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## **Social franchising: a transitional solution for organisational growth of social entrepreneurial organisations?**

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**Abstract:** The aim of our study is to investigate factors influencing organisational growth of social entrepreneurial organisations in the context of social franchising. In particular, we examine whether and how the amount of a franchise fee and the degree of standardisation can enhance or hinder organisational growth. We use an exploratory qualitative research approach to take account of the entire context of social franchise relations. Our analysis is based on semi-structured interviews with social franchisors and social franchisees as well as an analysis of written social franchise agreements. We develop a theoretical framework showing two nonlinear relations: between the amount of the franchise fee and organisational growth and between the degree of standardisation and organisational growth. Overall, our results suggest that social franchising is only a transitional solution for social entrepreneurs in generating organisational growth.

**Keywords:** social entrepreneurship; organisational growth; social enterprise; social franchising; franchise fee; standardisation; compassion.

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## 1 Introduction

Social entrepreneurship is characterised by individuals’ intrinsic motivation to establish enterprises primarily to meet social needs rather than to generate financial profit (Austin et al., 2006; Mair and Marti, 2006). The main actors of this concept – the social entrepreneurs – operate in a wide variety of fields, such as education, health, or the inclusion of disabled people (Dacin et al., 2010). A major challenge for social entrepreneurs is to make their solutions available to more people, thereby increasing their social impact despite limited access to financial as well as non-financial resources. Thus, the range of their programmes is usually limited (Bloom and Chatterji, 2009). For example, a majority of programmes operate in a single town, city, or region and only reach a limited number of beneficiaries. In addition, projects are often started by individuals who themselves are essential to the project’s success, which makes replicating the project even more difficult. Moreover, experience has shown that instead of replicating proven programmes, social entrepreneurs often develop new models, with the overall effect of a substantial loss of time and funds (Bradach, 2003). Aggravating the situation further, funders usually aim to invest in new or innovative projects. Social entrepreneurs’ resources are hence invested into new programmes that at best reinvent the wheel, while the potential of programmes that have already proven their effectiveness remains untapped (Bradach, 2003).

Social enterprises can use a number of strategies to extend their impacts to other locations. These range from simple dissemination or the sharing of information in an open-source-format with everyone interested to the set-up of a company’s own subsidiaries or the replication of the project through affiliates (Wei-Skillern, 2003). On the one hand, the sharing of information in an open-source-format is free of cost, but it results in a loss of control for the initiator of a social project. On the other hand, organisational growth through the set-up of fully controlled subsidiaries is the most expensive strategy to extend social impact. A solution mitigating these respective disadvantages might thus be the franchising concept, which is increasingly gaining importance for the social sector. The social franchising approach is similar to commercial franchising: a central agency – the social franchisor – provides guidelines, trainings, technical assistance, marketing measures, or other services to independent local units of the social franchise enterprise – the social franchisees. The social franchisee has to pay a franchise fee and has in turn the right to operate the social franchisor’s concept. Thus, the franchising concept represents an opportunity for social enterprises to replicate and to

scale their impacts by means of already proven and successful programmes and standardised processes of social franchisors. Therefore, social franchising provides an increasingly popular strategy among social enterprises, in particular in German-speaking countries, and in Europe in general (Weber et al., 2015). The main reason for the popularity of franchising in the social sector seems to be the opportunity for a rapid and less resource-intensive geographic expansion (Weber et al., 2015).

For social entrepreneurs, the social mission is central and determines how they assess and seize opportunities to scale social impact. Furthermore, they aim to satisfy their need to help others (Austin et al., 2006). Standardised processes are one of the prerequisites for successful franchising; however, they may restrict the autonomy of franchisees. Prior research confirms that social entrepreneurs exhibited a statistically significantly greater need for autonomy than traditional entrepreneurs (Smith et al., 2014). As a result, the acceptance of the franchise concept by social entrepreneurs in the role of franchisees may be limited. Moreover, considering the relevance of the individuals and their social mission, it remains questionable whether franchising is an appropriate model for social enterprises at all in order to scale social impact.

Despite its popularity in practice (see, e.g., Weber et al., 2015), there has been little research on social franchising so far (Kistruck et al., 2011; Tracey and Jarvis, 2007). In particular, we know little about factors that might alleviate the pitfalls of adapting franchising in the social sector, thereby leading to organisational growth of social enterprises. Therefore, the aim of our study is to investigate these influences. We focus on whether and how the central elements of franchising – i.e., the degree of standardisation and the amount of a franchise fee – can enhance or hinder the organisational growth of social franchise enterprises. Providing an answer to these questions is relevant because it helps to understand why and how social franchisees participate in an existing social franchise enterprise or why they disengage from a social franchisor.

We use a qualitative research approach based on semi-structured interviews to analyse the context of social franchise relations. In order to triangulate our findings, we interview both social franchisors and social franchisees and, in addition, analyse their contractual social franchise agreements. After analysing, coding, and categorising the data, we develop a theoretical framework and present it in a set of four propositions. We find nonlinear relations between the amount of a franchise fee and organisational growth as well as between the degree of standardisation and organisational growth. The amount of a franchise fee and the degree of standardisation positively influence organisational growth up to a turning point. As the franchise organisation matures, the influence on organisational growth changes, and any further increase in the amount of a franchise fee or the degree of standardisation has a negative influence and diminishes the organisational growth. Overall, we conclude that social franchising is only a transitional solution for growth of social entrepreneurial organisations.

The paper is structured as follows: Section 2 briefly reviews prior research on social franchising. Section 3 describes our method, data collection, our sample, the interview process, and the analysis of our data. Section 4 presents our findings, summarised in four propositions. Section 5 concludes the paper and provides the contributions of our study, its limitations, and future research opportunities.

## 2 Theoretical background

According to research on organisational growth in the commercial sector, organisational growth is a complex process that is influenced by a variety of interrelated micro and macro domains (Baum et al., 2001). These domains range from the entrepreneur's personality traits, experience, competencies, situationally specific motivations, competitive strategies, and environment to networking activities and the number of partners (Baum et al., 2001; Hansen, 1995; Lee and Tsang, 2001). Among all these influences, it seems that an entrepreneur's industrial and managerial experience is the dominating factor in affecting organisational growth (Lee and Tsang, 2001). Besides the influence due to the entrepreneur's experience, growth strategies and models play an important part concerning organisational growth.

According to growth models in the for-profit sector, commercial franchising has become one of the dominant organisational forms for enterprises seeking growth (Michael, 1996; Minkler, 1990; Norton, 1988). In general, two different types of franchise systems can be distinguished: product distribution franchising and business format franchising. Product distribution franchising is the simplest form of franchising and primarily contains a license for the franchisee to hold the trademark and the logo of the franchisor. The franchisee is allowed to sell the franchisor's products or services exclusively in a certain territory (Skaupy, 1995). The second form is business format franchising. The European Franchise Federation defines business format franchising as a contractual agreement between two independent business parties: the franchisor and the franchisee. The franchisor grants the franchisee the right to buy and operate the franchisor's branded and formatted business system. In return, the franchisee has to pay a fee and comply with the prescribed rules and procedures developed for the system by the franchisor (EFF, 2017).

Thus, business format franchising is a form of cooperation between a franchisor and several franchise units. Franchise organisations combine the advantages of local entrepreneurs with the strength of a network of units operating under the same trademark in different locations to cover extensive areas (Combs et al., 2011). To enable these advantages, the franchisor provides standardised processes to support the franchisees. Prior research in commercial franchising shows that finding the appropriate degree of standardisation is one of the key challenges for franchisors to ensure an efficient local adaption of the concept (Kaufmann and Eroglu, 1999).

In the social sector, the franchising concept represents an opportunity for social enterprises to replicate and scale social impact by enabling organisational growth. As in the commercial sector, social franchise organisations take advantage of local social entrepreneurs operating under a common brand in several social franchise units. In order to implement local adaptations of the social franchisor's concept at the single social franchise units, social franchisees often employ voluntary care or service providers who care about the beneficiaries.

Compared with that of a commercial franchisee, the social franchisee's motivation and personality characteristics are quite different. In general, social entrepreneurs are motivated to increase social impact despite limited financial and non-financial resources.

This is due to certain distinct personality traits of social entrepreneurs which define their motivation and their behaviour (Nga and Shamuganathan, 2010; Smith et al., 2014). For instance, social entrepreneurs usually possess personality traits such as agreeableness, openness, and conscientiousness (Nga and Shamuganathan, 2010). In addition, social entrepreneurs exhibit statistically significantly higher levels of creativity and innovativeness, calculated risk-taking, and need for autonomy than traditional entrepreneurs (Smith et al., 2014). These characteristics exert an influence on social entrepreneurship dimensions (Nga and Shamuganathan, 2010). Hence, according to the social franchising concept, social franchisees promote their mission of social impact rather than generate financial profit due to a proven concept and the brand awareness of the franchisor.

Social franchising is becoming increasingly popular in Europe (Weber et al., 2015). However, the number of social franchises remains small in comparison to other scaling strategies of social enterprises such as capacity building, where social enterprises expand their own activities without creating new sites (Weber et al., 2015). Overall, there has been little research on social franchising so far. The literature is often practice-oriented and investigates challenges social entrepreneurs face when replicating social programmes or how to scale social impact without even including social franchising as an option (see, e.g., Ahlert et al., 2008; Bradach, 2003). Even if social franchising is mentioned, it is not investigated in more detail despite the insight that innovative processes need to be developed that build on franchise approaches, adapting them to the social context (Lyon and Fernandez, 2012). In particular, if the research focus is set on social impact, social franchising is commonly mentioned alongside many other strategies without a closer look at the concept (see, e.g., Bloom and Chatterji, 2009; Lyon and Fernandez, 2012; Wei-Skillern, 2003).

The only renowned study with a theoretical focus exclusively on social franchising is the analysis of Tracey and Jarvis (2007). They investigate if the main theories used to explain commercial franchising (resource scarcity and agency theory) are applicable to social franchising. As in commercial franchising, the motivation of social entrepreneurs to franchise arises from a shortage of resources required for a proper expansion (Tracey and Jarvis, 2007). According to agency theory, social franchises show some particularities: The agency costs of acquiring information for the selection of franchisees are higher in social franchising than in commercial franchising. This is due to the peculiarity that potential social franchisees are organisations rather than individuals, and social franchisors are required to assess potential social franchisees on the basis of their ability to achieve social as well as commercial objectives (Tracey and Jarvis, 2007). Furthermore, social franchising may encourage goal asymmetry between social franchisors and their social franchisees: Social franchisors are more likely to prioritise commercial objectives, while social franchisees try to generate surpluses in order to achieve social objectives (Tracey and Jarvis, 2007).

In summary, the literature review shows that we know little about whether and how social franchising works and which factors might influence its success. Therefore, we aim to investigate influencing factors on the organisational growth of social franchise enterprises.

### 3 Data and method

#### 3.1 Data collection and sample

To answer our research question, we use an exploratory and qualitative research design, which is recommended for understanding the behaviour and motivation of study participants and generating new theoretical insights (Strauss and Corbin, 1996; Yin, 2009). We decided to choose a qualitative method because it yields rich descriptions and explanations of processes and shows context-driven causal effects (Miles and Huberman, 1994).

To enable triangulation and validation of theoretical constructs, it is critical in qualitative research to use multiple sources (Denzin, 1978). We therefore gathered our data through interviews with two different target groups:

- 1 social franchisors
- 2 their franchisees.

In addition, we gathered additional data from the written franchise agreements of all participating social franchisors. The approach allowed us to generate a deeper understanding from interview data and to combine the results with findings from the analysis of the franchise agreements.

We chose our sample of interviewees based on theoretical principles rather than a random principle (Strauss and Corbin, 1996). In the context of a qualitative research design, it is critical to choose the sample based on a theoretical rather than on a random principle to match typical cases for the study. This allowed us to be consistent with the idea of building theory and to ensure that we gathered data from different participants to cover various types of cases. We chose our cases based on franchisees' industrial area, size, maturity, and organisational structure. We continued to collect data until we reached what Strauss and Corbin (1996) referred to as theoretical saturation. At this point, no new insights emerged from additional interviews. Moreover, it has to be mentioned that the size of our sample is limited due to the specific context of social franchising. The number of social franchises remains quite small in German-speaking countries. Prior research in social franchising shows similar limitations of a small sample size (see, e.g., Tracey and Jarvis, 2007). Table 1 provides an overview of the cases within our sample. To preserve confidentiality, we gave each case a number.

**Table 1** Sample description

	<i>Industrial area</i>	<i>Country</i>	<i>Number of franchisees</i>	<i>Social franchising since</i>	<i>Number of interviews</i>
Case I	Social inclusion	Austria/Germany/Switzerland	15	2000	4
Case II	Education	Germany	49	2009	4
Case III	Family support	Germany	256	2002	5
Case IV	Refugee integration	Germany	7	2016	1

**Table 2** Characteristics of interviewees

Type	Industrial area	Education/schooling	Age category (years)	Gender	Social sector experience (years)	Length of the interview (minutes)
Franchisor I	Social inclusion	Social pedagogy (Mag.)	50+	M	>10	61:46
Franchisor II	Education	Communication studies (MA)	20–30	F	2	72:56
Franchisor III	Family support	Political science (Dipl.)	50+	F	>10	60:08
Franchisor IV	Refuge integration	Cultural and music management (MA)	30–40	M	4	78:11
Franchisee I	Education	Law (Dipl.)	20–30	M	5	45:40
Franchisee II	Education	Educational science (BA)	20–30	F	4	69:58
Franchisee III	Education	Law (in progress)	20–30	F	3	85:28
Franchisee IV	Family support	Social pedagogy (Dipl.)	40–50	F	>20	56:38
Franchisee V	Family support	Educational science (Dipl.)	50+	F	>20	66:41
Franchisee VI	Family support	Social pedagogy (Dipl.)	50+	M	>20	98:52
Franchisee VII	Family support	Educational science (Dipl.); Social pedagogy (Dipl.)	40–50	F	>10	61:07
Franchisee VIII	Social inclusion	Architectural studies (Dipl.)	30–40	F	2	58:50
Franchisee IX	Social inclusion	Cultural, social and media studies; Social pedagogy (Mag.)	50+	F	>20	48:39
Franchisee X	Social inclusion	Business Administration (Dipl.)	40–50	F	6	72:07

To identify social franchise enterprises, we first developed an overview of social franchising in German-speaking countries. To avoid a potential bias toward cultural differences, we only included social franchise enterprises that act in the same cultural area. In consideration of the wide variety of the cases, we chose four different social franchise enterprises for our study. To identify possible interviewees, we applied different strategies: We contacted 21 possible interviewees directly or we used the recommendations of others. In total, we conducted 14 interviews with four social franchisors and ten social franchisees. Most of the interview partners had at least five years of experience in the social sector, four of them at least 20 years of experience. Of the 14 interview partners, ten were female. Furthermore, the interviewees differed in their industrial area, age, and academic education. Table 2 summarises the main characteristics of our interviewees.

### *3.2 Interview process*

We conducted interviews with a semi-structured guideline including a series of open-ended questions to ensure free expression of the interviewees' opinions and experiences. This helped us to observe and understand how context influences the formation of intentions to scale social enterprises via social franchising. Furthermore, we investigated the dynamics of success and failure in social franchising and noticed how conditions and the relationship between participants evolved over time. All open-ended questions were augmented by follow-up questions to clarify the interviewees' answers (Spradley, 1979). In addition, scaled questions with a rank-order scale were included. This allowed us to compare the perceptions across different interviews. Our interview guideline was based on previous research and guidelines for qualitative methods in organisational research (Glaser and Strauss, 1967; Miles and Huberman, 1994). Furthermore, we conducted an interview with a social franchising expert who advises and supports social enterprises and social start-ups. The interviewed expert confirmed our approach and the issues we used in our interview guidelines. Our interview questions addressed the following broad issues:

- 1 experiences and background of interviewees and general information on the organisation
- 2 general assessment of the social franchising concept
- 3 challenges and difficulties in connection with standardisation of social projects
- 4 the selection process for franchisees by the franchisor and contractual agreements between franchisor and franchisee
- 5 the relationship and difficulties between franchisor and franchisee
- 6 the effects of the network of franchisees.

The interviews were conducted by telephone and were recorded to facilitate data analysis. They lasted between 45 and 99 minutes (60 minutes was the average). In total, over 15 hours of interview data were recorded and transcribed.



### 3.3 Data analysis

We investigated for similarities and differences in our cases. For this purpose, we used the software NVivo. This software supports qualitative research and helped us to find patterns in the transcribed interviews and the franchise agreements. The initial list of codes we used to find patterns was based on our prior literature knowledge and guidelines for coding and analysing qualitative data (Miles and Huberman, 1994; Strauss and Corbin, 1996). While coding and working with the transcribed data, we continuously expanded our list of codes to cover all significant aspects of the interviews. The coding of our transcribed interview data ranged from single phrases to whole paragraphs to keep the original context of the interviewees' statements. In a last step, we combined similar codes to aggregate the codes into a convincing coding system and find significant patterns.

## 4 Findings and discussion

### 4.1 The influence of a franchise fee

In general, the franchisor receives initial and ongoing franchise fees from its franchisees. In turn, the franchisees are allowed to use the franchisor's concept and receive extensive support from the franchisor. According to prior research in commercial franchising, the charging of franchise fees is an essential prerequisite for franchisors to ensure proper distribution of the franchise concept (Sen, 1993).

Similarly, the social franchisors of our sample stressed that fixed revenues from the franchise fees are an important part of the enterprises' financing models (Table 3). The revenues ensure central coordination by the franchisor and protection of the franchise system and its reputation.

**Table 3** The importance of a franchise fee

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Importance of the financing of a social franchise enterprise	Social franchisors (4)	4	We get a franchise fee from our units. The fee is 2,000 Euros. And, yes, you can figure out, from 49 units the result is a decent sum. The fee is important. (Social franchisor #1)
Necessity of full-time employees	Social franchisors (4)	4	We only have professionals at the gGmbH, and they have to be paid. We don't have any volunteers at the headquarters. The volunteers are just on-site. We don't have direct contact with them because this is the business of our cooperating partners. This is important, because in the headquarters, we pay attention to the brand, we pay attention to the good quality of the documents, and we pay attention to updating the documents. We sort of make the political work and also the skilled work at the business level. (Social franchisor #3)

In particular, social franchisors in an early stage of maturity require fixed revenues for financing the development and expansion of their social franchise enterprises. Most of the early-stage expenses like developing franchise manuals, selecting franchisees, and consulting and training services for franchisees are primarily related to human resources. Therefore, a growing franchise system requires a sufficient amount of human resources. The interviewed social franchisors stressed the importance of their full-time employment to ensure proper and successful distribution of the concept, as social franchisor #3 stated:

“We only have professionals at the gGmbH, and they have to be paid. We don’t have any volunteers at the headquarters. The volunteers are just on-site. We don’t have a direct contact with them because this is the business of our cooperating partners. This is important, because in the headquarters, we pay attention to the brand, we pay attention to the good quality of the documents, and we pay attention to updating the documents. We sort of make the political work and also the skilled work at the business level.”

Thus, organisational growth requires salaried employees in addition to voluntary workers. Most franchisors stated that their own salaries are partly paid by the revenues from franchise fees. Especially in an early stage of a franchisor’s maturity, sources of income are limited, and expenses have to be covered almost exclusively by franchise fees. Consequently, a certain amount of the franchise fee is necessary to ensure the expansion of the franchise system.

However, the acceptance of the amount of a franchise fee by the social franchisee is limited. All interviewed social franchisees emphasised that there is no initial resistance against franchise fees (Table 4). We expected this finding because a high acceptance of the franchise fee is directly related to the conscious decision of a social franchisee to acquire an already proven concept. The acquisition of the franchisor’s concept commits the franchisee to comply with the franchisor’s principles and to pay a franchise fee.

**Table 4** The acceptance of a franchise fee by social franchisees

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Initial acceptance of the franchise fee by the social franchisees	Social franchisees (10)	10	I look at it positively. Because I intimately know that we get something in exchange. Namely, the whole IT, that certainly costs a lot of money. Furthermore, there are so many permanent employees by now that of course have to be paid as well. (Social franchisee #1)
Influence of the perceived benefit	Social franchisees (10)	6	It always depends on what you get in return. I wouldn’t pay just for the brand name. Only if there is an appropriate reward. [...] We don’t only pay because we are franchisees, but since we certainly get the whole service of the gGmbH. (Social franchisee #1)  It’s always a question of value and equivalent, and if the return of the franchisor today for our unit is still worth 500 Euros, it is okay. But meanwhile, I’m not sure about that. (Social franchisee #5)

**Table 4** The acceptance of a franchise fee by social franchisees (continued)

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Consequence of an increase in a franchise fee	Social franchisees (10)	4	<p>The question is, where is the threshold of pain of an increase? An appropriate extent is okay. I will gulp the increase of 250 Euros. But if it increases in 250 Euros again, I won't gulp them any longer. (Social franchisee #6)</p> <p>The reaction of the franchisor was that we don't have to discuss [the increase of the fee] any longer; either the several locations pay the increase now, or they have to quit. And that was the point when I thought, it is like in the commercial sector with hire and fire. And this was the point where I disagreed. I know the way of thinking from the social education sector that you always have to find a compromise. But in this case, there was no compromise, and the franchisor was right, I could terminate the contract as well. This is a conceivable solution. (Social franchisee #7)</p>

However, we found evidence that an increase in the amount of a franchise fee negatively influences its acceptance by the social franchisee. Social franchisees react sensitively to an increase in the amount (Table 4).

Furthermore, we found that the acceptance of a franchise fee is influenced by the stage of maturity of the social franchisee: Our data suggest that the perception of the benefits of a franchise fee is different for different stages of maturity. The interviewed social franchisees confirmed a high perceived benefit of the franchise fee in an early stage of maturity of the social franchise unit (Table 4; Table 5). This high perceived benefit in an early stage might be due to the overcoming of the initial lack of experience by using the already-proven procedures and strong support from the social franchisor.

However, as the social franchise unit matures, support measures from the social franchisor lose importance. The daily tasks and workflows of an experienced social franchisee do not require any additional assistance from the social franchisor. As a consequence, the perceived benefit of the franchise fee among more experienced social franchisees decreases. Moreover, as the whole franchise system grows, resistance against an increase in the amount of the franchise fee from experienced social franchisees rises, as social franchisee #6 stressed:

“I would assume that the larger the enterprise gets – and I think we have around 100 or 150 units – the cheaper the franchise fee should get. But it's increasing and getting costlier. This is kind of confusing. Although I get an explanation for the usage, but simultaneously I think there should be more earnings. That's kind of not coherent.”

In addition, the acceptance of the franchise fee by the social franchisee is influenced by the actual usage of the fee. Diverging ideas of the usage of the franchise fee between the social franchisor and the social franchisee decrease the acceptance of the fee by the social franchisee. For example, some of our interviewed social franchisees stressed that they strongly disagree with recent decisions taken by the social franchisor concerning the

usage of the fee to establish new segments of the social franchise enterprise, as social franchisee #6 stated:

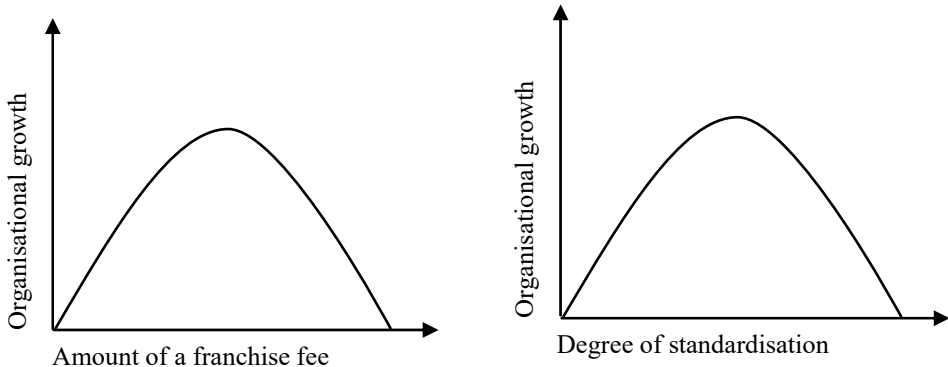
“I think the fee is actually too high because at the moment I have the feeling that XXX is developing somewhere that has nothing to do with who I am. Because XXX added two, three other products, which I think have nothing in common with the actual XXX-mission, the early help for families.”

In sum, the acceptance of the franchise fee by the social franchisee decreases if the increased amount of the franchise fee exceeds the perceived benefit of the franchise fee. The analysis of the franchise agreements shows that two out of four social franchisors reserve the right to increase the franchise fee during the contract. Thus, an increase of the franchise fee causes a lack of acceptance of the franchise fee, especially by experienced social franchisees. The interviewed social franchisees confirmed that a low acceptance of the franchise fee leads to a disengagement from the social franchisor and to an independent continuation of the social franchise unit (Table 4).

Overall, our data suggest that the amount of the franchise fee has a significant influence on the organisational growth of a social franchise enterprise. A certain franchise fee is necessary to generate sufficient revenues and to ensure the successful distribution of the concept by the social franchisor. Thus, the franchise fee positively influences organisational growth up to a turning point. Any further increase of the amount of the franchise fee has a negative influence due to a lack of acceptance of the franchise fee by the social franchisee and diminishes organisational growth. Figure 1 illustrates the quadratic (inverted U-shaped) relation between the amount of a franchise fee and organisational growth. We therefore propose the following:

- P1 The amount of the franchise fee has a positive impact on organisational growth up to a certain threshold after which the amount of the franchise fee is not accepted by the social franchisees, thereby negatively influencing organisational growth.

**Figure 1** Plots of quadratic (inverted U-shaped) relations



#### 4.2 *The influence of standardisation*

Prior research in commercial franchising shows that finding the appropriate degree of standardisation is one of the key challenges for franchisors to ensure an efficient local adaption of the concept (Kaufmann and Eroglu, 1999). In social franchising, this

challenge is exacerbated due to the personality traits and characteristics of social entrepreneurs. For example, the intrinsic motivation of social entrepreneurs increases the importance of meeting individual social needs rather than generating financial profit. To meet social needs appropriately, social entrepreneurs require the flexibility to adapt to local peculiarities. Prior research confirms that social entrepreneurs exhibit a statistically significantly greater need for autonomy than their traditional counterparts (Smith et al., 2014). Our aim is to shed light on the trade-off between standardisation and efficient local autonomy leading to the flexibility to adapt to local peculiarities.

All interviewed social franchisees stressed that standardisation is highly relevant in the early stages of a social franchise unit's maturity (Table 5). The initial lack of experience of early-stage social franchisees and the scarcity of resources can be offset by standardised processes of already proven and successful social franchising programmes. From the inception of a new social franchise unit, standardised management processes, technical assistance, marketing, training, and other services are provided by the franchisor to support the franchisee. Thus, social franchisees in an early stage of maturity do not need to establish new organisational processes. Instead, they can focus their core competences and scarce resources on the establishment of the young franchise unit and on the adaptation of the concept to local needs. To ensure this advantage in an early stage of maturity a minimum degree of standardisation is required, as social franchisee #3 noted:

“I do believe that some standardizations can be helpful, especially at the beginning, when you simply don't know how to do it otherwise yourself. Then I think it's good to have a certain standardization, also a certain structure, to know: I'll do it this way now.”

Without a sufficient degree of standardisation, early-stage social franchisees could not benefit from skipping the initial inexperience, which a social franchising model can offer.

**Table 5** The influence of standardisation

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Influence in an early stage of maturity	Social franchisees (10)	10	Because the gGmbH simply provides us with so many things, that makes our association activities super easy. Starting with foundation documents, in which everything is perfectly written down so you can hand it over to five people who would like to found a start-up, and they can just launch it. (Social franchisee #2)
Demand for autonomy in a later stage of maturity	Social franchisees (10)	6	<p>Meanwhile, the most important thing for the big franchise units truly is autonomy. (Social franchisee #6)</p> <p>Meanwhile, there are many things in the guidelines we doubt. Commonly, it depends on the individual case. The demand for more autonomy is significantly growing. Meanwhile, there are points from which we deviate. And this often raises the question, should I bring these points in the network to discuss them or should I simply do it my way and change the rules? (Social franchisee #10)</p>

**Table 5** The influence of standardisation (continued)

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Negative influence on organisational growth	Social franchisees (10)	2	<p>The guideline says, we don't want that, we want the volunteer to be immediately available for the next family. Sometimes, we have to decide if the volunteer will manage an additional new family or will she go along for a few more months with the same family. We have to tell her that she should get used to the fact that there has to be an end soon. Sometimes, we have to lay off volunteers, and that would be the official guideline of XXX.(Social franchisee #7)</p> <p>[Explanation: This quote pointed out that the social franchisor's guidelines dictate a limited quantity of care services per beneficiary. If the social franchisee strictly follows the guidelines to fulfil the requirement of the social franchisor, she has to quit the care provider (volunteer) in case of exceeding the maximum quantity of care services. In this case, the organisational growth decreases.]</p>

Consequently, standardisation allows easier replication of the concept and reduces the entry barriers for prospective social franchisees. Our data show that in an early life cycle stage, an increase in the degree of standardisation increases the organisational growth through the reduction of entry barriers and the emergence of new social franchise units (Table 5). We expected this result, since prior research in commercial franchising emphasised this result as a main effect of replication by franchising (Dant and Gundlach, 1999; Gillis and Combs, 2009; Kaufmann and Eroglu, 1999).

However, the social franchisees in our sample stressed that, as the franchisees' units mature, the acceptance of standardisation by the social franchisees changes. While in earlier stages of organisational growth the benefits of standardisation are stressed, in later stages the negative aspect seems to become more relevant. A high degree of standardisation leads to less individual autonomy of social franchisees and an inflexibility concerning local adjustments. This in turn results in a low acceptance of the standardisation by the social franchisees (Table 5). Differences in the nature of local peculiarities and particular cases of beneficiaries result in social franchises requesting idiosyncratic adaptation in various aspects. As the organisation matures, resistance from experienced social franchisees grows, and their demands for autonomy become more pronounced, as social franchisee #7 stated:

“Sometimes, we [the social franchisor and the social franchisee] have different opinions regarding the content of our service. In these cases, we look for a grey area and our own solutions and don't talk [with the social franchisor] any longer about it.”

The interviewed social franchisees confirm that strongly restricted autonomy due to a high degree of standardisation might lead to disengagement from the social franchisor. Most of the interviewed social franchisees confirmed that an independent continuation of the unit outside the social franchise is a conceivable solution to get back autonomy.

Furthermore, some interviewed social franchisees added that disengagement had been discussed at least once (Table 5). The analysis of social franchise agreements shows that social franchisees, unlike commercial ones, can often quit the social franchise relation during the period of notice without any adverse consequences. We only find evidence for adverse consequences in one of four analysed social franchise agreements. In this agreement, the social franchisor obliges the social franchisee to a prohibition of competition for a period of one year after the end of the social franchise agreement (Table 6). In the other three social franchise agreements, social franchisees are only committed to return handbooks or guidelines and to refrain from the use of the words and figurative brand of the social franchise enterprise after the end of the social franchise agreement (Table 6). Thus, legal agreements do not inhibit the independent continuation of a detached unit. Social franchisees are able to decide to disengage from the social franchisor or proceed if the perceived benefits outweigh the disadvantages.

As a consequence, a high degree of standardisation increases the risk of disengagement as well as plagiarism and could negatively influence the organisational growth of the social franchise enterprise.

**Table 6** Franchise agreements

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Consequences of a termination	Franchise agreements (4)	4	After the cooperation agreement has been terminated, the management of the franchise unit may not continue and shall immediately refrain to use the word and figurative brand. The received handbook and the other materials, in particular the word and figurative brand in a digital form, are to be returned to XXX. (Franchise agreement #3)
Adverse consequences of a termination for the franchisee	Franchise agreements (4)	1	The association is subject to a prohibition of competition for a period of one year after the end of this cooperation agreement. (Franchise agreement #2)

In summary, our data demonstrate that the degree of standardisation has a significant influence on the organisational growth of a social franchise enterprise. A certain degree of standardisation positively influences organisational growth up to a certain point. Any further increase of the degree of standardisation by the franchisor has a negative influence and diminishes organisational growth. Figure 1 illustrates the quadratic (inverted U-shaped) relation between the degree of standardisation and organisational growth. Overall, we formulate the following propositions:

- P2a In the early life cycle stages of a franchise unit, the benefits of an appropriate degree of standardisation outweigh its costs, and a certain degree of standardisation has a positive impact on the organisational growth of the social franchise.
- P2b In later life cycle stages of a franchise unit, the costs of a high degree of standardisation outweigh its benefits, and a high degree of standardisation has a negative impact on the organisational growth of the social franchise.

### 4.3 *The influence of deep compassion*

Compassion is characterised as a prosocial behaviour that benefits others or society as a whole and produces sensitivity to the pain and needs of others (Nussbaum, 1996; Ortony et al., 1990). Furthermore, compassion is similar to a prosocial motivation, which is defined as a desire to expend effort to benefit other people (Grant, 2008). Prior research shows that deep compassion has an influence on social entrepreneurial activities and increases the likelihood that individuals will engage in social entrepreneurship (Miller et al., 2012).

**Table 7** The influence of deep compassion

<i>Construct</i>	<i>Group</i>	<i>No. of evidence</i>	<i>Quote</i>
Importance of individual-oriented support	Social franchisees (10)	5	In my opinion, it is crucially necessary to have areas in the social work which are not standardised to react individually. (Social franchisee #4)  We are consistently talking about human beings, again and again about different relationships between different individuals. There are never standards, there is no standard solution. You rather have to look what is the best for the specific case. You have to set priorities. (Social franchisee #7)
Influence of a personal contact	Social franchisees (10)	2	Sometimes, there are these situations where the volunteer has a really close contact to the family. And the guidelines say that if the baby is one year old, the service has to come to an end. But the volunteer does not accept this and states that nothing comes to an end. For example, a volunteer tells me that the children are like her grandchildren from now on and for the rest of her life. And she tells me that then she will quit working for XXX. In these cases, volunteers quit to go on with their own social missions. (Social franchisee #7)
Absence of compassion and the importance of professionalism	Social franchisees (10)	1	For us, the goal of standardisation is not simplification, it's the quality. And there is a very high quality claim how texts are translated, how to deal with customers, how to approach customers or the speed of reaction. [...] Primarily, we have to pay attention to the quality, because quality is the most important part of the service. (Social franchisee #9)  [Explanation: These quotes pointed out that for the social franchisee in this case, professionalism is more important than the fulfilment of the social needs of a beneficiary.]



In case of deep compassion for the beneficiaries, most interviewed social franchisees stressed that they or their care providers intend to fulfil the beneficiary's individual social needs rather than the franchisor's directives. Our data confirm that the strong compassion of the social franchisee increases the importance of supporting the franchise's beneficiaries without any constraints resulting from the franchisor's directives (Table 7). Consequently, deep compassion for beneficiaries requires a higher degree of autonomy than conditions without compassion to meet the individual social needs of a beneficiary appropriately. Thus, compassion conflicts with standardisation, which reduces the autonomy and restricts the opportunities of social franchisees or their care or service providers to fulfil the beneficiary's individual social needs.

Our data confirm the finding that the acceptance of restricted autonomy by the social franchisee due to a high degree of standardisation is influenced by her compassion for beneficiaries or rather by that of the care or service providers (e.g., voluntary workers). In particular, the influence of compassion is strong if the object of the social enterprise requires a strong and personal contact between the care or service provider and the target group (e.g., family support), as social franchisee #7 stressed:

“Sometimes, there are these situations where the volunteer has a really close contact to the family. And the guidelines say that if the baby is one year old, the service has to come to an end. But the volunteer does not accept this and states that nothing comes to an end. For example, a volunteer told me that the children are like grandchildren to her and will remain so for the rest of her life. She therefore quit working for us and went on with her own social mission.”

In this case, deep compassion has a negative influence on the acceptance of standardisation by the care provider and the social franchisee and decreases organisational growth due to the dismissal of the care provider.

Conversely, the influence of compassion for beneficiaries on the acceptance of standardisation is weaker if the object of the social enterprise provides an impersonal or anonymous contact between the care or service providers and the beneficiaries (e.g., translation services). Our interview data confirm that in a case with an impersonal contact between the provider and the recipient of the service, the professionalism or the quality of the service seems to be more important for social franchisees than the fulfilment of the beneficiaries' social needs (Table 7). Social franchisee #9 stressed the importance of professionalism:

“Primarily, we have to pay attention to the quality, because quality is the most important part of the service.”

In this case, the influence of compassion on the acceptance of a high degree of standardisation by the social franchisee seems to be immaterial.

In summary, the influence of compassion for beneficiaries of a social franchisee and the care or service providers is directly related to the finding of our study that the degree of standardisation influences organisational growth of the social franchise enterprise. Our data support the view that compassion for the beneficiaries of the social franchisees or their care or service providers impacts the level of acceptance of standardisation by the social franchisees and their care or service providers. The stronger the compassion or the personal contact with the beneficiaries, the higher the perceived importance of autonomy and the lower the acceptance of standardisation by the social franchisees or their care or service providers. Thus, deep compassion increases the risk of disengagements and

decreases organisational growth in case of high levels of standardisation. We therefore propose the following:

- P3 The stronger the compassion of the social franchisee or the care provider towards the target group, the lower the acceptance of standardisation by the social franchisee or the care provider and the stronger the negative impact on the organisational growth of the social franchise.

## 5 Conclusions and future research

A social entrepreneur seeks opportunities to scale social impact in order to help as many people as possible despite scarce resources. Against this backdrop, social franchising could provide an adequate solution for growing impact, as it combines a certain degree of standardisation and control with a possible income-generating model.

Our aim was to examine whether and how the degree of standardisation and the amount of a franchise fee can increase or decrease the organisational growth of social franchise enterprises. We followed a qualitative research approach to take account of the whole context of the relations between social franchisors and social franchisees. We found evidence that early-stage social entrepreneurs overcome their lack of experience by using already-proven concepts from the social franchisor as an initial stepping stone to gain social impact. As the franchise unit matures and after overcoming initial barriers, the demand for autonomy to meet individual social needs rather than to fulfil the franchisor's directives gains in importance.

Our study contributes to research in social entrepreneurship in three ways. First, we contribute to the scarce and emerging research on social franchising (Beckmann and Zeyen, 2013; Kistruck et al., 2011; Tracey and Jarvis, 2007). Our research is one of the first empirical studies on social franchising. We add to the social franchising literature by shedding light on social franchise relations. In this regard, our analysis suggests that the amount of a franchise fee and the degree of standardisation and standardised processes in social franchise enterprises have a significant influence on the relation between social franchisors and social franchisees.

Second, we contribute to the research on the influence of personality traits and characteristics on a social entrepreneur's decisions (Miller et al., 2012; Nga and Shamuganathan, 2010; Smith et al., 2014). Our analysis suggests that strong compassion and personal contact with the beneficiaries increase the importance of autonomy among social entrepreneurs and decrease the acceptance of the franchising concept by social franchisees. Our study thereby shows that deep compassion among social franchisees increases the risk of disengagements from the social franchisor.

Finally, we contribute to the research on organisational growth in social enterprises (Dees et al., 2004; Lyon and Fernandez, 2012; Weber et al., 2012). Our findings suggest that social franchising can lead to temporary organisational growth of social franchise enterprises. Particularly in the early stages of maturity, social franchising could be an effective solution for social enterprises to grow less resource-intensively. However, as the system matures, disengagements due to low acceptance by the social franchisees of the fee or standardised processes decrease the organisational growth of social franchise enterprises.

The study focused on the organisational growth of social enterprises in order to scale impact. However, unlike that of commercial enterprises, scaling of social enterprises is foremost about the ultimate objective of growing impact, not necessarily about organisational growth (OECD/EU, 2017; Weber et al., 2012). Future research could thus concentrate on the relationship between scaling organisations and scaling impact in order to theorise about alternative growth models for this specific kind of enterprise. Furthermore, the social franchising model could be compared with other scaling solutions (e.g., licencing or subsidiaries) in order to determine which model is ablest to fulfil the objective of scaling impact according to the type of enterprise, sector, or country in which the scaling takes place.

Besides the focus on organisational growth, our study marginally touched upon the issues of compassion and intrinsic motivation of social entrepreneurs and franchisees. Social franchisees and their acceptance of the franchise concept are influenced by their own compassion and the compassion of their voluntary care or service providers towards their target group: The stronger the compassion, the lower the acceptance of standardisation by the social franchisee. Despite this finding, the academic understanding of the personality of a social entrepreneur, its importance, and its effect on the organisational model of social enterprises is still very limited.

Furthermore, the perceived benefit of the franchise fee in our study decreases with increasing amounts and resistance against the ongoing payment. In addition, as the whole franchise system matures, discrepancies between the franchisor and the franchisee could occur due to diverging ideas of the enterprise's object or the usage of the franchise fee. A social franchisee is granted managerial independence and responsibility, but he mostly does not receive the right of co-determination. An independent continuation of a detached unit could be the solution to meet the demands for autonomy and enable an idiosyncratic implementation of the franchisor's concept without paying any franchise fees. Future research could concentrate on finding the exact optimal amount of a franchise fee or rather the exact turning point after which the resistance against the fee increases. The investigation of an expressive value could have highly relevant practical implications for social franchisors.

The analysis of the social franchise agreements showed that social franchisees, unlike commercial ones, can often quit the social franchise relation during the period of notice without any adverse consequences. Therefore, legal agreements are not inhibitors, and the independent continuation of a detached unit seems to be a notable solution for social franchisees. With respect to analogies with or differences from similar concepts, social enterprises are said to be hybrid organisations operating at the intersection of the for-profit and social sectors (Pache and Santos, 2013). While this study focused on the comparison with commercial entrepreneurs, future analysis could investigate similarities and differences with growth models in the third sector. Going a step further, another area for future research would be to analyse additional contingent factors for social franchising, such as the corporate culture, local adaptation, or sector-specific attributes.

In summary, we theorise from our data that using a social franchisor's already-proven concept is only a temporary or rather a transitional solution for early-stage social franchisees. Social franchisees may still pursue their own interests and objectives to achieve their desired social impacts. Therefore, social franchising increases only temporarily the organisational growth of social franchise enterprises.

Our study has some limitations. First, our findings are limited to the specific cultural context of German-speaking countries. Some of our findings may be limited to this specific context and may not necessarily apply to other countries. Future research could investigate differences or similarities between different cultural areas or countries. Additionally, our sample size is relatively small, as shown in Section 3. However, we already gained theoretical saturation in our qualitative analysis. Due to our research design, we are not able to specify quantitatively which factor has the strongest impact on social franchisees' intentions to disengage from social franchisors. Moreover, we conducted the interviews only by telephone. Despite the advantages of this interviewing technique, we cannot rule out potential biases due to a lack of personal interviews. Although we took great care in selecting our cases or interviewees and using established methods of theoretical sampling and triangulation, our results should only be considered as theoretical insights.

Overall, our conclusion cannot be generalised to the entire social franchising concept due to the limited specifics of the selected cases. More research is needed to prove and support our conclusion that social franchising is only a transitional solution for social entrepreneurs in generating organisational growth.

Several practical implications can be drawn from our study. For social franchisors, our results underline the relevance of a high level of transparency in the usage of a franchise fee. Social franchisors should actively communicate the detailed usage of their franchise fees to emphasise the actual benefit for social franchisees. Moreover, in case of an increase in the franchise fee by a social franchisor, our data confirm that it is necessary to inform the social franchisees in a direct and personal way. An increase in the franchise fee without any explanation from the social franchisor could lead to a low level of acceptance of the increase by the social franchisee. It is advisable to ask the social franchisees actively to give feedback on the increase of the franchise fee and to allow them to level criticism against the social franchisor's decisions. Our data confirm that it is also advisable to show the social franchisees that their feedback is valuable and will be considered. This could help avoid conflicts and disengagements from the social franchisor.

Besides the practical implications concerning the franchise fee, implications can be drawn from our results regarding the degree of standardisation. Social franchisors should put emphasis on the development of comprehensive guidelines for early-stage social franchise units. Young social franchise units benefit the most from standardised processes because they help overcome the initial lack of experience. As the social franchise units mature, our results confirm the influence of restricted autonomy on social franchisees' intentions to disengage from social franchisors. Within our sample, the turning point at which standardisation becomes negatively related to growth was on average eight years. However, the deviation of this average is quite large, with almost four years in each direction. The approximate turning point therefore has to be interpreted with caution as, for instance, industry specifics are likely to be an influencing factor for the timeframe. Consequently, especially in social franchisees' later life cycle stages, social franchisors should avoid a high degree of standardisation to grant social franchisees more autonomy to meet individual social needs and to promote the further development of the social franchise enterprise.

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