, in Portugal the third sector has been considered as the appropriate area for the integration of social entrepreneurship (Parente, Santos, Marcos, Costa & Veloso, 2012c; Quintão, 2011; Ramos, 2004). However, the Portuguese third sector is a very diverse and heterogeneous field one (Ramos, 2004) and, having in mind its entrepreneurial level, it is legitimate to raise the question whether all the sub-segments of the social economy fit into the spirit of social entrepreneurship (Namorado, 2006).

Therefore, in order to define our sample, we decided to identify the branche(s) of the social and solidarity economy which, according to our understanding, were closer to the spirit of social entrepreneurship. Our choice was to select those organizations endowed with the status of non-governmental organizations for development and cooperation (NGOs), which benefit from being recognized as public utility organizations (Parente *et al.*, 2012b). Additionally, due to its



innovative character, we included in our sample projects listed on Portuguese Social Stock Exchange (PSSE). Our sample was, therefore, built on the basis of the typical features these organizations have.

The contacts of NGOs and projects listed on PSSE were gathered by consulting the web site of the Portuguese Institute for Development Assistance and the web site of the Social Stock Exchange, respectively. In order to understand, from an independent approach, the factors which lead civil society to develop new social ventures, we excluded from the sample organizations with religious, political or partisan connections, or held by other organizations of corporate character. This selection was based on information collected in institutional web sites, blogs and on other available sources of internet. This screening conducted us to a sample consisting of 99 NGOs and 29 projects listed on PSSE.

We took the option of implementing a quantitative research, conducting to this effect an online survey. As unit of analysis, we considered the entrepreneurs behind the creation of the socially entrepreneurial organizations existing at the time the investigation was undertaken. We made sure that no other than those individuals that had taken the initiative of creating the organizations would answer to the survey by using filtering questions.

The research questionnaire was composed of a first group of questions envisaging to get the general characterization of the organization and of the respondent. In the next group we asked, by means of a 5 points Likert scale (where 1 corresponded to a factor with very low importance and 5 to a very important one), the influence which different external factors had (or had not) on the decision of creating a new social venture. In order to assess the relevance which personal skills and the social opportunity (related to the perception of feasibility of the venture) had played in the decision-making process, a few other questions were also included.

We ensured the anonymity of all respondents in order to encourage honesty and to avoid distortions in the answers given just to cause a good impression (Vissak, 2010).

Before sending the questionnaire, we made a telephone contact to the selected organizations in order to present the research project, to confirm the e-mail contacts and to raise their organizations awareness of the schedule to submit the survey replies. The telephone contact was also used for sending out reminders to those failing to fill in the questionnaire on the established schedule.

The data collection process was carried out between September 19, 2012, and January 2, 2013. At the end of the process, 68 replies were collected, 24 provided by projects listed on PSSE and 44 by NGOs. The total response rate was 82.8% among projects listed on PSSE and 44.9% among the NGOs.

For data analysis, firstly, we used descriptive statistics for characterizing and describing data collected. Then, in order to test our research hypothesis we used student's t-test (one sample t test). We also made use of principal components analysis, through the statistical software SPSS, version 20, in order to simplify the analysis and better understand the results obtained.

## **SAMPLE**

Through the process of data collection, we got 68 replies, 24 (35.3%) provided by projects listed on PSSE and the remaining 44 (64.7%) referred to NGOs. In this section we will describe the general features of social entrepreneurial ventures and the profile of the entrepreneurs that took the decision of its creation.

Regarding to its seniority, as Table 1 shows, almost half of the organizations under observation (45.6%) are 10 or more years old and only 5 are less than 3 years old. The low expression of recent organizations can be explained by the sampling method used, namely, by the time required by organizations for acquiring the NGOs status or for taking the steps necessary to be listed on the Portuguese Social Stock Exchange.

In what regards geographical location, we have opted by classifying the answers according to the level two of the common classification of territorial units for statistic aims (NUTS II). The respondent organizations are distributed along the various regions of the country, although it is noticeable a concentration in the greater Lisbon area (52.9%), followed by the northern and central areas (each one with 14.7%), and Alentejo (7.4%). Algarve and Islands regions just counted an initiative, each one.

A few organizations (5) reported to be present, simultaneously, in various geographical locations and a few indicated having an international presence. As regards to its scope, about half of the organizations inquired (54.4%) reported to operate internationally and, roughly a quarter (23.5%), nationally. The remaining organizations indicated acting regionally (10.3%) or locally (11.8%). Contributing to this result is the international activity focus of NGOs (77.3%), whilst the projects listed on the PSSE denote an national (41.7%) or local (29.2%) base.

Regarding the public(s) who the organizations seek to serve, we observed that inquired institutions cover almost all social areas. As Table 1 indicates, the most cited segment is the one dealing with socially excluded people (44.1%), followed by people with financial needs (32.4%) and with providing services to other organizations or associations (30.9%). In a lesser extent, we found the organizations who devote its activity to elderly (23.5%), ethnic minorities (19.1%), or people with physical disabilities or special needs (16.2%). There are not significant variances among the organizations type (PSSE or NGOs) in what regards the target audience.

The item 'other' was reported by a significant amount of organizations, where the work with children and/or young people (12 organizations) or with the entire population (5) stands out.

Organizations tend to concentrate their activity on a limited number of social issues, whereas almost half of them (45.6%) indicate to work exclusively in one of the categories surveyed, and only around a quarter declared operating in more than three.

As regards the aims of the activities, it is worthy to note that only one third of the organizations (32.4%) acted in areas which were not served by the public or the business sectors. The vast majority (79.4%) performed activities in areas where there was already some intervention, complementing the services supplied by the public sector (48.5%) or by other organizations (30.9%). Only a small proportion of them (10.3%) indicated to compete with other social organizations.

The online questionnaires included a question that envisaged acting as a filter, which allowed identifying the responses provided by persons involved in the launching of the social ventures (45 cases, out of a total of 68). Only these respondents were asked about the influence of the external context in the process of initiating the social venture. This sample is composed of around 50 Heads of social organizations, followed by board members, directors or technicians, from whom we got a similar amount of answers, even if those are less common among the promoters of the ventures.

Analyzing the occupational situation of respondents, we found that it is relatively more frequent that the promoters of the venture act as volunteers (51.1%) than as paid employees (48.9%).

## RESULTS

The main goal of this research is to assess the extent to which the perception individuals have on the favorability of the external context has an influence on the launching of a new social venture (Table 2).

From the variables in analysis, the one which has shown to have the greatest importance in the decision-making process was the existence of support and advice on this type of organizations (average of 2.7 on a scale of 1 to 5), identified as having a high or very high importance by 24.4% of the respondents. The following most important variables, with an average of 2.6, *ex-aequo*, were: the existence of a favorable legal regime; the existence of a favorable tax regime; and the facility in obtaining information to start the project. Finally, the variable referred as less valued was the facility and simplicity of administrative procedures for launching the project, with an average of 2.5.

Table 2 also shows that the average score of each variable is always below the neutral point of the scale (point 3 in the graphic scale of 5 points). This suggests that these factors are taken into account in the decision-making process of creating a new social venture.

In order to capture the structure of the data collected, we used principal components analysis (PCA), by applying an orthogonal rotation through the varimax method (Table 3). The evaluation of the determinant of the matrix of correlations, the Bartlett's test of sphericity and Kaiser-Meyer-Olkin measure of sampling adequacy (KMO), confirmed that data was suitable for implementing PCA (Field, 2005; Maroco, 2007).

In order to ensure statistical significance (for  $\alpha = 0.05$ ) for building the principal components, we only considered variables with factor loading equal to or above 0.7 (Hair, Anderson, Tatham & Black, 1998). Following Kaiser criteria (Hair *et al.*, 1998; Field, 2005) we extracted two factors. The first component accounts for 37.7% of the variability of the total original variables and comprises those concerning the relevance of the favorability of the external ecosystem and, therefore, took such designation. The data reduction process also led to the extraction of a component related to the perception of ownership of personal skills. This latter factor will not be analyzed in this paper, although from a theoretical point of view the relevance of the external context should be considered within the framework of the individual's perception of ownership of personal skills and feasibility of the social venture.

The questionnaire shows a very good internal consistency, since Cronbach's alpha ( $\alpha$ ) equals 0.91 and 0.79, respectively, suggesting a very good reliability of test scores (Field, 2005; Hair *et al.*, 1998). Then, we constructed factor scores based on weighted sum score method, in order to assure that items with the highest loadings on the factor would have the largest effect on the factor score (DiStefano, Zhu & Mîndrilă, 2009; Field, 2005) (Table 3). As the individual variables analysis suggested, the presence of a favorable external context has a low relevance in the individuals' decision-making process (average of 2.6, lower than the scale neutral point).

By using the upper quartile analysis, we found that three quarters of the respondents attached an importance of 3.2 or below to the institutional environment. Besides, frequency analysis (Table 4) reveals that the presence of a favorable external context is considered as important or very important in the decision-making process only by a small proportion of the respondents (35%). The majority of the inquired individuals (60%) has considered that this factor had a low or very low importance (negative point of the scale) in the launching of a new social venture.

It is also noted that the relevance assigned to the presence of a favorable external context is quite similar between genders. However, the situation is seen as different depending on entrepreneur's

age, as respondents older than 55 provided a positive evaluation, while other individuals attributed a lower score.

Taking into account the occupational status, it should be pointed out that, in relative terms, individuals who were employed (particularly in the business sector) or non-working individuals emphasized more the existence of a social necessity not satisfied (desirability) than individuals over retirement age. On the other hand, individuals who were retired appraised more positively the favorability of the external context (as identified in the individuals among the upper age profiles) than individuals who were not in this condition.

This implies that individuals still in active age, since they internalize the desire to solve the social problem, will act essentially because they are confident in their own capacity, regardless of the external context which involves the potential venture. On the other hand, individuals who are retired, and probably combine a social intention with the exercise of a new occupational activity, may not be committed to act if they feel that the external context may be hostile.

In order to test the hypothesis that the presence of a favorable institutional environment influences positively the establishment of a social venture in Portugal (H1), we used the student's t-test (one sample t test). Based on the Central Limit Theorem ( $n > 30$ ), it is not required to verify the normal distribution of data to use t test (Martinez & Ferreira, 2008).

By testing the neutral value (value 3) (presented in Table 3), t-test indicates that the perception the entrepreneur has about the favorability of the external context plays a low effect on the adoption of a social entrepreneurial behavior. The test also shows that the decision to launch the social venture was not provided by the perception of the individual that the institutional environment was favorable for the development of the organization. Taking a significance level of 5%, the statistical test does not reject the null hypothesis that the existence of a favorable external context has a neutral influence on the creation of a social venture. Therefore, the empirical evidence available, allows us to conclude that the hypothesis that the presence of a favorable institutional environment positively influences the establishment of a new social venture in Portugal (H1) was not validated.

The data analysis revealed that the (favorable) external ecosystem has a very low weight on the decision-making process related to the launching of a new social venture. Further, the results suggest that it is not because social entrepreneur considers the environment as unfavorable that he or she is deterred from acting. Being so, our results are consistent with the institutional void theory and with the approaches of those researchers who claim that new social ventures are created in response to the weakness or inability of existing institutions in meeting current social needs (Estrin *et al.*, 2011, 2013; Mair, 2010; Terjesen *et al.*, 2012).

The empirical results obtained also are in line with the pattern found by Leahy and Villeneuve-Smith (2009) and by Villeneuve-Smith and Chung (2013), with regards to a strong concentration of social entrepreneurship ventures in disadvantaged communities, since it is not because social entrepreneurs perceive the institutional environment as inhospitable that they are discouraged to go ahead with the venture.

With regard to the other dimensions, which comprise the perception of feasibility of the social venture, it should be noted that these are considered as more important in the decision-making process than the perception of the existence of a favorable external context (Table 4). Student's t-test analysis indicates that, unlike what occurs with respect to the presence of a favorable institutional environment, the perception of desirability of the venture and the ownership of specific personal skills have a statistically significant positive effect on the creation of new social ventures.

Meanwhile, the results gotten regarding the neutral influence which the presence of an external context (favorable or unfavorable) has on the decision of creating a new social venture are, apparently, inconsistent with those of other researchers that have identified a negative relationship between the perception of risk and the decision to start a new social project (Harding & Cowling, 2006; Hoogendoorn, Pennings & Thurik, 2010; Hoogendoorn, Zwan & Thurik, 2011, Smith, Stevens & Barr, 2010) In addition to the financial risks associated with the failure, social entrepreneurs are concerned with the stigma resulting from his or her personal failure, namely the risks in terms of reputation, honesty and loss of credibility in his/her personal relationships network, which are, according to Hoogendoorn *et al.* (2011), important elements for social entrepreneurs. One possible explanation for this apparent paradox can have to do with the (relevant) role that the perception of desirability of the venture and the ownership of personal capacities have in the decision-making process.

The analysis undertaken indicates that the perception of feasibility is positively related to the creation of social organizations. This fact is clearly influenced by the perception of desirability of the venture and by the ownership of personal capacities, as they have both a positive effect on the implementation of new social projects. Also, the perception of the presence of a favorable environment has a reduced moderator effect on the launch of new social entrepreneurial initiatives.

The findings suggest that people with a major locus of internal control and greater self-efficacy, and who believe that the results they can get are determined by their efforts and capabilities show a higher propensity to act as social entrepreneurs. Thus, even in the presence of an adverse external context, these individuals will be willing to face the challenges which the new project imposes since they perceive that the social impact generated by their action will be positively valued by the target audience.

## **SOLUTIONS AND RECOMMENDATIONS**

Social entrepreneurship is a way of providing an answer to social problems based on searching an innovative solution for well-known complex social problems, aiming to give them a sustainable answer. Various researchers have underlined the potential of social entrepreneurship in terms of employment creation (Alvord *et al.*, 2004), social inclusion (Friedman & Desivilya, 2010) or sustainable regional development (Azmat, 2013; Borzaga & Galera, 2012; Friedman & Desivilya, 2010; Lambro, 2012; McAnany, 2012; Parente *et al.*, 2012a; Quintão, 2004).

Most of the countries have a range of policies to promote the creation of new social ventures. The key forms of support are typically information and advice for new entrepreneurs (Bennett, 2012). According to our empirical results, it is worth to question if these are the most effective responses to the Portuguese case. The results obtained show that they are not powerful drivers, since the presence of a favorable institutional environment is not confirmed as having a positive effect on individuals' decision.

The offer of specific training courses in schools, colleges and universities could help to promote positive attitudes towards social entrepreneurship and raise students' awareness about social problems. This is an important subject since it acts upon the desirability dimension and reinforce the perceptions of individuals about social entrepreneurial behavior. The same occurs through the organization of events to celebrate local social ventures success as they could serve as rallying point for new initiatives (Mason, 2014).

Even if, in a certain sense, by doing that, public authorities are admitting their incapacity of dealing with the social problems that need to be solved, turning visible those problems and raising sensibility around the community towards them. However, this could be a first move to engage civil society in conceiving new responses to persistent social problems.

Governments can also promote the emergence of social new ventures by removing legal barriers, and encouraging social entrepreneurs to take an active role in addressing social problems or actively pursuing broader reforms to develop a friendly environment for social entrepreneurship. In this regard, the intervention of government should have in mind minimum thresholds that should be maintained for the social organization to achieve efficiency and scale.

The neutrality of the institutional environment means that individuals are prone to develop an entrepreneurial activity regardless of the regional attractiveness and, therefore, apart from being acting on more or less developed regions. Since educational level is higher in urban centers and important for constructing personal capabilities perception, the probability of finding a larger base of social entrepreneurs will occur in more densely populated territories. Further, in these territories the economic context is more dynamic and the supply of goods and services by public and private social institutions is more fully undertaken. As a consequence we can conclude that social entrepreneurship could only constitute an effective instrument of social and territorial cohesion if more attention be paid to educational programs on social entrepreneurship in the inner regions of the country and the most disadvantaged ones.

Universities are also scarce in the offer of specific programs in these areas. We also suggest the relevance of public institutions mapping accurately the competences individuals possess and their perceptions about holding the required skills, in order to pursue social initiatives. After training these key skills people in general will be able to integrate their deep knowledge about the specific characteristics of the region and develop or joining social initiatives.

Some authors interestingly found, at a national level, that it is in more individualistic societies, characterized by weaker ties between individuals, that social entrepreneurship is more widespread (Hoogendoorn *et al.*, 2011). The authors argue that in more collectivist societies social services are commonly provided in an informal way, through sources such as extended families. Thus, if more awareness about the benefits of social ventures is transmitted to the population more value could be created in the less favored regions of collectivistic societies.

We could also mention that even assuming the favorability of the institutional environment has no effect on the motivation to constitute a social organization, it could shape the perceptions individuals have about the competences needed for facing the social challenges. Specifically, in less developed regions where educational background is usually lower and potential entrepreneurs could feel neither able nor skillful enough to launch the social venture. In this sense, a favorable institutional environment is a mediating variable which influences in an indirect way the propensity to social entrepreneurship.

The results from the empirical work indicate that the main reason behind social entrepreneurship seems to be the desire to solve the social problems faced by the individuals, supported on their personal capacities and competencies. This result is in line with much of the empirical literature (Baierl, Grichnik, Spörrle & Welppe, 2014; Hockerts, 2013; Roy, Brumagim & Goll, 2014). Then, it seems that some of the critical success factors to promote new social ventures are the level of awareness about social problems and the individual's commitment towards surpassing the community problems. In this regard, public authorities can do little, except promoting social cohesion through an expanding culture where individuals believe that they can always be helpful to their community.

Table 1. Sample characteristics (authors' own survey)

Characteristics	Total		NGOs		PSSE	
	N (68)	%	N (44)	%	N (24)	%
<b>Age</b>						
1-3 years	5	7,4%	3	6,8%	2	8,3%
3-10 years	32	47,1%	25	56,8%	7	29,2%
>10 years	31	45,6%	16	36,4%	15	62,5%
<b>Geographical location</b>						
North	10	14,7%	8	18,2%	2	8,3%
Center	10	14,7%	8	18,2%	2	8,3%
Lisbon	36	52,9%	22	50,0%	14	58,3%
Alentejo	5	7,4%	2	4,5%	3	12,5%
Algarve	1	1,5%	1	2,3%	0	0,0%
Islands	1	1,5%	0	0,0%	1	4,2%
Various	5	7,4%	3	6,8%	2	8,3%
<b>Activity scope</b>						
Local	8	11,8%	1	2,3%	7	29,2%
Regional	7	10,3%	3	6,8%	4	16,7%
National	16	23,5%	6	13,6%	10	41,7%
International	37	54,4%	34	77,3%	3	12,5%
<b>Target audience</b>						
Older people	16	23,5%	11	25,0%	5	20,8%
People with physical disabilities and/or special needs	11	16,2%	4	9,1%	7	29,2%
People from minority ethnic communities	13	19,1%	9	20,5%	4	16,7%
People with particular financial needs	22	32,4%	17	38,6%	5	20,8%
Refugees	6	8,8%	6	13,6%	0	0,0%
People suffering from addictions	4	5,9%	2	4,5%	2	8,3%
Socially excluded/vulnerable people	30	44,1%	21	47,7%	9	37,5%
Animals	0	0,0%	0	0,0%	0	0,0%
Local organizations and associations	21	30,9%	17	38,6%	4	16,7%
Others	33	48,5%	22	50,0%	11	45,8%
<b>Aims</b>						
To complete services supplied by the markets	21	30,9%	11	25,0%	10	41,7%
To complete services supplied by the public sector	33	48,5%	21	47,7%	12	50,0%
To compete with other providers	7	10,3%	4	9,1%	3	12,5%
To compete with the public sector	2	2,9%	2	4,5%	0	0,0%
To perform an activity that is not provided by the public or the private sectors	22	32,4%	16	36,4%	6	25,0%

*Table 2. The relevance of different external variables (authors` own survey)*

	(1) <sup>(a)</sup>	(2) <sup>(a)</sup>	(3) <sup>(a)</sup>	(4) <sup>(a)</sup>	(5) <sup>(a)</sup>	Average	Standard deviation	25 Percentile	50 Percentile	75 Percentile
Existence of support and advice on this type of organizations.	17,8%	26,7%	31,1%	13,3%	11,1%	2,7	1,232	1,2	2,0	3,0
Existence of a favorable legal regime for this type of organizations.	26,7%	22,2%	26,7%	11,1%	13,3%	2,6	1,353	1,4	1,0	3,0
Existence of a favorable tax regime for this type of organizations.	31,1%	17,8%	24,4%	13,3%	13,3%	2,6	1,405	1,4	1,0	3,0
Facility in obtaining information to start the project.	22,2%	24,4%	31,1%	13,3%	8,9%	2,6	1,23	1,2	2,0	3,0
Facility and simplicity of administrative procedures for launching the project.	28,9%	22,2%	28,9%	11,1%	8,9%	2,5	1,272	1,3	1,0	2,0

Notes: N=45; Scale: (1) Very low importance; (2) Low importance; (3) Null importance; (4); High importance; (5) Very high importance.



Table 3. The relevance of a favorable external context (authors` own survey)

Component	Principal Components Analysis										Student's t-test <sup>b</sup>	
	Factor loading <sup>t</sup> <sup>a</sup>	Average	Standard deviation	25 Perc.	50 Perc.	75 Perc.	Eigenvalues	% Var.	Cumul. %	Cronbach's Alpha	t	P-value
<b>Component 1:</b> <b>The relevance of the external context favorability</b>		<b>2,6</b>	<b>1,11</b>	<b>1,5</b>	<b>2,6</b>	<b>3,2</b>	<b>4,0</b>	<b>37,7</b>	<b>37,7</b>	<b>0,91</b>	-2,321	0,025
Existence of a favorable tax regime	0,895	2,6	1,4									
Existence of a favorable legal regime	0,893	2,6	1,4									
Facility of obtaining information to start the project	0,862	2,6	1,2									
Existence of support and advice	0,808	2,7	1,2									
Facility and simplicity of administrative procedures for launching the project	0,761	2,5	1,3									
<b>Component 2:</b> <b>Personal capabilities perception</b>		<b>3,8</b>	<b>0,95</b>				<b>2,5</b>	<b>27,0</b>	<b>64,7</b>	<b>0,79</b>	5,709	0,000
To have the ability to view risks as opportunities	0,856	3,6	1,2									
To be able of identifying a social necessity	0,829	3,8	1,1									
To have competence and experience needed to start the project	0,736	4,0	1,0									
<b>Perception of desirability of the social venture</b>	-	<b>4,3</b>	<b>1,03</b>				-	-	-	-	8,239	0,000

Extraction method: principal component analysis; Rotation method: varimax, with Kaiser normalization; KMO measure = 0,756; Bartlett's sphericity test: p= 0,000.

a. Rotation converged after 3 iterations.

b. Test value =3,  $\alpha=0,05$ ;

*Table 4. Frequency distribution of the importance attached by individuals to a favorable institutional environment (authors` own survey)*

<b>Importance attached to a favorable institutional environment</b>	<b>Frequency</b>	<b>Percentage</b>	<b>Cumulative percentage</b>
Very low [1, 2[	14	31%	31%
Low [2, 3[	13	29%	60%
Null [3]	2	4%	64%
High ]3, 4]	11	24%	89%
Very high [4, 5]	5	11%	100%

## **FUTURE RESEARCH DIRECTIONS**

This study allowed us to capture the way the external context acts on the decision to go ahead with a social venture. However, more research is needed, namely, addressing a deeper analysis of the external constraints associated to the motivations towards the social venture. Also, some efforts could be made to evaluate the way external variables impact on the performance of social organizations emerging from new social ventures.

This paper suffers from some limitations. One derives from the nature of the investigation (quantitative), the sample used, and the number of questionnaires that have been collected. However, it represents closely the emergent phenomena of the entrepreneurial social sector in Portugal. Also, there was place to go deeper in the investigation of the issue using other analytical methodologies, namely qualitative ones. Since the focus of the study was on actual social entrepreneurs it could be interesting to inquire potential entrepreneurs that never established a social venture to discern the reasons and obstacles for not to do so.

## **CONCLUSION**

Social entrepreneurship is an area which has been developed recently and experienced a fast growth, responding to deficits found in the provision of certain social services, either by public or private entities. Following its development, it has succeeded to capture the interest of more and more researchers aiming to better understand the motivations behind the launching of social ventures and the capacity of organizations for giving efficient answers to the social problems they try to solve.

The empirical research provided envisaged to understand the influence of the external social environment on the emergence of new social ventures in Portugal. The analysis undertaken allowed us to conclude that a favorable institutional environment (social, institutional) seems to have a low influence on the decision-making process related to the creation of new social ventures. Conversely, the sense individuals hold about the skills required to develop the new venture and the previous knowledge that their action will produce a desirable outcome have a

significant weight on their decision. Therefore, the question that can be raised is if public authorities or any kind of social institutions can drive individuals to take entrepreneurial initiatives of social nature that allow attacking existing problems, namely in territories where that initiative is more scarce and, so, more needed.

The results also confirm the critical role that social entrepreneurship can play in attaining greater social cohesion and more balanced regional development. This relates closely to the individual's motivation behind launching a social organization. In less developed regions, the most common attitude of traditional economic actors is not to act. Instead, social entrepreneurs, motivated by their commitment towards their community and the creation of social value will try to find solutions to the existing social needs. The establishment of new social ventures, even when confronted with a hostile environment, is most probable, since social entrepreneurs perceive they have the appropriate skills to act.

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