

# **NATIONAL CONTEXT MATTERS: INFLUENCE OF NATIONAL BUSINESS SYSTEM ON SOCIAL ENTERPRISES IN SCOTLAND AND INDIA**

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## **1. INTRODUCTION**

In recent years, social entrepreneurship has attracted increasing attention thanks to existing successful initiatives, such as the Ashoka Foundation (Ashoka, 2015), a global network of social entrepreneurs, and the work of social entrepreneur and Nobel laureate Muhammad Yunus (Yunus, Moingeon, & Lehmann-Ortega, 2010). This has led to a flourishing academic research stream, seeking to understand the phenomenon of social enterprise (Dacin, Dacin, & Matear, 2010; Fayolle & Matlay, 2010). Recent research in social entrepreneurship has also stressed the need to understand the effects of the institutional context on social enterprise (Doherty, Haugh, & Lyon, 2014; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008). As an attempt to respond to this need, we examine the cases of two social enterprises, one operating in a developed country context, namely Scotland, and the other in a developing country context, namely India.

We draw upon the literature on institutional theory to compare the influence of institutions on social entrepreneurship across the two countries. We employ Whitley's (1999) National Business System (NBS) perspective which argues that the institutional context plays an important role in guiding economic behaviour and identifies the principal environmental dimensions that would be expected to impact the behaviour of entrepreneurs. It is proposed that comparing a developed and developing country context will give rise to valuable insights into the wider triggers of social entrepreneurship that may differ between the two settings. The potential value of social entrepreneurship to policy makers as a response to intractable social and environmental problems that plague both the developed and developing world cannot be overstated. In comparing the two institutional contexts, mutual lessons may emerge as to how to design policies to unleash the power of social entrepreneurship to tackle these issues.

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## 2. LITERATURE REVIEW

Most of the literature on social entrepreneurship has, hitherto, been dominated by definitional and domain issues, with a greater focus on conceptual over empirical research (Short, Moss, & Lumpkin, 2009). Owing to this definitional debate, multiple definitions of social entrepreneurship exist in the extant literature (Dacin, Dacin, & Tracey, 2011). There is a need to go beyond this definitional debate to accept social entrepreneurship as a cluster concept (Choi & Majumdar, 2014). Lepoutre et al. (2013) argued that a social enterprise consists of a combination of three elements namely a social mission, a revenue model and innovativeness. The social mission of the enterprise refers to the aspect that social entrepreneurs develop products and services that cater to those basic human needs which remain unsatisfied by current economic or social institutions (Seelos & Mair, 2005). This social mission aspect distinguishes social entrepreneurship from commercial entrepreneurship. The other two elements namely revenue model and innovativeness are characteristics of regular entrepreneurship as well (Lepoutre et al., 2013; Mair & Martí, 2006). We use this three elements definition of social enterprise for developing our arguments.

The reasons for the emergence of social enterprises vary across countries. Kerlin (2010) explains the causes for emergence of social enterprises in different regions by studying their historical contexts. According to Kerlin (2010), faltering economic performance was the reason behind the emergence of social enterprises in countries in Western Europe, such as Scotland. This economic decline led to greater unemployment and social enterprise formed part of civil society's response to this social problem. However, in South Asia, social enterprises have emerged as a response to governments' inability to tackle high rates of poverty and unemployment.

In this paper, we are comparing the characteristics of early-stage social enterprises in India and Scotland, and are trying to understand how the institutional context influences them. We employ institutional theory to understand these effects. Institutional theory is concerned with the role of social beliefs, values, relations, constraints and expectations and argues that corporations are embedded in a nexus of formal and informal rules (North, 1990) which directly influence the activities in which they engage and their subsequent outcomes. While new institutional economics (North, 1990) offers interesting and useful conceptualisations on how institutions shape economic systems and trajectories of economic

development, it is weak in offering analytical tools for empirical analysis. In his book *Divergent Capitalisms: The Social Structuring and Change of Business Systems*, Whitley (1999) makes use of a firm-oriented relational view to qualify national institutional regimes as specific economic systems. This framework offers a useful tool for empirical analysis. Whitley's National Business System (NBS) approach links a country's institutional environment with the organization of its economic activities. The central focus of the NBS approach is to explain cross-country differences in the organization and behaviour of firms (Whitley, 1999). Whitley (1992, p. 13) defined NBS as the "distinctive configurations of hierarchical market relations which become institutionalized as relatively successful ways of organizing economic activities in different institutional environments". According to Whitley (1999, p. 47), there are four groups of institutional factors that may affect organizations within a country, namely: (1) financial system; (2) educational system; (3) political system and (4) cultural system. In addition to offering useful conceptualizations of institutions, Whitley's NBS approach is also considered appropriate for understanding entrepreneurial endeavours (Bowen & De Clercq, 2008) and, hence, it informs our approach in this paper.

The first dimension of the institutional context that influences entrepreneurship is the financial system. The financial system refers to the process by which capital is made available and priced (Whitley, 1999, p. 49). The second dimension of the institutional context is the educational system which are the institutions that develop individuals' competences and skills (Whitley, 1999). According to Whitley (1999), an important dimension of a country's educational system is the extent to which practical learning is encouraged through collaboration between firms and educational institutions. The third dimension of a country's institutional context expected to influence the allocation of entrepreneurial activity is the role of the state or government (Whitley, 1999). Finally, the cultural system underpins the reliability of the parties engaged in economic transactions, significantly influencing the type of economic behaviour that takes place within a country (Whitley, 1999).

The NBS perspective was initially used for studying developed countries in Europe (Lane & Bachmann, 1996; Lane, 1992; Van Iterson & Olie, 1992; Whitley, 1992) and East Asia (Whitley, 1991, 1994). These countries had relatively stable institutional contexts for market coordination. Later, the NBS perspective got extended to studying developing countries in Africa (Pedersen & McCormick, 1999) and south-east Asia (Yeung, 2000). Following the wider acknowledgement of the framework, the NBS perspective began to be used in the study of diverse aspects like pluralism in public sciences (Whitley, 2003), managing competences

in technology firms (Casper & Whitley, 2004), and corporate social responsibility (Ioannou & Serafeim, 2012; Matten & Moon, 2008).

### 3. NATIONAL BUSINESS SYSTEMS IN INDIA AND SCOTLAND

The UK has a liberal market economy that is strongly rooted in the principles of neo-liberalism (Hall & Soskice, 2001) and this strongly influences the features of its business system, as described by Whitley (1999). This liberal market thread is evident from the “adversarial arms-length” relationship between the government and management of businesses, which is characteristic of the UK business system (Whitley, 1999). This liberal market stance also translates into low levels of employer-employee interdependence, with more flexible relationships far more normal in the UK compared to other economies, such as the Japanese economy, for instance, which is at the other end of the spectrum in terms of employer-employee interdependence (Whitley, 1999). External to the firm, market relationships are competitive, with little cooperation among competitors, thus, networks are limited. The more collaborative relationships that exist in continental Europe are not strong in the United Kingdom (Witt & Redding, 2013). India's shift towards a capitalist system has been more recent. In the early 1990s, India started to liberalize its economy and transitioning to a liberal market economy. However, despite being a former British colony, India still lacks various important features of a liberal market economy like the UK, and its business system is considered more akin to other emerging economies like Bangladesh (Witt et al., 2015).

The financial system in the UK is among the most advanced in the world, the financial institutions are the most important source of lending and there are different specialist types of lending available. In India, the banks are similarly the main source of external capital, the key difference being that the relationship between banks and organizations lasts for a longer period in India (Witt & Redding, 2013). A key aspect of the cultural system in the social capital that exists between the residents of the country. Witt & Redding (2013) as both interpersonal trust, in other words, trust between people, and institutionalized trust – a system that ensures actors in an economic system behave in an honest manner, define social capital. Whilst the UK has a robust legal system, governing formal relations among economic actors, this contrasts with low levels of interpersonal trust, as indicated by the individualistic nature of British society (Hofstede, 1983). Indeed, the United Kingdom's score for individualism is among the highest in the world, with criticisms of an increasingly consumerist society (Hofstede, 2016a). Arguably, low levels of social capital may give rise to a need for social

enterprise in Britain to rebuild trust and reciprocity, especially within disadvantaged communities. The cultural system in India is classified as high on power distance and masculinity, which indicates an appreciation of hierarchy in society and greater drive towards material success respectively. Furthermore, India exhibits both collectivistic and individualistic traits along with a medium-low preference towards avoiding uncertainty (Hofstede, 2016b). Owing to more collectivistic ideals, it would be easier for social enterprises in India to build trust with their target communities. There is also a high level of interpersonal trust in the Indian business system that distinguishes it from the UK system.

The features of the business system in the UK are relatively stable and enduring, whereas India's business system exhibits a more evolutionary and dynamic nature. Most pertinent to our study, the influence that the institutional context in India has had on entrepreneurship, has changed over the years. Since the liberalization policy in 1991, market-based forces have encouraged entrepreneurship. According to World Bank data, the number of new businesses in India has nearly tripled during the period of 2004-2014 (World Bank Group, 2015). Following the clear majority that Bharatiya Janata Party (BJP) won in the 2014 parliamentary elections, campaigning on the plank of industrial growth and entrepreneurship (Sahasranamam & Sud, 2016), greater support for entrepreneurship is being offered within the political system. With regard to social entrepreneurship, the Companies Act 2013, which mandates that corporations spend at least 2 percent of their net profit on well-being of society (The Gazette of India, 2014), has offered greater impetus for corporates to take a proactive role in the social sector (Agrawal & Sahasranamam, 2016). Anecdotal evidence suggests that this has improved the availability of finance for the social enterprise sector (Manzar, 2015). Therefore, there are greater possibilities of accessing funding from corporations in India, compared with the UK.

The educational system in the UK has been supportive of social entrepreneurship. Social entrepreneurship courses have become widespread, with MSc degrees available at institutions such as the University of Stirling, Glasgow Caledonian University, Said Business School, Imperial College, University of Cambridge to name only a few. Most pertinent to our study, in the educational system of Scotland, there are active programmes promoting the entry or re-entry of unemployed people into the labour market (Newman, 2011) and this is of particular relevance to social enterprises engaged in welfare-to-work type programmes. In contrast, there are few institutions offering social entrepreneurship specific courses in India, a few

exceptions being the Tata Institute of Social Sciences (TISS) and Institute of Rural Management Anand (IRMA).

This study aims to shed light on how these institutional differences between the UK and India actually influence social entrepreneurship across the two countries.

#### **4. METHODOLOGY**

Social entrepreneurship is an emerging field of research, which, so far, has seen few empirical studies. Furthermore, the understanding of how institutional contexts in developing and developed economies influence social enterprises is limited (Doherty et al., 2014; Short et al., 2009). Hence, in order to understand this context, we rely on two qualitative cases from India and Scotland. Building on the previous empirical studies on social entrepreneurship (Hockerts, 2010; Lyon & Fernandez, 2012; Mair & Marti, 2009), we use a comparative multiple case study approach, as this method closely links empirical observations with existing theories. Moreover, this approach is useful to reduce researcher biases and to increase the chances of building empirically valid theories (Eisenhardt, 1989; Suddaby, 2006). This approach also permits the systematic analysis of causal links by considering different factors (Yin, 1981). A further advantage of the multiple case study approach is that it reveals differences and similarities among the cases and locates the findings in a wider picture (Eisenhardt & Graebner, 2007).

##### ***4.1. Case selection and data collection***

In order to develop the understanding of how institutions in India and Scotland influence social enterprises, we have selected the cases of Ecoad from India, and Recycle Fife from Scotland. The choice of these two cases was based on the following criteria. Firstly, both social enterprises are operating in the same sector, namely waste, so we can conduct an effective comparison of the regulatory framework. Second, we chose early stage social enterprises, since they are expected to be affected the most by external environment. Third, both these social enterprises have gained significant media attention and have managed to attract investors' interest. This is indicative of some level of early success and, hence, could offer learning for aspiring social entrepreneurs on how to manage these institutional factors.

For developing the case, we rely on both primary and secondary sources. We interviewed the founding team members of both the social enterprises to understand their motivations for starting the enterprise and the influence the institutional context had on them. We also relied

on publicly available secondary data sources such as websites, management interviews, and newspaper publications. A brief summary of the two case studies is provided in the Table 1.

#### **4.2. Data analysis**

A thematic analysis approach was used to analyse the data (Silverman, 2000), based on identifying features of the institutional context relevant to the two organisations, as suggested by the literature on social enterprise and institutional theory. We transcribed and coded the interviews and analysed the local and central government policies along with the institutional discourse on social entrepreneurship in India and Scotland. Following this process, it was possible to compare and contrast the two cases using these themes. The within-case and cross-case comparison is presented in Table 2.

**Table 1. Summary of the two case studies**

	<b>Ecoad</b>	<b>Recycle Fife</b>
Area of operation	Pune, India	Lochgelly, Fife, Scotland
Founding year	2011	2003
Social mission	Reducing the use of plastic bags, reduction in rural poverty, and empowerment of women	Recycling of waste and employment of disadvantaged people
Revenue model	Advertisements of local businesses	Commercial income from waste management contracts and income from New Deal welfare-to-work programmes
Innovation	New business model based on using advertising to cover production costs and to provide margins	Using commercial income from waste management contracts to create local green jobs

### **5. WITHIN CASE AND CROSS CASE ANALYSIS**

In this section, we first provide a brief background on the two social enterprises we are studying along with their business models. Then, we illustrate how the institutional context in India and Scotland have influenced these social enterprises. We summarize the within case and cross case analysis in Table 2.

#### **5.1. Background of Ecoad**

Ecoad, a for-profit social enterprise, was started by entrepreneurs Rohit Nayak, Sudhir Deshpande and Satyaprakash Arora in 2011. They were inspired to take action by the amount of litter caused by plastic bags:

*“We were particularly motivated by the fact that plastic is harmful to us. In the final year of engineering, we decided to work on this cause. It is a very good for-profit social enterprise model that we thought out, that is how we started this.”*

Plastic bags are a major environmental hazard as they are non-biodegradable and contribute to global warming. Their durability, strength, low cost, resistance to water and chemicals and easier manufacturing make plastic bags very attractive. However, the non-biodegradable nature of the bags makes it harmful for humans and animals. Furthermore, during monsoons, rain dissolves the toxins present in the discarded bags and these permeate the soil and pollute groundwater. Plastic bags also find their way into waste streams in India leading to the blockage of municipal waste management systems. The plastic recycling industry in India is also plagued with many problems. The recycling units are characterized by outdated technologies, unskilled labour, and poor health and safety conditions for workers.

The state of women in India, particularly that of rural women, has been at the centre of increased global attention. Being a patriarchal society, right from the time of birth, a male child is given additional care in comparison to a female child in rural India. The fact that the female infant mortality rate is 48 per 1000 live births in rural areas compared to 29 per 1000 live births in urban areas reflects this state of affairs<sup>2</sup>. The poverty levels are also acute in rural households, with almost a third of them living below the national poverty line, estimated at half a dollar per day<sup>3</sup>. Women in some parts of rural India are not allowed to go out of their house to seek employment. The region in which Ecod operates is one of those areas where this culture towards women exists (Sahasranamam & Ball, 2016).

Ecod employs four permanent employees. In addition, over 200 rural women, organized in the form of Self-help groups (SHGs), work as contractual employees developing the paper bags. Currently the main clients of newspaper bags produced by Ecod are the pharmacies in Pune, Western India. Ecod has pharmacies, grocery stores and retail stores as its clients and sells over 50000 newspaper bags per month. They have varying weight carrying capacities in the range of 2 kg – 3.5 kg. For the different varieties of bags, different amounts of newspaper sheets are used.

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<sup>2</sup> [http://www.censusindia.gov.in/vital\\_statistics/SRS\\_Report\\_2012/11\\_Chap\\_4\\_2012.pdf](http://www.censusindia.gov.in/vital_statistics/SRS_Report_2012/11_Chap_4_2012.pdf)

<sup>3</sup> <http://www.ruralpovertyportal.org/country/statistics/tags/india>

When Ecoad started, there was little interest among the pharmacies to change from plastic bags to newspaper bags. After frequent visits to the pharmacies, the Ecoad team was able to convince a pharmacy to make a purchase, generating the first order. The rotary association in Pune was supportive in accepting the SHGs as suppliers. The key role that Ecoad plays is to act as the intermediary for the SHGs, which ensures a steady stream of revenue for the rural women. Ecoad also offers training to the rural women on how to design and make the newspaper bags as per the specifications.

The cost of making a newspaper bag is more expensive than making plastic bags. Retail store owners and pharmacists show greater reluctance towards newspaper bags, as they do not want to pass on the cost burden to the consumers. Ecoad adopts an innovative business model to work around this. The business model of Ecoad offers newspaper bags at lower rate to its clients, covering up for the remaining costs through selling advertising space on the bags to local businesses. For those shops which can afford to buy bags at the retail rate and not add the burden onto the end customer, Ecoad sells the bags at retail rate itself (See website for retail rates - <http://www.ecoad.in/shop/?add-to-cart=1424>). The team offers different advertising plans with prices depending upon the desired visibility. They concentrate on local businesses because they feel buying local is better for the micro economy of the area and eventually benefits the society, the environment and the country.

## ***5.2. Background of Recycle fife***

Established in 2003, *Recycle Fife* is an excellent example of a social enterprise achieving economic, environmental and social outcomes in Scotland. Local residents Frankie Hodge and Jackie Dunsmuir were originally part of an action group, set up in opposition to proposals to build a local landfill site. They decided to set up a recycling social enterprise, *Recycle Fife*, which would recycle local waste and, thus, act as an alternative to the landfill site. In addition to the environmental outcomes through recycling, *Recycle Fife's* primary social mission is the employment of disadvantaged individuals, including long-term unemployed and those with disabilities. The local community in which *Recycle Fife* operates has been severely affected by the decline of the mining industry and the village of Lochgelly, in which *Recycle Fife* is based, was classified as being in the top 5 percent of most deprived areas in Scotland in 2012 (Scottish Government, 2012). Arguably, the emergence of social enterprises like *Recycle Fife* owes a lot to their institutional context and this section will discuss, firstly, the social innovation delivered by *Recycle Fife* and, secondly, the institutional context with

which it interacts. Information for this chapter was gathered during two interviews with Frankie Hodge, the co-founder of *Recycle Fife*, one conducted in summer 2011, and the other in summer 2012.

Following the financial crisis of 2008, the public sector in Scotland has been in a state of fiscal crisis and has faced dramatic budget cuts. In such times of volatility, public sector organisations have been forced to find innovative ways to continue service provision whilst reducing costs (Evans, 2011). Arguably, contracting services out to social enterprise organisations offers a means of reducing the cost of service provision and is a preferable option to privatisation, in view of the social value that such organisations generate (Danson et al., 2011). Moreover, given their organic and entrepreneurial nature, they may make innovations to the way the service is delivered that more bureaucratic and risk-averse public sector bodies would not (Ball, 2012). *Recycle Fife's* provision of bespoke waste management services to clients is testament to this ability to innovate as a smaller, more agile waste management provider:

*"Sometimes we go for the contracts that the big companies are not interested in. We try to give a bespoke service to customers. Every customer is treated as an individual. We go to the site. What works best for one customer is not good for another. Whereas some of the bigger companies say: We want to give you these bins to do this and that's it....."*

Proximity to customers and a more personalised service enables *Recycle Fife* to offer enhanced waste management solutions adapted to client needs. In contrast, larger organisations would provide more standardised solutions that are less optimal, as this is consistent with their business model centred on high volumes.

*Recycle Fife* delivers social innovation through its business model which is distinctly different both to those of traditional charities and purely commercial firms. In contrast to charities, there has been a shift on the part of *Recycle Fife* away from relying on public funding to generating their own income:

*"I feel a true social enterprise is the goal. You have to support yourself, you're a business"*

*"Our product is recycling, waste management and training. We make money from it. It's great having all these things that help the community etc., but what are you selling?"*

These comments emphasise the importance of having a viable business model for social enterprises to survive and to be sufficiently economically sustainable to deliver the social outcomes for the community in which they operate and the desired environmental outcomes. Social value is supported by the commercial operations. *Recycle Fife* has developed private commercial income from providing recycling services to businesses and through leasing skips for waste collection. This accompanies its more traditional income from public sector residential waste collection. In terms of *Recycle Fife's* social value, this is largely represented by the employment created for disadvantaged groups. For example, in the case of Recycle Fife, revenue generated would be used to create an additional job, as opposed to being distributed to shareholders, demonstrating the principle of reinvestment in the social mission. Indeed, since its establishment in 2003, *Recycle Fife* has created one hundred and eighty seven jobs (Recycle Fife, 2015). Recycle Fife's social impact has been quantified further, with statistics demonstrating that for every £1 invested in Recycle Fife, £5.25 of social and environmental value is generated (Communities Scotland, 2006). Those employed may often be people who would not be given an opportunity by a conventional employer and require additional support in integrating back into employment:

*"Because we deal with people furthest from the job market, we try to give them an extra chance"*

Given the social mission of the enterprise, namely the reinsertion of disadvantaged people back into employment, the culture and, for instance, the disciplinary procedures, are more lenient to take into account the challenges such individuals face in engaging in the employment market. Social innovation arises, partly, out of the fact that social enterprises take into account wider community benefits when making decisions; they may, for example, employ individuals who require more assistance and support than other workers. Whilst this may not be a commercially sound decision, it achieves social sustainability. It is in integrating these wider socio-economic outcomes into decision making, that *Recycle Fife* produces social innovation. However, despite the fact that social innovation may conflict with economic outcomes, this social enterprise nevertheless pursues a robust business model.

### ***5.3. Effect of institutional context on the social enterprises in India and Scotland***

#### ***5.3.1. Educational system***

In India, until recently, entrepreneurship was not considered as a respectable profession and was subsequently given limited attention in educational institutions. The focus was predominantly on developing individuals for large multinational corporations. Also, as mentioned earlier, limited number of universities in India offered social enterprise specific courses. Consequently, Ecod had obtained limited support from the educational institutions when they started. They found it difficult to attract talented people to come and work for the social enterprise. However, the Ecod founders did identify some social conscious students in a couple of engineering colleges based in Pune. These students supported Ecod as interns or as volunteers to deliver its marketing events and for spreading general awareness about the harm caused by plastic bags. Ecod had also ran a competition for engineering college students called 'eco-marketing'. As part of this contest, the students went to different pharmacies and retail stores to market the newspaper bags and secure orders. If the student team was able to secure a successful order, then half of that order price was given to the team as prize money for the competition. The support from the engineering college students in these instances helped Ecod in growing and spreading their presence, albeit the value of their prior training was limited and it was left to Ecod to train them.

In contrast, entrepreneurship education has expanded dramatically in recent decades in the UK, with attempts to promote an 'entrepreneurial culture' to invigorate the economy and tackle deprivation (Matlay, 2008). In Scotland, the education system places greater emphasis and value on entrepreneurship than in India and this may lead to entrepreneurship having greater legitimacy as a career in Scotland. There has been greater focus on professionalizing the social enterprise sector – indeed, Recycle Fife had engaged with the *School for Social Entrepreneurs* which has branches in several towns in Scotland. This training for social enterprise is tailored to the different dynamics of social entrepreneurship and the different challenges entailed in running a social enterprise. Such training opportunities in social entrepreneurship aid in building the capacity of the sector in Scotland and may be especially important for social entrepreneurs seeking to progress their social enterprise from the *creativity* stage under Greiner's (1972) model to the four more advanced stages of growth (i.e. direction, delegation, coordination, collaboration) associated with greater managerial challenges.

### 5.3.2. Financial system

Given the limited availability of finance for social enterprises in India, Ecod was bootstrapped mainly from the personal investment of the founders, along with support of

friends and family. For the initial order that they secured from a pharmacy, they received an advance from the pharmacy itself.

*“For the first order, we got advance money from a pharmacy. Otherwise, we were supported mostly from friends and family. We also did some part-time jobs. This also helped in self-sustaining.”*

They also got grant support from the social enterprise incubator UnLtd. Being an incubator focused on social enterprises, Ecodad found it as a good source of investment. They also received additional advice and mentoring support from UnLtd. However, in general, it was very difficult for Ecodad to raise external investment for their firm during the initial phase. After three years of operation and breaking even, Ecodad was able to attract some external investor interest, who, by then, understood the impact they were creating. However, they acknowledge that it was still difficult to convey their impact to prospective investors.

In contrast to India, efforts have been undertaken in Scotland to make access to finance easier for social enterprises. A financial institution dedicated to lending to social enterprises – Social Investment Scotland – was established which lends money to social enterprises at affordable interest rates. Given that it may have been harder for social enterprises to raise finance in traditional capital markets, financial institutions which target social enterprises help to address the gap in external finance which such enterprises face. Recycle Fife was hence able to secure £580,000 investment from Social Investment Scotland, without the need to approach financial institutions in the traditional capital markets. In addition, the development of new financial measures in Scotland, such as Social Return on Investment (SROI), has provided a means for social enterprise organisations to convert social impacts into monetary values, with such a measure important in attracting investment (Martin & Thompson, 2010) and this can help to attract external investors. It could prove valuable when bidding for contracts, if specific and calculable social returns can be proven to public sector procurement managers when awarding contracts. *Recycle Fife* has undertaken an SROI, as discussed above, showing that for every £1 of investment in the organisation, over £5 was returned in social and environmental value. In contrast, schemes such as SROI were not prevalent in the Indian context.

### 5.3.3. *Political system*

In India, the government has not formulated any specific legislation on social enterprises. However, in the sector where Ecod operates, namely plastics, there is a legislation that bans their use in Pune. The ban is specifically on the use and sale of plastic bags with thickness less than 50 microns as per the Maharashtra Non-Biodegradable Garbage (Control) Act, 2006 (Dharwadkar, 2015). This ban came into effect in Pune in 2010, however it was poorly implemented (TNN, 2014). Subsequently, in July 2014, Pune Municipal Corporation (PMC) approved a proposal to ban the use of plastic bags completely irrespective of their thickness. For about a month after this proposal came, regular raids and campaigns made the sale, use and circulation of plastic bags difficult. However, over time, these raids stopped and the plastic bags came back into circulation (Rashid, 2014). The reason attributed by the PMC for the poor implementation is that they neither have infrastructure nor powers to make the ban a reality. Secondly, the presence of illegal low-quality plastic bag manufacturing units in and around the Pune city was providing the traders with plastic bags at cheap rates. PMC have found it difficult to control the production at these illegal manufacturing units since that comes under the purview of Maharashtra Pollution Control Board (Rashid, 2014). A part of the problem lies at the consumer end as well, as they continued demanding plastic bags despite the ban owing to their cheaper price and advantages like durability, chemical and water resistance. This poor implementation of the ban on plastic bags had severely hurt the business prospects of Ecod.

In Scotland, the *European Landfill Directive* has been implemented and, under this legislation, a tax is applied to waste that is sent to landfill – that is, waste that is not recycled. This has created a market for environmental services in the form of waste recycling, through tackling environmental market failure by penalising the wastage of resources. The legislation is enforced and is credible and gives certainty that there will be a market for recycling services for organisations such as *Recycle Fife*. In the absence of the impetus from legislation, it would have been, arguably, far more difficult for social enterprises like *Recycle Fife* to exist, as the market for recycling services would have been weaker. The strong enforcement of environmental legislation in Scotland is of benefit to social enterprises

engaged in the waste sector and this contrasts with the weaker enforcement in India which can undermine markets for recycling services.

Other institutional structures have appeared which have given legitimacy to the social enterprise sector in Scotland. Bridge et al. (2009) describe “legislative and regulatory changes” that have helped to foster social entrepreneurship, principally in the legal forms that social enterprise organisations adopt. They highlight the creation of the structure of *Community Interest Company*, introduced in 2005, as an example of a new organisational form suitable to the activities of social enterprise. The really innovative aspect of this *Community Interest Company* form is that it permits social enterprises to raise money from private investors and pay them a dividend, provided the vast majority of the profits are still reinvested in the social mission and this, crucially, facilitates access to private capital for social enterprise organisations (Bridge et al., 2009). Although this is a prominent example, other structures enable social enterprise organisations to develop commercial activities alongside their social mission, such as trading arms of charities, cooperatives and social firms aimed at reinsertion of the unemployed and disadvantaged (Bridge et al., 2009). Such legal structures recognise the commercial characteristics and social mission of these organisations and have given the social enterprise sector a certain public status and legitimacy when trading and interacting with public sector organisations and financial institutions in the Scottish context. There are differences in the credibility of environmental legislation between the two contexts and this has implications for the market certainty that waste management social enterprises have. As suggested in extant research (Korosec & Berman, 2006; Sahasranamam & Veetil, 2015), the presence of a political system in Scotland (and the UK more widely) that has created legal structures and government policies specific to social enterprises has furthered the growth of the sector.

#### 5.3.4. *Cultural system*

Building social capital is very important for social enterprises, especially during the start-up and early stages when the challenges are perhaps the most intense. In both the UK and India, the accumulation of social capital could be potentially challenging. The UK has low levels of interpersonal trust, as indicated earlier. Furthermore, the government and the public sector in Scotland do not give due recognition of the commercial and self-sustaining nature of social enterprise. India has high levels of interpersonal trust within a community, however, there are lower levels of interpersonal trust with members of other communities and there is low institutionalized trust (i.e. trust in formal legal and political institutions). In India, the

lack of legitimacy for social enterprise as a sector and entrepreneurship as a profession further limits the support that social enterprises are able to receive. For instance, one of Ecod's founders suggested that parents were not happy with him being involved in a social enterprise. Being an engineering graduate, his parents wanted him to be associated with a multinational corporation and make more money. As another constraint, India has a patriarchal society which is highly masculine, which is of particular importance in rural areas where Ecod operates, most notably, women are often not allowed to leave the house.

Nonetheless, both Ecod and Recycle Fife have overcome such cultural challenges and were able to build trust within their communities as a prerequisite for their success. Despite the prevalence of low interpersonal trust in the UK, *Recycle Fife* was able to embed itself in the local community, partly because it was able to demonstrate the social value it generates in the local community, and it has accumulated far higher social capital than conventional firms. Ecod was able to overcome the lack of legitimacy for social enterprise and the challenge of masculine society. Notably, Ecod was able to overcome the cultural barrier of rural women not leaving the house, by allowing women to work from their households. With this opportunity of making newspaper bags from home, rural women are able to earn around Rs. 3500 - 4000 per month. This has enhanced their self-esteem and further demonstrated the value of social entrepreneurship in the community.

Ecod was also able to benefit from high interpersonal trust. India's collectivistic ideals and high levels of trust had a marked effect on Ecod's success. The Ecod team acknowledged that since the women from rural areas knew each other for a long period, it was easy for them to start working together in a SHG. The size of SHGs developed naturally as more rural women joined in after witnessing the benefits others in the village have gained. The coordination within SHGs depended on the leader of the group, who was either selected by the SHG members or, in some cases, decided by the companies that provide CSR support to Ecod. At the broader community level, the support of people who occupy key positions like *Sarpanch* (village leader) played a significant role for Ecod in gaining trust of the community. In villages, people who occupy such key positions are highly respected, and others aspire to follow them. In addition to co-opting and legitimising support, Ecod also received material support from such people. For example, in multiple instances the village leaders' place was used for delivering workshops to the rural women.

*Recycle Fife* was able to benefit from the changes in Scotland's cultural system with regards to social entrepreneurship. Organisations such as the *School for Social Entrepreneurs* and *Firstport*, which offer support to social enterprises in Scotland, were useful for information sharing among social enterprises, leading to mutual benefit among social enterprises belonging to the network. Such networks with local organizations were crucial to *Recycle Fife* in the development of the organisation.

In both contexts, it can be seen that trust within the communities in which they operate is key for social enterprises in enabling Ecod to work well with the rural community and in helping *Recycle Fife* to develop its business. In Scotland, these network relationships appear to be lot more formalized with specialized organizations aiding social entrepreneurs in developing their networks unlike in India where the entrepreneurs had to largely rely on their personal networks.

**Table 2. Within and Cross-Case Analysis**

<u>Features of National Business System</u>	<u>Ecoad</u>	<u>Recycle Fife</u>	<u>Cross-Case Comparison</u>
<b>Political system</b>	<ul style="list-style-type: none"> <li>Ban on plastic bags exists, but it is not fully enforced, so market creation is weak</li> <li>Absence of legal structures specific to social enterprises</li> </ul>	<ul style="list-style-type: none"> <li>European Landfill Directive created market for recycling services</li> <li>Creation of legal structures adapted to social enterprise has conferred greater legitimacy on such organisations</li> </ul>	In Scotland, waste regulations are much more strongly enforced than in India and this translates into a more robust market for Scottish waste management social enterprises. In addition, there are precise legal structures appropriate to social enterprise in Scotland. In contrast, the absence of such legal structures in India suggests that Indian social enterprises lack the legitimacy and the flexibility enjoyed by their Scottish counterparts.
<b>Financial system</b>	<ul style="list-style-type: none"> <li>Difficult to raise external finance</li> <li>Received seed fund support from UnLtd India</li> </ul>	<ul style="list-style-type: none"> <li>New tools, such as SROI, have enabled Recycle Fife to quantify its social impact</li> <li>Use of government grants, to do with small business support and regeneration</li> <li><i>Social Investment Scotland</i> is an important source of external finance</li> </ul>	The use of social accounting tools in Scotland, such as SROI, allows social enterprise organisations to explicitly demonstrate social and environmental outcomes to investors and other stakeholders. <i>Social Investment Scotland</i> , an institution dedicated to the social enterprise sector, is a major aid in addressing the shortage of external finance for social enterprise in Scotland. In contrast, Ecoad struggled to obtain finance in India, while UnLtd is supported by international agencies outside India's institutional system.
<b>Educational system</b>	<ul style="list-style-type: none"> <li>Partnership with engineering schools for interns</li> </ul>	<ul style="list-style-type: none"> <li>Educational interventions dedicated to social enterprise in Scotland – e.g. School for</li> </ul>	In Scotland, social enterprise education appears far more advanced than in India, with specific targeted interventions designed to improve managerial capacity

	<ul style="list-style-type: none"> <li>Limited number of institutes offering social enterprise specific education</li> </ul>	<p>Social Enterprises</p> <ul style="list-style-type: none"> <li>Increased focus on developing entrepreneurship education in schools and universities</li> </ul>	<p>within the social enterprise sector. More generally, there is a major drive to promote entrepreneurship as a career within Scotland and to inculcate an entrepreneurial mind-set in students.</p>
<b>Cultural system</b>	<ul style="list-style-type: none"> <li>Social enterprise suffers from lack of legitimacy – i.e. parents do not consider social entrepreneurship as a good career path for students from engineering schools, which may deprive social enterprises of potential talent.</li> <li>Support of village leader (<i>Sarpanch</i>) important in gaining trust within communities</li> <li>Strong networks between rural women</li> </ul>	<ul style="list-style-type: none"> <li>Embedded in local community thanks to its socially beneficial activities</li> <li>Engagement with more formalised social enterprise networks</li> </ul>	<p>In both contexts, there are cultural misconceptions about social enterprise. In Scotland, the government and public sector do not give due recognition of the commercial and self-sustaining nature of social enterprise. This notion that social enterprise is not profitable was also present in India. Perhaps, it is the case that in both the Indian and Scottish mind-set social enterprise is still confused with traditional charities.</p> <p>In both contexts, it can be seen that trust within the communities in which they operate is key for social enterprises. However, in Scotland, these network relationships appear to be lot more formalized with specialized organizations aiding social entrepreneurs in developing their networks unlike in India where the entrepreneurs had to largely rely on their personal networks. Hence the embeddedness with local community was even more crucial for <i>Ecoad</i>, as winning the trust of community leaders was essential to gaining access to the villages and the women who live there.</p>

## 6. DISCUSSION AND IMPLICATIONS

The two case studies suggest that social entrepreneurship in both contexts addresses social problems that have been outside the scope of the government, on the one hand, and too overwhelming for traditional charities, on the other. The experience of Recycle Fife and Ecodad indicates that there is a more advanced institutional context surrounding social enterprise in Scotland compared to India. The existence of a proper legal framework for social enterprise organisations, social accounting methods and institutions specialised in financing social enterprise activity are testament to this institutional context which recognises the distinct nature of social enterprise to a greater extent. Recycle Fife received finance from a social entrepreneurship fund specifically designed and funded by the Scottish government. However, Ecodad received money informally from friends/family and from UnLtd, a private social-enterprise incubator and received no support from the Indian or Pune governments. UnLtd is supported by various international agencies like the German GIZ, and the Edmond de Rothschild Foundations. In other words, we could say that Ecodad did not directly benefit from the Indian financial system, but rather benefited from institutional structures outside of it. In contrast, Recycle Fife directly benefited from the financial system of the country and the existence of an institution dedicated to meeting the finance needs of social enterprise. Moreover, Recycle Fife could make use of sophisticated financial reporting tools like Social Return on Investment to demonstrate the impact of its social activities in a way that investors would understand. If aspects of this more developed institutional context could be adopted in India, this would, be, potentially, beneficial to the growth and nurturing of Indian social enterprises – it would confer on them the legitimacy and flexibility enjoyed by their Scottish counterparts, among others. Instead, we observed that the Indian institutional context restricted the growth of Ecodad due to the poor implementation of the government directive on the ban of plastic bags. In contrast, the proper implementation of government regulations like the EU landfill directive aided Recycle Fife's business model, as it meant that there was more certainty of a strong market for waste management services. Due to environmental market failures, if such legislation is not implemented and enforced properly, the environmental well-being resulting from waste management social enterprise activities will be under-valued.

Underlying the success of both *Recycle Fife* and *Ecodad* was strong social capital. Gaining the trust of the local community was crucial – the trust inherent within personal networks enabled *Recycle Fife* and *Ecodad* to acquire resources which fostered their growth and the trust of gatekeepers in the local community was essential for *Ecodad* to gain access to

the women in these rural areas. It is possible that this social capital, possessed by the two organisations, arises from the fact that *Recycle Fife* and *Ecoad* are not conventional firms and that their emphasis on generating social value builds this goodwill on the part of the community. They both adopt a local approach to solving these immense problems which explains, in part, their embeddedness in the communities.

In a wider, cultural sense, in both India and Scotland, a normative view lingers that social enterprise is not compatible with economic success. This is adverse to the credibility of social enterprise organisations as suppliers, as they may be perceived as financially insecure and, therefore unreliable and is also, possibly, denying such organisations talent, as they are not seen as attractive employers. Both *Recycle Fife* and *Ecoad* have emerged from a similar set of circumstances – namely, the presence of immense social ills and environmental problems which require local, innovative solutions and these social enterprise organisations present exciting new ways of addressing these challenges. In Scotland, there has been substantial attempts to promote a better understanding of social enterprise and foster a culture conducive to social enterprise, through entrepreneurship education, for instance. This may help to overcome cultural barriers associated with social entrepreneurship.

Ioannou & Serafeim (2012) highlight the importance of formal institutions, namely the political, educational and skill systems on corporate social performance across 42 countries. In accordance with this finding, in both the settings of our study, although there were similarities in terms of the informal institutional context, the formal institutional context had varied impact upon the social enterprises. Likewise, Stephan, Uhlaner, & Stride (2015) found that tangible and intangible resource support from both government and private individuals is a key enabler of social entrepreneurship. We find that in Scotland these results seem to hold true, but not so much in the context of India, where the government support for social entrepreneurship is less strong. It is suggested that Indian policy makers may draw helpful insights from the formal institutions in Scotland in order to promote the incidence and growth of social enterprises in India much more effectively.

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