Is social entrepreneurship a green field for foreign direct investment?

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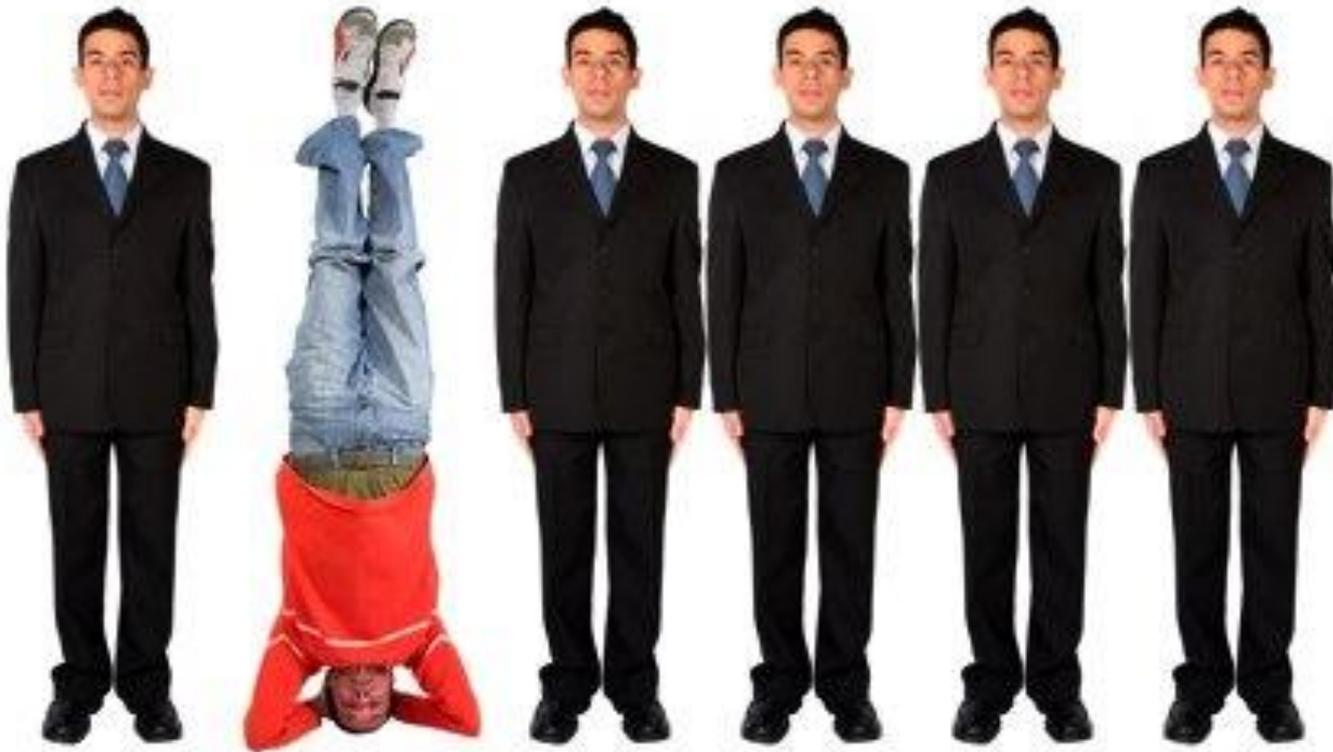
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FDI

Social Entrepreneurship

FDI and social entrepreneurship?

For it is in giving that we receive

Outline

- Introduction
- Conceptual Framework
- Empirical Methodology
- Results
- Conclusions
- Q&A

Intro: Contributions

- Conceptual Model
- Empirical framework: Gravity Equation
- FDI-SEA elasticity for
  - capital flows,
  - employment and
  - number of foreign projects.

Intro: Questions

- do higher levels of SEA increase foreign capital flows into host countries,

- does SEA foster foreign employment, and

- does SEA increase new FDI partnerships?

- Relevant for policy & practitioners

Conceptual model: Line of thought

- Social entrepreneurship activity affects positively governance and economy

- Entrepreneurship affects positively FDI

- Governance and economy affects positively FDI

Hence:

Hypothesis 1. *The level of FDI inflows is positively associated with the level of social entrepreneurship activity in the host country.*

Conceptual model: Backgroud

- ***Impact of social entrepreneurship***
  - (i) they **build resources and capabilities** locally and regionally;
  - (ii) they sow the seeds of **innovation** for specific purposes that later feed into society as a whole; and
  - (iii) they forge partnerships to avoid, or at least counteract, **abuse from the major economic actors** (Alvord et al., 2004).

Conceptual model: Backgroud

- *General* Entrepreneurship & FDI
  - Financial entrepreneurs (Alfaro et al. 2004)
  - entrepreneurial culture and the social environment on FDI distribution (Majocchi and Presutti 2009)
  - entrepreneurs in international alliances (Ortiz-de-Urbina-Criado et al. 2011)
  - Migrant entrepreneurs (Bandelj, 2002, 2007 …)

Conceptual model: Background

- Host's governance and FDI
- Firms decide to invest in a particular location when the host's business and social structure present a set of external and internal advantages to the firm (Dunning, 1973; Helpman, Melitz, & Yeaple, 2004).
- Positive relationship between the host's social conditions and the level of FDI (Agosin & Machado 2005; Li & Resnik 2003; Mathur & Singh 2013; Moran et al. 2005; Siegel et al. 2013)

FDI is more than $

- Business projects, knowledge, new ideas, and employment begin to appear in the host country as a result of FDI.
- The extensive margin reveals information on the creation of new FDI partners (Felbermayr & Kohler, 2006)
- The extensive margin is affected by financial constraints (Gil-Pareja et al. 2013)
  - Cheng et al. (2014) determine that superior social performance strategies leads to better access to finance.
- **Hypothesis 2.** *The number foreign projects (extensive margin) are positively associated with the level of social entrepreneurship activity in the host country.*

Foreign Direct employment

- "social entrepreneurs are disproportionately effective at creating jobs" (Harding, 2004, p. 43).
- The host's corporate openness, democracy and legal rights have a clear effect on employment derived from FDI (Paniagua & Sapena 2013, 2014a)
- In Paniagua and Sapena (2014b) we develop a model to show how specific country factors (e.g., credit constraints) affect foreign direct employment.
- **Hypothesis 3.** *Foreign direct employment is positively associated with the level of social entrepreneurship activity in the host country.*

Conceptual model
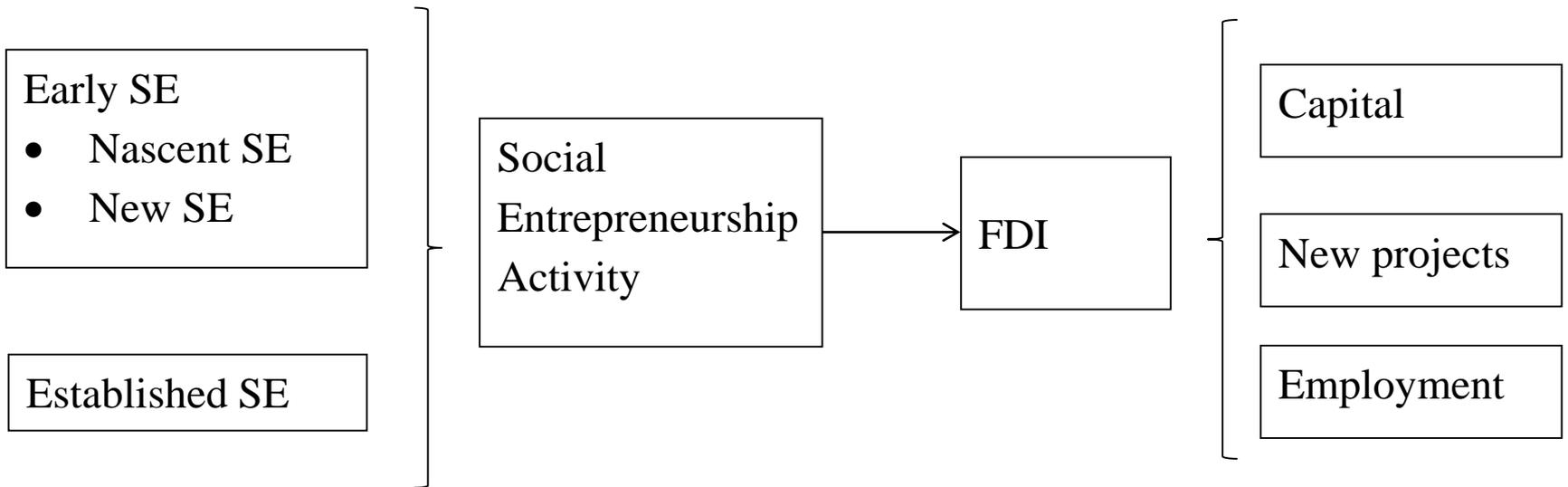
Empirical framework:
Gravity Equation

$$\begin{bmatrix} lnFDI_{ij} \\ lnN_{ij} \\ lnjobs_{ij} \end{bmatrix} = \beta_1 \ln(GDP_i * GDP_j) + \beta_2 \ln(D_{ij}) + \beta_3 border_{ij} + \beta_4 col_{ij} +$$

$$\beta_5 lang_{ij} + \beta_6 smctry_{ij} + \beta_7 rel_{ij} + \beta_8 locked_j + \beta_9 CC_{ij} + \beta_{10} BIT_{ij} + \beta_{11} FTA_{ij} +$$

$$\beta_{12} \begin{bmatrix} SEA_i \\ SEA_j \end{bmatrix} + \lambda_i + \lambda_j + \varepsilon_{ij},$$

$$\hat{\beta}_{12} = \frac{dFDI_{ij}}{dSEA_j} \cdot \frac{}{\overline{FDI_{ij}}} \rightarrow \varepsilon_{SEA_j} = \hat{\beta}_{12} \cdot \overline{SEA_j}$$

	(1)	(1)	(3)	(4)	(5)	(6)
	FDI flows	FDI projects	jobs	FDI flows	FDI projects	jobs
$\ln(GDP_i * GDP_j)$	0.681***	0.233***	0.613***	0.793***	0.291***	0.661***
	(0.148)	(0.0393)	(0.126)	(0.143)	(0.0408)	(0.121)
$ln(D_{ij})$	-0.197*	-0.0659**	-0.288***	-0.243**	-0.0549*	-0.358***
	(0.117)	(0.0311)	(0.0999)	(0.108)	(0.0310)	(0.0917)
$border_{ij}$	0.143	-0.0170	0.191	0.137	0.0379	0.130
	(0.262)	(0.0694)	(0.223)	(0.249)	(0.0712)	(0.211)
$lang_{ij}$	0.294	0.115*	-0.0156	0.453**	0.113*	0.276
	(0.224)	(0.0595)	(0.191)	(0.205)	(0.0586)	(0.173)
col_{ij}	0.305	0.0419	0.514**	0.454**	0.151**	0.724***
	(0.264)	(0.0701)	(0.225)	(0.224)	(0.0640)	(0.190)
$smctry_{ij}$	0.983**	0.121	0.265	0.961*	0.0000800	-0.152
	(0.482)	(0.128)	(0.411)	(0.496)	(0.142)	(0.420)
CC_{ij}	-0.0808	-0.0162	0.00563	-0.0191	0.00343	0.0143
	(0.139)	(0.0369)	(0.118)	(0.124)	(0.0356)	(0.105)
rel_{ij}	0.652*	0.0591	0.427	0.0278	-0.0117	0.309
	(0.333)	(0.0883)	(0.284)	(0.314)	(0.0897)	(0.266)
$locked_j$	0.435	-0.124	1.012	1.487	0.595	0.754
	(1.008)	(0.268)	(0.614)	(2.513)	(0.719)	(1.867)
FTA_{ij}	-0.0152	-0.133**	0.0422	0.0494	-0.0449	-0.0233
	(0.208)	(0.0553)	(0.178)	(0.195)	(0.0558)	(0.165)
BIT_{ij}	-0.0542	-0.0256	-0.0456	0.00694	-0.0803*	0.00122
	(0.166)	(0.0441)	(0.142)	(0.155)	(0.0444)	(0.132)
SEA_j	0.324*	0.0889**	0.380***			
	(0.165)	(0.0439)	(0.141)			
SEA_i				0.208	-0.0273	-0.178
				(0.332)	(0.0948)	(0.281)
ε_{SEA_j}	0.90	0.25	1.08			
Observations	723	723	722	928	928	927
R^2	0.487	0.351	0.579	0.463	0.338	0.560

Results

	(1) FDI flows	(1) FDI projects	(3) jobs	(4) FDI flows	(5) FDI projects	(6) jobs
SEA_j	0.324*	0.0889**	0.380***			
	(0.165)	(0.0439)	(0.141)			
SEA_i				0.208	-0.0273	-0.178
				(0.332)	(0.0948)	(0.281)
ε_{SEA_j}	0.90	0.25	1.08			
Observations	723	723	722	928	928	927
R^2	0.487	0.351	0.579	0.463	0.338	0.560

Results: types of SEA

	(1) flows	(2) flows	(3) flows	(4) projects	(5) projects	(6) projects	(7) jobs	(8) jobs	(9) jobs
Nascent SEA	0.258 (0.388)			0.0962 (0.103)			0.425 (0.330)		
New SEA		1.025* (0.524)			0.282** (0.139)			1.203*** (0.446)	
Established SEA			0.721* (0.368)			0.198** (0.0977)			0.846*** (0.314)
Observations	723	723	723	723	723	723	723	723	723
R^2	0.487	0.487	0.487	0.351	0.351	0.351	0.579	0.579	0.579

Conclusions: Lessons learned

- This study is, apparently, the first to successfully study the relationships between SEA and FDI

- SEA in host countries fosters FDI capital flows, new projects, and employment.

- SEA levels at the MNE's headquarters, however, do not significantly increase outbound FDI.

- Moreover, foreign employment is elastic to SEA, particularly to early-stage SEA.

Conclusions: for whom?

- Useful for policy-makers and practitioners
  - indicator for MNE management to locate foreign activity
  - Policies aimed jointly at SEA and FDI. Initiatives to promote early stage SEA (e.g., social incubators, tax cuts, or loans) will also have a double impact on the host's economy.
    - Firstly, by increasing general welfare with socially responsible activities.
    - Secondly, by fostering FDI, business projects, and employment.

Conclusions: Limitations & future work

- Most FDI takes places through large corporations, while SEA tends to be channeled through small or medium-sized organizations,

  but

- Conducting further research on FDI in SMEs therefore presents an interesting avenue for the future!!!

Thanks!

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  - Siri Terjesen - Kelley School of Business (Indiana University)

Appendix: List of countries

Country	SE	Country	SE
USA	5	Finland	5.13
Dominican Republic	3.58	Switzerland	4.33
Jamaica	6.77	Iceland	6.1
Brazil	0.4	Bosnia and Herzegovina	0.92
Guatemala	0.48	Russia	1.23
Ecuador	0.72	Serbia	1.76
Panama	1.66	Romania	2.55
Uruguay	3.21	Latvia	2.82
Chile	3.01	Slovenia	3.58
Colombia	5.01	Croatia	4.41
Peru	4.07	Hungary	3.9
Venezuela	4.39	Saudi Arabia	0.24
Argentina	7.63	Morocco	0.79
South Africa	2.32	Jordan	0.89
Uganda	4.12	Syria	0.98
Spain	0.91	Lebanon	1.5
Germany	1.6	Iran	1.99
Netherlands	1.53	Algeria	1.88
Italy	2.48	Israel	4.05
Norway	2.15	UAE	6.28
Belgium	3.02	Malaysia	0.22
Greece	2.87	Hong	0.97
UK	4.23	South Korea	1.37