

6-11-2016

THE WELFARE STATE AND SOCIAL ENTREPRENEURSHIP: INSIGHTS FROM A MULTILEVEL STUDY OF EUROPEAN REGIONS¹

E. Folmer

Aston Business School, UK, e.folmer@aston.ac.uk

A. S. Rebmann

Aston Business School, UK

U. Stephan

Aston Business School, UK

Recommended Citation

Folmer, E.; Rebmann, A. S.; and Stephan, U. (2016) "THE WELFARE STATE AND SOCIAL ENTREPRENEURSHIP: INSIGHTS FROM A MULTILEVEL STUDY OF EUROPEAN REGIONS¹," *Frontiers of Entrepreneurship Research*: Vol. 36 : Iss. 15 , Article 1. Available at: <https://digitalknowledge.babson.edu/fer/vol36/iss15/1>

This Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized editor of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.

**THE JOURNAL OF SMALL BUSINESS MANAGEMENT (JSBM) AWARD
FOR THE BEST PAPER ON THE TOPIC OF PUBLIC POLICY**

**THE WELFARE STATE AND SOCIAL
ENTREPRENEURSHIP: INSIGHTS FROM A MULTI-
LEVEL STUDY OF EUROPEAN REGIONS¹**



*E. Folmer, Aston Business School, United Kingdom
A.S. Rebmann, Aston Business School, United Kingdom
U. Stephan, Aston Business School, United Kingdom*

ABSTRACT

We develop new insights into social entrepreneurship about the role of the welfare state and citizen's feelings of solidarity taking a regional perspective. Past research proposed opposing roles of the welfare state for social entrepreneurship in the institutional support and void perspectives, consistent with "crowding in" and "crowding out" views of solidarity. We conduct multi-level analysis in which individuals are nested in regions and countries based on merged data from the 2009 EU Flash Eurobarometer on Entrepreneurship, the European Social Survey and Eurostat. We find support for a long-term 'crowding in' and a short-term demand effect of the welfare state.

INTRODUCTION

Socially oriented businesses are self-sustainable ventures with a social goal that engage in market-based strategies to generate revenue. For these ventures the pursuit of a social goal is at least as or more important than profit generation (e.g., Mair & Marti, 2006). They direct their efforts towards serving a clientele that is often socially disadvantaged, impoverished or hard to reach. In this respect, social enterprises fulfil a similar function to welfare state redistribution. Governments especially in developed economies increasingly see social businesses as complementing or even replacing welfare state interventions. Yet it is still unclear how social entrepreneurship is related to support for and the configuration of the welfare state. Competing propositions exist regarding the role of the welfare state and the public's perceptions toward welfare for social entrepreneurship. Larger welfare states may "crowd out" social entrepreneurship as they imply less demand for social enterprises (Dacin et al., 2010). Conversely, large welfare states may be indicative of broader feelings of solidarity which may "crowd in" social entrepreneurship (Stephan et al. 2015). We start to unpack these competing predictions by focussing on cultural attitudes towards the welfare state – an indicator of solidarity – as well as indicators of actual welfare state performance. To do so we draw on extant theorizing about solidarity in sociology and political science (Esping-Andersen, 1990; Roller, 1995).

Most social entrepreneurial activity is local in nature, rooted in the communities that social entrepreneurs are embedded in (Amin et al., 2002; Zahra et al., 2009). Thus whilst past research has focussed on nations as the context of social entrepreneurial activity, we propose to adopt a complementary and more fine-grained regional lens. A regional focus is also consistent with more general evidence for substantial and persistent differences in entrepreneurship rates across sub-national regions (Fritsch & Mueller 2004; Fritsch & Storey 2014). Likewise, evidence in the welfare state literature indicates that spatial proximity influences congruence in attitudes towards the welfare state via social-interactive mechanisms (Bailey et al 2013; van Oorschot 2000).

¹ 'This project has received funding from the European Union's Seventh Framework Programme for Research, Technological Development and Demonstration under Grant Number 613500.'

This study advances our understanding of the type of institutional context that is conducive to the emergence of social entrepreneurship and specifically starts to unpack the role of the welfare state - as experienced by citizens on a regional level. Our study also contributes to recent research that emphasizes the importance of sub-national differences in attitudes and perceptions of government performance, trust and culture. In the following, we first outline how others have theorised the relationship between institutional context and entrepreneurship, thereby positioning our discussion of the welfare state in the literature on institutions. We then zoom in on how the welfare state might affect social entrepreneurship, paying attention to the institutional void and the institutional support theses. Next we present methods and results, and close with a discussion.

HYPOTHESES DEVELOPMENT

There are two major lines of thought with regard to the influence of institutions on economic behaviour including on entrepreneurship: new institutionalism in economics and neo-institutional theory in sociology. New institutionalism in economics focuses on formal dimension of institutions; how “the rules of the game” influence transaction costs between economic actors and how this facilitates or hampers economic activity (North, 1990). In the neo-institutional approach, institutions are conceptualised as “more implicit, slowly changing culturally transmitted and socially constructed” (Stephan et al., 2015:310). This approach sees economic actors as embedded in a socio-cultural context that shapes preferences for entrepreneurial action and emphasizes informal institutions. Scott (1995) brought attention to the fact that the institutional context has normative and cognitive dimensions. Normative institutions influence behaviour through social norms which define goals and objectives as well as designating the appropriate behaviour for pursuing them (Scott, 1995).

The institution of the welfare state comprises elements of both formal institutions in the form of redistributive programmes and taxation as well as informal institutions in the form of norms regarding solidarity. Both may be expected to influence regional differences in rates of social entrepreneurship. First, solidarity is defined as “the willingness to help other people” (De Beer and Koster 2009; Paskov and Dewilde 2012) and can be described in more detail as the belief “...that the well-being of one person or of one group is positively related to the well-being of another person or group” (van Oorschot 1991).

Solidarity is not equivalent to social capital (although some authors argue otherwise Fulkerson and Thompson, 2008). Solidarity differs from social capital as it emphasises a moral obligation to others without expecting a return; while social capital is typically seen to be more instrumental and mutually beneficial, referring to the resources embedded in relationships (Gedajlovic et al., 2013).

Importantly, solidarity can be organised informally or formally. The informal organisation of solidarity refers to a “direct involvement and sympathy” with other persons, contributing to their welfare directly with your actions (De Beer and Koster 2009: 20). This form of solidarity is mostly voluntary and takes place in the family, the community or wider civil society. Formal solidarity is organised by an institution like the state, and refers to a more indirect and compulsory solidarity with others by paying taxes to support a social benefit system (Ibid.). Citizens’ positive attitudes towards formal solidarity are a cornerstone for support of the welfare state and the implementation of re-distributional justice (see for example Reeskens and van Oorschot 2013; Horton and Gregory 2010).

Sociological and political science research has studied solidarity and the institutions of welfare redistribution typically at the level of the nation state. However, considering the tradition of research on regional economic development and regional differences in levels of entrepreneurship, it is worthwhile to explore regional differences in attitudes of solidarity and welfare state outcomes and their impact on social

entrepreneurial activity. In fact, it has been argued that growing economic inequality within countries is reinforcing the spatial segregation of prosperous and disadvantaged population groups. Consider for instance the differentiation between the more affluent regions in the North of Italy and the South of Italy, or between affluent London and the previously more strongly industrialized regions of Wales and the North of England. Such spatial segregation in turn results in greater disparities in for example quality of public services and housing and the availability of jobs, which can create a local demand for social entrepreneurial activity (MacInnes, 2014; Levie & Hart 2011; Williams, 2007). A recent study of neighbourhood context and solidarity suggests that attitude transmission and knowledge accumulation regarding local economic conditions and problems are mechanisms that create local congruence in attitudes towards redistribution (Bailey et al. 2013).

Solidarity is an important basis for the legitimacy of and support for a welfare system. Roosma et al. argue that “[t]he welfare state’s redistribution process must be embedded in a shared idea of social justice and fairness to be legitimate” (2013: 237). So on the one hand solidarity attitudes are an important pre-condition for the existence of the welfare state. On the other hand, once in place, the welfare state also reinforces attitudes of solidarity by collectively socializing its members into acts of solidarity (Larsen, 2008; Jaeger, 2006).

We suggest that solidarity is equally an important driver underpinning social entrepreneurial activity. Social enterprise can be seen as another expression of solidarity through business activity – as opposed to state activity – thus favourable attitudes to solidarity should positively impact the supply of social entrepreneurs. Furthermore, social entrepreneurs starting out in regions with high levels of solidarity may also be able to draw more on support from stakeholders and customers. Thus, we expect that higher levels of solidarity positively influence the share of social oriented businesses in a region.

Hypothesis 1: The likelihood that individuals are socially-motivated entrepreneurs is positively influenced by the level of support for redistribution and the welfare state in the region, i.e. the cultural support for formal solidarity.

In addition to solidarity, the formal dimensions of the welfare state, i.e. its formal programmes and policies, may affect social entrepreneurial activity in two ways. On the one hand, a social benefit system that is perceived to work well might “crowd out” informal expressions of solidarity including social entrepreneurship because people feel they already contribute to an adequate institutional system that helps others. The “crowding out” hypothesis states that social expenditures can negatively affect the development of informal caring-relations and thereby decrease communal forms of organisation and participation in civil society (van Oorschot and Arts 2006). On the other hand, the opposite relation has also been proposed, where “a well-developed welfare state creates the structural and cultural conditions for a thriving and pluralist civil society” (van Oorschot and Arts, 2006: 6). This “crowding in” hypothesis assumes a positive relationship between the formal organisation of solidarity (i.e. the welfare state) and the informal organisation of solidarity via civil society, for example in the form of social entrepreneurial activity.

This set of contradictory theses connects to the discussion on the relationship between formal institutions and social entrepreneurship, which has been cast in the “institutional void” vs. “institutional support” theses. The institutional void thesis states that low government activism in the provision of social services and social programmes creates opportunities for social entrepreneurs to “fill” these voids (Estrin et al., 2013; Dacin et al., 2010; Mair and Marti, 2009). In areas with less effective social service provision, social problems and needs arise that trigger a higher demand for social entrepreneurship (Stephan et al. 2015). The institutional support thesis alternatively states that high government activism supports social entrepreneurship by providing tangible and intangible resources for social entrepreneurs. In this way, government and social enterprises become partners in achieving social goals (see Stephan et al. 2015). Thus, a well-developed, well-functioning welfare state works together with civil society organisations and provides its citizens with the resources

to behave in a solidary manner (Stephan et al. 2015; van Oorschot and Arts 2006). Stephan et al. (2015) find evidence for a positive relationship between formal institutional support and the prevalence of social enterprises. Also, van Oorschot and Arts (2006) do not find support for the ‘crowding out’ hypothesis in their study of 33 European countries. Conversely, Estrin et al. (2013) investigating nascent social entrepreneurship find some evidence of crowding out for social entrepreneurs in countries with more government spending, yet also that social entrepreneurship thrives in countries with strong constitutional level institutions. We propose that a reason for the mixed findings may be that social entrepreneurs are motivated by current need, i.e. short-term social problems, but are only able to react to those needs if they can count on the long-term institutional support derived from government activism. This leads to the following hypotheses:

Hypothesis 2: The likelihood that individuals are socially-motivated entrepreneurs is positively influenced by a long-term high-performing welfare state in a region.

Hypothesis 3: The likelihood that individuals are socially-motivated entrepreneurs is positively influenced by a short-term poorly performing welfare state in a region.

RESULTS

We find support for hypothesis 1. We find a positive relationship between regional solidarity, as expressed by positive attitudes toward welfare state redistribution, and the share of entrepreneurs operating socially oriented businesses on the regional level. We also find support for hypothesis 2. In regions where the welfare state is performing well, as indicated by life expectancy, we observe more social entrepreneurs. Turning to hypothesis 3, we find no association between the rate of NEETs at the regional level and the likelihood of individuals operating socially oriented businesses. Yet when we conducted robustness checks exploring non-continuous effects our independent variable, we find evidence for a positive effect of very high levels of NEETs in a region on social entrepreneurship. We interpret this as a short-term demand side effect which is consistent with the institutional void view. The models using categorical versions of our predictor variables replicate the findings for solidarity and life expectancy.

DISCUSSION AND IMPLICATIONS

We find that in regions in which the public views redistribution positively, individuals are more likely to engage in social entrepreneurship. Thus, broad solidarity is positively related to social entrepreneurship. Our results also shed new light and nuance on the discussion on institutional support versus void theses. Long-term welfare state performance, indicated by life expectancy outcomes, is positively related to social entrepreneurship. This finding indicates that government activism “crowds-in” social entrepreneurship by encouraging individuals to become social entrepreneurs through providing a role model of solidarity. This provides evidence for the institutional support thesis. In contrast, NEETs is either statistically insignificant or positively related to social entrepreneurship, providing some support to the crowding out thesis. This contrast can be explained by the fact that NEETs is an indicator of the short-term demand for social entrepreneurs based on current poor performance of the welfare state, whereas life-expectancy is an indicator of a well-performing welfare state that is decreasing structural inequalities over the long-term. Our findings indicate that institutional support thesis holds in the long-term. Over the long run a well-performing welfare state creates the necessary pre-conditions and support infrastructure for social entrepreneurs to thrive. However, in the short-term (a lack of) welfare spending creates “voids” which influence direct demand for socially oriented businesses. This points to a complex relationship between welfare state institutions and social entrepreneurial activity. Where the welfare state is effective in providing the structural preconditions for social entrepreneurial activity to thrive we see more socially oriented businesses. In the long-term, government activism supports social entrepreneurship by providing tangible and intangible resources for

social entrepreneurs. Instead of a scenario where socially oriented businesses replace social services provided by the welfare state, a more supplementary and mutually constitutive relation would be more productive. For example, local governments could consider contracting out social service provision to socially oriented businesses are they are able to recognize and respond adequately to local problems.

METHODS

Statistical analysis	Multi-level simultaneous logit: individuals (level 1) are nested in regions (level 2) and countries (level 3)
Sample	17808 individuals in 186 regions in 26 EU countries
DV	<p>The EU Flashbarometer on Entrepreneurship 2009 identifies individual entrepreneurs, which are then asked a question about their social motivations. We define social entrepreneurs as those who express that “addressing an unmet social or ecological need” was very important for making them take steps to start a new business or take over an existing business. To make our result sharper and explore how social entrepreneurship may be distinct from or similar to commercial entrepreneurship, we also consider the relationship of solidarity with the latter.</p> <p>social entrepreneurship (soc ent): 1 = socially motivated entrepreneur, 0 = not a socially motivated entrepreneur (includes both commercially motivated entrepreneurs and non-entrepreneurs)</p> <p>commercial entrepreneurship (com ent): 1 = commercially motivated entrepreneur, 0 = not a commercially oriented entrepreneur (includes both socially motivated entrepreneurs and non-entrepreneurs).</p> <p>Broad classification of entrepreneurship used: includes nascent, young and established businesses due to small sample size which prevents de-segregation.</p>
IV	<p>Level 2: solidarity (attitude towards welfare state redistribution): an index formed of 6 items. Questions ask respondents their views on the responsibilities of the government for employment, health care, living standards for the old, living standards for the unemployed, child care services for working parents, paid leave from work for temporary carers.</p> <p>average life expectancy is used as an indicator of long-term welfare state performance, based on the argument that increased life-expectancy is a structural indicator of access to health-related resources and economic wealth (Coburn, 2004). A generous and well-performing welfare state indicated by higher life expectancy points to a government that actively redistributes income and life-chances (van Oorschot, 2006).</p> <p>NEETS – average proportion of young people neither in employment nor in education or training. A higher NEETS rate indicates poor performance of the labour market. This is a more short-term indicator of welfare state performance as it often reflects fluctuations in the business cycle, for example in the EU many regions experienced increased rates of NEETS following the 2008 crisis.</p>
Controls	<p>Level 1: female, age, age squared, risk aversion, household income, located in rural, urban or metropolitan area.</p> <p>Level 2: social trust, lag regional GDP per capita,</p> <p>Level 3: lag country GDP per capita, lag state size (proxy on country level for government activism)</p>
Data sources	<p>Level 1: individual level data from 2009 Flash Eurobarometer on Entrepreneurship in the EU. In each participating country around 500 to 1000 individuals representative of the population aged 15 and over were surveyed via telephone.</p> <p>Level 2: regional level data from 2009 European Social Survey (aggregated regional measures of solidarity and social trust) and 2011 Eurostat (life expectancy, regional GDP per capita)</p> <p>Level 3: country level data from Heritage Foundation (state size), and the World Banks' Worldwide Governance Indicators database (country GDP per capita)</p>

CONTACT: Emma Folmer, Aston Business School, United Kingdom; e.folmer@aston.ac.uk; T: +44 0121 204 5260; Aston University, Aston Triangle, Birmingham B4 7ET.

Table 1

Variables	SOC ENT	COM ENT
SOLIDARITY	0.190* (0.097)	0.008 (0.084)
LIFE EXPECTANCY	0.087** (0.030)	-0.011 (0.032)
NEETS	0.004 (0.013)	-0.010 (0.011)
L3[COUNTRY]	1.000 (0.000)	-3.880 (3.385)
L3[COUNTRY>REGION]	1.000 (0.000)	0.200 (0.257)
VAR(L3[COUNTRY])	0.008 (0.014)	
VAR(L2[COUNTRY>REGION])	0.053 (0.042)	

*** p<0.001, ** p<0.01, * p<0.05, + p<0.10; standard errors in parentheses.