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How Funding Affects Growth Expectations: A Global Study of Social versus Commercial Enterprises

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Abstract. This study develops a model of social compared to commercial enterprises' growth expectations based on the literature on social entrepreneurship. Using the Global Entrepreneurship Monitor survey of 21,518 entrepreneurs from 58 countries in 2015, our study employs the hierarchical linear model to test our hypotheses. This model allows us to include both micro-level and macro-level considerations affecting growth expectations. We show that social enterprises, relative to commercial enterprises, have lower growth expectations and entail less self-financing from the entrepreneur. However, social enterprises, relative to commercial enterprises, attract more start-up financing from a spectrum of informal and formal investors and sponsors. This study indicates that the social purpose of an enterprise provides an impediment to growth, and that social entrepreneurs should try to reduce risks to the enterprise by reducing goal incongruency and other frictions between stakeholders relevant to the enterprise.

Keywords: social entrepreneurship, stakeholder friction, entrepreneurial finance, growth expectations.

1. Introduction

Social entrepreneurship has become a major force of social change across the globe (Alon et al., 2020), and this paper examines how the distinct nature of social enterprises shapes their growth expectations compared to commercial enterprises.

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Social enterprises have received increasing attention from scholars as a distinct form of organization (Doherty et al., 2014; Hockerts, 2017; Wilson & Post, 2013), particularly because they combine social and commercial logics.

It is a common perception that social enterprises aim to achieve a social mission through commercial activities (Pache & Santos, 2013), and this implies that social entrepreneurs must manage a range of diverse activities, objectives, and stakeholder expectations simultaneously (Tracey et al., 2011). Thus, a social enterprise pursues financial sustainability and social objectives (Battilana, 2018) and requires the generation of sufficient revenue to invest in business activities and in social projects (Moizer & Tracey, 2010). This should then create social value for society (Mair & Martì, 2006) and drive forward social change (Alvord et al., 2004; Steyaert & Katz, 2004).

In managing these objectives, social enterprises need to balance between acquiring new resources to build and maintain growth and using resources to engage with their key stakeholder groups. Moreover, it is proven that different entrepreneurs' motives are associated with different risk behaviours and different expectations for the firm's growth (Murnieks et al., 2020). Hence, in this paper we argue that social enterprises' dual objectives reduce their growthexpectation (as applied by Austin et al., 2006) in relation to mere commercial enterprises.

Our core theoretical anchoring is that operating with a social mission produces dilemmas, frictions, and difficult trade-offs (Siegner et al., 2018; Wry & Zhao, 2018), which are not present to the same extent in commercial enterprises. We argue that frictions arising from the dual goals of social enterprises are analogous to the conflicts of interest described by agency theory. A friction perspective (Martin & Phillips, 2022) emphasizes that "stakeholder friction" (the misalignment of interests between different stakeholder groups) can cause managers of commercial enterprises to prioritize stakeholders who repeatedly and strongly dominate other stakeholders in interactions by over-allocating attention and value to them. Similarly, agency theory emphasizes how the misalignment of interests between different stakeholder groups (typically, between managers and owners, or between ownership groups) can result in lower commercial enterprise performance (e.g., Ang et al., 2007). Thus, we suggest taking a friction-based perspective of social enterprises (e.g., Saebi et al., 2019; Smith et al., 2013) to investigate whether social entrepreneurs, compared to commercial ones, have different growth expectations, and what can explain the possible difference in their growth expectations.

In analysing the above research question, we also need to unpack the relationship between the funding available to social enterprises and its effect on social enterprises' growth expectations. Most social enterprises are small, resource-constrained (Bridgstock et al., 2010), and lacking sufficient financial resources to, for example, pay the market rate to employees. This, in turn has been linked to managerial problems associated with employees from the private sector transitioning to social enterprises (Battilana & Dorado, 2010). Literature on

entrepreneurial finance highlights the role of financing in entrepreneurship (Cumming & Johan, 2017), which we extend to the context of social entrepreneurship. This argument rests on the acknowledgment that a social enterprise's dual mission requires sufficient funding for it, for example, to hire staff with both commercial and social sector knowledge (Liu & Ko, 2012). This argument appears to be supported by the fact that social enterprises also seek finance from banks and venture capitalists (Bryson & Buttle, 2005), as well as from other stakeholder groups like philanthropists, social activists, campaigners, customers, and volunteers (Mair & Martì, 2006). In this way, a social enterprise's dual purpose confers flexibility and legitimizes the acquisition of finance from both commercial sources and stakeholder sources (Chertok et al., 2008).

In this paper, we use a global survey that covers 16,749 commercial entrepreneurs and 4,769 social entrepreneurs from 58 countries, allowing us to compare the two kinds of enterprises within the same theoretical framework. Our argument is that social entrepreneurs can draw more extensively on the financial resources of their stakeholders compared to commercial entrepreneurs by accessing funds from a spectrum of formal (e.g., banks and venture capitalists) and informal (e.g., using community embeddedness and relational ties with stakeholders) sources, as well as the entrepreneurs' own funding. This difference in funding options has implications for social enterprises' expected growth.

Our study contributes to the development of social entrepreneurship literature by linking the frictions arising from the hybrid nature of the social enterprise to its growth expectations, contributing to the exploration of differences between social enterprises and commercial enterprises (Battilana & Lee, 2014; Ebrahim et al., 2014; Zalim et al., 2016). This study provides a response to the lack of generalizable studies on frictions in social enterprises (Saebi et al., 2019; Short et al., 2009). We also enhance the practical understanding of the different financing sources available to social compared to commercial enterprises, with implications for growth expectations advancing the realm of entrepreneurial financing.

The rest of the paper is organized as follows. In Section 2, we construct a theoretical model of social and commercial entrepreneurs' growth expectations and formulate our hypotheses. In Section 3, we outline our research design in terms of the setting up of the survey and the methodology. In Section 4, we present our results, and in Section 5, we discuss them. In Section 6, we provide our contribution to theory, limitations and future research, and insights on the practical relevance of our study.

2. Theoretical Model and Hypotheses

2.1. Social Enterprise

The social enterprise is a form of hybrid organization that combines elements of a social logic (non-profit sector) and of a commercial logic (private sector) in its

core business models (Doherty et al., 2014; Mair & Marti, 2006). This hybrid form implies social enterprises have highly diverse stakeholders as well as multiple and often conflicting objectives (Mair et al., 2015). Commercial enterprises may also face trade-offs between objectives, such as varying demands from strategic and institutional investors. However, the hybrid nature of social enterprises, with a focus on social goals, makes them differ from commercial enterprises in that a dual logic is an inherent characteristic. This dual logic of social enterprises of combining social and commercial activities is seen as an organizational response to social problems in society (Mason & Doherty, 2016; Zahra et al., 2009).

Commercial enterprises are guided by a commercial logic of maximizing shareholders' returns, whereas non-profit organizations are guided by a social logic of generating social benefits (e.g., Santos, 2012). Social enterprises offer goods and services in a marketplace to obtain a financial return (commercial logic). However, the objective is not to maximize profits but to have a financially sustainable business model that generates income to fuel social objectives (social logic). It has been argued that no single logic should dominate the organizational structure of social enterprises (Busco et al., 2017; Pache & Santos, 2013). Hence, pursuing these conflicting logics can lead to ambiguity and create frictions both within the social enterprise and among stakeholders (e.g., Tracey et al., 2011), with consequences for growth expectations, which is our focus in this paper.

The entrepreneurial finance literature highlights how information asymmetries between entrepreneurs and finance providers vary over the lifecycle of the enterprise (Walz & Hirsch, 2019). To overcome these challenges, finance providers devote considerable effort to addressing problems of adverse selection and moral hazard relating to their investments in entrepreneurial firms (Fu et al., 2019). Investors use mechanisms to address agency issues in contracts, for example, by assuming an active involvement in their portfolio of enterprises (Cumming & Johan, 2008). In addition to financial resources, social enterprises often lack other tangible and intangible resources, such as human capital, reputation, or legitimacy, needed for them to achieve not only their value creation potential (e.g., Block et al., 2019) but also their social goals.

2.2. Hypotheses

As argued in the extant literature, one of the main features of a social enterprise is that the entrepreneur explicitly acknowledges the social mission as an important objective (Battilana, 2018). Within this perspective, we argue that a social mission has both a direct impact on the enterprise's growth expectations and an indirect impact on the way the enterprise attracts funding. Past research suggests that the enterprise's mission is important because it provides a symbolic bridge between the enterprise's identity and its actions (Grimes et al., 2019; Mersland et al., 2019).

Social objectives imply mainly reinvesting surplus for social purposes in the enterprise or in the community, rather than maximizing profit for shareholders and owners (e.g., Smith & Lewis, 2011). The social entrepreneurship literature suggests that mission-driven organizations commonly have lower growth expectations (Saebi et al., 2019). One of the underlying reasons for the lower growth expectations of social enterprises is that the hybrid nature of a social enterprise creates ambiguity of purpose among the various stakeholders (Nason et al., 2018), which in turn has a negative influence on the attainment of the enterprise's goals (Saebi et al., 2019). In this regard Smith et al. (2013, p. 408) claim that social enterprises often have inconsistent goals that may present managers with additional costs of frictions and "contradictory prescriptions for actions," based on the theoretical argument that "ambiguous social performance is evaluated and interpreted differently than largely clear financial performance" (Nason et al., 2018, p. 259). In a similar vein, Davies et al. (2019, p. 1617) assert that social enterprises, because of their hybridity, "encounter a more complex array of barriers to growth than faced by commercial ventures."

The literature on enterprise mission also highlights that social enterprises typically face a trade-off between the social mission and the commercial mission (e.g., Pache & Santos, 2013; Wry & Zhao, 2018); however, some studies question this trade-off (e.g., Hermes & Lensink, 2011). Research also shows that successful social entrepreneurs prefer "the pursuit of sustainable solutions to neglected problems with positive externalities" to the pursuit of profit for the enterprise (Santos, 2012, p. 335), which suggests that social entrepreneurs are ready to give away (some of) the value creation for the benefit of society (McMullen & Bergman, 2017).

However, we argue that this "altruism" or "generosity" of the social entrepreneur implies that social enterprises are more resource-constrained than commercial enterprises (since they "pay out" a social dividend), and that this altruism or generosity can become an impediment to the enterprises' long-term growth expectations. Moreover, the social entrepreneurship literature finds that social enterprises are frequently conflicted between their social and commercial missions (e.g., Davies et al., 2019; Saebi et al., 2019; Smith et al., 2013). In addition, social entrepreneurship enjoys local stakeholders' support, which comes with a price, that is their demand for the fulfillment of social objectives that can negatively affect the growth expectations of social compared to commercial entrepreneurs. We attribute such costly differences (from the perspective of social enterprises) to the frictions that arise from social enterprises' dual goals of creating social and commercial value, with implications for their growth expectations relative to those of commercial enterprises (Meyskens et al., 2010). In this framework, stakeholder friction is conceptualised as a latent theoretical mechanism, while funding structures constitute observable and testable organisational conditions through which the consequences of social

mission orientation become empirically visible. These insights lead to the following hypothesis:

H1. Social enterprises, compared to commercial enterprises, have lower growth expectations.

A key challenge for enterprises is getting access to funding (e.g., Cassar, 2004; Wiklund & Shepherd, 2003). It is established that access to funding is a necessary ingredient for business growth. In particular, access to external funding is related to enterprises' growth expectations (e.g., Beck & Demirgüc-Kunt, 2008; Hellmann & Manju, 2002). The need for sufficient levels of funds to realize growth expectations has been identified in the recent literature (e.g., Wilson et al., 2018). In this regard, for the social entrepreneur, the role of both informal funding, such as from family or friends, and formal funding, such as from banks, venture capital, or government programs, has been demonstrated (Beck & Demirgüc-Kunt, 2008; Nguyen & Canh, 2021). For example, Ayyagari et al. (2008) analyze Chinese data and find that funding from formal sources, such as banks, is associated with higher growth whereas funding from informal sources is not. In addition, the entrepreneurship literature has found a positive effect of the entrepreneur's own funding on the enterprise's growth (Gilbert et al., 2006).

Against this background, nevertheless, the funding of social enterprises is relatively unexplored in the literature (Siqueira et al., 2018). Austin et al. (2006) suggest that, compared to commercial enterprises, social enterprises face difficulties in funding their operations because of their hybrid mission and the frictions between their social and commercial purposes. This makes social enterprises less attractive to, or interested in, funds from capital markets, which is also in line with the observed lower leverage of social versus commercial enterprises (Siqueira et al., 2018).

Past research has also shown that resource constraints, due to market failure, are some of the most significant impediments to social enterprise growth (Prabhu et al., 2017). However, the recent focus on the environment, social issues, and corporate governance (ESG) in financial markets may be an indicator that formal providers of funding are becoming increasingly interested in funding social enterprises (Daugaard, 2020). For example, Calic and Mosakowski (2016) find that, when social enterprises finance their ventures through crowdfunding platforms, projects with a stronger social or environmental focus have greater success in attracting funding. These insights lead to the following hypotheses:

H2. Social enterprises, compared to commercial enterprises, have more access to formal sources of funding.

H3. Formal sources of funding affect growth expectations, in that more access to formal sources entails higher growth expectations.

The purpose of the enterprise impacts its ability to mobilize resources, a key entrepreneurial growth-enhancing skill (Shane et al., 2003). An entrepreneurial firm's course of action is codetermined by stakeholders who commit organizational as well as financial resources to the venture (e.g., Gardin, 2006).

However, stakeholders in the entrepreneurial firm not only provide resources, but also set immediate agendas and generate new sub-goals for the venture through negotiations with other stakeholders (Dew et al., 2008). Social enterprises are characterized by strong social networks within the local community (e.g., Seelos et al., 2011). The association with highly respected or strongly networked investors may provide entrepreneurial firms with valuable legitimacy in their market and may serve as a quality signal (e.g., Plagmann and Lutz, 2019). Investors may also become more involved in the enterprise for the purpose of providing advice relating to strategy, marketing, finance, and human resources, as well as mentoring (e.g., Knyazeva, 2019).

We argue that such "embeddedness" in a social network can lead to better access to informal (as well as formal) funding for social compared to commercial enterprises. Moreover, the local community expects to receive larger benefits from a social enterprise – and thus are more willing to invest in it – than from a commercial enterprise. Agarwal et al. (2020) provide an interesting example of this by showing how social enterprises in India mobilized resources by appealing to community concerns. These insights lead to the following hypotheses:

H4. Social enterprises, compared to commercial enterprises, have more access to informal sources of funding.

H5. Informal sources of funding affect growth expectations, in that more access to informal sources entails higher growth expectations.

Entrepreneurial activities focus on introducing niche markets, deployments of new technologies in production and supply, and creating new customer demands in the market economy (e.g., Hagedoorn, 1996; Schumpeter, 1934). In this light, entrepreneurs offering new goods and services benefit from reputational goodwill and personal fulfilment (Luthans & Kreitner, 1975; Mair & Marti, 2006). However, the benefits from the success of the enterprise for commercial entrepreneurs include receiving larger monetary payoffs than social entrepreneurs. This, in turn, reduces the incentive for social entrepreneurs to commit *large* amounts of their own funds to the enterprise. Our argument is further supported by empirical research showing that, while both monetary incentives and social recognition have positive individual performance effects, monetary incentives have a stronger effect (Stajkovic & Luthans, 2001).

A common motive of funders of enterprises is to influence the corporate governance of the enterprise (Williamson, 1988), which can also have implications for the growth expectation of the social enterprise (Bruton et al., 2015). In the venture capital literature, it is well established that funding combined with knowledge, often in the form of board membership, is the best fuel for enterprise growth (Ratinho et al., 2020). However, in the microfinance literature it has been found that funders of projects such as debt holders and donors typically do not sit on the board when funding microfinance institutions (Mori & Mersland, 2014). It is unknown whether the absence of funders from boards is due to their desire to keep an arm's-length distance from their investees,

geographical distance, development ideology, lack of real social interest, or other causes. As indicated by Gilbert et al. (2006), new enterprises benefit when the founding entrepreneur has a financial stake in the enterprise. However, when a large part of the enterprise is financed by the entrepreneur's own funds, the entrepreneur becomes more risk averse (Belenzon et al., 2020). Thus, the financially invested entrepreneur becomes more reluctant to make the sort of risky strategic decisions that are necessary to support high growth. These insights lead to the following hypotheses:

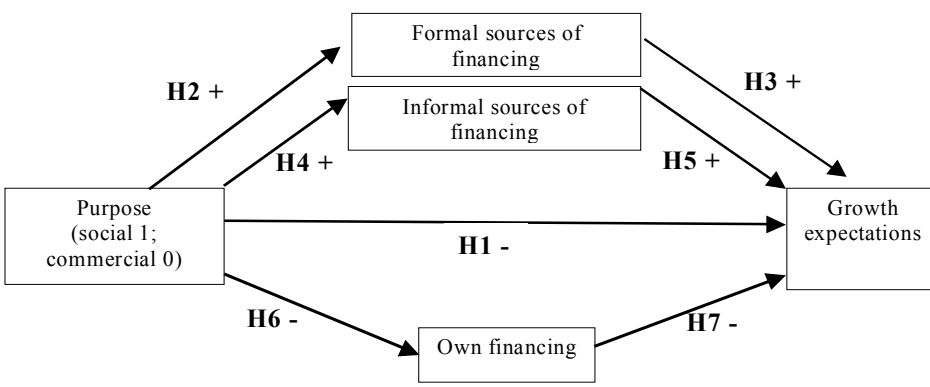
H6. Social enterprises, compared to commercial enterprises, have less access to entrepreneurs' own funding.

H7. Entrepreneurs' own funding reduces their growth expectations.

2.3. The Conceptual Model

Research on social enterprises can be conducted at various levels – from the micro level of individual entrepreneurs to the enterprise level, to the community level, to the country level. In this regard, Saebi et al. (2019) stress that the social entrepreneurship literature suffers from a lack of clarity about the actual unit of analysis used in studies. In this study, our primary unit of analysis is the enterprise, but we simultaneously control for country effects and individual entrepreneur effects (a multilevel approach recommended by Saebi et al., 2019). In Figure 1, based on the argument presented in the previous sections, we provide a framework for analysing how the purpose of the enterprise (social versus commercial) is directly associated with the enterprise's growth expectations and indirectly associated with the funding sources (own sources, informal sources, and formal sources). As in Estrin et al. (2016), we add multilevel elements to our model (not shown in Figure 1) that control for country-level characteristics such as Gross national income (GNI) per capita and a set of country dummies. Moreover, as in Lepoutre et al. (2013), we also control for individual entrepreneurs' characteristics (age, education, and gender).

Figure 1. Predicted effects on entrepreneurs' growth expectations



3. Research Design

We have conceptualized an enterprise as being either social or commercial. This conceptualization was used in the survey conducted in 2015 by the Global Entrepreneurship Monitor (GEM) (Bosma et al., 2016), which provides our subsample of social enterprises. This survey collected detailed and globally comparable data on entrepreneurs' social orientation, funding sources, and growth expectations. Later follow-up GEM surveys do not include these variables with the same conceptual clarity or cross-national consistency, making 2015 the most comprehensive dataset for analysing social and commercial entrepreneurs[2]. In addition, consistent with arguments made by Ketchen Jr. et al. (2023), older data are appropriate when the aim is to test enduring theoretical mechanisms rather than capture contemporary trends. Our study focuses on the stable relationships between funding, mission orientation, and growth expectations. We argue that the GEM 2015 data thus remain the most comprehensive and theoretically relevant dataset for our research purpose.

We compare social and commercial enterprises by treating enterprise purpose as the key distinguishing variable in H1, H2, H4, and H6, which test whether purpose affects growth expectations, access to formal and informal funding, and reliance on own financing. In contrast, H3, H5, and H7 examine whether the three types of funding—formal, informal, and own financing—are associated with growth expectations in the full sample of both social and commercial enterprises.

3.1. Sampling

GEM samples enterprises in two steps. The first step samples countries, essentially by self-selection, when a national team is formed to conduct the survey in their country. In 2015, GEM added questions about social entrepreneurship to the survey in 58 countries.[3] These countries are drawn from the various regions of the world, with diverse cultures and levels of development, and are representative of countries along the two (social and commercial) dimensions.

2. While the GEM Adult population Survey (APS) continues to be collected annually, publicly documented evidence of a globally harmonised 'social entrepreneurship' module comparable to that of the 2015 survey could not be identified for subsequent surveys, which further underlines the relevance of the 2015 dataset for the cross-national comparisons undertaken here.
3. The data on social enterprises is collected in the following 58 countries: Argentina, Australia, Barbados, Belgium, Botswana, Brazil, Bulgaria, Burkina Faso, Cameroon, Chile, China, Colombia, Croatia, Ecuador, Egypt, Estonia, Finland, Germany, Greece, Guatemala, Hungary, India, Indonesia, Iran, Ireland, Israel, Italy, Kazakhstan, S. Korea, Latvia, Lebanon, Luxembourg, N. Macedonia, Malaysia, Mexico, Morocco, Netherlands, Norway, Panama, Peru, Philippines, Poland, Portugal, Puerto Rico, Romania, Senegal, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Tunisia, United Kingdom, United States, Uruguay, and Vietnam.

The second step is a random sampling of at least 2,000 adults in each selected country, aged 18 to 64 years old. The questionnaire asks whether the respondents are starting or operating a social or commercial enterprise, as described below. This process yields a sample of 21,518 enterprises. The respondents operating an enterprise are then asked for further information about the enterprise, such as questions about funding sources and growth expectations, as described in Table 1.

Table 1. GEM questionnaire survey

Social enterprise	Are you, alone or with others, currently trying to start or currently leading any kind of activity, organization, or initiative that has a particular social, environmental, or community objective? This might include providing services or training to socially deprived or disabled persons, activities aimed at reducing pollution or food waste, organizing self-help groups for community action, etc.	This operational definition of a social enterprise does not preclude that the social enterprise also has a commercial purpose. That is, in addition to its social purpose, a social enterprise may have a commercial purpose.
Commercial enterprise	Are you, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others? Are you, alone or with others, currently trying to start a new business or a new venture for your employer as part of your normal work? Are you, alone or with others, currently the owner of a business you help manage, self-employed, or selling any goods or services to others?	If the respondent reports to be operating both a commercial enterprise and a social enterprise, as identified in the preceding subsection, the respondent is asked whether the commercial enterprise and the social enterprise are one and the same. If the enterprise has no specific social purpose, then the enterprise is not a social enterprise but is purely commercial.

Growth expectations	How many people are currently working for this activity, organization, or initiative? Please include all subcontractors, part-time workers, and volunteers. How many volunteers are currently working for this activity, organization, or initiative?	The questionnaire then calculates future growth expectations by asking each respondent the following question: How many people, including both present and future employees, will be working for this activity, organization, or initiative five years from now? Please include all subcontractors, part-time workers, and volunteers. Finally, the respondents operating a commercial enterprise are asked similar questions about current and future numbers of employees: How many people are currently working for this commercial enterprise? How many people, including both present and future employees, will be working for this commercial enterprise five years from now?
Funding	How much money, in total, was required to start this activity, organization, or initiative? How much of your own money, in total, did you provide to this activity, organization, or initiative?	
Source of funding	Have you received, or do you expect to receive, money – loans or ownership investments – from any of the following sources to start this activity, organization, or initiative? Family members? Friends or neighbors? Employer or work colleagues? Banks or other financial institutions? Private investors or venture capital? Government programs, donations, or grants?	For each of the six potential sources, an answer of "yes" or "no" was recorded.

3.2. Measurements

Based on the GEM survey, the identification of social and commercial enterprises implies that each enterprise is classified as either commercial or social. In a commercial enterprise, the purpose is, according to the respondent, purely commercial. A social enterprise has, according to the respondent, a specific social purpose, but its purpose may also be partly commercial. For the sample of all enterprises, we have the dichotomous measure distinguishing between social and

commercial enterprises, where social enterprises take a value of 1 and commercial enterprises a value of 0.

To measure expected enterprise growth, we use information from the GEM survey taken directly from the entrepreneur of the enterprise. Specifically, we use data on expected growth in the number of employees as our proxy for expected enterprise growth.[4] Using the employment figures, we measure the growth expectations of the enterprise as Log (persons expected to work at the enterprise in five years) – Log (persons working there now). We use logs of counts to reduce the skewness of the measurement.

Respondents starting or operating a social or commercial enterprise are asked about the amount of funding, including the funding required to start the business as well as the entrepreneur's own money put into the enterprise. Hence, the amount of external funding is the total amount of required funding minus the amount of the entrepreneur's own funding. The proportion of external funding is therefore the ratio of the amount of external funding to the total amount of required funding. Likewise, the proportion of own financing is computed as the amount of the entrepreneur's own funding divided by the total amount of required funding.

Respondents starting or operating a social or commercial enterprise were asked about sources of funding. Given the six potential sources recorded in the GEM questionnaire (see Table 1), an exploratory factor analysis groups the first three sources together and the last three sources together. The first three sources indicate the spectrum of informal sources (family, friends, employeees), which can be measured by the number of affirmative answers, ranging from 0 to 3. The last three sources indicate the spectrum of formal sources (financial institutions, private investors, government sources), also measured by the number of affirmative answers, ranging from 0 to 3.

The GEM survey enables us to control for several organizational, entrepreneurial, and national characteristics that are likely to be related to funding and growth expectations. Specifically, we control for the following characteristics:

- Age of the enterprise, measured in years, logged to reduce skewness, then standardized.
- Gender of the respondent, coded 0 for females and 1 for males.
- Age of the respondent, measured in years, then standardized.
- Education of the respondent, measured in years, then standardized.

4. We argue that the validity of this measure of growth expectations as indicative of future performance can be ascertained. We should expect the measure of growth expectations to correlate positively with innovation as another measure of future performance. Innovation is measured in the GEM survey by an index combining reported process innovation, product innovation, and uniqueness. The correlation between growth expectations and innovation is significant both for social enterprises (0.19) and for commercial enterprises (0.20).

- National wealth, measured as GNI per capita (from the World Bank), logged to reduce skewness, then standardized.
- Country from which the data is collected.

3.3. Techniques for Analysis

We employed a hierarchical linear model to test our hypotheses and examine how both micro-level (enterprise characteristics) and macro-level (country context) factors shape growth expectations (Snijders & Bosker, 2012). This approach accounts for the nested structure of the GEM data, with individuals situated within countries, and provides unbiased estimates of both within- and between-country variance—unlike structural equation modelling (SEM), which assumes independence of observations. To test the hypothesised mediation pathway—whereby social mission orientation influences growth expectations through funding sources—we followed recommended multilevel mediation procedures (Krull & MacKinnon, 2001; Preacher et al., 2010). The indirect effects were estimated and tested for statistical significance, consistent with prior applications in GEM-based research (e.g., Schøtt & Jensen, 2016; GEM, 2021).

All variables are measured at the micro level of the individual enterprise and the individual entrepreneur (age, education, and gender), except for national wealth (GNI per capita), which is measured at the macro level of the country and is merely included as a control. Effects in a hierarchical linear model are evaluated and interpreted like coefficients in a multiple linear regression.

4. Results

4.1. Description of the Enterprises

Tables 2 and 3 reveal clear structural differences between social and commercial enterprises. Commercial enterprises report higher growth expectations, particularly among start-ups, consistent with the negative correlation between social purpose and growth expectation. Financing patterns also diverge, social enterprises rely less on entrepreneurs' own capital but draw on a wider range of formal and informal funding sources, in line with our hypotheses. Gender, age, and education of the entrepreneur differ only marginally between the two groups. By contrast, the groups differ substantially in organizational characteristics. Social enterprises are larger, with more employees and volunteers, yet younger, as reflected in the positive correlation between social purpose and size and the negative correlation with age. Finally, social purpose correlates positively with GNI per capita, indicating that social enterprises are more prevalent in wealthier countries, where entrepreneurs also tend to be more educated. Overall, these descriptive patterns highlight distinct growth expectations, financing structures, and organizational profiles between commercial and social enterprises.

Table 2. Frequencies and means of enterprise characteristics

		Social enterprises		Commercial enterprises	
		Starting	Operating	Starting	Operating
Sample size	Number of enterprises	3,611	1,158	9,866	6,883
Growth-expectation	Mean of expected growth	0.82	0.52	1.45	0.46
Own financing	Proportion financing that is own	0.40	0.41	0.63	0.69
Formal sources	Mean number of formal sources	0.28	0.23	0.22	0.16
Informal sources	Mean number of informal sources	0.22	0.22	0.21	0.17
Social purpose	Mean purpose (com 0, social 1)	1	1	0	0
Phase	Mean phase (start 0, operating 1)	0	1	0	1
Age of enterprise	Range	0	½ y, upward	0	½ y, upward
Size of enterprise	Range	0, upward	0, upward	0, upward	0, upward
	25th percentile, number of employees	1	2	0	0
	Median number of employees	4	4	0	1
	75th percentile, number of employees	12	15	0	3
Gender	Percentage male	58	55	59	58
Age of entrepreneur	Mean years of age	38.6	37.6	36.6	39.8
Education of entrep.	Mean years of schooling	12.5	10.2	10.9	10.3

N = 21,518 enterprises.

Table 3. Correlation matrix for both social and commercial enterprises

	Growth expectation	Own financing	Formal sources	Inform sources	Social purpose	Phase	Age of enterprise	Size of enterprise	Gender	Age
Growth-expectation										
Own financing	-0.09***									
Formal sources	0.18***	-0.26***								
Informal sources	0.08***	-0.11***	0.15***							
Social purpose	-0.12***	-0.24***	0.10***	0.04***						
Phase (start 0, operat. 1)	-0.38***	0.09***	-0.11***	-0.06***	-0.14***					
Age of enterprise	-0.24***	0.02**	-0.06***	-0.08***	-0.11***	0.52***				
Size of enterprise	-0.18***	-0.15***	0.05***	0.02*	0.31***	0.03***	0.01			
Gender: Male	0.10***	-0.05***	0.06***	-0.02*	-0.01	-0.01	0.03***	0.02**		
Age of entrepreneur	-0.10***	0.03***	-0.02***	-0.13***	0.02*	0.10***	0.21***	0.04***	0.01	
Education	0.06***	-.001	0.10***	-0.05***	0.10***	-0.09 ***	-0.09***	0.08***	0.05***	-0.04***

*** $p < 0.001$. N = 21,518 enterprises.

The effects of purpose (commercial versus social) and of phase (starting versus operating) upon financing and growth-expectations are tested in Table 4. In Model A, we estimate the direct effect of enterprise purpose on growth expectations, comparing social and commercial enterprises. Model B introduces the three financing variables—own, formal, and informal sources—to assess their direct effects on growth expectations and to determine whether the effect of purpose persists when these mechanisms are included. Models C, D, and E examine the effect of purpose on each financing dimension separately, with Model C predicting the use of formal sources, Model D predicting informal sources, and Model E predicting entrepreneurs' own financing. In addition, to assess whether the hypothesised relationships hold within each enterprise type, we estimate separate models for four categories of enterprises: starting commercial enterprises, operating commercial enterprises, starting social enterprises, and operating social enterprises. The results for these subgroup analyses are presented in Tables 5a, 5b, 5c, and 5d. Finally, Table 6 demonstrates the economic effect of social vs. commercial enterprises on growth expectations.

Table 4. Purpose, funding, and growth expectations in commercial and social enterprises (both starting and operating)

ALL enterprises	Growth expectation	Growth expectation	Formal sources	Informal sources	Own financing
	Model A	Model B	Model C	Model D	Model E
Own financing		-0.085 *** H7			
Formal sources of financing		0.117 *** H3			
Informal sources of financing		0.048 *** H5			
Purpose (commercial 0; social 1)	-0.055 *** H1	-0.108 *** H1	0.052 * H2	0.094 *** H4	-0.383 *** H6
Phase (starting 0; operating 1)	-0.415 ***	-0.384 ***	-0.259 ***	-0.119 ***	0.272 ***
Gender (female 0; male 1)	0.206 ***	0.185 ***	0.118 ***	0.000	-0.046 ***
Age of entrepreneur	-0.019 **	-0.012 †	-0.025 ***	-0.108 ***	0.029 ***
Education of entrepreneur	0.107 ***	0.101 ***	0.056 ***	-0.045 ***	-0.034 ***
Age of enterprise	-0.044 ***	-0.046 ***	0.038 ***	0.010	-0.001
Employees in enterprise	-0.344 ***	-0.366 ***	0.055 ***	0.034 ***	-0.184 **
GDP per capita in country	-0.018	-0.020	0.065	-0.230 ***	-0.034
Country	Yes	Yes	Yes	Yes	Yes
Intercept	0.025	0.034	0.005	0.075 †	0.017
N countries	58	58	58	58	58
N enterprises	17,428	14,706	19,076	19,317	17,744

Hierarchical linear modeling, with random country effects. The enterprises include those of age 0 and those with 0 employees and volunteers. Dependent variables are standardized. Macro-level independent variables are standardized. Micro-level dichotomous independent variables are 0-1 dummies. Micro-level numerical independent variables are standardized and centered within each country. † p<.10, * p<.05, ** p<.01, *** p<.001.

Table 5a. Purpose, financing, and growth-expectation in starting commercial enterprises

Starting commercial enterprises	Growth expectation	Growth expectation	Formal sources	Informal sources	Own financing
	Model A	Model B	Model C	Model D	Model E
Own financing		-0.126 *** H7			
Formal sources of financing		0.138 *** H3			
Informal sources of financing		0.044 *** H5			
Intercept	-0.132 **	-0.115 ***	-0.049	0.065	0.138 **
Control variables	YES	YES	YES	YES	YES

Table 5b. Purpose, financing, and growth-expectation in operating commercial enterprises.

Operating commercial enterprises	Growth expectation	Growth expectation	Formal sources	Informal sources	Own financing
	Model A	Model B	Model C	Model D	Model E
Own financing		-0.021 * H7			
Formal sources of financing		0.047 *** H3			
Informal sources of financing		0.020 * H5			
Intercept	-0.473 ***	-0.462 ***	-0.257 ***	-0.030	0.296 ***
Controls	YES	YES	YES	YES	YES

Table 5c. Purpose, financing, and growth-expectation in starting social enterprises.

Starting social enterprises	Growth expectation	Growth expectation	Formal sources	Informal sources	Own financing
	Model A	Model B	Model C	Model D	Model E
Own financing		-0.077 *** H7			
Formal sources of financing		0.079 *** H3			
Informal sources of financing		0.085 *** H5			
Intercept	0.068	0.034	0.080	0.112 †	-0.253 ***
Control variables	YES	YES	YES	YES	YES

Table 5d. Purpose, financing, and growth-expectation in operating social enterprises.

Operating social enterprises	Growth expectation	Growth expectation	Formal sources	Informal sources	Own financing
	Model A	Model B	Model C	Model D	Model E
Own financing		-0.072 * H7			
Formal sources of financing		0.105 *** H3			
Informal sources of financing		0.084 *** H5			
Intercept	-0.269 ***	-0.279 ***	-0.091 †	0.220 *	-0.174 *
Control variables	YES	YES	YES	YES	YES

Hierarchical linear modeling, with random country effects. The enterprises include those of age 0 and those with 0 employees and volunteers. Dependent variables are standardized. Macro-level independent variables are standardized. Micro-level dichotomous independent variables are 0-1

dummies. Micro-level numerical independent variables are standardized and centered within each country. † p<.10, * p<.05, ** p<.01, *** p<.001.

Table 6. The economic effect of social vs. commercial enterprises on growth expectations

Model	Specification Description	Coefficient (Social = 1)	Significance	Economic Interpretation
Model A	Direct effect of purpose on growth expectations	–0.055	*** (p < .001)	Small negative effect (5.5% of 1 SD)
Model B	Full model incl. financing variables and controls	–0.108	*** (p < .001)	Moderate negative effect (10.8% of 1 SD)

The economic magnitude of the effect of social mission on growth expectations based on Table 4. Dependent variable (growth expectations) is standardized. Coefficients represent standard deviation (SD) changes. Negative coefficients indicate lower growth expectations for social vs. commercial enterprises. *** p < .001.

4.2. Effects of Enterprise's Purpose and Source of Funding On Growth Expectations

Table 4 provides comprehensive support for the hypothesised relationships between enterprise purpose, funding structures, and growth expectations. H1 is corroborated: purpose has a negative and significant effect on growth expectations in both Model A and Model B, indicating that social enterprises consistently anticipate lower growth than commercial enterprises, consistent with the view that mission-driven organisations prioritise social objectives over expansion (Saebi et al., 2019). The models also confirm the expected effects of funding on growth. H3 is supported, as formal sources exhibit a positive and significant effect on growth expectations; similarly, H5 is supported through the positive and significant influence of informal sources, underscoring the importance of diversified financing for enterprise growth (Prabhu et al., 2017; Beck & Demirgüc-Kunt, 2008). H7 is likewise supported: own financing shows a negative and significant association with growth expectations, suggesting that greater personal financial commitment leads entrepreneurs to adopt more conservative growth projections, in line with research on managerial risk aversion (Lewellen, 2006). Turning to the determinants of financing patterns, H2 is supported in Model C, where purpose positively and significantly predicts the use of formal funding sources, and H4 is supported in Model D, where purpose similarly predicts broader use of informal sources. Together, these results demonstrate that social enterprises rely on more diverse formal and informal funding channels than commercial enterprises, while simultaneously maintaining lower growth expectations—patterns that align closely with theoretical expectations regarding mission orientation, resource acquisition, and funding behaviour.

4.3. Effects of Purpose of an Enterprise on All Types of Enterprises

The subgroup analyses in Tables 5a–5d show that the financing mechanisms identified in the full-sample models operate consistently across starting commercial, operating commercial, and starting social enterprises. Across all three groups, formal sources of funding exert a positive and significant effect on growth expectations, supporting H3 and indicating that broader access to formal finance enhances growth prospects regardless of enterprise type or phase. This pattern aligns with prior evidence that formal financing channels play a central role in enabling social ventures to mobilise resources and establish legitimacy (Agarwal et al., 2020). Likewise, informal sources of funding positively and significantly influence growth expectations, supporting H5 and reflecting the importance of community-based and relational financing mechanisms, as also observed in crowdfunding contexts (Calic & Mosakowski, 2016). In addition, own financing consistently shows a negative and significant effect across Tables 5a–5d, supporting H7 and indicating that entrepreneurs who commit a larger share of personal capital tend to adopt more conservative growth expectations, consistent with behavioural evidence on risk aversion (Stajkovic & Luthans, 2001). Taken together, these results demonstrate that the mechanisms linking financing structure to growth expectations are robust across enterprise type and development phase.

In contrast, the subgroup analyses yield a different pattern with respect to H1. Although purpose is not directly estimated in these models, its effect can be inferred from the intercepts. For start-up enterprises, the intercept for starting social enterprises (Table 5c: 0.068) exceeds that for starting commercial enterprises (Table 5a: –0.132), indicating higher unadjusted growth expectations among social start-ups. A similar pattern is observed among operating enterprises, where the intercept for operating social enterprises (Table 5d: –0.269) is higher than that for operating commercial enterprises (Table 5b: –0.473). Thus, within both phases, social enterprises display higher baseline growth expectations than commercial enterprises, a pattern that contrasts with the pooled results in Table 4.

This apparent reversal reflects differences in model specification rather than an inconsistency in the underlying relationships. Because purpose is constant within each subgroup, the intercept captures unadjusted expectations shaped by factors correlated with social purpose—such as larger organizational size, stronger community embeddedness, and broader access to funding—rather than the independent effect of purpose itself. Once these correlated factors are explicitly controlled for in the full-sample model, as in Table 4, the negative association between social purpose and growth expectations re-emerges.

Across all models in Table 4 and Tables 5a–5d, the control variables display stable and theoretically expected patterns. Male entrepreneurs show greater access to formal finance, consistent with documented gender disparities in credit markets (Galli & Rossi, 2016), while more educated entrepreneurs rely less on own funds and access formal sources more easily (Jung, 2015). Entrepreneur age

is generally associated with lower growth expectations, whereas younger and smaller firms report higher growth expectations but rely more on informal support. Finally, we emphasize that the intercepts in Tables 5a–5d should be interpreted as relative reference points for hypothetical enterprises with mean-centered characteristics, rather than as substantively meaningful baselines. Accordingly, higher intercepts for social enterprises reflect unadjusted relative expectations rather than an inherently stronger growth orientation.

In terms of economic significance, in Table 6 we quantify the magnitude of the social-purpose effect on growth expectations using the standardized coefficients in Table 4. In Model A, which estimates the direct relationship, a social purpose is associated with a 0.055 standard deviation (SD) decrease in expected growth relative to commercial enterprises—a small but non-trivial difference. In Model B, which accounts for financing structure and enterprise characteristics, the effect increases to 0.108 SD, representing a 10.8% reduction relative to one SD of the growth-expectation distribution. Substantively, this means that two otherwise similar enterprises in age, size, phase, country context, and financing mix will differ in expected growth by roughly one-tenth of a standard deviation solely due to whether they are social or commercial. This constitutes a moderate and economically meaningful decline, reinforcing that the growth expectations of social entrepreneurs are systematically lower not only statistically but also in practical, substantive terms.

Overall, the findings show a consistent pattern in how financing shapes growth expectations: access to formal and informal funding reliably raises expected growth, while greater reliance on entrepreneurs' own funds lowers it, regardless of enterprise type or phase. The effect of purpose is more nuanced. In the pooled models of Table 4, social enterprises exhibit moderately lower growth expectations once financing structure, enterprise characteristics, and country differences are controlled for. However, the subgroup models in Tables 5a–5c show higher unadjusted baseline expectations among social enterprises, a pattern driven by correlated factors such as size and broader funding access. When these factors are held constant, the underlying negative association between social purpose and growth expectations re-emerges.

5. Discussion

In this paper, we aim to build a theoretical and testable framework for explaining the growth expectations of social compared to commercial enterprises. Specifically, we build on the concept of friction in the social entrepreneurship literature. Our results suggest that a social enterprise comes with a "cost" of lower expected growth, compared to a commercial enterprise. This finding is in line with previous studies suggesting that commercial enterprise entrepreneurs have higher growth expectations than social entrepreneurs (e.g., Stajkovic & Luthans,

2001). This implies that social entrepreneurs are less focused on growth, and more concerned about satisfying social stakeholders' demands. Important qualitative research puts forward a similar argument by showing how social entrepreneurs "often wanted greater emphasis on value capture, even at the expense of value creation" (McMullen & Bergman, 2017, p. 254). Specifically, their research on South African social enterprises showed how greater "value capture" led to the prioritization of higher short-term "commercial" performance, e.g., by charging higher prices. This suggests that social enterprises might struggle to make short-term sacrifices for the sake of securing high long-term enterprise growth.

However, the subgroup models introduce an important nuance: when starting and operating enterprises are examined separately, social enterprises exhibit higher unadjusted baseline growth expectations than commercial enterprises. This apparent reversal arises because the subgroup models implicitly absorb characteristics associated with social purpose—such as larger size or wider access to formal and informal funding—that elevate baseline expectations. When these structural and financial differences are accounted for in the pooled models, the underlying negative association between social purpose and growth expectations reappears. Taken together, these results indicate that the economic "cost" of a social purpose becomes evident only once the broader organizational and resource conditions in which social enterprises operate are properly controlled for.

Furthermore, we argue that "frictions" resulting in difficult trade-offs between social and commercial goals lower the growth expectations of social entrepreneurs (Pache & Santos, 2013; Saebi et al., 2019; Wry & Zhao, 2018). We emphasise that stakeholder friction is conceptualized in this study as a theoretical mechanism rather than a construct directly measured in the data. Our empirical analysis does not test friction per se; instead, it examines observable implications of this mechanism—specifically, how different funding structures are associated with entrepreneurs' growth expectations. Funding sources reflect the outcomes of stakeholder engagement and resource mobilisation, whereas friction itself operates as a latent process shaping entrepreneurs' strategic anticipation of coordination costs, governance complexity, and goal misalignment. Accordingly, our contribution lies in linking a friction-based theoretical explanation to empirically observable patterns in funding structures and growth expectations, rather than in directly estimating friction as a causal variable.[5] As a result, these frictions reduce the ability of social entrepreneurs to focus on growth compared to commercial entrepreneurs (Davies et al., 2019). We argue that these frictions arising from the dual goals are analogous to the conflicts of interest described by agency theory and friction theory (Martin & Phillips, 2022). Friction theory suggests that "stakeholder friction"—the misalignment of interests among different stakeholder groups—can lead managers of commercial enterprises to

5. We would like to specifically thank the reviewer for pointing this out.

over-allocate attention and resources to stakeholders who consistently and forcefully dominate interactions. Similarly, agency theory emphasizes how the misalignment of interests between different stakeholder groups (typically, between managers and owners, or between ownership groups) can result in lower commercial enterprise performance (e.g., Ang et al., 2007). We suggest that similar frictions, or agency costs, exist in social enterprises, but in this case between the entrepreneur and the other stakeholders (Nason et al., 2018), thus reducing the social entrepreneur's ability to achieve long-term growth objectives. Existing research on hybrid organizing has largely centred on the frictions between social and commercial logics (Battilana & Lee, 2014; Ebrahim et al., 2014). Nevertheless, recent work suggests that hybrid organizations may also leverage synergies between these goals (Cherrington et al., 2026; Mongelli et al., 2019) — for instance, when social legitimacy, mission alignment, or stakeholder engagement translate into mutually reinforcing benefits (Simmons & Mason, 2026).

Past research indicates that resource constraints, such as unavailability of funding, are a major impediment to small enterprise growth (e.g., Beck & Demirgüc-Kunt, 2008; Nguyen & Canh, 2021; Wilson et al., 2018). We apply three measures of such resource constraints: access to entrepreneur's own funding (the entrepreneur commits money to the enterprise), access to informal funding (family, friends, neighbors, etc.), and access to formal funding (banks, venture capital, government programs, etc.). Specifically, our results suggest that the share of the entrepreneur's funding (relative to external funding) is negatively associated with higher growth expectations.

We suggest that social entrepreneurs who provide a very large share of the initial funding of the enterprise have "skin in the game," and hence are more likely to be risk averse and favor a long-term strategy that is less growth-oriented than their less invested counterparts. Another possible explanation is that a high level of self-funding by the entrepreneur reflects a higher degree of independence from other stakeholders, which could also act as an impediment to growth. Although our results show that social enterprises have wider access to both formal and informal funding sources than commercial enterprises, prior research also highlights that commercial entrepreneurs can draw on their own distinct financing channels (e.g., Cosh et al., 2009). What differentiates social entrepreneurs, however, is their capacity to mobilize mission-driven, trust-based stakeholder relationships, enabling access to non-market or blended capital—such as grants, donations, and impact investment—that derives from their social legitimacy and deep community embeddedness.

These results fit well with the literature on social capital, which shows how entrepreneurs' social capital is an important determinant of resource access and impacts financial decision making (Chua et al., 2011; Menkhoff et al., 2012). Given that a social enterprise is expected to "give back" to the community, we suggest that the amount of external funding can be expected to be greater for social enterprises than for commercial enterprises. The literature on

organizational social capital acknowledges the benefits captured by resource-constrained businesses when the entrepreneur's social capital provides the enterprise with the opportunity to use resources without having to acquire ownership of them (Johanson & Mattsson, 2015). Furthermore, past research shows that social capital, which social entrepreneurs typically possess more of than commercial entrepreneurs, positively impacts entrepreneurs' personal wealth, and enhances their ability to select from a greater number of funding sources (Elston & Audretsch, 2010; Nguyen & Canh, 2021).

To present a more complete picture of social enterprise growth expectations, we also introduce three mediating financial effects into our model. Although we observe that both social and commercial entrepreneurs provide a large share of the initial funding of their enterprises, we find that commercial entrepreneurs provide a higher relative share. One explanation for this could be that commercial entrepreneurs are less obligated to share the profits of the enterprise with other stakeholders. We base this explanation on our finding that social enterprises are able to attract more formal and informal funding sources than commercial enterprises. This superior resource mobilization by social enterprises could be related to social entrepreneurs' enhanced ability to "seek wider resource pools within these markets by building social embeddedness" (Agarwal et al., 2020, p. 420). However, we acknowledge that while our analysis conceptualises funding as an antecedent to growth expectations, it is also plausible that the relationship operates in the opposite direction. Entrepreneurs with stronger growth ambitions may be more motivated and proactive in pursuing funding opportunities—emphasising the dynamic acquisition and deployment of resources and entrepreneurs' agency in shaping means and ends through resource mobilisation. This suggests a reciprocal relationship in which financial resources and growth expectations mutually reinforce each other over time. Accordingly, our results—given the cross-sectional nature of our data—should thus be interpreted as associational, with future research encouraged to employ longitudinal or experimental approaches to test these mechanisms more explicitly.

In this regard, social embeddedness may reflect the local institutional settings and networks of social entrepreneurs. Various community-based studies have also highlighted the importance of the country's institutional settings, including the role of formal and informal institutions impacting small businesses' behavior and performance (Nguyen et al., 2018). Specifically, past research has shown that the local institutional governance quality (formal institutions) can shape entrepreneurs' incentives and consequently their strategic planning and decision making (Su & Bui, 2017). Furthermore, informal institutions, such as country-based values and business norms, are also found to exert a non-trivial influence on local small businesses' investments and performance (Stephan et al., 2015). In general, we argue that our findings related to the role of funding in social enterprises are in line with the regional studies mentioned above and thus support the conclusion that social entrepreneurs' personal characteristics as well as the

institutional context of the enterprise impact funding options and hence growth expectations.

6. Conclusion

Early reviews characterised social entrepreneurship research as emergent (Short et al., 2009). However, more recent assessments indicate that the field has matured substantially, with growing theoretical consolidation and integration into international business and strategy research (Alon et al., 2020). Building on this mature literature, our study contributes by offering theory-driven and empirically grounded insights into how social mission orientation and funding structures jointly shape growth expectations across countries. Our proposed model and corresponding hypotheses are tested on a large global dataset. Specifically, our study explores the relationship between the mission (social versus commercial) and growth expectations of enterprises and the role of funding in fueling enterprise growth. We contribute to the research on social enterprises (Mair & Marti, 2006; Mersland et al., 2019) by further analysing the effects of two conflicting purposes (social versus commercial) on growth expectations.

Social entrepreneurship literature has been described as lacking both a theoretical and empirical foundation (Agarwal et al., 2020). Although both social and commercial entrepreneurs are strongly committed to advancing their enterprise missions, our pooled analyses show that, once financing structure, enterprise characteristics, and country context are taken into account, social entrepreneurs report lower growth expectations than their commercial counterparts. Yet, when the phase of operation is taken into consideration—examining starting and operating enterprises separately—social enterprises display higher unadjusted baseline growth expectations. We therefore suggest that the underlying driver of this difference in growth expectations is that social entrepreneurs are under stronger pressure from stakeholders to deliver on current social demands, and that they internalize such pressures by preferring short-term social "value capture" over long-term social value creation (in line with McMullen & Bergman, 2017). We also highlight how the combination of a social mission and a commercial business model, typical of social enterprises, creates "frictions," as suggested by Smith et al. (2013) and Saebi et al. (2019), and that these "frictions" diminish the growth prospects of social enterprises. Such frictions are apparent in the conflicting goals within the organization as well as in the diverse demands of the various stakeholders associated with the enterprise, such as clients, sponsors, local community members, and more.

One contribution of this study is that it promotes a friction-based perspective for a better understanding of the strategic trade-offs and preferences (including those related to growth) in social enterprises. We also argue that such frictions can be viewed as analogous to stakeholder friction and/or agency costs of commercial

firms, when such firms have a diverse set of owners. Another contribution of our study is that it addresses the underexplored connection between the funding and growth expectations of social enterprises (Siqueira et al., 2018). Finally, we contribute to advancing research on the entrepreneurial firm in highlighting the relationship between social entrepreneurs' mission-related frictions and their growth expectations by analysing the mediating role of funding in promoting social entrepreneurship. This extension of our study also provides further insight into entrepreneurial finance, integrating further the link between finance and entrepreneurship, with implications for social entrepreneurship.

6.1. Limitations and Future Research

Conceptually, our model specifies directional relationships among key constructs. While experimental or scenario-based designs could, in principle, isolate certain mechanisms, such approaches would capture only a limited subset of the broader social and contextual dynamics of interest. Accordingly, our present study focuses on theory-building and empirical pattern recognition, consistent with the exploratory and multi-level nature of the phenomenon. A second-best option would have been to use longitudinal data, and such an approach should be addressed by future research. However, we try to capture the longitudinal element by using the entrepreneurs' own five-year expected growth as a dependent variable. This is an approach commonly used in entrepreneurship research and applied to previous versions of the dataset used (e.g., Schøtt & Jensen, 2016). However, it still leaves us with several methodological impediments, such as endogeneity and sample comparability which are important concerns in studies comparing social and commercial enterprises, the limitation of only one respondent per enterprise, and only one measure of the dependent variable of growth expectations. Furthermore, the selection of countries is not random, although it still enables us to generalize our findings to large parts of the world. Future research should also pay more attention to a large set of institutional contingencies that directly and indirectly impact enterprise growth, such as the quality of the legal system, the nature of the welfare system, cultural norms related to entrepreneurship, etc.

Despite the methodological shortcomings mentioned above, we argue that this study has several methodological advantages, such as the use of a large-scale random sample of enterprises, allowing our findings to be generalized to the universe of social and commercial enterprises in the 58 countries covered. Moreover, our dataset enabled us to control for several individual-level, enterprise-level, and country-level variables. We suggest that the applied friction theory (e.g., Saebi et al., 2019; Smith et al., 2013) could also guide future research on social enterprises in areas such as strategy, governance, management, and human resources. As highlighted by Siqueira et al. (2018), research on social enterprises cannot be guided only by traditional organizational theories but needs theories that consider their unique dual (social and commercial) nature. In this

regard, future research could also explore the synergistic mechanisms through which social and commercial logics mutually reinforce one another—for example, how social legitimacy may enhance the attraction of customers, employees, or investors—thereby extending and complementing the predominantly friction-based perspectives that have characterised the existing literature.

Furthermore, we recommend that future studies address in more detail the social entrepreneur's motivation and ambitions. In this regard, a paper titled "Choosing between growth and glory" by Belenzon et al. (2020) could be of inspiration. Are social entrepreneurs more concerned about their own glory through public recognition than about growing their businesses? Does the public recognition gained from being known as a benefactor change, depending on whether the social enterprise is big or small?

6.2. Practical Relevance

Past research has shown that being an entrepreneur is a risky endeavour, and that most new enterprises never make it to the mature stage. This study indicates that the social purpose or mission of an enterprise provides a further impediment to growth, and that social entrepreneurs should try to reduce risks to the enterprise by addressing goal incongruency and other frictions among key stakeholders. Moreover, the findings reveal that social entrepreneurs' reliance on own financial resources may limit their ability to pursue ambitious growth strategies. This pattern underscores the need for tailored funding instruments and mission-aligned investors to help offset lower self-financing capacity and encourage sustainable expansion. At the same time, social entrepreneurs can draw on their social embeddedness and local networks to secure growth-enhancing funding from both formal and informal sources. Finally, some social entrepreneurs may need to reassess their risk aversion and become less constrained by short-term stakeholder pressures, thereby allowing for more calculated risk-taking and higher enterprise growth.

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