

# SOCIAL ENTERPRISES: RELATIONSHIP BETWEEN ECONOMIC PROFITS AND SOCIAL VALUES

Pramon KARNCHANAPIMONKUL<sup>1</sup> and San SAMPATTAVANIJA<sup>2</sup>

<sup>1</sup> Faculty of Economics, Chulalongkorn University, Thailand; pramon.kul@gmail.com (P. K.); san.s@chula.ac.th (S. S.)

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## ABSTRACT

Social enterprises (SEs) emerge as newer type of organization that are hybrids between for-profit and non-profit organizations, and are gaining recognition as a major driver of sustainable development. However, SEs typically have economic and social objectives, of which may contradict each other to produce trade-offs, or reinforce each other to produce synergies. To investigate this relationship, this research aims to 1) determine whether there are trade-offs or synergies between economic and social objectives of SEs in Thailand and 2) examine effects of macro-level factors that may have influence on SEs. This research performed regression analysis on data of SEs in Thailand, and also obtained data on macro-level factors to analyze the socio-economic context that influence SEs in Thailand. Results show that SEs in Thailand trade-off social objective for economic objective, which can be explained by the low government social welfare spending, low international aid, and efficiency-driven economy. Importantly, despite social enterprises included in the sample size already making profits, the economic objective is still prioritized over social objective, which further raise the potential issue of business assimilation of the concept of SEs while compromising social objectives.

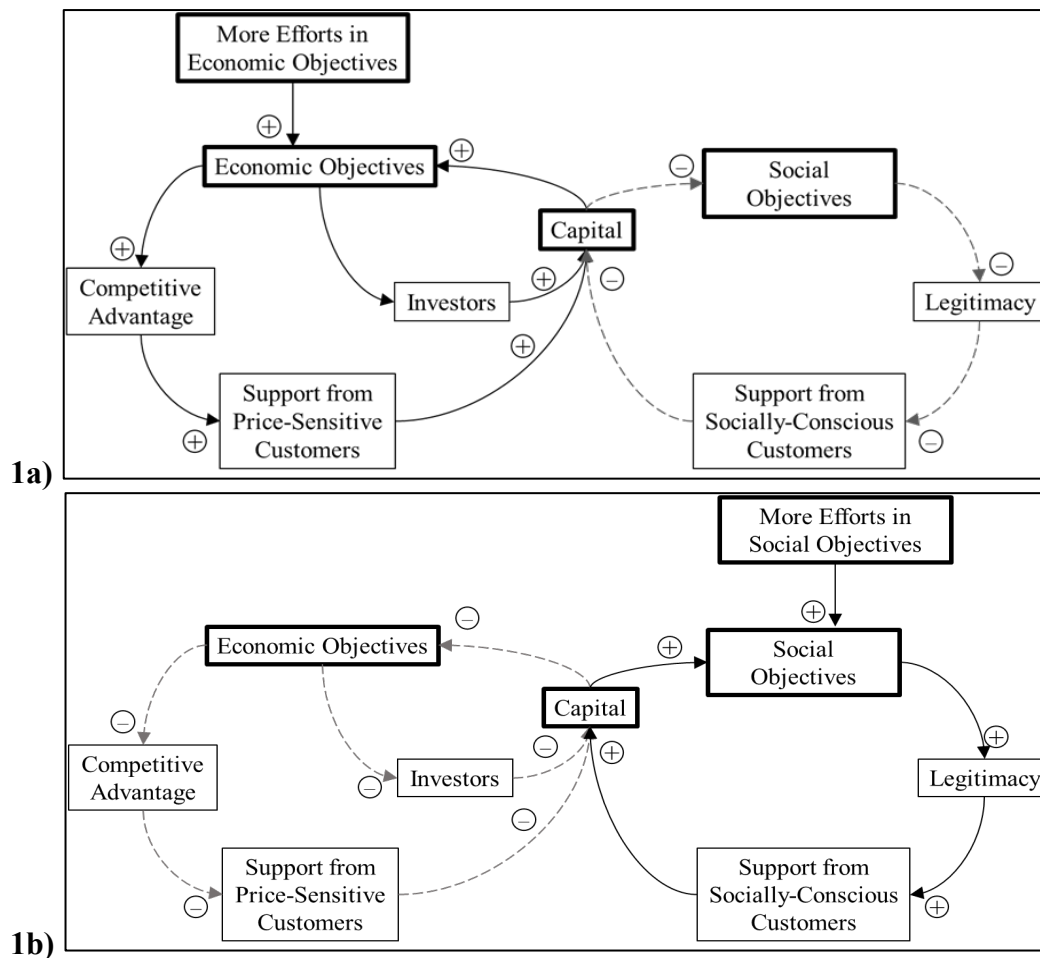
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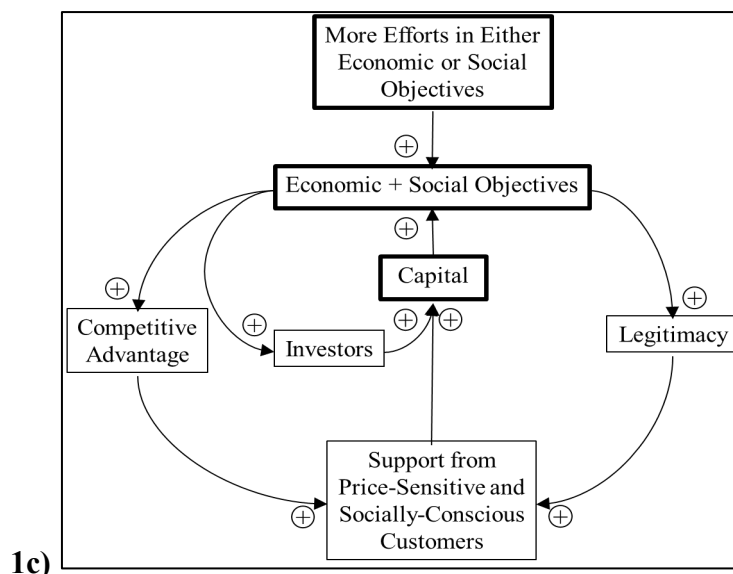
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## INTRODUCTION

Privately owned entities traditionally consisted of for-profit and non-profit organizations (Besley & Ghatak, 2017). The purpose of for-profit organizations is to maximize profits for owners and shareholders. In contrast, the purpose of non-profit organization is often to create social/environmental values, but are more susceptible to financial strains as they tend to rely on grants or donations to operate (Reilly, 2016). Social enterprises (SEs) emerge as newer hybrid between for-profit and non-profit organizations (European Commission, 2014). Note that SEs are usually bounded by a mechanism that govern how profits can be reinvested between economic and social objectives (European Commission, 2014).

Interactions between economic and social objectives of SEs may be seen to produce trade-offs (Figure 1a and b) or when SEs prioritize one objective at the expense of the other and vice versa (Panwar et al., 2018), or may be seen to produce synergies (Figure 1c) or when the two objectives are mutually constructive (Besharov et al., 2013). SEs may produce trade-offs that prioritize on the economic objective as shown in Figure 1a, because they must focus on commercial activities to generate revenue to maintain operations, to attain higher competitive advantage, and gain support of price-sensitive customers (Battalina et al, 2015). On the other hand, SEs may produce trade-offs that prioritize on the social objective as shown in Figure 1b, because they must focus on creating social impact to establish legitimacy, and to gain support of conscious customers (Mozier and Tracy, 2010). As for Figure 1c, SEs that produce synergies can focus on either objective because both cases generate capital that can be reinvested to reinforce each other.





**Figure 1** Trade-off and Synergies between Economic and Social Objectives of SEs (Modified from Mozier and Tracy (2010))

To get a deeper understanding of the relationship between the objectives of SEs, this research is based on the Three-Cycle Model of Social Innovation (van Wijk, et al., 2019) to study factors influencing SEs at the micro level focusing on behaviors and perspectives of individual social entrepreneurs, the meso level focusing organizational-level factors, and the macro level focusing on institutional contexts.

At the micro and meso levels, two factors likely to affect relationships between objectives of SEs are organizational maturity and income model. SEs are dynamic and change according to subsequent stages of organizational maturity over time (Gartner, 1985; and Vandor et al., 2012). Firstly, the intention formation stage and the idea development stage highly center around how individual social entrepreneurs explore new ideas and opportunities, usually on the basis how personal experience with social problems develop into initial business plans (Vandor et al., 2012). Next, the start-up initiative stage describes the process for establishing SEs including legal formalizations, organizational structure, identification of customers and beneficiaries, and fundraising and finance. Running operations stage is when SEs become more mature, have stable operations and revenue streams, and can produce visible social impacts. Finally, the impact scaling stage is when SEs become the most mature and are expanding at a broader scale. As for income models, SEs can have income from different sources consisting of different share between earned income and subsidy (Vandor et al., 2012). Earned income includes licensing fees, membership fees, product sales and service fee, which give SEs more constant income stream and higher freedom in how capital can be reinvested. Subsidy includes private donations, private sponsors, public grants and funding, given to SEs from donors and grantees but with certain extent of external control (Vandor et al., 2012).

At the macro level, the Macro-Institutional Social Enterprise (MISE) Framework describes how institutions at the broadest level including the government, the civil society sector, the economy and culture interact with each other, and influence the relationships between objectives of SEs (Kerlin, 2012). The government decides on social welfare public policy, which affect size of the civil society sector, such as the prevalence of non-profit organizations. Consequently, SEs are influenced by the civil society sector in how they secure funding, establish legitimacy of their social objectives, and gain support of the public. The government also decides on economic policy, which affect how SEs engage in commercial and entrepreneurial activities to manage economic pressures and risks, such as losing revenue and going bankrupt (Cho and Nicholls, 2006; Defourny and Nyssens, 2010). Lastly, social and

cultural norms act as underlying context that influence that particular society attitude toward entrepreneurship (Bosma et al., 2021), and can be measured with Hofstede's Cultural Dimension Theory (Hofstede, 2001). SE models resulting from interactions between macro level factors as described by the MISE Framework can be categorized in Table 1 (Almunia et al., 2010; Cui and Kerlin, 2017; Defourny and Nyssens, 2010; Jeong, 2015; Kerlin, 2012; Kerlin, 2017, and Salamon and Sokolowski, 2010).

**Table 1** SE Models as described by the MISE Framework

SE Models	Govt. Social Welfare	Civil Society Sector	Economic Development <sup>1</sup>	Characteristics
Sustainable subsistence	Low	Small	Factor driven	Small-scale SEs supported by international aid, focus on poverty relief, and operate mostly by self-employment and family.
Autonomous mutualism	Low	Small	Efficiency driven	Small to medium scale SEs capable of larger operations, and tend to independently provide social welfare neglected by more authoritarian govt.
Semi-strategic focused	Low	Small	Efficiency driven	Only certain SEs that focus on issues aligning to political agenda of the more authoritarian govt. will receive funding due to high state control.
Strategic diverse	Low	Small	Innovation driven	Establishment of SEs by civil society sector as a way to address to social issues is highly encouraged by the govt. through legal and policy support.
Autonomous diverse	Low	Large	Innovation driven	SEs engage in diverse issues while engaging in commercial activities due lack of social welfare services and funding by non-intervention liberal govt.
Enmeshed focused	High	Small	Innovation driven	SEs partner with govt. to focus on limited social issues, as most issues are already addressed by social democratic govt.
Dependent focused	High	Large	Innovation driven	Civil society sector and SEs have high influence in society, so govt. provide them funding in order to gain their support.

<sup>1</sup> Factor-driven economy is the most basic stage that competes on low price products or commodities produced from natural resources and low wage workers (Almunia et al., 2010). Efficiency-driven economy is the middle stage that focuses on improving industrial production efficiency to reduce cost and maintaining competitive prices for high quality products, despite workers having more skills and earning higher wages (Almunia et al., 2010). Innovation-driven economy is the most advanced stage with highly skilled workers who have the highest productivity and earn the most wages, but can only sustain economic growth through creating new innovations (Almunia et al., 2010).

In Thailand, SEs are relatively new and are gaining recognition as a driver of economic and sustainable development, with the government giving SEs increasing amount of support to facilitate their growth. Stemming mostly from the Social Enterprise Promotion Act 2019, the main government agency has been formed to develop policy and provide academic and administrative support to SEs in Thailand (British Council, 2020). Importantly, a legal register for SEs and the Social Enterprise Promotion Fund have been established. Furthermore, there is a growing SE ecosystem consisting public, private, and civil society sectors (British Council, 2020).

To effectively support the growth of SEs in Thailand, it is important to analyze factors that influence the relationships between the objectives of SEs. In the case of trade-offs, support given when SEs prioritize economic over social objectives should be different from when SEs prioritize social over economic objectives to maximize social impacts. In the case of synergies, support given when objectives of SEs reinforce each other should be case-specific to maximize social impacts. Hence, objectives of this research are:

- 1) Objective 1: To determine whether there are tradeoffs or synergies between objectives of SEs in Thailand at the micro and meso level involving organization-specific factors.
- 2) Objective 2: To determine macro-level factors that may have influence on relationships between objectives of SE in Thailand through the lens of MISE Framework.

## RESEARCH METHODOLOGY

For Objective 1, micro and meso level analysis involves two ordered logistic regression with Model 1 to determine if the different ways that SEs reinvest profits will have effect on the economic objective, and Model 2 to determine if the different ways that SEs reinvest profits will have effect on the social objective. Data used have been kindly granted by Dr. Sumano from TDRI, who together with her team conducted a survey on 202 SEs in 2020, which were presented in “The State of Social Enterprise in Thailand” report commissioned by the British Council. From the survey’s sample size of 146, this research only included 49 SEs that have made profits to be reinvested in the economic and/or social objectives, and that have completed all questions in the survey. The logistic regression’s variables of interest and the corresponding answer choices are shown in Table 2.

For Objective 2, macro level analysis involves qualitatively analyzing Thailand’s socio-economic indicators to see if the indicators fit any SE models from the MISE Framework. Data used have been obtained from several open database and reports and include indicators on governance, government social welfare spending, civil society sector, economic development, international aid, and culture specific to individualism-collectivism and uncertainty avoidance.

**Table 2** Variables of Interest for Micro and Meso Level Analysis

Variables	Description	Answer Choices
<i>Profit_Owners</i>	Percentage of profit shared to owners and shareholders last year	0-30%, 31-50%, 51-70% or 71-100%
<i>Benef</i>	Number of direct beneficiaries	0, 1-20, 21-50, 51-100, 101-500, 501-1,000 or >1,000
<i>Reinvest_Econ</i>	Plan to reinvest profit in economic objective by sharing with owners and shareholders	Yes or No
<i>Reinvest_Social</i>	Plan to reinvest profit in social objective by either rewarding to beneficiaries or community, supporting own social/environmental mission, and/or funding third party activities	Yes or No

<i>Reinvest_Org</i>	Plan to reinvest profit in the organization by building reserves, and/or rewarding to staffs	Yes or No
<i>Funding_Creditor</i>	Funding from concessional loan, commercial loan, and/or crowdfunding in the last 3 years	Yes or No
<i>Funding_Owners</i>	Funding from equity or equity-like investment, personal income, and/or family or friends in the last 3 years	Yes or No
<i>Funding_Grant</i>	Funding from grants from government, foundation, corporate, incubator or accelerator, or donations in the last 3 years	Yes or No
<i>Funding_No</i>	No funding received in the last 3 years	Yes or No
<i>Year_Operation</i>	Year that the organization formally begin operation	Number of years
<i>Maturity</i> <sup>2</sup>	Stages of organizational maturity	1 and 2, 3, 4, or 5
<i>Trading_Revenue</i>	Percentage of revenue from trading revenue (sales/ earned income) vs. subsidy (grants/ donations)	Trading revenue 0%, 1-50%, 51-99% or 100%

## RESEARCH RESULTS

**Table 3** Results of the Micro and Meso Level Analysis

<b>Method:</b> Ordered Logistic Regression <b>Observations:</b> 49								
<b>Variables</b>	<b>Model 1: <i>Profit_Owners</i></b>				<b>Model 2: <i>Benef</i></b>			
	<b><math>\beta</math></b>	<b>S.E.</b>	<b>t-value</b>	<b>P-value</b>	<b><math>\beta</math></b>	<b>S.E.</b>	<b>t-value</b>	<b>P-value</b>
<i>Reinvest_Econ</i>	5.181	2.031	2.551	0.011*	-1.206	0.751	-1.606	0.108
<i>Reinvest_Social</i>	2.377	1.625	1.463	0.144	0.392	0.721	0.544	0.587
<i>Reinvest_Org</i>	-2.708	2.033	-1.332	0.183	0.295	0.760	0.388	0.698
<i>Funding_Creditor</i>	-0.518	1.406	-0.368	0.713	0.952	0.8265	1.151	0.250
<i>Funding_Owners</i>	-1.532	1.325	-1.156	0.248	0.799	0.772	1.035	0.301
<i>Funding_Grant</i>	3.198	1.530	2.090	0.037*	1.746	0.798	2.187	0.029*
<i>Funding_No</i>	3.869	2.253	1.717	0.086	2.199	1.067	2.061	0.039*
<i>Year_Operation</i>	0.101	0.038	2.692	0.007**	0.053	0.027	1.996	0.046*
<i>Maturity</i>	0.568	0.527	1.078	0.281	0.098	0.250	0.393	0.695
<i>Trading_Revenue</i>	0.377	0.719	0.525	0.600	-0.350	0.406	-0.862	0.389

\*Significance Level = 0.05 \*\* Significance Level = 0.01

Results of the regression analyses to study SEs in Thailand at the micro and meso levels are shown in Table 3. This research has defined economic objective as profits shared to owners and shareholders, represented by *Profit\_Owners*, and has defined social objective as numbers of direct beneficiaries, represented by *Benef*. Research results found that SEs reinvesting profits into the economic objective, represented by *Reinvest\_Econ*, has statistically significant positive relationship with *Profit\_Owners*. On the other hand, research results found that SEs reinvesting profits into the economic objective do not have statistically significant relationship with *Benef*. When looking at SEs reinvesting profits into the social objective, represented by *Reinvest\_Social*, research results found that SEs reinvesting profits into social objective do not have statistically significant relationship on neither *Profit\_Owners* nor *Benef*. In other words,

<sup>2</sup> *Maturity* is a new variable that is based on definitions of different stages of organizational maturity described by Vandon et al. (2012), and is derived by data collected in the survey by Dr.Sumano (British Council, 2020) including legal formalizations, expectation of organizational growth over the next year, major barriers faced by the organizations, top constraints to financing, and plans on how to achieve future growth.

research results show that SEs reinvesting profits in the economic objective only lead to increase in percentage of profits shared to owners and shareholders, while SEs reinvesting profits in the social objective do not have any effect on neither percentage of profits shared to owners nor even the numbers of direct beneficiaries. Thus, it can be concluded that relationships between objectives of SEs in Thailand are trade-offs instead of synergies with prioritization of economic objective over social objective.

Note that the absence of any statistically significant relationship between how SEs reinvest their profits and the social objective, especially the absence of statistically significant negative relationships, do not mean that SEs are sacrificing social for economic objectives or are producing zero social impact. Rather, the results imply that SEs are still producing social impact, but at the same level and are not making the efforts or reinvesting their profits to increase the number of direct beneficiaries.

Research results also found that reinvesting profits in the organization by building reserves, and/or rewarding to staffs, as represented by *Reinvest\_Org*, do not have statistically significant relationship with both SE objectives. This implies that SEs reinvesting profits back into themselves really serve to maintain their operational sustainability, and do not necessarily contribute to economic or social objectives of SEs at least within the immediate timeframe.

Another result show that funding received from grants, as represented by *Funding\_Grant*, is the only source of funding received by SEs that have statistically significant positive relationships with both economic and social objectives. This implies that grants received by SEs do not have the condition that must be used only for the social objectives, but can be used to increase both objectives. Note that the survey asked for funding received by SEs in the last 3 years, which may not take into account the effects of funding received more than 3 years ago, or may not take into account the full effects when compared to funding that have only recently been received. Taking a closer look show that funding received from equity or equity-like investment, personal income, and/or family or friends in the last 3 years, as represented by *Funding\_Owners*, do not have statistically significant relationship with SE objectives. Unexpectedly, results imply that SEs debt obligations to owners are separate from SE objectives, especially when it seems to directly align the economic objective of sharing profits to owners and shareholders.

In addition, organizational maturity, as represented by *Maturity*, does not have a statistically significant relationship with SE objectives, while years of operation, as represented by *Year\_Operation*, has a statistically significant positive relationship with SE objectives. This may imply that indirectly deriving *Maturity* due to its unavailability in the survey may contain errors that cause the results to not show the expected effects on SE objectives. Nonetheless, results also imply that SEs that have been operating for a long time tend to be able to contribute to increasing both profits shared to owners and shareholders and also numbers of direct beneficiaries.

**Table 4** Results of Macro Level Analysis

Macro-Level Factors	Indicators (Year 2020)	References
Governance	<ul style="list-style-type: none"> <li>Regulatory quality = 55.77 percentile rank</li> <li>Rule of law = 56.73 percentile rank</li> <li>Control of corruption = 36.54 percentile rank</li> </ul>	Kaufmann and Kraay (2021)
Govt. Social Welfare	<ul style="list-style-type: none"> <li>Education and healthcare = 5.74% of GDP (year 2019)</li> <li>Consisted of government expenditure on education (3.02% of GDP in 2019) and domestic general government health expenditure (2.72% of GDP in 2019).</li> </ul>	World Bank (2022)
Civil Society Sector	<ul style="list-style-type: none"> <li>Civil society sector models = Not available</li> </ul>	Salamon and Sokolowski (2010)
Economic Development	<ul style="list-style-type: none"> <li>Efficiency-driven economy</li> <li>Global Competitiveness Index = Rank 40 of 141 (year 2019)</li> <li>International aid = USD 2.77 per capita</li> </ul>	Brown et al. (2019)
International Aid	Consisted of net official development assistance and official aid received (USD 197,850,006.10) per total population in Thailand (71,475,664).	World Bank (2022)
Individualism vs. Collectivism	<ul style="list-style-type: none"> <li>20 score</li> </ul>	Hofstede (2015)
Uncertainty Avoidance	<ul style="list-style-type: none"> <li>64 score</li> </ul>	

Moving on, results of the macro level analysis based on the MISE Framework are shown in Table 4. This research qualitatively interprets the results in Table 4 by comparing the indicators of the macro-level factors for Thailand to those of several countries described in Kerlin's (2012; 2017) case studies, including Zimbabwe, Argentina, Italy, the United States, Sweden, South Korea and China. Results show that Thailand (in 2020) had low to moderate scores for governance<sup>3</sup> and low government welfare spending<sup>4</sup>. Other indicators show that Thailand had an efficiency-driven economy<sup>5</sup>, low international aid<sup>6</sup>, high collectivism cultural dimension and moderately-high uncertainty avoidance cultural dimension<sup>7</sup>.

The low scores of governance indicators are consistent to Doherty and Kittipanya-Ngam (2020) describing the Thai government as authoritative, and how there are needs for social welfare

<sup>3</sup> Thailand's indicators for governance are close to that of China (Regulatory quality = 44.23, Rule of law = 52.40, Control of corruption = 54.33), considered to have low to moderate scores for governance.

<sup>4</sup> Thailand had even lower government welfare spending than that of Zimbabwe (6.65% of GDP), considered to have low government welfare spending.

<sup>5</sup> Thailand had GCI ranking in between that of China (rank 28) and Argentina (rank 83), considered to have efficiency-driven economy.

<sup>6</sup> Thailand had received low amount of international aid when compared to Zimbabwe that received high amount of international aid of USD 49 per capita.

<sup>7</sup> On a scale of 100, low score corresponds to high collectivism while high score corresponds to high individualism. On a scale of 100, low score corresponds to low uncertainty avoidance while high score corresponds to high uncertainty avoidance.



services due to rising inequality and political instability among other social and environmental problems. The results showing efficiency-driven economy, low government welfare spending and low international aid is also consistent to Doherty and Kittipanya-Ngam (2020) describing recognition of SEs as a potential solution to help solve inequality and social problems, but SEs also having to sustain their operations through commercial activities with ties to private sector. In addition, with collectivism described as “expressing pride, loyalty and cohesiveness to organization or families,” and uncertainty avoidance described as “avoiding uncertainty by relying on established social norms, rituals and bureaucratic practices,” Kerlin (2012) pointed out that entrepreneurship in countries with these two cultural dimensions often use “networked resources” and “external ties.” This is consistent to Doherty and Kittipanya-Ngam (2020) describing SEs to have ties to private sector and the government, as seen by SEs often selling goods to private companies (e.g. Lemon Farm selling organic products in Bangchak gas stations, and Muser providing coffee for airline Air Asia), or by SEs and social network organizations that have direct ties to macro-institutions (e.g. Nise Corporation as an intermediary of the People with Disability Act 2007, or the Mae Fah Luang Foundation as a royal project initiated by King Rama 9). To this, results show that the SE model under the MISE framework for Thailand follow the authoritarian state-corporate SE model as newly defined by Doherty and Kittipanya-Ngam (2020). The authoritarian state-corporate model highlights growing private-public-partnership (PPP) to establish SEs in recent years mainly due to government policy support. The government benefits from local economic development generated by SEs, while private companies registered as SEs gain tax incentives.

## DISCUSSION & CONCLUSION

Results show that SEs in Thailand “that have already made profits” produce trade-offs with prioritization of economic objective over social objective. It is important to emphasize that SEs included in the sample are those that have already made profits. This provide insights into how supports provided to SEs that have made profits should strictly require that the profits made must be reinvested specifically to increase the social objective, or else they will just be shared to owners and shareholders. Referencing to the current policy support for SEs in Thailand (Doherty and Kittipanya-Ngam, 2020), tax incentives provided to registered SEs should only be for when SEs can clearly demonstrate that they have reinvested their profits to increase social objective. But this also imply that impact evaluation must be carefully conducted by SEs, thus technical support or incentives for impact evaluation should also be provided to SEs.

The authoritarian state-corporate SE model in Thailand also raised the potential concern of co-optation or assimilation of the concept of SE (Doherty and Kittipanya-Ngam, 2020). In the interviews conducted by Doherty and Kittipanya-Ngam (2020), it was pointed out that some private companies have been forming SEs mainly for taking advantage of the tax incentives provided to registered SEs without pushing for the social objective. When examining the results of the macro level analysis, lack of government social welfare spending and funding for SEs may contribute to SEs relying on commercial activities done in relation to the private sector. Results of the micro and meso level analysis also show that co-optation may be of potential concern as profits made are mostly shared to owners and shareholders. This reinforces the recommendation that support given to SEs should require that the profits made must be reinvested specifically to increase the social objective, or support should not be provided otherwise.

Results also found that funding received from grants and years of operation are statistically significant to produce increase in both SE objectives, while funding received from loans or owners do not have any statistically significant effect on SE objectives. It can be interpreted as funding received from loans or owners are not of concern to the SEs included in the sample, since they should have already paid back their debt, be able to generate own revenue, and make

profits. When accounting for this together with result of years of operations, it is recommended that in the case for SEs that received funding from loans or owners, support provided to SEs should target operational sustainability in the short-term and put high requirements for increase in social objective in the long-term. This is so that SEs can focus on paying back their loans or investors while maintaining operations long enough to finally be able to focus on increasing both economic and social objectives. Nevertheless, in the long term when SEs have already made profits, the funding to SEs by grants is the effective mean to increase social benefits. This is because if SEs were to receive funding from loans or owners, they would be repeating the same stage of focusing to pay off the debts before being able to increase the social objective. In contrast, SEs do not have to pay back grants and so are able to focus on increasing both objectives. Therefore, it is recommended that policy support should also be extended to private companies and non-profit organizations that give grants to SEs, while the grants should also put in place requirements for profits to be mainly be reinvested to increase social objective. This can also help reduce co-optation of SEs by private companies as private companies can fund SEs via grants and still receive incentives without having to get involved management or establishing own SEs.

Last but not least, this research has certain limitations that should be considered by future research. This research is not able to account for the case of SEs of SEs having work-integration model or when owners, shareholders and beneficiaries are of the same entity. An example would be SEs that aim to help improve livelihoods of farmers as the social objective and have the farmers themselves as the owners, shareholders and staffs. In this case, the economic and social objectives directly aligned and reinvesting in either of the objectives should be able to produce synergies. Moreover, reinvesting in the organization by rewarding the staffs should also help to increase the social objective. Another limitation is how this research is not able to provide direct data on organizational maturity, and is not able to account for SEs have not make profits with reason being the dependent variables specifically asking SEs for how they reinvest profits. Therefore, future research on this topic should take into account SE business model in order to provide insight into the type of SE business models that can effectively increase both SE objectives. Future research on this topic should also provide direct data on organizational maturity and take into account SEs that do not make profit to be able to provide insight into how support should be given to SEs that may be in the early maturity level and still cannot make profit in order to help them overcome obstacles and grow in the long term.

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**Data Availability Statement:** The raw data supporting the conclusions of this article will be made available by the authors, without undue reservation.

**Conflicts of Interest:** The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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