

Why social enterprises pursue growth? Analysis of threats and opportunities

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Abstract

Purpose – The purpose of this study is to extend theoretical understanding on social enterprises' growth orientation. Inspiration is drawn from the fundamentals of prospect theory and threat-rigidity theory, as the role of external threats as a source of growth orientation is largely absent from the social enterprise growth literature. According to previous studies, social enterprises grow mainly because of their social mission and social opportunities.

Design/methodology/approach – The qualitative research is conducted by analysing thematic interviews from seven, growth-oriented social enterprises operating in Finland.

Findings – The study provides novel insights on social enterprises' growth orientation by drawing attention to the plurality of growth motivations and showing the importance of perceived threats as the origin of their growth pursuits. Goals of growth are defined mainly in terms of organisational and financial performance of the firm.

Practical implications – Social enterprise managers and boards are encouraged to cooperate in analysing the significance of external threats and opportunities for their business and to concentrate on defining measurable social goals to ensure balanced growth.

Originality/value – The study demonstrates that the behavioural theories offer a beneficial departure point for studying social venture growth. By clarifying the role of the perceptions of the firm's internal actors and showing that growth is sometimes seen as a response to external threats, the study increases theoretical understanding on social enterprises' growth orientation.

Keywords Growth, Social enterprise, Qualitative study, Prospect theory, Behavioural theories, Threat-rigidity theory

Paper type Research paper

Introduction

The aim of this study is to accumulate knowledge on what drives social enterprises to seek growth and what type of growth they pursue. The topic is investigated with help of prospect theory and threat-rigidity theory to develop the notion of social enterprises' growth orientation (Kahneman and Tversky, 1979; Staw *et al.*, 1981; Tversky and Kahneman, 1992). Interest in the subject was first aroused by observing that an organisation's intrinsic social mission, together with opportunities to increase its social impact, was regarded as main motivators for social enterprise growth (Austin *et al.*, 2006; Dees *et al.*, 2004; Martin and Osberg, 2007; Santos, 2012; Zahra *et al.*, 2008).



Pursuing growth means taking risks, however, and prospect theory suggests that other kinds of growth motivations may be at play as well. There is evidence that perceived threats urge firms' managers to take risks and pursue growth, as humans are known to take risks to avoid losses rather than to chase uncertain gains (Kahneman and Tversky, 1979; March and Shapira, 1992; Saebi *et al.*, 2017; Tversky and Kahneman, 1992). The findings have not been applied in the social enterprise context, so the motivational factors driving social enterprise growth may be more varied than assumed.

Many of the previous studies on social enterprise growth have focused on the organisational level of growth (Bradach, 2003; Bloom and Chatterji, 2009; Dees *et al.*, 2004; Lyon and Fernandez, 2012; Müller, 2012; Tracey and Jarvis, 2007). As a result, there has been a lack of analysis of the individual level; it is poorly understood why some social entrepreneurs decide to pursue growth, while others decline (Smith *et al.*, 2016). The firm growth research has nevertheless proven that managers'/owners' growth motivation is a decisive determinant for a firm to grow (Davidsson *et al.*, 2010; Delmar and Wiklund, 2008; McKelvie *et al.*, 2017; Wiklund *et al.*, 2009). If the link between managers' growth motivation and firm growth exists in the social enterprise context, then capturing the motivational factors driving social ventures' leaders to seek growth becomes all the more vital.

Behavioural theories offer a vantage point for exploring the managers' growth motivations and the interactions between a firm's context and the individual level of decision-making. By adding goals of growth to the research setting, empirical evidence on where social enterprises growth is steered to is gained (Levinthal and March, 1993; McKelvie *et al.*, 2017). Advancing knowledge on social enterprises' growth orientation is an important step towards a more comprehensive understanding of their growth process as a whole. Consequently, this study aspires to address the prevailing research gaps by answering the following research question:

RQ1. How are external threats and opportunities perceived by social enterprise managers and are these perceptions reflected in goal setting and growth orientation of their firms?

The question is answered through a study of seven, growth-oriented social enterprises from Finland. The data consist of thematic interviews with the CEOs. The findings demonstrate that besides attractive financial and social opportunities, the social enterprise managers are pressed to grow because of external threats caused by competition and public procurement policies, among others. Thus, survival orientation and growth orientation coexist in many of the social enterprises, as the leaders feel that growth is necessary for the survival of their firm. The goals set for growth point to the same direction: the goals are mostly defined vis-à-vis the size, scope and financial performance of the firm, while the social goals are left vague.

This study contributes to the literature on social enterprise growth in two ways. First, the study helps to narrow the research gap regarding the lack of analysis on the individual level by pinpointing how managers' perceptions of their firm's external environment influence their motivation to seek growth. Second, by indicating that social enterprises' growth orientation stems from both social and economic considerations, the study urges social enterprise scholars to look beyond social impact when studying social venture growth. The study extends the theoretical understanding of social enterprises' growth orientation and highlights the relevance of behavioural theories for investigating the topic.

As for practical implications, this study advises the leaders and boards of social enterprises to evaluate both the opportunities and threats which their firms face and to create a shared understanding of the potential losses or gains caused by the operational environment. More attention should also be paid on setting goals for growth. The

measurability of social goals, in particular, is crucial to increasing the likelihood of balanced growth outcomes.

Theoretical background

In this section, the theoretical building blocks of the study are introduced and growth orientation conceptualised. To begin, the research on managers'/owners' growth motivation is surveyed to see *why* they are willing to take risks involved in growth. The second element of firms' growth orientation is growth goals, which denote *what* is supposed to grow, organisation's size, social impact, profit or something else entirely.

Manager's growth motivation

In the firm growth research, it is widely agreed that manager's growth motivation is a central element of the firm's growth orientation (McKelvie *et al.*, 2017; Wiklund *et al.*, 2003) and that it is also one of the main determinants of firms' realised growth (Davidsson *et al.*, 2010; Delmar and Wiklund, 2008; Wiklund *et al.*, 2009). However, the question of *why* growth is pursued has not attracted much attention. Oftentimes growth is thought to have instrumental value by increasing the profits and value of the firm (Achtenhagen *et al.*, 2010), ensuring competitive advantages (Delmar *et al.*, 2003) and creating employment (Dobbs and Hamilton, 2007).

Seeking to grow is to reach for uncertain outcomes, which may jeopardise business. Growth implies radical changes that may run counter to entrepreneurs' original goals (Battilana and Lee, 2014; Davidsson *et al.*, 2010; Delmar *et al.*, 2003; Douglas and Shepherd, 2000; Leitch *et al.*, 2010). It also stretches scarce resources and influences the internal processes of firms (Achtenhagen *et al.*, 2010; Austin *et al.*, 2006; McKelvie and Wiklund, 2010; Smith *et al.*, 2013). Pursuing growth is by no means less risky for social enterprises, as growth is known to provoke various types of tensions and increase the likelihood of mission drift or financial failure (Battilana and Dorado, 2010; Battilana and Lee, 2014; Smith *et al.*, 2013; Tracey and Jarvis, 2007). The question, then, becomes why social enterprises and their managers would take on this risk.

Behavioural theories analyse and explain decision-making and risk-taking in uncertain situations. Inspiration for this study is drawn from the premises of prospect theory (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992) and threat-rigidity hypothesis (Staw *et al.*, 1981), for they may offer a useful analytical lens for investigating social enterprise growth orientation. These theories have also been used to study firm behaviour in terms of strategic adaptations, organising for growth and pivoting business models (Chattopadhyay *et al.*, 2001; Cyert and March, 1963; Levinthal and March, 1993; March and Shapira, 1992; Saebi *et al.*, 2017).

Prospect theory and threat-rigidity hypothesis hold very different assumptions regarding the influence of perceived threats and opportunities on companies' risk-taking; they enable extending theoretical understanding by testing contrasting predictions (Chattopadhyay *et al.*, 2001; Saebi *et al.*, 2017). Threat-rigidity theory predicts that under circumstances in which firms face threats from the external environment, they are inclined to rely on existing strategies and routines instead of pursuing new activities with uncertain outcomes. In contrast, favourable conditions and attractive opportunities urge firms to take risks and try something new (Staw *et al.*, 1981).

As opposed to the threat-rigidity theory, prospect theory states that perceived threats are, in fact, a stronger motivation for taking risky decisions than favourable situations because people are more prone to avoid potential losses than to reach for uncertain gains of equal size. The expected value of both losses and gains is assessed against a reference point,

which can be set in terms of the present situation of the firm or its anticipated market position, for example. If a disturbance in operational environment is thought to yield worse outcome in relation to the reference point, then the disturbance urges the firm to take risks to avoid the feared losses (Bogliacino and Conzález-Gallo, 2015; Kahneman and Tversky, 1979; Tversky and Kahneman, 1992). In a favourable environment, firms and entrepreneurs have more to lose than to gain; therefore, they have no motivation to make radical changes leading uncertain outcomes (March and Shapira, 1992; Saebi *et al.*, 2017; Saravathy, 2014). Although managers may be driven to pursue growth for internal reasons as well, the role of external environment is on the focus of this study.

Goals of growth

In this study, a firm's growth orientation is formed by the combination of the manager's growth motivation and the goals set for growth. While the motivational factors imply *why* growth is regarded important, the goals indicate *what* will be prioritised in practice, while the firm implements activities designed to create growth (McKelvie *et al.*, 2017). Growth motivation and goals of growth are often considered as intertwined concepts: Goals are derived from growth motivations and point direction to actual business activities (Davidsson *et al.*, 2010; McKelvie *et al.*, 2017). Consequently, besides having a direct impact on growth, managers' growth motivation has been found to have an indirect influence on growth mediated by goals (Wiklund *et al.*, 2009).

Also, the strategy and management literature stresses the significance of goals because they reveal how firms define and evaluate their performance and also indicate whether companies are likely to succeed in their efforts or not. Firms tend to act on specific and measurable goals rather than on indefinite and qualitative aims (Brinckmann *et al.*, 2010; Levinthal and March, 1993; Smith *et al.*, 2013). Studying the goal setting of growth-oriented social enterprises is interesting from two vantage points: are the goals connected with growth motivations and do they influence in growth performance? While the latter question is not in the scope of this study, the balance of different types of goals is noteworthy.

Figure 1 summarises the conceptual framework of the study. Following McKelvie *et al.* (2017), growth orientation is defined as a firm-level concept composed of individual level of managers' growth motivation and goals set for growth. As this study is inspired by behavioural theories which state that risk preferences are context specific, the origins of



Figure 1.
The conceptual framework of the study

managers' growth motivation are traced back to their perceptions of the firms' external environment, in particular (Bogliacino and Conzález-Gallo, 2015; Kahneman and Tversky, 1979; Saebi *et al.*, 2017; Staw *et al.*, 1981; Tversky and Kahneman, 1992) (Figure 1).

The definition is considered apt for investigating growth orientation of social enterprises, because it leaves room for variation in operationalisation of growth, accommodates firm external environment and highlights the importance of prioritising of what is valued.

Literature review on social enterprises' growth orientation

The growth of social enterprises is assumed to be primarily about magnifying a firm's social impact and contributing to social change rather than gaining competitive economic advantage (Austin *et al.*, 2006; Martin and Osberg, 2007; Santos, 2012; Zahra *et al.*, 2008). Hence, the predominant approach to social enterprise growth has been analysing a firm's ability to scale and disseminate its social impact (Austin *et al.*, 2006; Bradach, 2003; Dees *et al.*, 2004) and its ability to avoid mission drift while growing (Battilana and Dorado, 2010; Battilana and Lee, 2014; Smith *et al.*, 2013).

So far, the upsides of social opportunities as drivers of social enterprise growth have dominated the academic discussion. Zahra *et al.* (2008), for instance, explored what types of opportunities are considered attractive for internationalising social ventures. Also, Austin *et al.* (2006) stressed pull-factors of growth. There is an abundance of opportunities for social enterprises, and the challenge is how to choose between them and manage growth. These findings support the threat-rigidity hypothesis (Staw *et al.*, 1981).

Nonetheless, it is poorly understood *why* one social entrepreneur is eager to pursue growth, while another other avoids it (Smith *et al.*, 2016). Although social enterprises' growth models and success recipes for scaling social innovations have been identified by various studies (Bradach, 2003; Bloom and Chatterji, 2009; Dees *et al.*, 2004; Lyon and Fernandez, 2012; Müller, 2012), the individual-level remains largely unexplored territory. There is some evidence that the risks associated with growth weaken social entrepreneurs' motivation to grow. They may be unwilling to join forces with actors whose resources are necessary, but whose values or actions are not in line with social enterprise's mission, for instance (Huybrechts *et al.*, 2017; Vickers and Lyon, 2014).

Social ventures are considered risk-averse, and they are found to prioritise the sustainability of their social mission and the survival of their organisation over financial growth (Lumpkin *et al.*, 2013; Weerawardena and Sullivan Mort, 2006). As financial gain is not the primary purpose of social enterprises, they are assumed to settle for a more modest financial performance (Shaw and Carter, 2007). These studies do not encompass influence which operational environment has on risk-taking, although according to behavioural theories, risk preferences are context dependent (Bogliacino and Conzález-Gallo, 2015). In the prior studies, social enterprises have been found to avoid losses related to their social mission. It remains unclear whether this preference is because of a certain perceived threat (Staw *et al.*, 1981) or is the risk-aversion reaction to an opportunity, which social enterprise has passed by for having too much to lose (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992).

As for goals of growth, the problem is that setting and monitoring goals often require metrics and defining meaningful metrics for social impacts is not an easy task (Barraket and Yousefpour, 2013; Smith *et al.*, 2013). In fact, social enterprises have been shown to favour metrics related to the financial performance of the firm over the social ones (Ormiston and Seymour, 2011). Moreover, there are contradictory views on whether measuring social impact actually benefits social ventures (Barraket and Yousefpour, 2013; Millar and Hall, 2012; Luke, 2016) and influences their business practices (Bull, 2007). Even though the role

of managers' growth motivation and the importance measurable goals are not yet established in the social enterprise context, these topics certainly open interesting possibilities for advancing the knowledge on social enterprise growth.

Method

Social enterprises in Finland

The study was conducted by using a sample of Finnish social enterprises, as Finland was among the first European countries to introduce a social enterprise mark. The Finnish Social Enterprise Mark (the FSEM) resulted from broad-based preparatory work led by the Ministry of Economic Affairs and Employment. Thus, from the point of view of this research, the FSEM functions as a third-party verification; it ensures that the companies granted with the mark comply with the definition of social enterprise. Furthermore, Finnish social enterprises follow EU criteria ([The European Commission, 2011](#)), although they are among the most market-oriented social enterprises in Europe ([Russell *et al.*, 2014](#)).

The range of organisations rewarded with the FSEM represents the plurality of the Finnish social enterprise field, regarding the range of organisational forms and typical business sectors ([Russell *et al.*, 2014](#); [Pättiniemi, 2006](#)). Thus, FSEM holders were deemed a suitable population for this study because it appeared unlikely that selecting cases among them should produce bias in the findings, as long as the heterogeneity of the sample was ensured. Consequently, the criteria of the FSEM also define the case companies of this study.

The mark is granted by a committee appointed by the Association for Finnish Work. When assessing the applicants, the committee emphasises three primary criteria and evaluates the fulfilment of secondary criteria. Every FSEM company has to re-apply for the mark every three years. The primary criteria are as follows:

- The primary purpose and objective of the social enterprise is to contribute to social good. The social enterprise is engaged in responsible business activities.
- The social enterprise uses most of its profit to contribute to social good in accordance with its business idea, either by developing its own operations or donating the profits in accordance with its mission.
- The social enterprise have openness and transparency of business activities.

The secondary criteria of the FSEM include working-place democracy, measuring social impact and employing long-term unemployed or disabled persons ([Association of Finnish Work, 2018](#)).

Cases and data collection

The cases were selected among the over 70 enterprises that had been awarded the FSEM by summer 2015. Besides the FSEM, two other criteria – heterogeneity and growth orientation – were used. The sample was designed heterogeneous in terms of business sectors, ownership structures, organisational forms and the size and age of the firms to mitigate the effects of biases that the above mentioned factors are known to produce on firms' growth orientation and growth trajectories ([Achtenhagen *et al.*, 2010](#); [Davidsson *et al.*, 2010](#); [Delmar *et al.*, 2003](#)). Growth orientation, in turn, was assessed in two phases: first by excluding enterprises not seeking to grow (enterprises embedded to a certain community, found for self-employment or for serving certain member base, for instance) and then based on statements from strategies, annual reports, press releases, etc. The criteria resulted in a sample of seven social enterprises ([Table I](#)).

Company and business sector	Found	Size*	Owners	Social mission	Interviews
SocEnt A (Ltd.) Transcription services, accessibility consulting	2010	Micro	Non-governmental organisations (NGOs)	Work integration social enterprise (WISE)	Two interviews of CEO
SocEnt B (Ltd.) Business model for care homes	2008	Small	Private	Promoting local entrepreneurship, providing high quality care services	Interview of CEO/owner
SocEnt C (Ltd.) ICT provider and consultant	2011	Micro	Private	More effective re-use of products and raw materials	Two interviews of CEO/owner and interview of two owners
SocEnt D (Co-op) Domiciliary services	2004	Small	Private	Care services, personal assistance for disabled	Interview of CEO/owner
SocEnt E (Ltd.) ICT platform	2012	Micro	Private	Rapid access to mental health services	Interview of CEO/owner
SocEnt F (Foundation) Multi-industrial	2004	Small	NGOs and municipalities	WISE	Interview of CEO
SocEnt G (Ltd.) Construction contracting	2000	Small	NGOs	Communal living, support for people with special needs	Interview of CEO

Table I.
Description of the case companies

Notes: *The definition of Statistics Finland and the European Commission is followed: Micro-enterprises employ ≤ 10 persons and have turnover \leq €2mn or balance sheet total \leq €2mn; Small enterprises employ ≤ 50 persons and have turnover \leq €10mn or balance sheet total \leq €10mn

The data were collected through nine thematic interviews of social enterprise leaders; the interview guide is in the [appendix](#). All social enterprise leaders were interviewed in 2015; in addition, interviews of SocEnt A and SocEnt C conducted by colleagues in 2013 were also used. The interviews lasted from 50 minutes to two hours and were done with CEO and/or owner of the company. The transcribed material consists of 198 pages.

Analysis

The aim of the analysis was to investigate the elements of social enterprises' growth orientation as conceptualised in [Figure 1](#). To achieve the goal, interviewees' perceptions of their firms' external environment, their growth motivations and the goals of growth were studied. Having established each of these elements, their relationships were scrutinised to elicit the potential patterns within the data. The data were analysed with computer-assisted qualitative data assessing software. The first cycle of coding was done by using structural codes derived from the theoretical background and descriptive codes following an inductive approach ([Saldaña, 2009](#)).

To begin, the interviewees' perceptions of their firms' external environment were studied to collect excerpts where the social enterprise managers explain how they see the operational environment of their firms at a certain point in time and how they assess its influence on their firms' position and future prospects. The descriptive coding resulted in 15 first-order concepts describing how the external environment was characterised by the

interviewees (Table II). Probing these concepts revealed that they could be grouped under five themes related to threat and opportunities. Furthermore, an information on whether the threats and opportunities were evaluated against expected losses or gains was included in the table. Aggregating the analysis into conceptual level was needed to conduct cross-concept and cross-firm comparisons in later phases of the analysis (Rubin and Rubin, 1995) (Table II).

The last two rows of Table II, however, mark interesting discrepancies in comparison to the rest of the results. Some of the opportunities were not evaluated in terms of gains, but losses. The observation is elaborated further in Findings.

Simultaneously, the reasons *why* the interviewees consider growth important for their firms and *why* they have chosen to pursue growth were identified and coded to explore the managers' growth motivations with using inductive data-driven approach. As demonstrated by Table III, the descriptive coding resulted in 18 motivational factors, which were then grouped into five broader themes: business development, demand, reaching scale, unfavourable market conditions and social mission. As in the previous table, representative quotes are used to illustrate the bases of coding.

Perceptions of external environment	Themes related to threats or opportunities	Evaluation bases for the expected outcomes	Representative quotes
Sliding back to start Drop in sales Firings Bankruptcy	Financial failure	Loss	'From the beginning of 2017 [public contracts] change – with them the turnover decreases to about half a million euros. Therefore, we pursue growth'. CEO/owner, SocEnt D
Exclusion from public procurements Buyout Public contracts ending	Market threats		'[W]hen the customer base shrinks due to a recession, for example, and we don't have anything to replace the demand with, it's goodbye' CEO, SocEnt F
Proven concept available for adaptation	Service development	Gain	'It was halfway towards a dump – what would make it work was a tested operating model'. CEO, SocEnt F
Share from new or growing markets Market potential abroad	Market potential		'After 10 to 20 years, the growth will take place in Africa and Asia' CEO/owner, SocEnt B
Amount of new beneficiaries Change in consumer behaviour Solving a prevailing problem in new areas	Possibility for social improvement		'There is a real business case when taken into account that around 15 to 20 per cent of online service users belong to these groups [with special needs]'. CEO, SocEnt A
Employing more beneficiaries Reaching more beneficiaries	Possibility for social improvement	Losses: Current concept, Ownership structure, Staff's capabilities, Current production models	'We don't dare to meet all the demand we have. – Our equity ratio holds us back'. CEO, SocEnt G

Table II. Social enterprise managers' perceptions of their firms' external environment

Table III.
Social enterprise
managers' growth
motivations

Growth motivations	Themes	Representative quotes
Cost-efficiency Volume Service development Broaden ownership Outdated production methods	Business development	'It could be said that if we grew by servitisation, we would grow like never before'. CEO, SocEnt G 'Our ability to renew our production methods is practically non-existent'. CEO, SocEnt F
Growing or new markets Regulations and laws Abundance of opportunities	Demand	'The markets grow, so if we still are among the leading experts in accessibility in five years, we are bound to grow' CEO, SocEnt A
Scaling solutions Disseminating innovations Internationalisation	Scaling	I do see the scalability quite wide, precisely because this could change certain behavioural patterns of people'. CEO/owner, SocEnt C 'Attractive growth opportunity – if it enables creating something new and different, with which we can grow' CEO/owner, SocEnt B
Social mission Patching service holes Acting for beneficiaries Changing rules of the game	Social mission	'We should be constantly looking for opportunities bringing new benefits and with which we can increase our impact' CEO, SocEnt F '[T]he service system is awfully fragmented; we try to fix it to become more coherent so that no one would drop out' CEO/owner, SocEnt E
Competition Public buyers pull out Procurement policies	Unfavourable market conditions	'There is no other alternative than to grow. The reference requirements are quite tough, only the big companies can meet them'. CEO/owner, SocEnt B

Finally, the third element within growth orientation, namely, goals of growth were pinpointed. Goals illustrating *what* was expected from the growth were identified from the data and marked with descriptive codes later grouped under four themes: goals set in terms of:

- (1) size and scope of the firm;
- (2) financial performance of the firm;
- (3) product or service development; and
- (4) social achievements.

The contents of each theme is described in [Table IV](#).

The next step was to start analysing whether the interviewees' perceptions on the operational environment and their firms' position in it were associated with their growth motivations or not. Network images and query tools were used to illustrate the potential overlaps of the managers' assessment of their firms' operational environment and the reasons why they held growth important. Analysing these associations was required to establish the first element of growth orientation within social enterprise context. Having described the origins and contents of manager's growth motivations, the focus was shifted on exploring associations between those motivational factors and goals of growth to study the balance of different types of goals and form the second element within growth orientation. These relationships and their implications are discussed in findings.

Table IV.
Goals of growth

Themes	Goals related to size and scope of the firm	Financial goals	Development goals	Social goals
Contents of the themes:	Doubling the staff	Level of turnover	One of the leading experts in the field	More beneficiaries
	New units	Timeline for reaching breakeven	New service model	Reduce public spending
	Internationalisation	Profit level	Service development	Enhanced service chains
	Number of customers		Taking over	
	Founding joint venture		out-sourced functions	
	Growth of existing units			
	Coverage of the service			
	Expanding the franchising chain			
	Increase the volume of service business			

Finally, the associations described above were analysed on the firm level. The aim of the cross-firm analysis was to investigate how common certain motivational factors or types of goals are to elicit underlying patterns within the data and compare the patterns with prior knowledge on social enterprises' growth orientation.

Findings

The aim of this study is to find out whether the social enterprise managers' perceptions of their firms' external environment are reflected in goals of growth and eventually in their firms' growth orientation. The section consists of two parts: First, the significance of the context as a source of managers' growth motivation is elaborated. Second, the goals of growth and patterns regarding the formation of social enterprises growth orientation are portrayed.

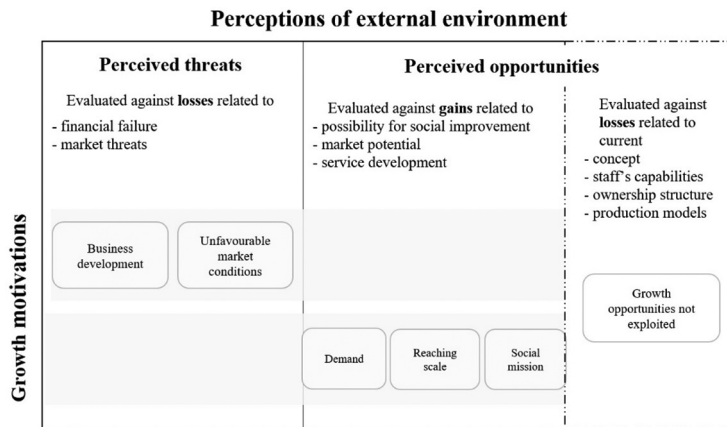
Social enterprise managers' perceptions of external environment influence their growth motivations

One of the very first findings concerns the individual level of growth motivation. Interestingly, the reasons *why* social enterprise manager pursue growth are indeed linked with their perceptions of the firms' operational environment. Moreover, the motivational factors found are related to *either* opportunities *or* threats observed by the social enterprise managers. These relationships are illustrated by [Figure 2](#). The thematised growth motivations are situated within column marking threats or the one denoting opportunities depending on which one of them certain growth motivations are related to.

The figure includes also information on whether the expected outcomes of threats and opportunities are evaluated in terms of losses or gains. Detecting threats provokes fears related to decreasing sales, the buyout of the business or exclusion of public procurements, for instance. As a result, losses are featured in terms of financial failures and dropping market shares, whereas no social threats emerge from the data as factors motivating social managers' to pursue growth. Opportunities are evaluated against financial and social gains: they are anticipated to create possibilities to reach new beneficiary groups, gain a bigger share of the markets or develop new service models.

Consequently, both potential losses and impending gains encourage social enterprises to pursue growth. Interestingly, the fear of losses leads social enterprises also to reject some of the opportunities as depicted by the column on the far right ([Figure 2](#)).

Figure 2.
Associations between
managers' growth
motivations and
perceptions of
external environment



The motivational factors of growth grouped under the themes business development and unfavourable market conditions are linked with threats perceived by the social enterprise managers. In these cases, the firms are pushed to grow to avoid the probable future losses by increasing the size of their firm or volume of their production:

[Growth] allows having enough mainstays for the business, so that when the contracts come to an end, we can anticipate it, and the business does not slide back to where we started. CEO, SocEnt D

The motivations connected back to demand, social mission and reaching scale are associated with opportunities detected by the leaders. In these cases, the motivational factors behind the managers' urge to grow stem from the firms' social mission, scalable solutions and/or market demand. Thus, these motivations are considered as pull-factors of the social enterprises' growth:

My starting point is that we develop and offer a platform, and the circular economy will certainly open new business opportunities. CEO/owner, SocEnt C

Interestingly, not all opportunities were evaluated in terms of potential benefits. Sometimes the outcomes of an opportunity spotted by the manager were deemed too uncertain to risk the firm's present situation. According to the managers' accounts, it was usually the firm board that rejected the opportunity. The rejected opportunities included a possibility to move to a new business branch, to adopt a new concept or to broaden ownership. However, the board members were not interviewed for this study, so their side of the story is not heard:

This [importing a social franchising concept] has been my personal mission. We have discussed it once, but [the board] was reluctant. They felt it is too different from the existing concept. CEO, SocEnt A

[I] have suggested that we should think about that kind of concept because the robotisation serves the best interest of disabled people as well. We just don't quite have the courage to do it. CEO, SocEnt F

This observation suggests that if there is a disagreement among the firms' internal actors, then the social enterprise managers' growth motivation does not necessarily affect their firm's growth orientation. Opportunities may not be attractive enough, if the board thinks the firm has too much to lose, demonstrating thus risk-averse behaviour in favourable

environment as prospect theory predicts (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992).

To conclude, one of the key findings of this study is that social enterprise managers' growth motivation is fuelled by the prospect of losses and the expected gains. Perceived opportunities are assessed against social and financial gains, whereas perceived threats rise concerns over financial stability and survival of the firm. However, in some cases, the detected opportunities do not attract social enterprises to seek growth, but lead them to avoid risks, for the current position of the firm is preferred over reaching for uncertain outcomes.

Social enterprises' growth orientation is not characterised solely by social considerations

Next, the results from cross-firm comparison are introduced to describe the significance of external threats and opportunities within social enterprises' growth orientation. Also, the goals of growth are evaluated to see how the feared losses and the expected gains are reflected in the goals and eventually in the firms' urge to seek growth.

Figure 3 shows that neither threats nor opportunities dominate as the origins of the social enterprises' growth orientation, but three clusters of cases emerge: Three of the seven social enterprises are driven to grow mainly in response to perceived threats, three primarily in response to opportunities and one in response to both opportunities and threats. The findings are in line with the results presented in the preceding section; both prospect theory and threat-rigidity theory are supported (Figure 3).

For SocEnt A, C and E, the social mission appears to be the main motivation to seek growth and is interconnected to other factors pushing the firms toward a growth path, namely, demand and reaching scale. SocEnt A, for example, seeks growth to find new ways for employing people who are blind. Often, an opportunity to do so has been created by new legislation and subsequent demand for their services. The two start-ups, SocEnt C and SocEnt E, aim to bring about systemic changes in their respective industries. Both show that being a successful pioneer who tries to make a difference requires reaching a certain volume and achieving successful scaling of the solution:

Our aim is to grow because providing employment is an important thing; we want to employ as many people who are blind as possible. CEO, SocEnt A

Growth is a precondition for the realisation of our vision. It will be realised through volume. CEO/owner, SocEnt C



Figure 3. Relative weight of perceived threats and opportunities in growth orientation

The findings also reveal a strong survival orientation and will to avoid losses. Four of the seven social enterprise managers feel that they have to pursue growth for their firm to survive; in other words, growth orientation and survival orientation go hand in hand. In several accounts, growth is described as the only way to cope with the challenges posed by intense competition, sizeable public tenders and rapidly changing operational environments. Reaching a big enough size is strongly associated with profitability and a better ability to compete:

As for participating in almost any of the tender offers displayed in Hilma [an open platform for public procurements], it is the smallness of our volume which restricts us. When striving to create jobs, new operating models should be invented. CEO, SocEnt F

We have to change or else we will die. We have to improve our cost-efficiency. CEO, SocEnt G.

Particularly SocEnt B and SocEnt D, operating in the social and healthcare sector, feel that there is less and less room for small companies in the polarising markets, as big corporations are buying out small- and medium-sized enterprises. These threats push them to grow. Thus, the effects of unfavourable market conditions are often intertwined with the need to develop business:

[G]rowth is the only alternative. It's obvious. The small ones drop off the market really quickly. CEO/owner, SocEnt B

The markets of care services have transformed so that there is a cluster of big businesses. We try to squeeze in between and reach feasible volumes. CEO/owner, SocEnt D

These findings raise an intriguing question as to why some social enterprise managers stress threats more than others. Is it simply related to differences in their operational environments? It appears that the CEOs who highlight the threat motive both *see* that the external environment of their company is in turmoil and *feel* pressured by it. Comparing SocEnt A and F is illuminating: both are work integration social enterprises (WISEs) and try to find employment opportunities for people with handicaps. Yet the CEO of SocEnt A concentrates on opportunities, while the leader of SocEnt F emphasises external threats as a factor driving the firm's growth.

One difference is that SocEnt A was originally found to operate in the competitive transcription services business sector, whereas for SocEnt F, competition was a somewhat newer phenomenon. Thus, for SocEnt F, the sense of threat was the prevalent feeling at the time of the interview. Also, the social enterprises B and D, whose CEOs have witnessed how small firms are bought out from the markets, fit in to the latter description:

I guess the main reason for the current situation is increased supply. Compared to year 2009, when I came into this position, the supply is quite different now. Nowadays, the competition is tough within these business sectors. CEO, SocEnt F

Finally, the attention is placed on the growth goals, the remaining element of social enterprises' growth orientation. Goals set for growth indicate what types of achievements are appreciated and actively pursued. All social enterprises have defined goals related to the size and scope of the company varying from reaching to new customer groups to establishing new ventures, and four of them have also set financial goals. These goals are expressed in very concrete terms: the amount of turnover within three years, the year when break-even point is to be reached, the exact number of new units within specific timeframe, etc. In comparison, the social goals are rather elusive. Only SocEnt A has stated that it seeks to double its staff in the coming years, which counts as a measurable social goal. The social

objectives of the other three are vague and relate to general idea of reaching more beneficiaries or reducing public spending.

Figure 4 assembles the building blocks of social enterprises' growth orientation by connecting the clusters illustrated in Figure 3 with findings concerning the goals of growth. The figure demonstrates that the goals are not always aligned with the reasons why growth is considered important for the firm (Figure 4).

Notably, among the seven social enterprises, there are only two (SocEnt A and SocEnt E) who fit the description provided by previous studies on social enterprise growth: social enterprises are encouraged to grow by social opportunities and they seek to increase primarily their social impact (Austin *et al.*, 2006; Dees *et al.*, 2004; Martin and Osberg, 2007; Müller, 2012; Santos, 2012; Zahra *et al.*, 2008). This study suggests that there are more variation in social enterprises' growth orientation than the prior literature implies. The observed dominance of goals attached to the organisational and financial growth is probably associated with the relative importance of external threats and strong survival orientation.

To sum up, ambition to disseminate social impact cannot be considered as the dominant growth motivation for all social enterprise managers. Many of the managers rather feel that growth is necessary for their firms' survival and, thus, growth orientation and survival orientation appear to coexist in some of the social enterprises. Also, the goals of growth are mainly set in terms of the future size, scope and financial performance of the firm, while social goals are left vague.

Discussion

The study seeks to open up new avenues for the research on social enterprise growth by developing more multifaceted and theory-based understandings on why social enterprises and their managers pursue growth. In this section, the key findings of the study are discussed in relation to the previous literature on social enterprise growth and the theoretical background of this study.

Table V summarises two main insights obtained by this study and illustrates their novelty in relation to the previous research on social enterprise growth.

First, the study demonstrates that social enterprise managers' motivation to seek growth stems from both the impending losses caused by perceived threats and from the prospect of gains offered by perceived opportunities. More attention ought to be paid to the perceived threats when studying social enterprise growth, as this perspective is latent in the previous social enterprise growth literature. Social enterprises are thought to seek growth to magnify

Growth orientation in social enterprises

Case companies	Managers' growth motivation stems partially from:	Goals of growth		
		Size and scope	Financial	Social
SocEnt D	Perceived external threats and will to avoid financial losses.	X	X	X
SocEnt F		X	X	
SocEnt G		X		
SocEnt B	Perceived external threats and opportunities	X	X	X
SocEnt A	Perceived external opportunities and prospect of financial and social gains.	X		X
SocEnt C		X		
SocEnt E		X	X	X

Figure 4.
Social enterprises' growth orientation

Table V.
The key findings of
the study

Findings of this study	Prior findings from the social enterprise research
1) Social enterprises' growth orientation is fuelled by both perceived threats and opportunities; both are associated with their respective growth motivations. In some cases, safeguarding the firm's current social mission or business concept leads social enterprises to reject growth opportunities	<p>The social impact and the abundance of social opportunities are regarded as the main motivational factors of social enterprises' growth (Austin <i>et al.</i>, 2006; Hynes, 2009; Martin and Osberg, 2007; Santos, 2012; Zahra <i>et al.</i>, 2008)</p> <p>Safeguarding the firms' social mission may restrict the growth of social enterprises (Huybrechts <i>et al.</i>, 2017; Vickers and Lyon, 2014)</p> <p>The survival of the organisation and its social mission dominates over the financial performance and growth of the social enterprises (Lumpkin <i>et al.</i>, 2013; Shaw and Carter, 2007; Weerawardena and Sullivan Mort, 2006)</p> <p>When social enterprises measure their success, they tend to use indicators related with growth of the organisation rather than with achieving the mission (Ormiston and Seymour, 2011)</p>
2) The social mission is not a dominant motivation of social enterprise growth, and often growth orientation and survival orientation go hand in hand. Consequently, goals of growth are mainly set in terms of size, scope and the financial performance of the firm	

their social impact (Austin *et al.*, 2006; Hynes, 2009; Martin and Osberg, 2007; Santos, 2012; Zahra *et al.*, 2008) and to be discouraged by potential losses (Huybrechts *et al.*, 2017; Vickers and Lyon, 2014), but the context dependency of risk preferences is analysed rarely.

In some cases, opportunities created by new legislation, for instance, encourage social enterprises to seek growth. It appears, however, that the opportunities identified by the managers are not always a strong enough growth impulse. Managers and boards evaluate the effects of the firms' operational environment from different perspectives leading the boards sometimes to reject opportunities. All in all, the findings are in most parts in line with the notions of prospect theory, which predicts that perceived threats constitute stronger motivation for risk-taking than opportunities do because losses hurt more than gains give pleasure (Kahneman and Tversky, 1979; Tversky and Kahneman, 1992). Nonetheless, the arguments of threat-rigidity theory also gain some support, as some social enterprises are persuaded to take risks related to growth by attractive opportunities (Staw *et al.*, 1981).

Consequently, by accumulating knowledge on the motivational factors explaining *why* some social entrepreneurs decide to pursue growth while others avoid it, the study helps to narrow the research gap regarding the individual-level factors of social enterprise growth.

Second, the study calls into question the dominance of social mission as a source of social enterprises' growth orientation by drawing attention to the importance of financial considerations and goals. Perceived threats often raise a concern over financial survival of the firm, and hence, it appears that growth orientation and survival orientation can coexist in social enterprises unlike the previous research suggests. In general, survival orientation is mostly understood as the opposite of growth orientation, or firms are assumed to exhibit these orientations sequentially (Delmar and Wennberg, 2007). This topic is rarely dealt with in the social enterprise literature.

The importance of survival and avoiding financial failure of the firm is exhibited by the goals the social enterprises have set for their growth. The goals relate mostly to the size,

scope and financial performance of the firm; these goals are also much more precise than the goals attached to social achievements. This finding is reinforced by [Ormiston and Seymour \(2011\)](#), who state that social enterprises appear to prefer goals and metrics related to organisational growth as indicators of their success. In light of this study, some of the goals linked with the future size and scope of the firm can be regarded as milestones leading to the ultimate social goal of growth.

Nonetheless, the findings give cause for concern, as goals mirror the firms' values and preferences and also guide their actions ([McKelvie et al., 2017](#)). Behavioural research has shown that firms tend to act on specific and measurable goals rather than on indefinite and qualitative aims ([Brinckmann et al., 2010](#); [Levinthal and March, 1993](#)). If there are conflicting aims, as may be the case in social enterprises, then organisations often prefer specific, measurable goals over ambiguous ones ([Levinthal and March, 1993](#); [Smith et al., 2013](#)). Setting measurable yet meaningful social goals is a challenge, though. Moreover, the value of social impact measurement for social enterprises' performance is a disputed topic ([Barraket and Yousefpour, 2013](#); [Bull, 2007](#); [Luke et al., 2013](#); [Luke, 2016](#)). To sum up, this study demonstrates that the behavioural theories offer a useful theoretical lens for understanding the dynamics behind *why* and for *what* social enterprises strive to grow.

The findings have implications also for practitioners. The internal actors of social enterprise are encouraged to create a shared understanding on why growth is considered important for the firm: is the growth a reaction to an external threat, driven by an opportunity or perhaps by an internal motivation? If external environment is the driver, then its influence should be assessed against prospect of losses and gains, on the one hand, and in terms of social and financial missions of the firm, on the other. Finally, the growth motivations should be concretised in the form of measurable goals to increase the likelihood of balanced growth.

Limitations and future studies

The study also has limitations. The number of interviews is small, which weakens the applicability of the findings. In addition, social enterprises are context dependent and vary from region to region ([Defourny and Nyssens, 2010](#)). The Finnish social enterprises are expected to derive the majority of their revenue from the market; they belong to the more market-oriented end of the social enterprise spectrum, which may have an influence on their growth orientation and their risk-taking ([Russell et al., 2014](#)).

Finally, the timing of the interviews may be associated with the prevalence of threat motives. The interviews were conducted when Finland's growth, in terms of the gross domestic product, was on average only 0.5 per cent ([European Union, 2018](#)). At that time, the future expectations and confidence on the economic development among Finnish companies were weak ([Confederation of Finnish Industries, 2018](#)). In the social and health sector, in particular, the forthcoming reforms created uncertainty and quickened the polarisation of the market ([Ministry of Economic Affairs and Employment, 2017](#)).

Inspired by the findings and observations of this study, the following areas for future research are suggested: First, the potential of applying the premises of behavioural theories in investigating social enterprises' risk-taking and decision-making is regarded substantial. The context dependence of risk-preferences arouses questions such as are social enterprises more growth-oriented during recession than in economic boom or vice versa? Are there differences in how the internal actors of the firm evaluate the prospect of gains and losses, and if so, under which kind of circumstances do the assessments differ? Second, testing findings from firm growth research in social enterprise context could be beneficial to see

whether and how managers' growth motivation and specified goals of growth influence on social enterprises' realised growth.

Conclusions

The study contributes to the scholarship on social enterprise growth by extrapolating the premises of prospect theory and threat-rigidity hypothesis to study social enterprises' growth orientation. The results demonstrate how the theoretical understanding of social enterprises' growth orientation can be extended by applying the behavioural theories of decision-making. The practitioners are encouraged to crystallise why and for what growth is pursued to increase the likelihood of balanced growth.

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Appendix. The interview guide

Background information

- Basic information on the firm's ownership, performance, funding structure, etc.
- Definition of social enterprise.
- Previous growth path (if relevant).

Goals of growth

- Why growth is important for your enterprise?
- What kinds of goals have you set for growth? Why were those goals chosen? Have you set any social goals for growth? If so, do you follow up on them?
- Does your social mission restrict growth?

Growth opportunities

- How do you search and recognise growth opportunities? Are the opportunities scarce or abundant?
- What kinds of opportunities do you look for? What makes an opportunity attractive? What drives you away?
- Who participates in looking for and developing the opportunities? What about stakeholders, do you get offers of collaboration?

Growth strategies and models

- How do you pursue growth? What types of growth strategies do you follow?
- Do you seek growth primarily through existing solutions or by developing new ones? Do you try serving existing customers better or do you try finding new ones? Do you seek to expand to new locations? What kinds of locations?
- Who are your paying customers and beneficiary groups?
- What kinds of resources do you need in order to grow? Where do you get them from?

Stakeholders

- Who are your most important partners regarding growth? What is their role? Why are they important? Are there any liabilities in the partnerships? Do you find goal alignment easy?
- Where do you expect to be three years from now?
- What are the critical factors? What has to happen for you to achieve those goals?

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