Chapter 17
National Ethical Institutions and Social Entrepreneurship

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ABSTRACT

Using insights from institutional theory, the chapter proposes understanding ethics as national institutions that deeply influence social entrepreneurship. Moreover, the chapter proposes that low behavioral ethical standards (normative ethical institutions) provide opportunities for individuals to establish social enterprises. Furthermore, it proposes that high public-sector ethical standards (regulatory ethical institutions) and values of unselfishness (cognitive ethical institutions) facilitate and motivate individuals to establish social enterprises. The chapter also explores the combined effects of public-sector ethical standards and low behavioral ethics, public-sector ethical standards and societal unselfishness, and low behavioral ethics and unselfishness, on the creation of social enterprises. The chapter contributes to cross-cultural comparative entrepreneurship by suggesting, through a multilevel framework, the effects of societal-level ethical institutions on the creation of social enterprises.

BACKGROUND

Although the study of entrepreneurship and the study of business ethics have become important lines of inquiry, study of the intersection of entrepreneurship and ethics remains relatively new (Harris, Sapienza, & Bowie, 2009). In particular, examining what ethical factors drive socially responsible behaviors is a burgeoning area of interest among research scholars (Bacq, Hartog, & Hoogendoorn, 2014). Extant scholarship has examined ethical standards primarily at the individual level. Similarly, at the firm level, few studies have examined conceptually the mechanisms through which variation in societal-level institutions may specifically influence corporate social performance among firms (Jackson & Apostolakou, 2010). Some studies have empirically examined the role and effect of societal-level institutions across

large datasets of countries (Habisch, Jonker, Wegner, & Schmidpeter, 2004; Ioannou & Serafeim, 2012; Jackson & Apostolakou, 2010; Jamali, Sidani, & El-Asmar, 2009).

In the case of social entrepreneurship (SE), a growing line of inquiry among scholars investigating the intersection of entrepreneurship and ethics is the ethical or moral factors that drive social enterprises (Bacq et al., 2014). Scholarly discourses on SE appear to dwell on discussions that demand more ethical and socially inclusive capitalistic behaviors (Dacin, Dacin, & Tracey, 2011). Some examples include consumers increasingly looking for more ethically sourced and manufactured goods (Nicholls & Opal, 2005); increasing expectations for multinational organizations to behave in ethically and socially responsible ways (Friedman & Miles, 2001); and politicians under increasing obligation to pursue and implement policies that promote social equality, and reduce the harmful effects of business activities on the environment (Bernauer & Caduff, 2004). Extant research on entrepreneurship and ethics adopts the perspective of either entrepreneurship and ethics or entrepreneurship and society. The former perspective deals with the ethics of individual entrepreneurs, and the latter concerns questions related to social and economic implications of entrepreneurship (Hannafey, 2003).

Some of the key constructs scholars use to understand the influence of ethics on social entrepreneurship are ethical attitudes reflected in the responses to questions about right and wrong (Bucar, Glas, & Hisrich, 2003); a system of value principles or practices and the ability to determine right from wrong (Payne & Joyner, 2006); perceived importance of ethics, measured by obligations to stockholders and stakeholders (Shafer, Fukukawa, & Lee, 2007); and ethical attitudes in response to issues, concerns, and activities involving standards in society for what is morally right and virtuous (Franke & Nadler, 2008). Further, the Global Entrepreneurship Monitor's (GEM) research report on SE reports an average of 3.2% of new social entrepreneurial activity (or new social enterprises established or under establishment) across the 58 GEM economies (Bosma, Schøtt, Terjesen, & Kew, 2016). The report suggests this activity ranges from 0.3% in South Korea, to 10.1% in Peru. The reported cross-country variance suggests possible societal-level differences in countries, which have resulted in differences in the establishment rates of social enterprises.

These items imply the following observations. First, extant scholarship that has attempted to link ethics with social entrepreneurship has been using constructs interchangeably; therefore, the measures of ethics described above are similar, and capture all aspects of ethics. Second, national or societal-level differences may contribute to the differences in the establishment rates of social enterprises. This chapter addresses the identified gaps by proposing that ethics be viewed through different lenses, by developing an understanding of national or societal-level ethical institutions, and attempting to predict their influence on the creation of social enterprises. Further, the chapter uses the institutional configuration perspective (Stephan, Uhlaner, & Stride, 2014) to understand the joint effects of societal-level institutions. It suggests a multilevel theoretical framework to understand the effects of societal-level ethical antecedents, and to predict the creation of social enterprises. In so doing, the chapter distinguishes one form of ethics from the other, and provides a framework for understanding the effects of ethical institutions at the societal level on the creation of social enterprises. The chapter further contributes to the calls for research to examine the effects of context on entrepreneurship (Welter, 2011).

The chapter is organized as follows. In the next section, a brief discussion of SE precedes discussions on context and its relevance to entrepreneurial research. Then, societal institutions (or institutions at the national level) and research on the interface between ethics and social entrepreneurship are discussed. There follows a discussion of the suggested conceptual framework, and development of propositions

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