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BRIDGING INSTITUTIONAL GAPS: SOCIAL ENTREPRENEURSHIP AND SUSTAINABLE DEVELOPMENT IN PAKISTAN

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Abstract

This study examines how formal and informal institutions shape social entrepreneurship (SE) in Pakistan, an emerging economy with weak regulatory structures but strong normative and cultural foundations. Using Scott's institutional theory, we employed a sequential mixed-methods design: 15 semi-structured interviews and a survey of 497 SE actors analyzed through structural equation modeling (SEM). Results show that formal factors—government regulations, access to finance, and public spending—positively and significantly predict SE activity. Among informal factors, public service motivation, entrepreneurial attitude, social orientation, and innovativeness are significant drivers, whereas the COVID-19 pandemic exerts a negative influence and social networks show no direct effect. SE activity strongly predicts social, economic, and environmental development outcomes, confirming its alignment with the Sustainable Development Goals (SDGs). Findings highlight the complementarity of formal and informal institutions in fostering SE. Policy implications stress the importance of supportive legal frameworks, finance, and cultural reinforcement to accelerate sustainable development.

Keywords: Social entrepreneurship; Institutional theory; Formal institutions; Informal institutions; Sustainable Development Goals (SDGs); Mixed-methods; Structural equation modeling.

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Introduction

Social entrepreneurship (SE) – broadly defined as the pursuit of innovative solutions to social problems through sustainable business models – has gained global prominence for its potential to contribute to social, economic, and environmental development goals (Plata, Scott & Aparicio, 2025). Unlike traditional commercial entrepreneurship, social entrepreneurship explicitly seeks sustainable development impact alongside financial sustainability. This dual mission makes SE a particularly valuable approach in emerging markets like Pakistan, where government capacity to address social challenges is often limited and new entrepreneurial solutions are needed to fill institutional voids (Bals et al., 2022; Plata, Scott & Aparicio, 2025). Pakistan faces persistent development gaps in areas such as poverty alleviation, education, health, and environmental sustainability. Social enterprises – ventures that apply business acumen to achieve social objectives – are increasingly seen as important actors that can complement public services and accelerate progress on the Sustainable Development Goals (SDGs). However, the institutional environment in which these social enterprises operate plays a decisive role in enabling or constraining their success.

Institutional theory provides a useful lens to examine how contextual factors shape entrepreneurial behavior. Institutions are the "rules of the game" – the formal laws, regulations, and policies, as well as informal norms, cultures, and beliefs that structure economic and social interactions (North, 1990). According to W. Richard Scott's seminal formulation, *"Institutions comprise regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life" (*Kleinaltenkamp, 2018; P: 231). The regulative pillar corresponds to formal institutions such as laws, governmental regulations, and official policies that exert control through rules and sanctions. The normative pillar encompasses informal institutions including social values, norms, and expectations that define what behaviors are considered legitimate

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or appropriate. The cultural-cognitive pillar involves shared beliefs, identities, and mental models through which people understand and interpret their world *(*Kleinaltenkamp, 2018). Together, these pillars create an institutional environment that can either support or hinder entrepreneurship. In developed economies, well-established formal institutions (e.g. clear legal frameworks, accessible funding mechanisms) often facilitate entrepreneurship. By contrast, in many developing countries, formal institutions may be weak or underdeveloped, making informal institutions like culture, social networks, and public attitudes especially pivotal in shaping entrepreneurial activity (Minbaeva et al., 2023).

Pakistan's institutional context is characterized by such asymmetries. On one hand, the country has evolving but still-fragmented formal support for entrepreneurship – for instance, nascent policies for small and medium enterprises and limited government funding schemes for social initiatives (Aziz et al., 2023). On the other hand, Pakistan possesses rich informal institutions, including strong community norms of charity and solidarity (often rooted in cultural and religious values), as well as an emergent youth-driven culture of innovation and social awareness (Irfan et al., 2023). This dichotomy raises important questions: To what extent can vibrant informal forces compensate for weak formal support in promoting social entrepreneurship? Which specific formal institutional factors most significantly affect social enterprise development, and which informal factors serve as key enablers or barriers? And ultimately, how do these institutional factors influence the outcomes of social entrepreneurship – in terms of the social value created and contribution to sustainable development goals?

This paper addresses these questions by investigating the role of formal vs. informal institutions in shaping social entrepreneurship in Pakistan. We blend qualitative and quantitative evidence to provide a comprehensive analysis. First, through exploratory interviews with social entrepreneurs and relevant stakeholders, we identify contextual institutional factors – both

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formal (e.g. regulatory environment, access to finance, public sector engagement) and informal (e.g. motivations, cultural attitudes, networks) – that actors perceive as influencing social enterprise success. Next, building on these insights and extant literature, we develop hypotheses to formally test the impact of these factors on social entrepreneurial activity and outcomes. We then employ a survey-based structural equation modeling approach to test these hypotheses with a large sample of Pakistani social enterprises.

By integrating Scott's institutional pillars into the study of social entrepreneurship, our analysis distinguishes between formal institutional effects (the "rules and resources" provided by government and official systems) and informal institutional effects (the "values, norms, and networks" present in society) on SE development. We pay special attention to how these two classes of institutions may interact or differ in an emerging market context. For instance, one might expect that in Pakistan's environment – characterized by institutional voids in the state sector – informal institutions take on outsized importance, as suggested by prior studies of entrepreneurship in developing contexts (Irfan et al., 2023; Minbaeva et al., 2023). Entrepreneurs may rely more heavily on personal networks, community support, and intrinsic motivations to launch and sustain social ventures when formal support is lacking. On the other hand, the absence of robust formal institutions (such as easy access to capital or supportive laws) may significantly impede the scaling of social enterprises. Our study seeks to untangle these dynamics by examining multiple institutional factors in tandem.

The contributions of this research are threefold. First, we contribute empirically by providing one of the first mixed-method investigations of social entrepreneurship in Pakistan, a country where academic literature on SE remains limited. Prior research on social entrepreneurship in South Asia is growing but still nascent; by focusing on Pakistan, we shed light on a context with unique institutional challenges (political instability, economic volatility,

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strong social ties, etc.) and rich potential for social innovation. Second, we contribute theoretically by extending institutional theory into the realm of social enterprise. We demonstrate how Scott's pillars can be operationalized to study social entrepreneurial behavior and how formal vs. informal institutions can be empirically compared in their effects. Our findings nuance the existing debate on whether social ventures thrive because of or in spite of weak formal institutions in developing countries (Irfan et val., 2023; Aziz et al., 2023; Bals et al., 2022; Plata, Scott & Aparicio, 2025). Third, we offer practical insights for policymakers and development practitioners: understanding which institutional barriers most hinder social enterprises, and which informal assets can be leveraged, can inform more effective strategies to foster a vibrant social enterprise ecosystem in Pakistan and similar emerging markets.

The remainder of the paper is structured as follows. The next section reviews relevant literature and theory on institutions and social entrepreneurship, and develops hypotheses regarding the influence of formal and informal institutional pillars (regulatory, normative, cognitive) on social entrepreneurship outcomes. We then present our methodology, including the qualitative exploration and quantitative survey design. The results section reports key findings from both the interview analysis and the structural model hypothesis tests. In the discussion, we interpret these findings in light of theory and prior research, highlighting theoretical implications and explaining how formal and informal institutions jointly shape SE activity and its contribution to sustainable development. We conclude with a summary of contributions, limitations, and recommendations for policy and future research.

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Literature Review and Theoretical Framework

Social Entrepreneurship and Sustainable Development in Emerging Economies

Social entrepreneurship has become a dominant discourse in both academic and policy spheres for its promise to address societal challenges through market-based approaches (Scartozzi et al., 2025). By deploying innovative business models to solve social problems, social enterprises can complement governmental and philanthropic efforts, often achieving outcomes in poverty reduction, education, health, and environmental protection that align with the Sustainable Development Goals. In emerging economies, the rise of social entrepreneurship is particularly notable, as it often emerges in response to institutional voids – gaps in the provision of public goods or inefficiencies in markets and governance (Mair & Martí, 2009). Where state or market mechanisms fail to fully meet community needs, social entrepreneurs step in as "champions of the moral marketplace" (Georgallis & Lee, 2020), creating self-sustaining solutions that generate social value.

However, social ventures in developing countries face unique challenges distinct from those of commercial startups in developed contexts. They often encounter acute resource scarcities, legitimacy deficits, and underdeveloped support systems (Davis et al., 2021). For instance, social entrepreneurs may struggle with *financial capital* (due to weak investment markets and few tailored financing instruments), *human capital* (attracting talent when salaries are limited), and *infrastructural barriers*. Moreover, they must balance a double bottom line of social impact and financial viability, which can lead to mission drift under pressure to sustain economically (Scartozzi et al., 2025). The success and scalability of social enterprises, therefore, are tightly interwoven with the surrounding institutional environment that can either ease or exacerbate these challenges (Aparicio et al., 2024).

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A growing body of research emphasizes the role of context and institutions in social entrepreneurship (e.g., Urbano, Ferri, & Peris-Ortiz, 2019; Pathak & Muralidharan, 2018). Contextual factors such as culture, governance quality, and economic conditions have been shown to influence both the rate of social new venture creation and the nature of the opportunities pursued (Stephan, Uhlaner, & Stride, 2015). In particular, scholars have debated whether social entrepreneurship flourishes *more* in contexts with weaker formal institutions (because social needs are greater and entrepreneurs innovate to fill gaps) or in contexts with stronger institutions (because support systems and stability make it easier to start ventures). Plata et al. (2025) provide comparative evidence across 59 countries showing that informal institutional mechanisms have a consistently positive association with social venture formation, whereas the influence of formal institutions can vary by a country's development level (Spanuth & Urbano, 2024). In lower-income countries, weak formal support may mean social ventures rely heavily on informal community mechanisms; in higher-income countries, robust formal frameworks can actively enable social entrepreneurship (though possibly reducing the grassroots, necessity-driven ventures that emerge in voids).

Institutions: Formal and Informal Pillars

Institutional theory posits that organizations and entrepreneurs are deeply influenced by the rules, norms, and belief systems of the environment in which they operate. Scott's (2014) framework of three pillars – regulative, normative, and cultural-cognitive – is widely used to analyze these environmental influences. The regulative pillar (formal institutions) consists of explicit rules, laws, and policies enforced by authoritative bodies, which constrain or enable behavior through sanctions or incentives. The normative pillar encompasses the values, norms, and expected behaviors in a society – essentially, the socially accepted ways of doing things, which confer legitimacy when followed. The cultural-cognitive pillar involves the shared beliefs and mental models through which people interpret actions and facts; it highlights

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how common understandings and taken-for-granted truths shape what actors perceive as feasible or desirable (Zou, Fuller & Wang, 2025). While the regulative pillar operates through coercive isomorphism (legal requirements), the normative through normative isomorphism (social obligation), and the cognitive through mimetic processes (common schemas), together they form a holistic institutional context for action (Scott, 2014).

In the context of entrepreneurship, formal institutions set the "rules of the game" that can significantly affect venture creation and growth. Favorable regulatory frameworks – such as ease of business registration, strong property rights, tax incentives, and targeted enterprise support policies – have been linked to higher entrepreneurial entry and success rates (Djankov et al., 2002). Access to formal finance (banks, investors) and government funding programs further constitute formal support mechanisms vital for startups. Conversely, burdensome regulations, policy uncertainty, or corruption can stifle entrepreneurial initiatives. In social entrepreneurship, formal institutions also matter: governments can pass legislation recognizing new social enterprise legal forms (e.g., community interest companies, non-profit company status), include social enterprises in public procurement, or provide grants and subsidies for social innovation (Kerlin, 2013). Such actions can legitimize social enterprises and integrate them into the wider economy (Spanuth & Urbano, 2024). Empirical evidence from developing countries indicates that supportive government policies and public spending can create a more conducive climate for social enterprise activity (Wlezien, C., & Soroka, 2021). For example, in a study of social ventures, Welter and Smallbone (2011) found that targeted SME and social enterprise support programs by governments helped foster a thriving SE sector in Eastern Europe.

Given these observations, we expect that strengthening formal institutional support – through stable policies, easier access to capital, and government engagement – would positively impact social entrepreneurship development in Pakistan. Our study focuses on three key formal institutional

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factors derived from prior literature and our qualitative phase: government regulations, access to finance, and public spending. Government regulations refer to the presence of enabling or hindering legal frameworks and administrative procedures for social enterprise. Access to finance captures the availability of external funding (investment, loans, grants) for social entrepreneurs. Public spending reflects the extent of government expenditure and procurement directed at social issues, which can open opportunities for social enterprises to partner or receive support. We hypothesize that:

H1: *Stronger formal institutional support is positively associated with the development of social entrepreneurship.*

H1a: Favorable public spending (government expenditure on social programs and support) positively influences social entrepreneurship activity in Pakistan.

H1b: Greater access to finance (availability of capital for social enterprises) positively influences social entrepreneurship activity in Pakistan.

H1c: Supportive government regulations (policies, legal frameworks) positively influence social entrepreneurship activity in Pakistan.

While formal institutions set the groundwork, informal institutions often fill in the gaps, especially in contexts where formal systems are underdeveloped. Norms and cultural attitudes can either encourage entrepreneurial solutions to social problems or discourage them. For instance, a society that values social responsibility and community welfare may motivate more individuals to start social ventures (a normative driver), whereas one that stigmatizes business failure or prioritizes secure careers may inhibit entrepreneurship. Cognitive aspects like awareness and problem framing also matter: if people widely believe that social challenges can be addressed through entrepreneurship and see role models succeeding, it builds a shared mindset conducive to SE.

Prior research suggests several informal drivers of social entrepreneurship. Public service motivation (PSM) – the desire to serve the public and do good for others – is a well-known concept in public

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administration, and it can be a powerful intrinsic motivator for social entrepreneurs (Perry & Hondeghem, 2008). Individuals high in PSM are more likely to pursue prosocial entrepreneurial ventures (Birrer, 2020). Entrepreneurial attitude and self-efficacy represent the cognitive side: those who are confident in their entrepreneurial abilities and have a proactive mindset are more inclined to start new ventures, including social ones (Hockerts, 2017). Social orientation (a value-based commitment to community and social goals) is part of the normative fabric that can shape entrepreneurs' goals – social entrepreneurs often exhibit stronger prosocial values than traditional entrepreneurs (Smith et al., 2014). Innovativeness as an individual trait or cultural trait (openness to new ideas) can influence social entrepreneurship since it involves creative problem-solving under constraints. Additionally, social networks and social capital are frequently cited as critical resources for entrepreneurs in emerging markets, where formal resource channels are lacking (Adler & Kwon, 2002). Strong networks can provide information, trust, and resources through informal connections, often substituting for missing formal market institutions.

On the other side, certain informal norms can pose challenges. The stigma of failure in some communities may deter risk-taking. A traditional mindset in parts of society might view entrepreneurship (especially by women in social ventures) with skepticism. Moreover, while personal networks are vital, they can be limited to bonding capital (close-knit circles) and might not always provide the bridging capital needed for scaling ventures beyond an immediate community.

Our quantitative model zeroes in on six informal institutional factors identified through literature and reinforced by our qualitative findings: public service motivation (PSM), entrepreneurial attitude, social orientation, innovativeness, social networks, and the impact of the COVID-19 pandemic. The inclusion of COVID-19 may seem unusual in an institutional sense, but we treat the pandemic as an external shock that significantly altered informal and

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formal institutional dynamics. Crises like COVID-19 test the resilience of social enterprises and often disrupt resource flows and community engagement, effectively becoming an (unplanned) part of the institutional environment to which entrepreneurs must adapt. Early commentary suggests the COVID-19 pandemic adversely affected many social enterprises globally by interrupting operations, reducing face-to-face community interactions, and diverting funding priorities (Weaver, 2023). Our interviews, conducted in the aftermath of the major COVID waves, confirmed a negative fallout: entrepreneurs reported difficulty maintaining their ventures and meeting objectives during pandemic lockdowns and economic slowdown, as "the COVID-19 epidemic confirmed significant challenges [for] maintaining their businesses and achieving their social objectives" (Weaver, 2023). Thus, we include COVID-19's perceived impact as an (negative) informal contextual factor. We hypothesize the following regarding informal pillars:

H2: *Stronger informal institutional factors are positively associated with the development of social entrepreneurship.*

H2a: Higher public service motivation among entrepreneurs positively influences social entrepreneurship activity.

H2b: The COVID-19 pandemic has an adverse effect on social entrepreneurship activity (i.e. it is negatively associated with SE development).

H2c: Stronger social networks (greater social capital and connections) positively influence social entrepreneurship activity.

H2d: A more pronounced entrepreneurial attitude (risk-taking, proactivity, self-efficacy) positively influences social entrepreneurship activity.

H2e: A stronger social orientation (commitment to social values and mission) positively influences social entrepreneurship activity.

H2f: Greater innovativeness (creativity and openness to new ideas) positively influences social entrepreneurship activity.

Finally, beyond the individual effects of formal and informal factors, our study seeks to compare their relative importance. Some theorists argue that in

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countries like Pakistan, informal institutions might substitute for weak formal ones, meaning they could have a more decisive impact on outcomes (Puffer, McCarthy, & Boisot, 2010). Others suggest that without a minimum threshold of formal support, informal efforts can only go so far. We anticipate that informal institutional support will play an equally if not more significant role than formal institutions in driving social entrepreneurship under Pakistan's conditions. For instance, personal motivation and community support may be the critical determinants of whether a social enterprise even launches, given formal hurdles. At the same time, we acknowledge certain formal inputs (notably access to finance) may have substantial weight because no amount of motivation can replace capital for scaling a venture. Thus, we also test an overarching comparative hypothesis:

H3: *Informal institutional factors collectively have a stronger impact on social entrepreneurship development than formal institutional factors in the context of Pakistan.*

This comparative hypothesis will be examined by analyzing the magnitude and significance of coefficients in our structural model and qualitatively considering how entrepreneurs navigate formal vs. informal institutional influences.

In addition to examining the determinants of social entrepreneurship, our framework incorporates the outcomes of SE in terms of contributions to development. Drawing from the sustainable development literature and the triple bottom line concept, we measure SE outcomes along three dimensions: social development, environmental development, and economic development. Social enterprises by definition target social development (e.g., improving education, health, equality). Some also address environmental issues (renewable energy, waste reduction) contributing to environmental sustainability. Indirectly, as enterprises, they also generate economic development (jobs, income) albeit with a social mission. We posit that higher

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levels of social entrepreneurial activity by social enterprises will translate into greater advancements in these domains. Therefore:

H4: *Social entrepreneurship activity by social enterprises is positively associated with sustainable development outcomes.*

H4a: Social entrepreneurship activity is positively related to improvements in social development outcomes.

H4b: Social entrepreneurship activity is positively related to improvements in environmental development outcomes.

H4c: Social entrepreneurship activity is positively related to improvements in economic development outcomes.

This hypothesis is informed by prior work noting the role of social enterprises in community development. For example, a study in South Africa found regions with more social entrepreneurial initiatives saw better social service delivery and minor economic uplift (Urban & Kujinga, 2017). By empirically verifying the SE–development linkage in Pakistan, we underscore the broader significance of fostering social entrepreneurship.

Figure 1 presents our conceptual framework linking formal and informal institutional factors to social entrepreneurship development, and in turn to sustainable development outcomes. (For brevity, the figure is not shown here, but it conceptually mirrors the hypotheses above). We next describe the methodology employed to investigate these hypotheses, starting with an exploratory qualitative phase and followed by a hypothesis-testing quantitative phase.

Methodology

Research Design

This study employed an exploratory sequential mixed-methods design, combining a qualitative phase with a subsequent quantitative survey. This approach was selected to capture the contextual complexity of institutional influences on social entrepreneurship (SE) in Pakistan and to enhance the validity of subsequent measurement and hypothesis testing (Creswell & Plano

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Clark, 2018; Molina-Azorín & Fetters, 2020). The qualitative phase generated insights into institutional dynamics that informed the design of the survey instrument, ensuring contextual sensitivity and conceptual grounding.

Qualitative Phase

The first stage involved 15 semi-structured interviews with key actors in the SE ecosystem, including enterprise founders and managers (n = 12) and stakeholders from support organizations and government agencies (n = 3). Participants were purposively sampled to capture variation in sector (e.g., health, education, environment), organizational size, and region, with snowball sampling used to expand the pool. Interviews, conducted between late 2021 and early 2022, explored perceptions of regulatory conditions, financing opportunities, socio-cultural norms, and personal motivations. Interviews were carried out in English or Urdu, lasted 30–90 minutes, and continued until thematic saturation was achieved (Guest, Namey, & Chen, 2020).

Data were transcribed verbatim, translated where required, and analysed using thematic analysis (Braun & Clarke, 2021). Coding combined deductive categories derived from institutional theory (e.g., regulatory, normative, cognitive pillars) with inductive themes emerging from participants' accounts (e.g., COVID-19 disruptions). Codes were clustered into higher-order themes such as government regulations, access to finance, social networks, and public service motivation. NVivo software supported systematic coding. Reliability was reinforced through member checks, peer debriefing, and cross-checking of coding by a second researcher (Lincoln & Guba, 1985).

Quantitative Phase

Findings from the qualitative phase informed the design of a structured survey measuring institutional factors and SE outcomes. Constructs included government regulations (Estrin, Mickiewicz, & Stephan, 2013), access to finance (Lee et al., 2015), public spending (adapted from contextual items identified during interviews), public service motivation (Perry, 1996),

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entrepreneurial attitude (Bolton & Lane, 2012), innovativeness (DeVellis, 2017), social networks (Thompson et al., 2000), and COVID-19 impact. Outcome variables captured perceived contributions to social, economic, and environmental development. Items were measured on seven-point Likert scales, with adaptations for cultural and sectoral relevance.

The survey was administered in mid-2022 using a combination of in-person distribution and electronic dissemination (via Qualtrics), targeting enterprises identified through SE networks, incubators, and referrals. A total of 700 questionnaires were distributed, yielding 522 responses (74.5% response rate). After screening for incomplete or invalid submissions, 497 valid responses remained, exceeding minimum sample size requirements for structural equation modelling (SEM) (Kline, 2023). Respondents included 58% male and 42% female entrepreneurs, with a mean age of 32 years, representing diverse sectors: education (20%), health (15%), environment (10%), livelihoods (25%), technology (10%), and others.

Analytical Approach

Thematic analysis findings guided the specification of hypotheses and constructs for the SEM model. Measurement reliability and validity were assessed through Cronbach's alpha, composite reliability, and confirmatory factor analysis. SEM was used to test hypothesised relationships between formal institutions, informal institutions, and SE outcomes. This design allowed for both contextual richness and empirical generalisation, aligning with calls for methodological pluralism in SE research (Saebi, Foss, & Linder, 2019; Busenitz et al., 2023).

Data Analysis

Survey data were first examined for normality, multicollinearity, and non-response bias; results confirmed minimal issues (Hair et al., 2021). Factor analyses validated the constructs: EFA supported the intended structure, with KMO = 0.937, and CFA indicated satisfactory model fit (CFI/TLI > 0.90, RMSEA ≈ 0.05). Reliability and validity were established via Cronbach's alpha,

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composite reliability, and Fornell–Larcker tests (Fornell & Larcker, 1981). Hypotheses were tested through SEM in AMOS, modeling institutional factors → SE activity → developmental outcomes. Comparative and exploratory interaction tests assessed the relative influence of formal versus informal institutions, supplemented by triangulation with qualitative findings.

Results

Qualitative Findings: Institutional Factors Affecting Social Entrepreneurship

The exploratory interviews provided rich context on how various formal and informal institutions influence social entrepreneurial activities in Pakistan. Through thematic analysis, we distilled the interview data into a set of key themes, aligned under two main categories: Formal Institutional Factors and Informal Institutional Factors. Table 1 summarizes these themes, along with illustrative evidence from the interviews (participant references are coded as SE1, SE2, etc. for social entrepreneurs, and where relevant we note their role or sector for clarity).

Table 1. Key Institutional Factors Identified (Qualitative Phase) and Example Evidence

Institutional Factor (Type)	Description	Illustrative Evidence from Interviews
Government Regulations (Formal)	Lack of supportive legal framework and inconsistent government policies for social enterprises. Difficulty in registration, taxation issues,	"Most difficult are the constantly shifting regulations. Government…frequently…that's annoying…we went through a difficult period since [government] investment had been rising steadily until a new administration changed course…The sector suffers from lack of coordination and understanding

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	and absence of official recognition for hybrid mission ventures.	in government." – *Assistant Director, SE1* "We compete with traditional firms...reinvesting profits for social good. However, we are taxed like a corporation and governed like a non-profit...Playing the center is thankless. Recognize social companies for their unique value...Implement new rules to make it easier for us." – *Managing Director, SE6*.
Access to Finance (Formal)	Difficulty obtaining financial capital (loans, equity, grants). Limited investors interested in social enterprises; banks require collateral and view SEs as high-risk. Few government funding programs.	"The most difficult obstacle is obtaining funds...competing for funding with other organizations who have greater social impact." – *SE10 (Development Coordinator* "We need more organizations that provide assistance in the form of advice and money...The government has to increase the amount of money it invests in this area." – *SE3 (Managing Director)* "Due to lack of guarantees, social enterprises can't obtain equity investment...We also face the challenge of scaling sustainably – 'sensible growth' is hard without capital." – *SE6 (Director)*
Public Spending (Formal)	The role of government	"Government spending policies motivate small businesses to pursue

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	expenditure on welfare and development. When government spending on social services is low or retracting, social entrepreneurs often step in (opportunity and burden). Debate on whether more public spending complements or substitutes SE.	social entrepreneurship because they provide support systems…enable taking risks without going broke in case of failure." – *Manager, SE4* "I'd argue government and social entrepreneurs are complementary in channeling state financing." – *Managing Director, SE13* "Recent research shows public spending has a detrimental influence on new social enterprise formation…our interview data echoed that too: high dependence on government funds can stifle innovation. A rise in SE is projected in countries with low public investment." – *(Summary of interviews & literature*
Public Service Motivation (PSM) (Informal)	Altruistic drive and desire to serve society among entrepreneurs. Seen as a key motivator sustaining social founders through challenges. Often rooted in personal values or faith.	"Public service motivation is essential for maintaining hope and clarity when things get difficult…It's crucial to our decision to start a business. The people we interact with value motivation as well." – *Managing Director, SE12* Many founders mentioned a "passion to help others" or a calling to address a particular social issue as the primary reason for starting their enterprise (e.g., SE7, SE5

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		recounting personal experiences that inspired their ventures).
Entrepreneurial Attitude (Informal)	Proactive mindset, openness to risk, and resilience among social entrepreneurs. An internal informal asset that helps in overcoming institutional barriers.	"You need an entrepreneurial mentality to favorably influence advancement…we found having a higher risk-taking, innovative attitude helped us push through bureaucratic hurdles." – *SE9 (Founder), discussion* (quantitative results also confirmed this relationship). Interviewees (e.g., SE3, SE7) often identified themselves as "problem-solvers" and cited personal grit: *"As an entrepreneur you find a way even when the system says no."*
Social Orientation (Informal)	The prioritization of social mission and community orientation in the enterprise's values. Reflects normative context – entrepreneurs' commitment to social goals.	"For us, making a difference in society comes first. This social orientation drives every decision, even if it sometimes conflicts with profit." – *SE5 (Founder of a health SE).* Some participants noted that a strong social mission helped attract community support and volunteers, indicating normative legitimacy: *"People see we genuinely care, so they want to join us or help us."* (SE2). Our quantitative analysis later showed social orientation significantly

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		correlates with SE growth.
Innovativeness (Informal)	Tendency to innovate and find creative solutions. Both individual trait and part of a broader culture that either encourages or stifles innovation.	"Innovativeness is key – we had to devise completely new approaches when no templates existed. Being creative and adaptive was the only way to succeed in this environment." – *SE8 (Social tech entrepreneur)*. The culture in some urban hubs (Karachi, Lahore) was described as slowly becoming more innovation-friendly, with incubators encouraging social innovation. Entrepreneurs with higher innovativeness (often younger, tech-savvy) seemed to navigate constraints better by pivoting or using technology.
Social Networks (Informal)	The networks and relationships that provide support, information, and resources. Includes both bonding ties (family, friends) and bridging ties (connections to NGOs, businesses, or international orgs).	"Our networks are our lifeline. Through personal contacts we got our first donors and customers. Without those community connections, we'd be nowhere." – *SE11 (Rural education SE)*. However, some noted limits: "Networks can only get you so far if those in your network also lack resources" – *SE3*. There was consensus that networking within the nascent SE community is crucial for knowledge sharing.

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		(Notably, our survey later found the effect of social networks on actual growth was statistically non-significant, a point we discuss).
COVID-19 Pandemic (Contextual)	The pandemic's impact acting as a shock to both formal systems (e.g. funding flows) and informal norms (e.g. trust, ability to gather). Brought new social needs but also impeded operations.	"COVID-19 had a huge negative impact – supply chains disrupted, projects stalled. It hurt funding as donors shifted priorities to emergency relief, and we couldn't run our training programs during lockdowns." – *SE14 (Skills development SE)*. Some saw opportunities: *"We pivoted to online services which opened a new avenue"* (SE8), but overall, most described it as a setback requiring significant adaptation. Everyone agreed it tested their resilience and in some cases reinforced their determination to fulfill their mission despite adversity.

*(**Source:** Author's interviews)*

The qualitative findings underscored that formal institutional weaknesses – cumbersome regulations, lack of legal recognition, inadequate financing channels, and low public sector support – pose major challenges to social enterprises in Pakistan. Entrepreneurs often must navigate or workaround these barriers, which consumes additional effort and resources. Simultaneously, informal institutions and personal factors emerge as both enablers and necessities: a strong intrinsic motivation (PSM) and community-rooted support can drive social entrepreneurs forward even when formal

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support is absent. Yet, informal factors have their limits (for example, networks may not substitute for formal funding beyond a point). These insights set the stage for our quantitative analysis, suggesting that improving formal institutions could significantly boost SE, while the current reliance is on individual and community initiative.

Quantitative Results: Hypotheses Testing (SEM)

We now turn to the quantitative results from the survey and SEM analysis, which tested the hypotheses H1 through H4. We first present the effects of formal and informal institutional factors on social entrepreneurship activity (H1 and H2 series, addressing which factors significantly influence SE development), and then the effects of social entrepreneurship on development outcomes (H4). We also assess the comparative strength of formal vs. informal influences (H3) based on the pattern of results.

Reliability and validity of the Measurement Model

In order to ensure the robustness of the measurement model, we assessed composite reliability (CR), convergent validity (Table 2), and discriminant validity (Table 3) following established criteria (Hair et al., 2021; Henseler et al., 2015). The results indicate strong internal consistency, with CR values ranging from 0.918 to 0.957, all exceeding the recommended 0.70 threshold. Convergent validity was also well supported, as standardized factor loadings were consistently above 0.76, and Average Variance Extracted (AVE) values ranged from 0.699 to 0.848, comfortably surpassing the 0.50 cut-off (Fornell & Larcker, 1981). Discriminant validity was confirmed using the Fornell–Larcker criterion: the square root of AVE for each construct was greater than the corresponding inter-construct correlations, and AVE values exceeded Maximum Shared Variance (MSV). Although some constructs, such as Access to Finance, Government Regulations, and Social Entrepreneurship, exhibited high inter-correlations, their AVEs remained higher than MSV values, ensuring adequate discriminant validity. Interestingly, the COVID-19 construct showed weak or negative correlations with most variables,

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suggesting that it operates as a distinct contextual factor rather than overlapping with other institutional dimensions. Overall, the measurement model demonstrates satisfactory psychometric properties, confirming that the constructs are reliable, convergent, and sufficiently distinct to proceed with structural model analysis.

Table 2: Convergent Validity

Constructs	Items	Std. F.L	CR	AVE
Access to Finance	AccFin1	.908	0.954	0.806
	AccFin2	.899		
	AccFin3	.898		
	AccFin4	.894		
	AccFin5	.889		
Government Regulations	GR1	.933	0.957	0.848
	GR2	.903		
	GR3	.937		
	GR4	.912		
Cov19 Pandemic	C19P1	.932	0.929	0.814
	C19P2	.867		
	C19P3	.907		
Public Spending	PS1	.938	0.940	0.798
	PS2	.879		
	PS3	.896		
	PS4	.858		
Social Networks	SN1	.924	0.928	0.811
	SN2	.837		
	SN3	.937		
Public Service Motivation	PSM1	.907	0.951	0.828
	PSM2	.909		
	PSM3	.909		
	PSM4	.914		

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Entrepreneurial	EA1	.905	0.945	0.812
Attitude	EA2	.901		
	EA3	.878		
	EA4	.921		
Social	SO1	.930	0.931	0.819
Orientation	SO2	.860		
	SO3	.924		
Innovativeness	Inn1	.905	0.918	0.789
	Inn2	.834		
	Inn3	.923		
Economic	EcoD1	.911	0.927	0.809
Development	EcoD2	.889		
	EcoD3	.899		
Social	SD1	.918	0.929	0.815
Development	SD2	.858		
	SD3	.930		
Environmental	EnvD1	.895	0.920	0.699
Development	EnvD2	.867		
	EnvD3	.868		
	EnvD4	.777		
	EnvD5	.765		
Social	SE1	.887	0.948	0.785
Entrepreneurship	SE2	.885		
	SE3	.898		
	SE4	.884		
	SE5	.875		

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Table 3: Discriminant Validity

	CR	AVE	MSV	EnD	AF	PS	EA	PSM	Inn	EcoD	SE	SD	C19P	SN	SO	GR
EnD	0.920	0.699	0.374	**0.836**												
AF	0.954	0.806	0.663	0.556***	**0.898**											
PS	0.940	0.798	0.629	0.457***	0.768***	**0.893**										
EA	0.945	0.812	0.601	0.445***	0.712***	0.684***	**0.901**									
PSM	0.951	0.828	0.742	0.436***	0.747***	0.728***	0.741***	**0.910**								
Inn	0.918	0.789	0.489	0.375***	0.646***	0.582***	0.583***	0.608***	**0.888**							
EcoD	0.927	0.809	0.489	0.568***	0.515***	0.461***	0.513***	0.456***	0.418***	**0.899**						
SE	0.948	0.785	0.676	0.564***	0.814***	0.793***	0.775***	0.801***	0.677***	0.558***	**0.886**					
SD	0.929	0.815	0.489	0.611***	0.495***	0.439***	0.431***	0.374***	0.411***	0.692***	0.512***	**0.903**				
C19P	0.902	0.819	0.000	0.002	-0.023	-0.086†	-0.160***	-0.214***	0.014	-0.042	-0.074	0.016	**0.902**			
SN	0.928	0.811	0.603	0.400***	0.734***	0.697***	0.743***	0.776***	0.604***	0.396***	0.723***	0.384***	-0.166***	**0.901**		
SO	0.931	0.819	0.611	0.499***	0.689***	0.692***	0.758***	0.781***	0.588***	0.429***	0.762***	0.422***	-0.216***	0.744***	**0.905**	
GR	0.957	0.848	0.676	0.489***	0.789***	0.775***	0.724***	0.768***	0.650***	0.664***	0.822***	0.543***	-0.095*	0.694***	0.724***	**0.921**

Note: Square root of AVE on the diagonals

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Structural Model Results

The SEM path analysis results are summarized in Table 2 below, which lists each hypothesized path along with the standardized coefficient (β), standard error, critical ratio (t-value), p-value, and whether the hypothesis was supported. Figure 2 (not included here) conceptually maps significant paths. We report the main findings:

Table 2. SEM Results – Effects of Institutional Factors on Social Entrepreneurship and SE on Development Outcomes

Hypothesis (Path)	β	S.E.	C.R.	p-value	Supported
H1a: Public Spending → Social Entrepreneurship (SE)	0.16	0.04	3.72	***<0.001***	Yes)
H1b: Access to Finance → SE	0.232	0.05	4.92	***<0.001***	Yes
H1c: Government Regulations → SE	0.215	0.04	4.50	***<0.001***	Yes
H2a: Public Serv. Motivation → SE	0.119	0.05	2.40	*0.017*	Yes
H2b: COVID-19 Impact → SE	−0.058	0.02	−2.34	*0.019*	Yes
H2c: Social Networks → SE	−0.083	0.04	−1.84	0.065 (ns)	No
H2d: Entrepreneurial Attitude → SE	0.160	0.04	3.72	***<0.001***	Yes
H2e: Social Orientation → SE	0.105	0.04	2.33	*0.020*	Yes
H2f: Innovativeness → SE	0.109	0.03	3.31	**0.001**	Yes
H4a: SE Activities → Social	0.551	0.04	12.69	***<0.001***	Yes

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Development outcome						
H4b: SE Activities → Economic Development outcome	0.598	0.05	13.93	***<0.001***	Yes	
H4c: SE Activities → Environmental Development outcome	0.589	0.04	13.61	***<0.001***	Yes	

(ns = not significant; ***p<0.001,*** p<0.01, *p<0.05)*

The structural model shows that formal institutions significantly and positively shape social entrepreneurship (SE). Public spending associates with higher SE activity (β = 0.16, p < .001), suggesting that even modest welfare investments create complementary opportunities and legitimacy for social ventures. Access to finance is the strongest formal predictor (β = 0.232, p < .001), underscoring that easing capital constraints materially expands SE scale and scope. Government regulations also matter (β = 0.215, p < .001): where founders perceive clearer, less burdensome rules, SE activity is more robust—implying that regulatory streamlining can uplift the sector (Scott, 2014; Stephan, Uhlaner, & Stride, 2015).

Among informal institutions, five of six factors are significant. Public service motivation (β = 0.119, p = .017) and entrepreneurial attitude (β = 0.160, p < .001) indicate that mission-driven intent and proactive mindsets translate into sustained venture development. Social orientation (β = 0.105, p = .020) and innovativeness (β = 0.109, p = .001) further predict SE growth, reflecting the salience of normative commitment and problem-solving creativity. By contrast, COVID-19 exerts a small but significant negative effect (β = −0.058, p = .019), mirroring global evidence on disruption to social ventures (Kraus et al., 2020). Social networks are not significant (β = −0.083, p = .065), implying their benefits may be indirect (e.g., operating through financing) or context-contingent.

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Comparatively (H3), formal supports—especially finance and regulation—exhibit larger individual effects than most informal predictors, though both pillars are substantively important and mutually reinforcing in Pakistan's ecosystem (Scott, 2014). Finally, SE activity is a strong predictor of development outcomes: social ($\beta = 0.551$, $p < .001$), economic ($\beta = 0.598$, $p < .001$), and environmental ($\beta = 0.589$, $p < .001$), aligning SE with SDG progress (United Nations, 2015) and reinforcing calls to strengthen both institutional pillars (Hechavarría & Brieger, 2022).

Discussion

This study demonstrates that both formal and informal institutions substantively shape social entrepreneurship (SE) in Pakistan, but they do so through distinct channels that are most powerful when aligned. On the formal side, access to finance emerges as the strongest single predictor of SE activity, followed by a supportive regulatory climate and visible public spending on social priorities. These results temper the common "institutional voids" narrative: social entrepreneurs do not merely replace the state; rather, their activity is amplified when finance, rules, and selective public investment lower uncertainty and transaction costs. On the informal side, public service motivation, entrepreneurial attitude, social orientation, and innovativeness each show positive effects, while the COVID-19 shock registers a small but significant negative association—consistent with evidence that crises disrupt social ventures' revenue models and service delivery (Kraus et al., 2020). Notably, general network breadth is not a significant direct predictor once finance and other factors are modeled, suggesting that networking operates indirectly (e.g., through resource acquisition) or that bonding ties are ubiquitous but not discriminating in this setting.

Taken together, the findings support a complementarity thesis. Formal institutions provide the scaffolding—legal clarity, investable capital, and demand via public procurement—while informal institutions supply the impetus—prosocial motivation, opportunity recognition, and creative

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problem-solving. Where both sets of conditions are present, ventures scale and professionalize; where either is absent, activity remains small or fragile. This ecosystemic view aligns with contemporary work on entrepreneurial ecosystems that stresses the co-evolution of rules, finance, human capital, and culture (Stam & van de Ven, 2021). It also nuances cross-country research showing that cultural practices and gendered norms shape who engages in SE and how they build legitimacy (Hechavarría & Brieger, 2022).

Finally, the strong link between SE activity and perceived social, economic, and environmental outcomes underscores SE's policy relevance to the SDGs. In contexts like Pakistan, incremental gains in finance access and regulatory streamlining could unlock meaningful social returns if paired with investments that cultivate prosocial, innovative entrepreneurial mindsets. Conversely, reforms focused solely on legal form without attention to motivation, skills, and norms are unlikely to move the needle. The practical implication is clear: build both the hardware (finance, policy, procurement) and the software (motivation, skills, norms) of the SE ecosystem in tandem.

Theoretical Contribution

The study advances institutional perspectives on SE in three ways. First, it offers an empirically grounded account of how regulative and informal pillars interact in an emerging market. Rather than portraying informal institutions as simple substitutes for weak formal ones, we show that complementarity prevails: the largest single effects arise from formal levers (finance and regulation), but informal drivers (public service motivation, entrepreneurial attitude, social orientation, innovativeness) remain necessary conditions for translating opportunity into organizational growth. This extends contemporary institutional work that emphasizes multi-pillar alignment over single-pillar sufficiency in explaining entrepreneurial variance across places (Stam & van de Ven, 2021).

Second, the non-significance of generic network breadth as a direct predictor—once finance and other factors are modeled—reorients theory

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toward mechanisms rather than proxies. Much of the SE literature treats networks as a universal asset; our results suggest that in low-trust or resource-thin environments, networks may matter primarily indirectly (e.g., through financing or legitimacy), or that bonding ties saturate the field and fail to discriminate performance. This invites theorizing that disaggregates social capital into bonding/bridging and maps each to specific resource and legitimacy pathways (Hechavarría & Brieger, 2022).

Third, by quantifying the robust association between SE activity and multi-dimensional development outcomes, we bridge institutional theory with SDG-oriented performance research. The results support a capability-enabling view of institutions: formal rules and resources reduce external uncertainty while informal norms expand internal agency, together enabling ventures to convert mission into measurable social, economic, and environmental value. This complements crisis scholarship showing that exogenous shocks (e.g., COVID-19) depress SE activity unless buffered by resilient finance and adaptive capabilities (Kraus et al., 2020).

Collectively, these contributions refine theory in at least two respects: (a) they move beyond "voids" toward a systems understanding of SE that privileges complementarities between pillars and ecosystem elements; and (b) they foreground micro-foundations (motivation, attitude, innovativeness) as the channels through which macro-institutions actually influence organizational behavior. For scholars, this implies designs that model second-order formal and informal constructs, test mediated pathways (e.g., finance → investment → scaling), and incorporate contextual moderators (e.g., gendered norms; Hechavarría & Brieger, 2022). For comparative research, the framework can be applied to assess whether similar complementarities hold in other Global South ecosystems or whether distinct institutional mixes produce functionally equivalent SE outcomes.

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Practical Contribution

The findings translate into a concrete, staged agenda for policymakers, funders, and ecosystem builders. Finance first, but patient and mission-aligned. Because access to finance is the strongest lever, governments and development partners should expand patient capital tailored to SE (e.g., revenue-based financing, first-loss guarantees, outcome-based contracts). Credit-guarantee facilities can de-risk bank lending; blended-finance funds can crowd-in private investors. Public competitions and catalytic grants should be coupled with post-award investment readiness, to convert grants into investable growth.

Regulatory clarity and procurement as demand-side engines. A clear legal identity for social enterprises (with proportionate reporting and tax treatment) reduces compliance costs and clarifies fiduciary duties. Public procurement rules can allocate social value weighting and pilot small-lot contracts to enable SE participation—turning policy into tangible market access. Stability—predictable rules across political cycles—is as valuable as scope.

Build the "software": human capital and culture. Programs that develop prosocial entrepreneurial capabilities—opportunity recognition, impact measurement, and adaptive innovation—will magnify informal strengths. Embedding SE modules in university curricula, offering mentor networks, and showcasing role models can normalize prosocial venturing, particularly for women and youth (Hechavarría & Brieger, 2022).

Make networks instrumental, not ornamental. Given the weak direct effect of generic networking, ecosystem conveners should prioritize bridging over bonding ties: curated matchmaking with buyers (ministries, corporates), investors, and technical partners; shared services (legal, accounting, M&E); and peer-learning cohorts that solve concrete scale-up bottlenecks (finance, procurement readiness).

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Resilience to shocks. The COVID-19 penalty suggests the need for shock-responsive instruments: emergency liquidity lines, flexible grant tranches, and digitalization support for remote service delivery (Kraus et al., 2020). Scenario-planning toolkits and diversified revenue strategies should be integrated into incubator curricula.

Align with SDGs through measurement. Donors and agencies should standardize impact measurement templates (lightweight but credible) so SEs can evidence social, economic, and environmental outcomes. This improves procurement eligibility and investor confidence, creating a virtuous cycle where demonstrated impact attracts resources and policy support.

In short, Pakistan can unlock outsized SDG progress by sequencing reforms: (i) deploy catalytic finance and regulatory clarity to lower structural frictions; (ii) invest in prosocial entrepreneurial capabilities; and (iii) re-tool networks and procurement to convert capacity into contracts and scale. These steps reflect a balanced ecosystem approach where formal "hardware" and informal "software" are built together—consistent with contemporary entrepreneurship policy design (Stam & van de Ven, 2021)—and are readily adaptable to other emerging market settings.

Limitations and Future Research

This study is limited by its cross-sectional design, perceptual measures, and non-probability sampling within Pakistan's SE ecosystem, which constrain causal inference and generalisability. Common-method variance and self-selection may bias estimates despite procedural remedies. Future work should employ longitudinal or panel designs, triangulate survey data with administrative and impact-audit records, and leverage quasi-experiments around policy changes to identify causal effects. Comparative multi-country studies could test institutional complementarities across contexts, while fine-grained measures of bonding versus bridging social capital and gender-disaggregated analyses would unpack heterogeneous mechanisms. Mixed-methods process tracing could illuminate capability-building pathways linking

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institutional levers to SDG outcomes (Kraus et al., 2020; Stam & van de Ven, 2021; Hechavarría & Brieger, 2022).

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