

# Is social entrepreneurship a greenfield for foreign direct investment?

## A conceptual and empirical analysis<sup>\*†</sup>

Jordi Paniagua<sup>‡1</sup>, Alicia Mas-Tur<sup>2</sup>, and Juan Sapena<sup>1</sup>

<sup>2</sup>University of Valencia

<sup>1</sup>Catholic University of Valencia “San Vicente Mártir”

### Abstract

Building on legitimacy and social strategy theories, this research proposes a conceptual and empirical framework that links social entrepreneurial activity (SEA) with foreign direct investment (FDI). Investing in foreign countries with a high degree of SEA contributes to increase foreign investors’ legitimacy. Additionally, firms may consider SEA as a constituent of their social strategy. The first contribution of this research is a comprehensive conceptual framework to analyze the link between social entrepreneurship and international business. The second key contribution is an econometric analysis of SEA’s effect on greenfield FDI, foreign employment, and foreign projects. The estimation results of the gravity equation suggest that social entrepreneurship fosters FDI. This research offers theoretical insight on legitimacy theory’s relevance in explaining the link between FDI and SEA.

**Keywords:** : social entrepreneurship activity (SEA), foreign direct investment (FDI), legitimacy theory, social strategy theory, gravity equation

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<sup>‡</sup>Corresponding author [jordi.paniagua@ucv.es](mailto:jordi.paniagua@ucv.es)

# 1 Introduction

The view of firms as being more than vehicles for maximizing profits is becoming widespread. These entities are now considered social institutions; that is, organizations with goals that seek to benefit society (Murphy & Schlegelmilch, 2013). Accordingly, these firms depend not only on customers but also on recognition and legitimacy (DiMaggio & Powell, 1983). In the late seventies, Carroll (1979) asserted the importance of firms' social duty by claiming that social entrepreneurship goes beyond firms' pursuit of stakeholders' interests. This view maintains that, although all firms must act in the interest of stakeholders, society is also an influential agent. Thus, societal interests are inseparable from financial concerns. Both aims—social and financial—form part of the firm's overall mission, and enterprises must seek a balance between the two (Melé, 2012; Solomon, 1993). However, social investment is not purely altruistic. Numerous researchers conclude that firms may assume a certain degree of social responsibility without compromising their duty to maximize stakeholder return (Diaz-Foncia & Marcuello, 2013; Zahra, Rawhouser, Bhawe, Neubaum, & Hayton, 2008). Firms might peruse social entrepreneurship activities as part of a social strategy to increase market value and visibility with no specific social goal (Baron, 2001, 2007). Thus, due to business practices' increasing popularity regarding social entrepreneurship, academics are calling for the adoption of appropriate methods to quantify and compare social value creation (Kroeger & Weber, 2014).

Firms entering a foreign market via foreign direct investment (FDI) are scrutinized in their new foreign operations. Researchers usually focus their analysis of FDI on for-profit companies, ignoring enterprises whose mission goes beyond the profit quest (Zahra, Newey, & Li, 2014). However, multinational corporations risk their legitimacy or social strategy if their foreign actions are contrary to the host coun-

try's social welfare (Paniagua & Sapena, 2014). Investing in socially irresponsible countries might affect the firms' ability to present themselves as legitimate firms.

Extensive research exists on social entrepreneurship (Austin, Stevenson & Weiskillern, 2006; Dees, 1998; Mair & Marti, 2006; Nicholls, 2010; Peredo & McLean, 2006; Sullivan Mort, Weerawardena, & Carnegie, 2003) and on the country-specific determinants of FDI (Berden, Bergstrand, & Etten, 2014; Dunning, 1973, 1998; Jakobsen & de Soysa, 2006; Li & Resnick, 2003; Markusen & Venables, 1998); nevertheless, little research exists on the link between a country's social entrepreneurship activity (SEA) and FDI. International economists posit that the host's social and democratic environment has a positive effect on FDI incoming capital flows (Berden et al., 2014; Paniagua & Sapena, 2013, 2014). The few tangential studies on this relationship focus on general entrepreneurial activity (e.g. Bitzenis, 2006; Rueda-Armengot & Peris-Ortiz, 2012; Turró, Urbano, & Peris-Ortiz, 20132014). Apparently, no previous academic work links SEA and FDI. This study fills this gap.

Despite the growing academic interest on both SEA and FDI, several questions remain largely unanswered and the link between them underexploited-underexplored. No research exists on whether a greater prevalence of social entrepreneurship activity favours FDI. Consequently, the academic understanding of the mechanism through which SEA promotes or hinders FDI is far from complete. This study provides a theory to link FDI and SEA and responds to several questions (e.g., does FDI follow SEA through legitimacy or social strategy?). Additionally, this study addresses empirical issues: (a) Do higher levels of SEA increase foreign capital flows into host countries? (b) Does SEA foster foreign employment? (c) Does SEA increase new FDI partnerships?

This study has three contributions: First, building on institutional entrepreneurship theory, we conceptually analyze the channels by which social entrepreneurship activity positively affect the amount of foreign direct investment. Second, we ad-

opt the most powerful empirical tool in international economics (Anderson, 2011) to measure the effect of SEA on FDI. Third, this study measures FDI-SEA elasticity for capital flows, employment, and number of foreign projects.

The remainder of the study is as follows: we next review the literature review and the present the results; the last section discusses our main conclusions as well as the study contributions.

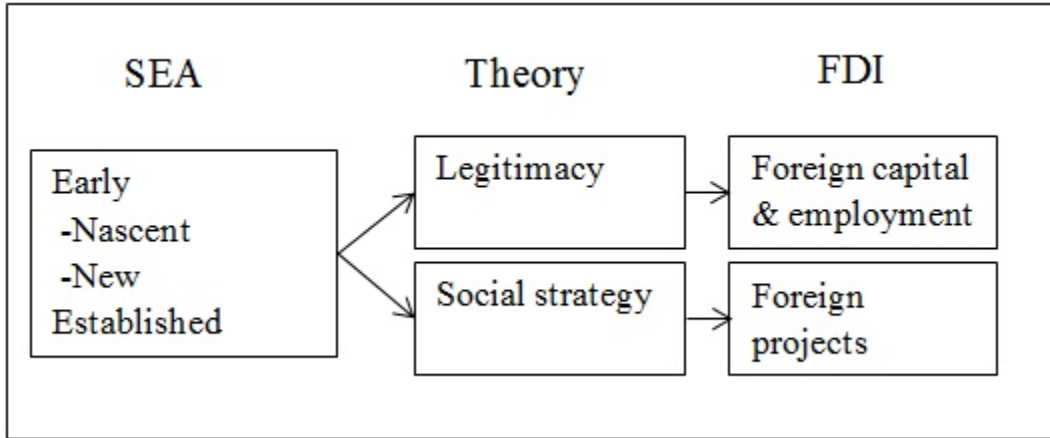
## **2 Conceptual Framework: SEA and FDI**

Scholars agree that the aim of social entrepreneurship is to search for solutions to society's problems (Shepherd, Patzelt & Baron, 2013). Carroll (1979) stressed the importance of socially responsible activity by pointing out that social entrepreneurship represents a more holistic view than does the traditional stakeholder-oriented approach.

Dees (1998) defined social entrepreneurs as change agents in the social sector through innovation and risk taking. Social entrepreneurs identify problems, also considered opportunities, which need solutions, and then attempt to resolve these issues (Sullivan, 2007). The term social entrepreneurship should therefore not be championed to the detriment of so-called commercial entrepreneurship (Austin et al., 2006), the ultimate aim of which is to maximize profit. Instead, both forms of entrepreneurship must coexist and mutually enhance their strengths.

As a new field, social entrepreneurship scholars try to clarify concepts (Crisan & Borza, 2012; Dacin, Dacin & Tracey, 2011; Tracey, Phillips & Haugh, 2005). The following definition combines all previous definitions: Social entrepreneurship, besides sharing the creativity and determination seen in commercial entrepreneurship, is innovative, and provides a platform through which entrepreneurs try to produce a significant social change.

Figure 1: Conceptual and empirical model



The FDI literature, however, focuses on the role of commercial entrepreneurs in international investment flows. For example, Alfaro, Chanda, Kalemli-Ozcan & Sayek (2004) highlighted the importance of financial entrepreneurs on FDI. Majocchi and Presutti (2009) examined the effect of entrepreneurial culture and social environment on FDI distribution. Ortiz-de-Urbina-Criado, Montoro-Sánchez, and Romero-Martínez (2011) stressed the relevance of entrepreneurs in international alliances. On one hand, scholars suggest entrepreneurial emigrants may be a determinant of bilateral FDI (Bandelj, 2002, 2007; Bitzenis, 2006; Rueda-Armengot & Peris-Ortiz, 2012). On the other, De Backer and Sleuwaegen (2003) presented evidence that suggests FDI may discourage and stimulate the exit of domestic entrepreneurs.

Within the framework of institutional entrepreneurship theory, this study links SEA and FDI through legitimacy and social strategy. Nicholls (2010) highlighted that social entrepreneurship theory currently lacks an established epistemology and suggested that the dominant discourses embed social entrepreneurship in legitimacy theory. Baron (2001) posited that firms act socially in their integrated strategy to increase market share and revenue. Figure 1 summarizes the empirical and conceptual model of this study.

## 2.1 FDI and SEA: Legitimacy Theory

Firms may acquire legitimacy in foreign markets in at least two ways. First, the firm may perform philanthropic FDI (Paniagua & Sapena, 2014; Windsor, 2006), which responds to the social zeitgeist to obtain positive publicity. Second, social actions may be the consequence of a strategic form of social behaviour based on solid human and social beliefs. This case is the diametric opposite of the first because of its solid social foundation. In both actions, the firm seeks societal legitimacy.

Similarly, social entrepreneurs initiate certain innovations (Alvord, Brown, & Letts, 2004) that positively affect society as a whole: (a) building resources and capabilities locally and regionally; (b) sowing the seeds of innovation for specific purposes that later feed into society as a whole; and (c) forging partnerships to avoid, or at least counteract, abuse from the major economic actors (Alvord et al., 2004).

Firms decide to invest in a particular location when the host's business and social structure present external and internal advantages to the firm (Dunning, 1973; Helpman, Melitz, & Yeaple, 2004). Regarding external advantages, general entrepreneurial activity contributes significantly to the economic prospects of a host's economy. Consequently, most of the literature reports a positive relation between entrepreneurial activity and FDI (Lu & Beamish, 2001; McDougall & Oviatt, 2000; Van Stel, Carree, & Thurik, 2005).

Furthermore, a body of compelling research indicates that the combined effect of economic factors and social conditions in the host country determines FDI. Li and Resnick (2003) lead the study of democracy's effect on FDIs, which others have followed (Agosin & Machado, 2005; Mathur & Singh, 2013; Moran, Graham & Blomström, 2005; Siegel, Licht & Schwartz, 2013). Most of these authors predict a positive relationship between the host's social conditions and the level of FDI.

Boddeyn and Brewer (1994) highlighted the importance of legitimacy on the political behaviour of international business. Boddeyn (1995) further elaborated on this theory and proposed that the concept of legitimacy provides a way of framing and evaluating the behaviour of international business.

The following theories stand out for their treatment of legitimacy: (a) old institutions theory (Selznick, 1957) considers that value creation for society should go beyond what society demands; (b) neoinstitutional theory (Eggertsson, 1990) focuses on pursuing the legitimacy of the firm's sector rather than the firm itself; (c) neoisomorphism theory (Nicholls, 2010) centres on companies that achieve legitimacy for customers and society by acquiring distinctive characteristics (e.g., model leadership, social missions, or objectives); (d) institutional work theory (Lawrence, Suddaby & Leca, 2009) defines firms as bodies that make the economic system stable and secure; and (e) institutional entrepreneurship theory (Maguire, Hardy, & Lawrence, 2004) focuses on economic actors who seek to achieve institutional change through socioeconomic actions. Along the same line of reasoning, Huybrechts and Nicholls (2013) posited that moral legitimacy mobilizes the collaboration between the social enterprise and the corporate corporation. The authors show that corporations seek collaboration with social enterprises in pursuing social legitimacy.

The current study builds on institutional entrepreneurship theory but pushes the boundaries of the existing theory. The study posits that, besides seeking openings in the market, FDI investors also wish to show stakeholders that their investment is legitimate. Furthermore, institutional entrepreneurship joins two SEA and FDI.

*H1a: Social entrepreneurship activity in the host country positively affects FDI's capital inflows level.*

Many studies highlight social entrepreneurship's positive effect on several economic spheres (Nicholls, 2012). The findings of a 2003 study by the Global Entre-

preneurship Monitor (GEM) have led authors to state that, “social entrepreneurs are disproportionately effective at creating jobs” (Harding, 2004, p. 43).

Policymakers show particular interest in the FDI level of job creation (UNCTAD, 2013b). Paniagua and Sapena (2013) determined that the host’s corporate openness has a clear effect on the employment FDI creates. Paniagua and Sapena (2014) examined the differential effect of the host’s democracy and legal rights on FDI. Paniagua and Sapena (2015) developed a model to show how specific country factors (e.g., credit constraints) affect foreign direct employment.

*H1b: Social entrepreneurship activity in the host country positively influences the foreign direct employment.*

## **2.2 FDI & SEA: Social Strategy Theory**

The international scandals that emerge at the beginning of the twenty-first century reflect the lack of scruples in certain instances of private-sector investment. This situation causes a backlash against unethical investment, leading to a climate in which investors show high interest in the social side of businesses when deciding whether to invest in a firm (Godar, O’Connor, & Taylor, 2005).

Empirical research provides evidence in favour of social entrepreneurship. Enterprises taking on social actions in addition to seeking to maximize stakeholder return improve long-term performance (Lozano, Albareda, & Balaguer, 2006). That said, to stimulate and promote this type of business behaviour, the firms themselves and the national and international public authorities must adhere to existing social initiatives (e.g., the United Nations Global Compact).

Within social entrepreneurship studies, social strategy is an appropriate research area. Baron (2001) coined and defined social strategy as social activities undertaken by a firm in the name of social corporate responsibility aimed at increasing market



value rather than social value. The firm regularly performs strategic social actions under the condition that the social enterprise should not hinder competitiveness.

Baron (2007) linked social enterprise and Corporate social responsibility (CSR). He argued that a social entrepreneur forms a firm at a financial loss with the aim of social giving. However, other researchers argue that CSR and social enterprises are not always equivalent (Tracey et al., 2005). Crisan and Borza (2012) reported that social entrepreneurship and CSR are clearly distinguishable but have a common aspect given by the social effect.

Nonetheless, the firm reaches its maximum permissible degree of social responsibility, even when taking on a greater degree of social responsibility would mean jeopardizing the firm's ability to compete in the marketplace. Thus, social entrepreneurship combines both for-profit and nonprofit organizational activity (Dacin et al., 2011).

In this sense, social entrepreneurial activity is likely to attract two types of foreign firms: investors aiming to increase their social strategy, for example through philanthropic FDI (Paniagua & Sapena, 2014), and foreign firms working with social causes. In either case, firms seek to increase their CSR by investing in those countries with a higher SEA. In this case, firms seek to maximize their foreign presence, rather than the capital expenditure or employment.

Nevertheless, FDI involves much more than capital expenditure across borders (Graham & Krugman, 1995). Business projects, knowledge, new ideas, and employment appear in the host country as a result of FDI. Consequently, researchers distinguish between extensive margin (number of projects), intensive margin (mean capital per project), and total capital flows. The intensive margin reveals information on existing FDI links and the extensive margin on the creation of new FDI partners (Felbermayr & Kohler, 2006). Berden et al. (2014) show that the host's Worldwide Governance Indicators (WGI) (e.g., peace, rule of law, human rights, sustainability,

and human development) are important factors for FDI's extensive margin.

*H2: Social entrepreneurship activity in the host country positively affects the number of FDI projects (extensive margin).*

### 3 Method

The empirical method to measure social entrepreneurship activity's effect on FDI draws on the gravity equation, which is the most successful tool to study the determinants of FDI (Anderson, 2011; Bergstrand & Egger, 2011). The gravity equation owes its name to Nobel laureate Jan Tinbergen (1962), who reported that the extent of trade between country pairs is directly proportional to their economic mass (i.e., gross domestic product, GDP) and decreases with distance, which is a proxy for freight costs.

The initial formulation of the FDI gravity equation focuses on bilateral capital flows (Bergstrand & Egger, 2007). Recent developments in the literature, however, suggest that the number of firms (i.e., extensive margin) and jobs (i.e., foreign direct employment) are equally relevant to understanding the firm-level determinants of foreign investment across borders (Paniagua & Sapena, 2014). Particularly, social entrepreneurship may affect not only the level of FDI, but also the creation of new investment partners through the estimation of the extensive margin (Anderson, 2011) and foreign employment (Paniagua & Sapena, 2015).

To provide a full picture of SEA's effect on FDI, this study analyzes different home and host SEA levels' effect on FDI levels, number of projects, and foreign jobs. The study estimates the gravity equation for a country fixed effects log-linear estimator. In particular, the study defines the following equation for capital flows, number of projects, and jobs:

$$\begin{bmatrix} \ln FDI_{ij} \\ \ln N_{ij} \\ \ln jobs_{ij} \end{bmatrix} = \begin{matrix} \beta_1 \ln(GDP_i * GDP_j) + \beta_2 \ln(D_{ij}) + \beta_3 border_{ij} + \beta_4 col_{ij} \\ + \beta_5 lang_{ij} + \beta_6 smctry_{ij} + \beta_7 rel_{ij} + \beta_8 locked_j + \beta_9 CC_{ij} + \beta_{10} BIT_{ij} \\ \beta_{11} FTA_{ij} + \beta_{12} SEA_j + \lambda_i + \lambda_j + e_{ij}, \end{matrix} \quad (1)$$

where  $i$  and  $j$  denote FDI country partners, and the variables are defined as follows:  $N_{ij}$  is the number of investment projects between home country  $i$  and host  $j$ ;  $FDI$  is the aggregate capital investment;  $jobs$  is the aggregate number of jobs created by the investment projects;  $GDP$  is the gross domestic products of countries;  $D$  is the distance in kilometers between country capitals;  $border$  is a dummy variable equal to 1 when countries share a common border and 0 otherwise;  $col$  (colony) is set to 1 if the two countries have ever had a colonial link and 0 otherwise;  $lang$  (common language) takes a positive value if both countries share the same official language;  $rel$  (religion) is a composite index that measures the religious affinity between country pairs, with values ranging from zero to one;  $smctry$  (same country) indicates whether both countries were part of the same country in the past;  $locked$  is a dummy equal to 1 if the host country is landlocked;  $CC$  (common currency) is a dummy that takes the value 1 if both countries share the same currency and 0 otherwise;  $BIT$  (bilateral investment treaty) is a dummy that takes the value 1 if the country pair has a bilateral investment treaty in force and 0 otherwise;  $FTA$  (free-trade agreement) is a dummy that indicates if both countries have a free-trade agreement in force; and finally  $SEA$  is an index that measures the level of social entrepreneurship activity (from 0 = no SEA, to 5 = highest SEA) in the host country. Equation (1) includes controls for multilateral resistance in the form of fixed home and host country dummies ( $\lambda$ ). Anderson and Van Wincoop (2003) showed that the results from gravity equations with bilateral data can be seriously biased if unobserved effects are excluded. This

can be amended by including in the gravity regression a set of country dummies that capture country-specific unobserved mediating or moderating variables, such as variation in relative prices. Lastly,  $e$  represents a stochastic error term.

## 4 Data Sources and Analysis

### 4.1 Social Entrepreneurship Activity

SEA follows Terjesen Lepoutre, Justo, and Bosma (2012) work. GEM is a comprehensive method to measure SEA (Lepoutre, Justo, Terjesen, & Bosma, 2013). GEM measures social entrepreneurship activity drawing on interviews with approximately 150,000 adults in 49 countries during 2009. Consequently, the sample is limited to 160 home countries and 49 host countries.

Table 1 shows the list of countries and their scores in the GEM study. SEA is divided into three different stages: nascent, new, and established SEA (Lepoutre et al., 2013).

Nascent social entrepreneurship refers to entrepreneurs who are still in the initial stages of launching their businesses. New social entrepreneurs are those who have less than 42 months experience within their country's economic system. Early-stage social entrepreneurship comprises entrepreneurs from the two previous groups who meet additional criteria. A nascent entrepreneur fits the early-stage entrepreneur criterion if the new business' longevity is less than 12 months; additionally, the entrepreneur must own the new enterprise in whole or in part, or actively participate in the day-to-day running of the new firm. New social entrepreneurs are also early-stage entrepreneurs if they are currently actively managing a new enterprise whose longevity is less than 42 months. Finally, Lepoutre et al. (2013) defined established entrepreneurs as those who have been established for more than 42 months and have

Table 1: Social Entrepreneurship Activity

Country	SEA	Country	SEA
USA	4.15	Finland	2.71
Dominican Republic	2.59	Switzerland	2.84
Jamaica	3.50	Iceland	4.24
Brazil	0.37	Bosnia and Herzegovina	0.83
Guatemala	0.43	Russia	0.86
Ecuador	0.50	Serbia	1.14
Panama	1.29	Romania	1.73
Uruguay	2.57	Latvia	1.99
Chile	2.60	Slovenia	2.19
Colombia	3.83	Croatia	2.85
Peru	3.94	Hungary	3.31
Venezuela	4.09	Saudi Arabia	0.24
Argentina	4.32	Morocco	0.38
South Africa	2.01	Jordan	0.70
Uganda	2.70	Syria	0.94
Spain	0.55	Lebanon	0.95
Germany	0.72	Iran	1.41
Netherlands	1.02	Algeria	1.77
Italy	1.22	Israel	2.24
Norway	1.58	UAE	4.93
Belgium	1.78	Malaysia	0.20
Greece	1.95	Hong Kong	0.51
UK	2.18	South Korea	0.81
France	2.31	China	1.10

Notes: SEA is an index ranging from 0 (lowest) to 5 (highest). Source: Terjesen et al. (2012)

Table 2: Social Entrepreneurship Activity

	Variable	Obs.	Mean	Std. dev.	Min.	Max.
Home	Nascent SEA	928	1.20	0.86	0.07	3.77
	New SEA	928	0.88	0.63	0	2.7
	Established SEA	928	0.94	0.65	0	3.31
	Total SEA	928	2.93	1.65	0.20	4.93
Host	Nascent SEA	723	1.17	0.88	0.07	3.77
	New SEA	723	0.85	0.68	0	2.7
	Established SEA	723	0.82	0.67	0	3.31
	Total SEA	723	2.77	1.80	0.20	4.93

Notes: Notes: Summary statistics for all host and home countries.

achieved certain stability in the management of the firm and its business activity. Table 2 presents the descriptive statistics of all stages for home and host countries.

## 4.2 Greenfield FDI

The World Bank (2013) is the source GDP sum for year 2009, measured in constant 2000 US dollars. Distance, common language, colony, and border come from the CEPII (2011) database, as well as control for freight, information, cultural, historical, and administrative transaction costs between country pairs. Religious affinities increase the probability of economic transactions between nations with similar values and beliefs (Helble, 2007). Helble (2007) added the religion variable to the gravity equation by Helpman, Melitz, and Rubinstein (2008) as a control variable for religious affinities between trade partners. It is calculated with data from CIA World Factbook (2011) according to the following formula for each country pair:  $Christian_i^*$ . Institutional agreements such as free trade agreements (FTAs) and bilateral investment treaties (BITs) reduce uncertainty in foreign investments (Bergstrand & Egger, 2013). The study uses data from UNCTAD (2013a) to construct the BIT. The source of FTA is Head, Mayer, and Ries (2010) complimented with UNCTAD (2013a) data. For a detailed description of the variables, countries, and descriptive statistics, refer to Paniagua and Sapena (2013, 2014).

### 4.3 Control Variables

The World Bank (2013) is the source GDP sum for year 2009, measured in constant 2000 US dollars. Distance, common language, colony, and border come from the CEPII (2011) database, as well as control for freight, information, cultural, historical, and administrative transaction costs between country pairs. Religious affinities increase the probability of economic transactions between nations with similar values and beliefs (Helble, 2007). Helble (2007) added the religion variable to the gravity equation by Helpman, Melitz, and Rubinstein (2008) as a control variable for religious affinities between trade partners. It is calculated with data from CIA World Factbook (2011) according to the following formula for each country pair:  $\%Christiani * \%Christianj + \%Muslimi * \%Muslimj + \%Buddhisti * \%Buddhistj + \%Hindui * \%Hinduj + \%Jewish * \%Jewishj$ . Institutional agreements such as free trade agreements (FTAs) and bilateral investment treaties (BITs) reduce uncertainty in foreign investments (Bergstrand & Egger, 2013). The study uses data from UNCTAD (2013a) to construct the BIT. The source of FTA is Head, Mayer, and Ries (2010) complimented with UNCTAD (2013a) data. For a detailed description of the variables, countries, and descriptive statistics, refer to Paniagua and Sapena (2013, 2014).

## 5 Results

The results in Table 3 show that, overall, the gravity equation performs well in explaining bilateral FDI flows, projects, and jobs. In general, the variables have the expected sign. Distance is negative, whereas GDP, common language, colony, same country, and religion are positive. Free-trade agreements have a negative relationship with extensive margin. In keeping with the proximity-concentration hypothesis (Markusen, 2002), FTA has a negative effect on FDI because trade costs are low

and therefore FDI is comparatively less attractive. The rest of the control variables (BIT, landlocked, and common currency) have no effect on FDI for the 2009 sample of 49 countries.

The first two columns of Table 3 report the results for H1a and H1b; and column 3 for H2. All hypotheses are supported. Regarding the variables of interest, SEA has a clear, positive effect on FDI capital expenditure, new projects, and jobs. Columns 4, 5, and 6 columns perform a robustness check. These last three columns report the results of the SEA in the source country instead of the host country. Here, the sample comprises 49 source countries and 120 host countries. There are no significant results in the level SEA in the home countries.

Only the host's SEA affects the host's level of FDI. The level of SEA at the home country is irrelevant in the management's decision to engage in international production. Referring to Dunning's (1998) seminal eclectic paradigm, SEA is a location advantage for FDI rather than an organizational or internalization advantage.

Specifically, increasing one point on the SEA scale (i.e., 20% of a 5-point scale) increases FDI flows by 32%, new projects by 9%, and new jobs by 38%, on average. We used the following formula to calculate the FDI–SEA elasticity:

$$\hat{\beta}_{10} = \frac{\partial FDI_{ij}}{\partial SEA_j} \cdot \frac{F\bar{D}I_{ij}}{F\bar{D}I_{ij}} \rightarrow \varepsilon_{SEA_j} = \hat{\beta}_{10} \cdot F\bar{D}I_{ij} \quad (2)$$

where  $\varepsilon_{SEA_j}$  is the FDI–SEA elasticity, or how responsive FDI is to a relative change in SEA, and  $F\bar{D}I_{ij}$  is the average SEA for host countries.

Last row in Table 3 presents the results of formula [2]. Increasing SEA activity in the host country by 1% increases FDI capital flows by 0.9%, new FDI projects by 0.25%, and foreign jobs by 1.08%. Whereas new projects are inelastic to SEA (i.e., less than one), FDI flows are relatively elastic (i.e., close to one) and foreign direct employment is elastic (i.e., greater than one). Countries with higher SEA



Table 3: Results

	(1)	(2)	(3)	(5)	(6)	(7)
	H1a	H1b	H2	Robustness check		
	FDI capital flows	FDI jobs	FDI projects	FDI capital flows	FDI jobs	FDI projects
$\ln(GDP_i * GDP_j)$	0.681*** (0.15)	0.613*** (0.13)	0.233*** (0.04)	0.793*** (0.14)	0.661*** (0.121)	0.291*** (0.04)
$\ln(D_{ij})$	-0.197* (0.12)	-0.288*** (0.01)	-0.0659** (0.03)	-0.243** (0.11)	-0.358*** (0.09)	-0.054* (0.03)
$border_{ij}$	0.143 (0.26)	0.191 (0.22)	-0.0170 (0.06)	0.137 (0.24)	0.130 (0.21)	0.038 (0.07)
$lang_{ij}$	0.294 (0.22)	-0.016 (0.19)	0.115* (0.06)	0.453** (0.21)	0.276 (0.17)	0.113* (0.05)
$col_{ij}$	0.305 (0.26)	0.514** (0.22)	0.0419 (0.07)	0.454** (0.22)	0.724*** (0.19)	0.151** (0.06)
$smctry_{ij}$	0.983** (0.48)	0.265 (0.41)	0.121 (0.12)	0.961* (0.49)	-0.152 (0.42)	0.0001 (0.14)
$CC_{ij}$	-0.081 (0.13)	0.006 (0.11)	-0.016 (0.03)	-0.019 (0.12)	0.014 (0.10)	0.003 (0.03)
$rel_{ij}$	0.652* (0.33)	0.427 (0.28)	0.059 (0.08)	0.0278 (0.31)	0.309 (0.26)	-0.0117 (0.09)
$locked_j$	0.435 (1.00)	1.012 (0.61)	-0.124 (0.26)	1.487 (2.51)	0.754 (1.86)	0.595 (0.72)
$FTA_{ij}$	-0.0152 (0.20)	0.042 (0.17)	-0.133** (0.05)	0.049 (0.19)	-0.023 (0.16)	-0.044 (0.05)
$BIT_{ij}$	-0.054 (0.16)	-0.046 (0.14)	-0.026 (0.04)	0.007 (0.15)	0.001 (0.13)	-0.080* (0.04)
$SEA_j$	0.324* (0.16)	0.380*** (0.14)	0.089** (0.04)			
$SEA_i$				0.208 (0.33)	-0.178 (0.28)	-0.027 (0.09)
Elasticity $\varepsilon_{SEA_j}$	0.90	1.08	0.25			
Observations	723	722	723	928	928	928
$R^2$	0.487	0.579	0.351	0.463	0.560	0.338

Notes: Robust standard errors in parentheses, and standard errors in brackets;

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 4: Host's SEA Effect on FDI

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	capital	capital	capital	jobs	jobs	jobs	projects	projects	projects
Nascent SEA	0.258 (0.39)			0.425 (0.33)			0.096 (0.10)		
New SEA		1.025* (0.52)			1.203*** (0.45)			0.282** (0.14)	
Established SEA			0.721* (0.37)			0.846*** (0.31)			0.198** (0.10)
Observations	723	723	723	723	723	723	723	723	723
$R^2$	0.487	0.487	0.487	0.579	0.579	0.579	0.351	0.351	0.351

Notes: Robust standard errors in parentheses, OLS with country fixed-effects; \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$   
Only variables of interest appear.

levels attract comparatively more foreign employment.

The data analysis confirms both hypotheses. However, the elasticity calculations reveal that the magnitude of SEA's effect on FDI is higher for jobs and capital than for projects. The relative importance of legitimacy theory over social strategy theory justifies these results (Boddeyn, 1995; Boddeyn & Brewer, 1994). International businesses seek both social strategy and legitimacy; however, results imply that the latter has more weight than the former.

To further untangle the effect of SEA on FDI, Table 4 shows the results for each SEA stage (i.e., early-stage and established). Moreover, early-stage SEA is subdivided into nascent and new SEA. Firstly, new SEA has a higher effect on FDI capital, projects, and jobs. Increasing one point on the new SEA scale increases FDI flows by 103%, projects by 28%, and jobs by 120%. Secondly, nascent SEA has no significant effect on FDI. Thirdly, increasing one point on the scale of established SEA increases capital flows by 72%, new projects by 20%, and foreign jobs by 85%. These results coincide with the estimations obtained for the total SEA index (Table 3).

## **6 Discussion**

### **6.1 Summary**

Building on legitimacy and social strategy theories, this study conceptually analyzes SEA and its positive effect on the amount of FDI. For this purpose, the research constructs an empirical analysis to quantify this effect using the gravity equation. This analysis measures FDI-SEA's elasticity for capital flows, employment, and number of foreign projects.

This research assesses two theories to explain the relationship between FDI and SEA: legitimacy and social strategy. The major insight gained from this research is legitimacy theory's relevance. This finding is relevant for academics studying international business within a social context. This study also provides useful knowledge for policymakers in both FDI and SEA fields.

### **6.2 Contributions to Scholarship**

This study offers several contributions to the SEA and FDI literature. This study appears to be the first to successfully study the relationships between SEA and FDI by joining these two fields of study via legitimacy through the institutional entrepreneurship theory.

The results highlight legitimacy theory's relevance over social strategy theory regarding the FDI-SEA link. Firms tend to seek legitimacy in the host country by increasing levels of investment and employment rather than social strategy by increasing foreign projects. Therefore, as established within the framework of this theory, FDI investors not only seek market opportunities through social strategy but also seek to legitimate themselves in the host society.

### **6.3 Applied Implications**

Policymakers and practitioners can benefit from the findings of this research. This study yields an additional indicator for management to locate foreign activity. SEA professionals find additional arguments to communicate to governments and society the benefits behind SEA. This study gives way to efficiently targeted 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 effect on the host's economy: first, by increasing general welfare with socially responsible activities; second, by fostering FDI, business projects, and employment.

### **6.4 Limitations and Directions for Future Research**

This study has certain limitations, many of which are opportunities for further research. The cross-sectional nature of the data impedes any dynamic interpretation of the results. Additionally, most FDI takes places through large firms, whereas SEA tends to be channelled through small or medium-sized organizations. Consequently, results may be biased toward multinational enterprises; results may be less applicable to small and medium businesses, which have more in common with SEA.

Results suggest that the SEA level at the firm's headquarters does not significantly increase outbound FDI. Foreign employment is elastic to SEA, particularly to early-stage SEA. Future research should focus on SMEs, the source country, and early-stage SEA.

The gap in the literature between CSR and social entrepreneurship is still unresolved, especially in an international context. These two different theories often offer an isolated picture of the global social context. A future study linking CSR and SEA in international business could offer a wider theoretical analysis of how SEA and CSR interact with FDI.

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