

Institutional Conditions and Enterprises' Social Innovations: Insights from a Latin-American Economy

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Extended abstract

Social innovation refers to the process of developing and implementing novel solutions to social problems. Social innovation often involves re-negotiations of settled institutions among diverse actors with conflicting logics. According with the extant literature, social innovations entail institutional change to confront “wicked problems” (Rittel & Weber, 1973) with substantial interdependencies among multiple systems and actors that are directly or indirectly enrolled (Rayner, 2006). Latin-American countries are characterized by “wicked problems” (corruption, informality, violence, crime) that affect any entrepreneurial activity developed by individuals and organizations (Hoskisson et al., 2000).

Given the complexity of institutional processes and the influence on organizational/individual behavior (Khan et al., 2007; Greenwood et al., 2011), the ongoing academic debate has been focused on how individuals/organizations explore alternatives to address societal and economic problematics that affect their entrepreneurial/economic activities (Howard-Grenville et al., 2014). Institutional research has played a significant role exploring social innovations (Battilana & Dorado, 2010; Dorado, 2013; Lawrence et al., 2002; Zietsma & Lawrence, 2010). Similarly, entrepreneurship literature has recognized the lack of studies in emerging/developing economies that explore institutional strengths/weaknesses and their affectations on entrepreneurial activities using robust theoretical approaches (Baumol, 1990; Wright et al., 2005; Sobel, 2008; Mair and Marti, 2009; Bruton et al., 2012). Institutions—those who establish the “rules of the game”—significantly shape organizational strategies and individual decisions (North, 1990; Peng, 2001, 2003). In this sense, institutions influence how social life is regulated and facilitate the functioning of social systems (Messne et al., 2013). It is necessary to understand the institutional structure, the institutional regulation or legitimacy, and the institutional performance.

In general, societies are integrated by groups of individuals/organizations with different opinions explained by their norms, values, and beliefs (Webb et al., 2009, p. 3). Because of those differences, a gap exists between what certain groups understand to be legal (specified by laws and regulations) and what they consider to be legitimate (specified by norms, values, and beliefs) (Dowling & Pfeffer, 1975; Scott, 1995; Weber, 1978). In developing economies, the gap between what is legal and what is legitimate allows the presence of certain dark/negative conditions (Khan et al., 2007; Webb et al., 2009). Translating this reasoning into social innovation and adopting North's ideas (1990), enterprises' social innovations could be configured by the quality of formal institutions (regulations, programmes, etc.) and the quality of informal institutions (values, attitudes, etc.). In these conditions, individuals/organizations assume that they are competent interpreters of their own lives and competent solvers of their own problems (Griffin & Prakash, 2014). As a result, they develop/implement effective methods for cultivating social innovation.

Inspiring by these academic debates, this study tries to provide a better understanding about the influence of formal/informal institutions in the development of enterprises' social innovations. Adopting the institutional economic approach (North, 1990; Scott, 1995; Weber, 1978), we proposed/tested a conceptual framework in a Latin-American country –Mexico– (Figure 1). Why? During the last decades, Mexico has encountered a strong economic development pattern but retard by social problematics. This socio-economic scenario provides the elements to understand how individuals/organizations faced societal and economic problems as well as how they tried to solve them. More concretely, we use data from the 2012/2014 National Victimization Survey collected by the Mexican National Institute of Statistics and Geography (INEGI). An Ordinary Least Square (OLS) regression was applied with 5525 establishments that have developed social innovations to address some externalities derived of societal and economic problems.

Based on our analysis, we extract three relevant results. *First*, formal institutional conditions are associated with an increment in the number social innovations. However, tangible actions decreased the number of social innovations. The reason could be a minor effect produced by the lack of quality of institutions (Misangyi et al. 2008; Vaccaro and Palazzo 2014; Williams and Godson 2002). *Second*, informal environmental conditions have a strong influence on the implementation of social innovations. Nevertheless, informal conditions (corruption, extortion and informal trade) are the mirror of formal conditions (government programmes, laws,

actions). This means that we are not able to disconnect them because their transformations are closely related (North, 1990). *Third*, victimization reinforced the effect of certain informal/formal conditions on social innovations.

Based on these conclusions, this study modestly contributes to the literature by shedding some light on social innovations developed by established enterprises comprising certain formal/informal institutional conditions (Greenwood et al., 2011; Howard-Grenville et al., 2014; Stenholm et al., 2013), as well as participating in the debate on the roles of certain actors such enterprises and governments in developing economies (Griffin & Prakash, 2014; Witkamp et al., 2011). Our insights are useful for manager and policy makers to better address issues related to organizations and societies. For policy makers, this study exhibits key formal/informal determinants of enterprises' social innovations. If policy makers expect a transition towards a more advanced economy is still required a change, evolution and transformation the quality of institutions (educational system, labor market, security and stable regulation, among others). Given the structural characteristic of institutions, it requires a strong work in formal conditions to impact on the configuration of informal conditions and vice versa. For enterprise managers, this study offers insights about the mechanisms and practices for social innovation practices.

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Figure 1: Institutional determinants of enterprises' social innovations

