

Financing Social Entrepreneurship Franchising Approach

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Extended abstract

Social organizations mainly cope with social problems that the markets and the states have trouble or even fail to solve and, therefore, social entrepreneurs have been emerging in different locations throughout the world (OECD, 2010). Instead of being driven by financial returns, social organizations are focused on creating social and/or cultural values and they are not moved by its appropriation (European Commission, 2013). Regardless of its non-profitable nature, a social enterprise needs to be financially sustainable, if it is to reach its social goals. However, it is well acknowledged that social organizations struggle to be financially independent through income generation (Zafareiopoulou & Koufopoulos, 2012). As an example, in a recent survey performed to NGO's operating in Portugal (Project Entrance, 2018), social entrepreneurs have identified financing, as among the most critical problems they have to face. Therefore, social entrepreneurs must look for ingenious ways to solve their financial constraints. In this framework, social franchising has emerged as a strategy to overcome this problem. Moreover, franchising has also been adopted by non-profit organizations as a strategy for growth (Meuter, 2008). The alliance in a network of small social organizations allows them to gather the advantages of big organizations namely in terms of access to capital sources and rapid growth (Zafareiopoulou and Koufopoulos, 2012). However, in spite of the apparent auspicious solution it presents to social entrepreneurship, the franchising arrangements have been showing high failure rates in the social sector (Meuter, 2008).

Social franchising has been defined by the German Foundation for World Population as: “[...] a process by which the developer of a successfully tested social concept, the franchisor, in order to scale up the coverage of a target group and the quality of product (service) enables others, the franchisees, to replicate the model using the tested system, using the brand name, in return for social results, system development and impact information” (Meuter, 2008). In sum, to reach their social aims, social enterprises run social franchising networks and organizations following commercial franchising principles (Sivakumar & Choormans, 2011). As a result, the adequacy of the strategies used by the commercial franchising companies by the social franchising networks must be questioned, as there are considerable dissimilarities between the two sectors (Meuter, 2008).

Sivakumar and Choormans (2011) identify a few important differences. First of all, and the most obvious, is the fact that whereas commercial franchising focus on profitability, social franchising emphasizes the social impact of the organization’s activities (Tracey & Jarvis, 2007). Second, there is a crucial difference regarding the type and level of risk sharing by a social and by a commercial franchisee. It is a social instead of an economic contract that runs the relationship between the social franchisor and its franchisees which seems to lead to a lower probability of social franchisees’ adhering to the contracts (Lonnroth et al., 2007). In addition, consumers, which are in fact beneficiaries, may many times not be able to pay for the products or services and, therefore, donors (Tracey & Jarvis, 2007) are a very important third party in what is usually a dual relationship. These significant contrasts suggest the need to adapt the franchising strategy in a contingent fashion (Meuter, 2008) and that adjustment might be especially important in those strategies concerning the selection of franchisees (Sivakumar & Choormans, 2011) and the control and supervision of operations and results.

In the traditional franchising literature, an important advantage of franchising is that it works as a mechanism that aligns the incentives of the trademark owner and the managers of the units. However, in social franchising, that compatibility of incentives may not emerge spontaneously in the relationship, since social problems dominate the economic issues. The empirical literature on social franchising mostly covers cases where the beneficiaries of the social projects are parties outside the franchise relationship. This work analyzes the possibility that the internalization of the beneficiary in to the franchise relationship might allow the realignment of incentives between the franchisor and the franchisee. In this framework, we intend to examine (a) the differences between the projects in which the beneficiary has an active role in franchising relationship (i.e., it is the

franchisee) and the projects in which it has a passive role (as employee or consumer of a service) (b) the outcome of these differences in the alignment of incentives between the parties in the relationship and (c) the resulting impact in the survival/failure of the social enterprise.

Keywords

Social franchising, social entrepreneurship, social organization financing.

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