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Challenges of a social enterprise expanding through franchising: is social franchising really different?

An explorative case study of a social enterprise SolarNow

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Abstract

The aim of this study is to investigate the challenges that a social enterprise can experience when franchising through the case of a Dutch social enterprise operating in Uganda called SolarNow, which aims to provide access to affordable energy in the rural regions of the country. The theory argues that social enterprises can experience different or additional difficulties when franchising because of their specific nature. It also suggests that in addition to the Resource Scarcity Theory and the Agency Theory, social enterprises can be motivated to franchise by the Social Capital Theory. The empirical research was conducted through a qualitative case study based on semi-structured deep interviews with six of the franchisor representatives and four of the franchisees. The results of the interviews show that SolarNow operates to a high degree in the same way as a regular commercial enterprise. The main differences in the challenges faced by SolarNow and the ways of dealing with them are because of the need for an innovative business idea, difficult working conditions and a higher possibility of partnerships with public institutions. However, the case of SolarNow shows that social franchising can work very similarly to commercial franchising.

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1. Introduction

This chapter provides the background of the research, explaining its purpose and relevance. It presents the research question, discusses the expected contribution of this study and briefly describes the case that has been chosen to focus the research on. At the end of the chapter the outline of the entire paper is also explained.

1.1. Background

Social problems appear in various forms, such as poverty, hunger and malnutrition, unemployment, homelessness, illiteracy, diseases, social exclusion or even excessive pollution. They occur – to different degrees – in almost every part of the world and it has been a challenge to find sustainable solutions to these issues that could be effective on a large scale. Traditionally, nonprofit organizations, such as charities and foundations, have been working towards solving these problems with their income based mostly on government grants and private donations. Recently, however, the idea of moving away from the dependence on philanthropy and government subsidies has been gaining in popularity in the social sector. Instead, leaders of such organizations – believing that market-based revenues can be more resilient and somewhat easier to acquire (Dees, 1998a) – choose to generate their income through trading as social enterprises (Grønbjerg, 1998). This implies using innovative ideas in order to merge the social mission with a market-based model. These initiatives, aspiring to be financially independent, focus more on efficiency and effectiveness, and they often try to address the underlying causes rather than simply treat symptoms of the problems (Dees, 1998b). Therefore, the organizations that choose such a financially self-sustaining operating model – called social enterprises – may be able to provide more sustainable long-term solutions to pressing social problems.

The value of social entrepreneurship is being increasingly recognized worldwide. However, the impact of such initiatives is usually limited due to the fact that they only operate in specific regions where they are based. As the idea of applying market-based logic to solving social problems has become more appreciated, growth and expansion of social enterprises has become a significant issue (Dees, Anderson &

Wei–Skillern, 2004). Such initiatives can contribute to a bigger change and have a real impact on the society only if the scale of the enterprise is big enough. As Bill Clinton accurately stated during his presidency, "Nearly every problem has been solved by someone, somewhere". But what is causing frustration is that "we can't seem to replicate [these solutions] anywhere else" (Olson, 1994). One of the reasons for such a situation is that social entrepreneurs are having trouble scaling up their ventures. Even though they might have a clear understanding of the needs in a particular community and be able to find the capital needed to start the project, they are often facing challenges when it comes to growing the enterprise, such as expanding service delivery, increasing marketing efforts or developing required accountability (Zahra et al., 2008). This results in one pilot project after another, most of them incapable of achieving large-scale social impact. Nevertheless, cases of social enterprises that managed to grow their business show that systematic replication with local adaptation not only leads to higher efficiency and faster expansion, but a well-organized replication process can also result in intelligent networks which have a positive influence on improving the quality of the entire project (Ahlert et al., 2008).

The concept of franchising can represent an effective approach to mastering the complexities of replicating social projects. It provides innovative entrepreneurs with the structure and support needed to convert their social ideas into sustainable businesses, as well as a roadmap for implementing them. Through an adaptation of traditional commercial franchising, in which the developer of a successful project (franchisor) enables others (franchisees) to replicate the business model using a brand name and – perhaps even more importantly – a proven system, social benefits can be achieved on a larger scale. Such system of contractual relationships, which uses a structure of a commercial franchisee, is a new organizational concept in the field of social entrepreneurship, which represents a promising leverage tool to help achieve social goals and – consequently – let more people benefit from the products and services of social enterprises (Volery & Hackl, 2010).

The idea of social franchising has been gaining momentum in the recent years. Even though the number of social franchises is not that high yet, there are many high-profile initiatives by prominent organizations representing the social enterprise movement aimed towards supporting the growth and geographical expansion of social businesses through franchise systems (Tracey & Jarvis, 2007). The concept of social franchising has also been discussed and supported by experts from the social entrepreneurship field at such conferences as the International Social Franchise Summit held in December 2007 in Berlin (United Nations Office for Partnerships, 2007), dedicated entirely to the topic of social franchising, or a few last events of the annual Skoll World Forum in Oxford (Berelowitz, 2012) held by The Skoll Foundation – a social entrepreneurship foundation with a goal of driving large-scale social impact by connecting and investing social entrepreneurs worldwide.

Yet, even though the concept of social franchising has been growing in popularity from the practical point of view, little has been researched so far in the field of applying franchising theories to social enterprises. Most of the conducted studies have been focusing on a purely practical approach to handling the difficulties of social franchising, with a general goal of advising social entrepreneurs on managerial issues. These studies also frequently included not only typical social businesses but also non-profit organizations, which have a completely different business model (e.g. Ahlert et al., 2008; Bradach, 2003; Dees et al., 2004). Therefore, currently the research done on the topic of social enterprises expanding through franchising is limited and there is still much to be discovered in this field. In order for the innovative social ideas to successfully scale up in this way and – as a result – have a lasting impact on larger communities, there is a growing need to learn more about how the concept of franchising can be successfully employed in the field of social entrepreneurship.

Undoubtedly, social enterprises aiming to expand their business through franchising must overcome numerous difficulties during the process. Identifying the challenges that such organizations experience – and how these challenges might be different from the ones faced by commercial franchise systems – is a significant step towards discovering more about making social franchising successful. Knowing the obstacles that may occur makes it much easier for social entrepreneurs to prevent or avoid them. As the idea is relatively new and the research in the field limited, there is a need to gain more awareness and understanding of the various challenges faced by social businesses when franchising.

1.2. Purpose of the research

As social enterprises are trying to apply the principles of commercial franchising in order to promote social benefits rather than private profit, they are experiencing numerous challenges resulting from their choice of this particular expansion model. Some of these difficulties are similar to the ones faced by traditional for-profit companies growing through franchise systems, while other may not be so much alike, since social enterprises have different objectives compared to strictly commercially oriented businesses. The aim of this study is to recognize and pinpoint the most remarkable obstacles for social entrepreneurs to expand through franchising, as well as understand how and to what extent they differ from the ones in its commercial version. Additionally, the research tries to recognize strategies used by social enterprises in order to prevent or avoid these difficulties.

The comparison of social franchising to traditional commercial franchising is essential here for two main reasons. The first one is the fact that franchising of social enterprises, as already mentioned before, is not a very well researched field yet and to some degree it is only possible to learn about social franchising through reviewing the theories on franchising in general. That is why a large part of the theoretical framework for this research is related to the concepts typically used when analyzing the commercial form of franchising. However, another reason for comparing social and commercial franchising is that despite some of the general theories on franchising being to some extent applicable to social franchising, there are many differences between the two that should not be neglected. That being the case, it is important to use the theories on commercial franchising for a somewhat better understanding of its version for social enterprises, but also to remember that they should not be considered identical. Therefore, the main research question (consisting of two sub-questions) of this thesis is:

What are the challenges experienced by social enterprises expanding through franchising and how do social entrepreneurs respond to them? To what extent and why do they differ from the challenges faced by commercial franchise systems?

The research question will be answered through a comparison of already existing theoretical research with the empirical observations derived from a case study. Obviously, a single case study cannot give a complete explanation with generalizations that could be applicable to every social enterprise planning to grow their business. However, in conjunction with the existing theories, it can give an indication of the typical challenges faced by social entrepreneurs when expanding through franchising and a point of reference for developing strategies needed to overcome such difficulties.

Therefore, by investigating the challenges experienced by social franchise systems through an analysis of traditional franchising theories compared to a case of a social business, this research aims to contribute towards filling the currently existing literature gap in the field. This is important both from the theoretical and the practical perspective – while the main goal of this study is to contribute to the limited academic research in the field, its outcomes and conclusions can also be referred to when considering managerial decisions concerning expanding a social enterprise through franchising.

1.3. Empirical focus of the research

This research investigates the challenges experienced by social businesses using a franchise system through a single case study of SolarNow, a social enterprise providing affordable solar energy systems to poor communities in rural regions of Uganda. It is a former NGO, which in 2010 turned into a financially independent, self-sustaining organization that gains revenues from the sales of their solar energy systems. Despite its dependence on sales and hence, the need for a certain level of profit, the main goal of SolarNow is achieving a large-scale social impact by providing the inhabitants of poor rural regions with an affordable access to electricity. The organization currently has 35 franchisees situated all over Uganda and is also in the process of starting their expansion to Tanzania. Therefore, it is a suitable example of a social enterprise that has already had some past experience with the challenges of franchising, yet is still prone to difficulties by being involved in the ongoing process.

1.4. Outline

After this introductory part, the second chapter describes the theoretical framework of the study through a presentation of previously conducted research and developed theories on the topics of social entrepreneurship, commercial franchising and social franchising. In the third chapter the methodology of the study is explained in detail, including the chosen research method, ways of data collection and the approach to the analysis. The fourth chapter provides the results from the empirical case, incorporating most important quotes from performed qualitative interviews, and the fifth chapter follows with an analysis of these findings. The sixth chapter discusses the empirical findings in comparison to the theory. The final seventh chapter provides some implications for theory and for managers of social enterprises, and suggests the areas for further research. Figure 1 illustrates the full outline of this thesis.

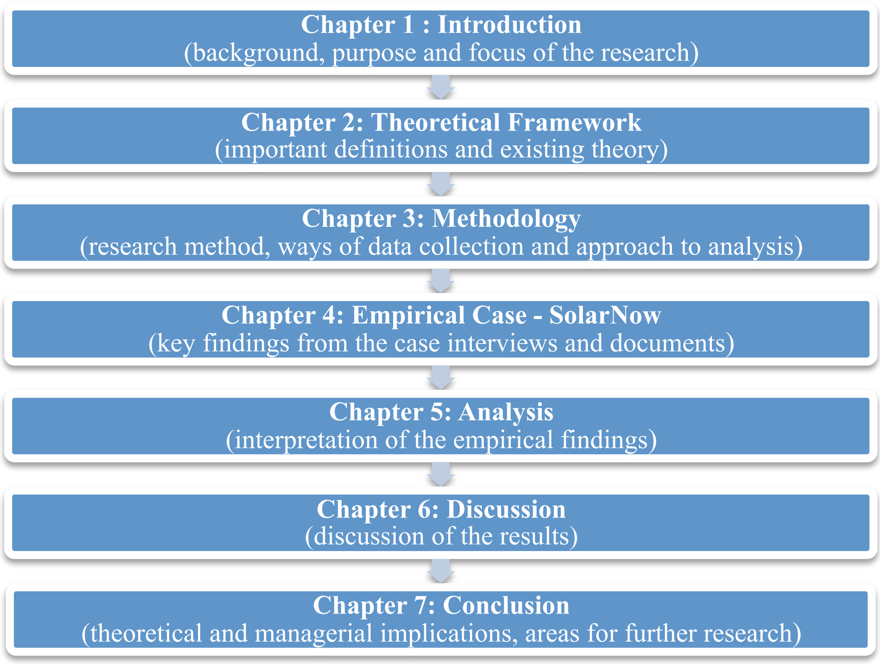

Figure 1: Thesis outline

2. Theoretical Framework

This chapter provides the definition and features of social entrepreneurship and social entrepreneurs. It also describes previously done research in the field of commercial franchising, as well as social franchising, and explains the most important theories, which are then combined into an integrated framework to be used for the analysis of empirical findings. While the description of social entrepreneurship and the theories on motivation to franchise takes much space, it is necessary in order to be referred to later when the findings of the research are discussed.

2.1. Social entrepreneurship

2.1.1. Definition of social entrepreneurship

Social entrepreneurship as a way of integrating social and economic value creation has gained global presence in the past few decades. Some of the most remarkable examples of manifestations of this phenomenon include the global efforts of Ashoka – the organization founded by Bill Drayton in 1981 in order to identify and support leading social entrepreneurs, the activities of Grameen Bank – the Nobel Peace Prize awarded microfinance organization and community development bank established by Muhammad Yunus in 1983 in Bangladesh, or Acumen – a non-profit global venture fund founded by Jacqueline Novogratz in 2001, which helps build social enterprises that solve the problems of poverty around the world.

While the impact of entrepreneurship on economic development has received much scholarly attention, its influence on boosting social progress has only lately attracted the interest of researchers (Alvord, Brown & Letts, 2004; Boschee, 1995; Dees & Elias, 1998; Thompson, 2002), hence very many definitions of the concept. Some of the researchers view social entrepreneurship as not-for-profit initiatives searching for alternative funding strategies or management systems to create social value (Austin, Stevenson & Wei-Skillern, 2003; Boschee, 1998). Another group of researchers refers to it as the socially responsible practice of commercial businesses that engage in cross-sector partnerships (Sagawa & Segal, 2000; Waddock, 1988). A third group focuses on its role as a method of alleviating social problems and catalyzing social transformation (Alvord et al., 2004; Ashoka Innovators, 2000). Numerous definitions are stressing different aspects and dimensions of the concept, which leads to the fact that social entrepreneurship is often understood as an innovation which leads to positive social change regardless of the mechanisms used to achieve it (Tracey & Jarvis, 2007). This research stresses the practical part of "social entrepreneurship" – which is creating and managing social enterprises – and the term "social enterprise" is perceived here closely to the definition of Pearce (2003) – as an independent financially self-sustaining business with a social mission, in which surpluses are reinvested in the business or the social objective, rather than distributed to owners. In this study, it is used interchangeably with the term "social business".

2.1.2. Characteristics of a social enterprise

According to this perspective, the core of social entrepreneurship is trading for a social purpose. It requires social entrepreneurs to identify and exploit market opportunities, as well as to assemble necessary resources, in order to develop products or services generating profit for the chosen social project (Boschee & McClurg, 2003; Oster, Massarsky & Beinhacker, 2004). The social mission is normally also incorporated in the everyday operations of the business. This can be achieved through, for instance, satisfying substantial basic needs of the society for a reasonable price, employing people from disadvantaged areas, providing healthcare or education where it is difficult to access. Sabeti (2011), who refers to such organizations as "for-benefit enterprises", also notices that such organizations must comply with certain ethical standards. This means that the business needs to be fair to the employees, who should be compensated in proportion to their contributions; transparent – financial performance, as well as social and environmental impact, must be fully assessed and reported; and socially and environmentally responsible in its everyday operations.

Considering relations with their stakeholders, social enterprises can choose to approach them in a more commercial or a more philanthropic way. Table 1 presents the "Social Enterprise Spectrum", showing the range of commercialization in terms of relationships with key stakeholders. A typical social enterprise has mixed motives, is mission and market driven (with primary focus on the mission), and has goals of both social and economic value. Ideally, a social business should have a commercial approach to its capital, workforces and suppliers, while executing the philanthropic or the middle option for its beneficiaries. Yet, social enterprises – especially newly established ones – frequently struggle with financial restraints and need initial support in a form of grants or below-market capital, volunteer workers or special discounts from suppliers. However, eventually their business needs to become self-sufficient and market competitive, otherwise it is simply a non-profit organization, which is not a social enterprise according to the definition used in this research paper.

		Purely Philanthropic	⟷	**Purely Commercial**
Motives, Methods and Goals		Appeal to goodwill Mission driven Social value	Mixed motives Mission and market driven Social and economic value	Appeal to self-interest Market driven Economic value
Key Stakeholders	**Beneficiaries**	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below-market capital, or mix of donations and market-rate capital	Market-rate capital
	Workforces	Volunteers	Below-market wages, or mix of volunteers and fully paid staff	Market-rate compensation
	Suppliers	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Table 1: Social Enterprise Spectrum (Source: Dees, 1998a, p. 60)

2.1.3. Social entrepreneurs

Social entrepreneurs can be regarded as a crucial aspect of a social enterprise. They are the people without whom the business would not be established and they are usually also the owners and executives of the social enterprises. They are a specific kind of people, like all entrepreneurs – they are reformers and revolutionaries (Schumpeter, 1934), but they also have a deep belief in their social mission. Social entrepreneurs are change agents, whose visions are bold and who have the potential to stimulate global improvements in their chosen areas through creation of systemic changes and sustainable solutions (Dees, 1998b). While the need to “make a difference” sets them apart from regular entrepreneurs, they also run their organizations unlike typical non-profits – they have a higher risk tolerance, a greater appreciation of margins and an eagerness to compete (Wallace, 2005). Bornstein (2007, pp. 1-2) describes social entrepreneurs as “people with new ideas to address major problems who are relentless in the pursuit of their visions, people who simply will not take ‘no’ for an answer, who will not give up until they have spread their ideas as far as they possibly can”.

As indicated above in the definitions and descriptions of social entrepreneurs, they can be regarded as a kind of a mix between regular commercial entrepreneurs and non-profit representatives. They have many characteristics similar to commercial entrepreneurs, especially expressed in their business drive, but the nature of their enterprises – expressed in pursuing social impact as their primary goal – requires them to often act in different ways. People who decide to start social businesses are typically ones who have specific – mentioned before – personality traits that, combined with the type of organization they are running, result in their specific actions and the way they make decisions. This, in turn, might somewhat affect what challenges they face when expanding their venture and – even more importantly – how they decide to handle these difficulties.

2.2. Traditional (commercial) franchising

2.2.1. Franchising as a form of expansion

Franchising can be described as a contractual relationship between two independent firms where the parent company (the franchisor) develops a product or a service and agrees to allow the other firm (the franchisee) to sell it in a clearly defined way, in a specified location and during a given period of time. In business format it is generally done for an initial joining fee and an annual sales-based payment (Curran & Stanworth, 1983). The franchisor is usually obliged to continuously invest in and develop the shared brand, provide relevant training and managerial support to the franchisees and organize a consistent market appearance. The responsibilities of the franchisees include managing their outlets consistently with the given model, as well as delivering performance reports and market information to the franchisors (Caves & Murphy, 1976; Rubin, 1978). Figure 2 presents the relationships between the franchisor, the franchisee and the customer.

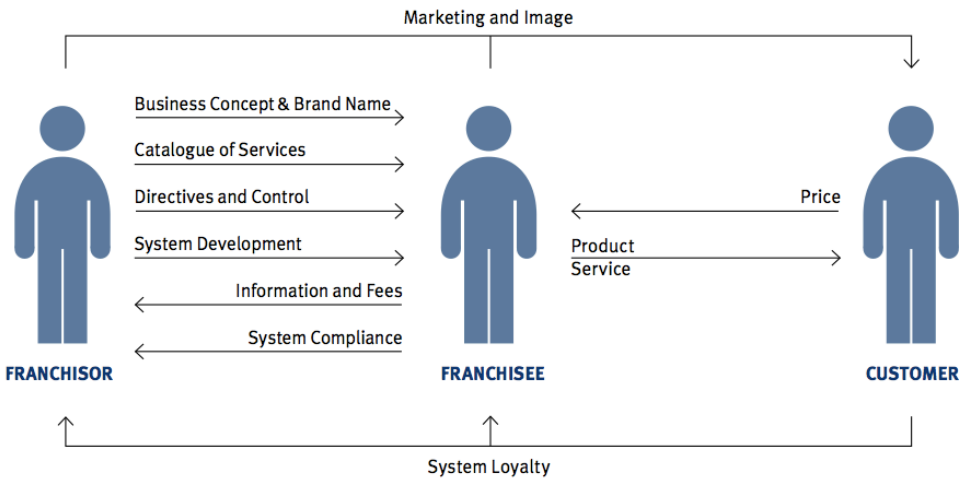

Figure 2: Relationships between franchisor, franchisee and customer (Source: Ahlert et al., 2008, p. 13)

Franchising represents a unique business structure compared to other forms of business expansion as the different organizations involved in a franchise system are simultaneously legally independent from one another, economically interdependent on each other and operationally indistinguishable from each other (Parsa, 1996). According to Combs, Michael and Castrogiovanni (2004) there are two most important features that distinguish franchising from other organizational forms, such as strategic alliances or equity joint ventures. First, it typically occurs when the business model involves an important service component that needs to be performed close to the customers. As a result, the outlets providing the service must be replicated and geographically dispersed. Secondly, in franchise systems there tends to be a contractually defined clear division of responsibilities, decision rights and profits between the franchisor and the franchisee. The combination of the two features results in the fact that while franchising undoubtedly helps the business to grow rapidly, it also causes the owners of the company to lose a certain amount of control over their business. Due to the loss of control, franchising turns out to be a riskier option than full ownership of all the firm outlets (Martin, 1988).

Nevertheless, while in many industries there are chains relying highly on franchising that compete with the non-franchising chains and both the alternatives are able to work and succeed (Diaz-Bernardo, 2012), franchising as a way of distribution of products and services to the customers has been growing worldwide in popularity in the last few decades and this trend is expected to continue in the world economy (Blair & Lafontaine, 2005). The classic literature on the subject typically explains the rationale behind the attractiveness of geographically expanding the business through franchising, instead of through wholly owned subsidiaries, by two theories – the Resource Scarcity Theory and the Agency Theory.

2.2.2. The Resource Scarcity Theory

Oxenfeldt and Kelly (1969) argue that companies turn to franchising when they find themselves in shortage of resources needed to expand rapidly, especially the financial and the managerial ones. It can be difficult for organizations that are still young and small to raise the necessary capital through existing operations or from traditional financial markets, as well as to develop the required managerial talent and the knowledge of local markets (Katz & Owen, 1992; Shane 1996). Therefore, in order to be able to compete effectively against well-established firms by building economies of scale, such companies can choose to use franchising as the method of a rapid expansion (Caves & Murphy, 1976; Combs & Castrogiovanni, 1994). Such a solution also offers the possibilities of broadening the scope of available managerial talent beyond the usual firm boundaries and shifting a significant part of the risk inherent in the introduction of new products or services to new markets to the franchisee (Kaufmann & Dant, 1998).

According to the original theory proposed by Oxenfeldt and Kelly (1969), firms decide to use franchising when their need to achieve economies of scale pressures them to expand more rapidly than it would be possible using only internally generated resources. As soon as such economies have been achieved, the rapid growth is no longer necessary and the company's financial constraints will most likely be substantially smaller than before. Established franchisors will also typically possess the requisite knowledge and capabilities to train new outlet managers and control their performance (Stanworth & Curran, 1999).

A study done by Combs et al. (2004) shows that the Resource Scarcity Theory can serve as an explanation for the franchise initiation, but it does not really apply to the subsequent propensity to franchise (how much and where franchising is used after it has been initiated) and to the overall franchise performance. Even more intriguing is the fact that many franchisors decide to support their franchisees financially, so that they only need to contribute their managerial skills (Diaz-Bernardo, 2012). Therefore, it is evident that the Resource Scarcity Theory cannot be the only explanation behind such widespread use of franchising.

2.2.3. The Agency Theory

The main doubt about the previously described Resource Scarcity Theory is the empirical evidence showing that many chains continue to use franchising even when they have plenty of resources, which implies that such systems must be giving franchisors additional advantages not explained by the Resource Scarcity Theory. Some researchers have pointed out that franchising indeed involves an aspect more important than the financial resources, which is the franchisee's motivation. The main idea behind such reasoning is that in a franchised system, the franchisees put their own money at stake, hence creating incentives for them to work hard and make the operations profitable (Diaz-Bernardo, 2012).

Brickley, Dark and Weisbach (1991) developed the idea that franchising can work as an effective response to the classic problems presented by the Agency Theory. This theory is concerned with contractual relationships where a principal delegates a set of tasks to the agent (Ross, 1973). Inherent to the Agency Theory are two assumptions, which drive the complexity in such relationships (Spremann, 1987). First, the behavior of the agent (the franchisee) affects not only the agent's own success but also the success of the principal (the franchisor). This can be particularly problematic when combined with the second assumption claiming that – as it is impossible to monitor all of the agent's actions – the principal's limited control over intentions and behaviors of the agent causes information asymmetries between the two parties. The Agency Theory considers different parties to be self-interested and likely to engage in opportunistic behavior.

The combination of these factors requires certain coordination mechanisms that could empower the principal to be able to control his agent to a certain level. The Agency Theory regards contracts as mechanisms enabling to steer the behaviors of the agent in a desired way. However, it is impossible to identify all possible future circumstances in a contract, so it cannot be assured that the agent will always make decisions in best interest of the principal (Alchian & Woodward, 1998). Asymmetric information and incomplete contracts create two significant agency threats: adverse selection and moral hazard. Adverse selection represents the risk of selecting agents not suited well enough to achieve the desired outcomes (Hendry, 2002). Moral hazard refers to potential threats of contracting with individuals who withhold effort or misappropriate company resources, which is manifested in such practices as shirking, free riding or heavy consumption of perks (Lubatkin, Schulze, Ling & Dino, 2005).

Rubin (1978) argues that franchising can be a solution to the problem of motivating outlet managers because the franchisee manager receives net profit from the outlet. Therefore, the goals and incentives of the company owners are more aligned with the ones of a franchisee manager than the goals and incentives of a hired manager (Garg & Rasheed, 2003). Franchisee managers have no reason to cause shirking as – unlike the outlet managers – their income is strongly tied to their results. Franchisee owners, after having invested financially in the business they manage, are in fact expected to maximize their efforts (Brickley & Dark, 1987), while also being less likely to misrepresent their true skills and abilities during the selection process (Bates, 1998). Therefore, franchising reduces the need for direct monitoring of the outlets – which is costly (Bradach, 1997), as well as difficult since the principals have limited time for creating monitoring systems and executing their use (Norton, 1988).

Nevertheless, the goals of franchisors and franchisees are not aligned perfectly. Franchising also generates incentives for franchisees to free ride (Castrogiovanni et al., 2006). Such a situation can occur when the franchisor invests in building the brand and delivering high quality service, which results in spillover effects that benefit the franchisees (Combs et al., 2004). Then, franchisees may seek to maximize their revenues at the expense of the entire franchise system by performing actions, such as minimizing staffing costs at the expense of reducing quality of service

(Tracey & Jarvis, 2007). This results in franchisors inventing contractual incentives and sanctions in order to minimize the likelihood of franchisees engaging in free riding, which in turn leads to higher agency costs. Therefore, the Agency Theory notices the benefits, but also the drawbacks of franchising.

2.3. Social franchising

2.3.1. The concept of social franchising

Despite the rapid growth of the social enterprise movement during recent years, its performance and development trajectory has been modest (Foster & Bradach, 2005; Pharoah, Scott & Fisher, 2004). While many new social enterprises are being started all over the world, the potential of the already existing ones seems to be underappreciated. Bradach (2003) gives an example of the United States non-profit sector, which is comprised of “cottage enterprises – thousands upon thousands of programs, each operating in a single neighborhood, in a single city or town” (p. 19). Such a system can represent a waste of important resources – time, funds and imagination are being poured into creation of new programs with similar ideas, while the potential of the ones that have already proven to be effective remains underdeveloped. Since such a situation denotes a substantial loss to society in general, many options have been discussed by researchers to improve the performance of the social enterprise sector. Some of the ideas include social venture capital (Meehan, Kilmer & O’Flanagan, 2004), partnerships of social enterprises with corporations (Austin, 2000) and mergers and acquisitions between social enterprises (Kohm & La Piana, 2003). Nevertheless, for many - within the social enterprise sector - franchising seems to be the most promising strategy to use in order to encourage expansion and disseminate best practices (Tracey & Jarvis, 2007).

The franchising practices of social enterprises are usually being referred to by the term “social franchising”. The German Foundation for World Population (2000) defines it simply as “adapted usage of techniques from commercial franchising for projects which benefit the social aims of the non-profit sector” (p. 3). Such strategy is considered particularly beneficial because it creates a relationship in which the parent organization gets a relatively risk-free route to rapid expansion, as the franchisee can also enjoy reduced risks and use a ready-made business model with all the advantages implied by this (Piggot, 2004). Ahlert et al. (2008) recognize the benefits of using social franchising compared to fully autonomous units on one side and to dependent hierarchical units on another. The first comparison shows that social franchising offers: faster and less complicated expansion due to more resources and better coordination; consistent appearance of the entire system facilitating creation of reputation, trust and system awareness; standardization and consistency among units enabled through the network; network benefits, such as public support, systematic know-how transfer and benefits through economies of scale and scope; and better control of agents and the quality of their work. At the same time, compared to completely dependent hierarchical units it has benefits, such as: easier adaptation to local markets; higher motivation of franchisees who act somewhat as independent social entrepreneurs; more autonomy and flexibility for franchisees to be innovative and creative; as well as more flexible and autonomous environment, which might make it easier to acquire workers – even on a voluntary basis. These represent many reasons why social franchising can be an attractive idea to social entrepreneurs who are willing to grow their business.

2.3.2. Differences between commercial and social franchising

Most of the characteristics described above are also typical benefits of commercial franchising. Yet, it must be noted that social franchising – due to the specific nature of social sector in general – differs from its traditional form in a few aspects. Some of the most important dissimilarities to consider between social franchising and commercial franchising pointed out by Ahlert et al. (2008) include:

- different objective,
- no transfer of investment risks,
- different customer base,
- attitude to franchise fees.

Probably the most influential difference is the general objective of the business. Social enterprises aim for maximizing impact, not profit, which means that the franchisor may be less commercial and rigorous in recruiting and managing the franchisees. Moreover, since measuring impact is much more complicated than measuring profit, the monitoring systems might be harder to implement and control (Smith, 2002). The customer target group is also often unlike in the commercial franchising, because social enterprises tend to serve their beneficiaries, which means that relying financially on them to bring high revenues – through for instance, establishing high margins on products or services – is not a valid solution in social franchising. Another significant difference is that while in commercial franchising there is a transfer of investment risks from the franchisor to franchisee – which is normally expected to motivate the franchisee – it does not always happen in social franchising (Ahlert et al., 2008). Therefore, it could be argued that an important stimulus for the franchisees is missing. However, as the social enterprise's work is driven by the goal of increasing social impact, lower risk of financial loss and failure should not affect much the motivation of the franchisee. Finally, fees are of less importance in social franchising. As social franchisees cannot always expect a return on investment, the franchisor should be willing to reduce franchise fees or even forego them and accept a non-monetary compensation in a form of, for instance, allocation of important information and quality data that can be used by the franchisor to further develop and improve the project (Schuhen, 2004). Therefore, it has to be acknowledged that although franchising offers considerable potential for expanding successful ideas to new locations for both the for-profit and not-for-profit initiatives, there are some notable differences between them, which lead to a somewhat altered approach in the case of social franchising.

2.3.3. The Social Capital Theory

As the movement of social entrepreneurship is in many aspects unlike other commercial forms of business, social franchising also differs in many ways from the traditional form. One of the main features setting the social entrepreneurs apart is their motivation to have a positive impact in the world, rather than simply earn money from executing their idea. Therefore, as they are highly socially involved individuals, Volery & Hackl (2010) argue that to get a full understanding of the use of franchising by social entrepreneurs, one more theory needs to be added to the ones previously mentioned (the Agency Theory and the Resource Scarcity Theory), which is the Social Capital Theory.

The Social Capital Theory, despite its relatively young age, has been growing in popularity in recent years. Researchers from numerous fields, such as sociology, political sciences, development economics have invoked the concept of social capital. It is also gaining importance in organization studies (Adler & Kwon, 2002). Pennar (1997, p. 154) defines it as “the web of social relationships that influences individual behavior and thereby affects economic growth”. Nahapiet and Ghoshal (1998) highlight the significance of the assets within the network saying that social capital is “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit” (p. 243) and therefore “comprises both the network and the assets that may be mobilized through that network” (p. 243). Volery & Hackl (2010) identify two dimensions of social capital that cluster its attributes: the structural dimension and the relational dimension.

The structural dimension of social capital represents the patterns of relations in a social system, which is “who you reach and how you reach them” (Burt, 1992). Important features of this dimension are the structure of the social network and – resulting from it – the access to other members’ resources (Volery & Hackl, 2010). Granovetter (1973) and Burt (1992) focus on the bridging function of structural holes in social networks, which enable their members to access resources beyond those available in their own surroundings. In regard to franchising, this view can be considered as somewhat similar to the Resource Scarcity Theory, as it is concentrated on gaining more resources. However, the resources in this case are not simply acquired and used by the newly joined agent, but – as a result of the social relations – they are also accessible to other members of the system.

The relational dimension refers to the nature of social relations – their substance and quality. This dimension emphasizes the resources that are embedded in and activated through social relations, namely trust, identity and norms (Volery & Hackl, 2010). Trust is the willingness of one party to be vulnerable to the actions of the other party, based on the expectations of their goodwill and competence, irrespective of the ability to control or monitor them (Mayer, Davis & Schoorman, 1995) and it is both a requirement and an outcome of social relations (Blomqvist, 1997). Identity can be defined as the perception of unity with or belonging to some human aggregate (Ashforth & Mael, 1989) and plays a very important role in collective networks. Social norms are rules, which are not enforced by law, yet regularly complied with (Posner, 1997). Coleman (1990) points out the value of closed networks with high number of ties between their members, which makes it possible for such norms to emerge and be executed. One particular norm, which can be especially relevant for social entrepreneurs, is the norm of reciprocity, meaning the obligation to return someone else's favor (Cialdini, 2009).

Volery & Hackl (2010) point out that in order to properly understand how social franchising works, one must pay attention to the way social entrepreneurs behave as economic actors. Traditionally in economics the concept of *homo economicus* is employed to describe economic actors as being self-interested, behaving rationally and striving for profit maximization (Ng & Tseng, 2008). The result of such view is a short-run perspective, especially prevalent in the Agency Theory, which encourages a rational actor to prioritize the actions that can create direct positive returns. However, it is not always right, particularly when dealing with highly socially engaged individuals for whom cooperative behavior is natural. Thus, Volery & Hackl (2010) suggest diverging from the idea of *homo economicus* and adding the element of reciprocity from the Social Capital Theory. This would imply that the actors also examine the long-term view where obligations, rights and returns will even out in a closer or further future. When the norm of reciprocity is integrated into the idea of *homo economicus*, it is transformed into another concept named *homo reciprocans* (Fehr & Gächter, 1998) and cooperative behavior becomes reasonable from a rational perspective (Adler & Kwon, 2002).

According to Morgan and Hunt trust, commitment and identity are crucial in any relationship. They claim that "when both commitment and trust are present, they produce outcomes that promote efficiency, productivity and effectiveness" (1994, p. 22). For social franchisors and franchisees it means that they are encouraged to work together and avoid opportunistic behavior, because they aware of the long-term benefits that they can derive from investing in preserving their relationship.

Hence, the relational dimension of social capital leads to cooperative behaviors inducing successful relationships within the franchise system.

It is important to point out, however, that there can also be a downside to social capital. Although the literature mostly emphasizes its benefits (Portes & Landolt, 1996; Portes & Sensebrenner, 1993), social capital may also have undesirable effects. Four negative consequences of social capital have been identified by Portes (1998), namely exclusion of outsiders, restrictions on individual freedoms, excessive claims on group members and downward leveling norms. Many researchers have focused especially on the aspect of solidarity. While in general it is seen as a positive and encouraged feature, it can also result in over-embeddedness, which may reduce the flow of new ideas into the network and may cause parochialism and inertia. As Powell and Smith-Doerr notice, “the ties that bind may also turn into ties that blind” (1994, p. 393). Taking that into consideration, it needs to be noted that the bigger the influence of social capital in the network, the higher the chance of it also creating obstacles.

2.4. Challenges of franchising

2.4.1. Important elements of franchise systems

The choice of franchising as a form of expansion, in spite of all the previously mentioned benefits that it offers, also results in specific challenges. Therefore, researchers have been identifying what affects the success of a new franchise system.

One of the most important features affecting the success or failure of the expansion is the potential franchisor’s readiness to grow (Richardson & Berelowitz, 2012). This includes defining the innovation to be scaled up, which means recognizing which parts of the business are critical for success and which could possibly be changed without jeopardizing the impact (Dees et al., 2004). The process of identifying these also involves realizing what features of the original enterprise can be effectively transferable to another location. Such features can include elements of system and structure of the business, but also its intangible components, such as culture and knowledge. Moreover, in order to be ready for replication, the operational systems and procedures need to be well functioning, finances should be stable and sustainable, and the business model must be clearly understood and codified (Richardson & Berelowitz, 2012). The model needs to prove that it works – as Dees et al. (2004) state, "there must be objective evidence of success that is not dependent on unique leadership or circumstances" (p. 30). Shane & Spell (1998) argue that a company's initial choices in pricing, operations and services have powerful consequences for its growth and overall success. If the company makes wrong choices in the very beginning, it can cause them various problems when their business grows. They also claim that – what can be considered another aspect of an organization's readiness to expand through franchising – a strong brand name is usually a good indicator of a franchise system's success. A known brand makes it easier to attract potential franchisees, as well as customers at a new location. However, new enterprises that are planning to expand rarely have an established brand name. A company willing to grow through a franchise system needs to consider all these factors in order to determine if it is ready for taking such a step.

The next important aspect for a franchise system to consider is the right selection of franchisees, especially the choice of people to fill in new positions (Bradach, 2003). Ideally, they should have necessary managerial skills to run the outlet, as well as experience in the specific industry and the knowledge of its reality. However, in reality it is usually difficult to find and attract such skilled people. Moreover, the personality of the franchisee's owner must not be neglected. Wattel (1968) suggest that there are significant differences in the personal qualities that are needed by a franchisee and by an independent owner. He argues that franchisees do not need as much planning ability, creativity and competitiveness; instead, they require a highly cooperative personality, which includes the ability and willingness to follow decisions, policies and routines established by others. He also claims that the franchisors need to consider the trainability of the potential franchisees. There is a need not only for the initial training, but also consistent follow-up trainings when systemic changes occur. Even though the potential candidates may seem motivated and skilled, their ability and willing to learn systems and procedures may be not that good. According to Wattel (1968) self-selection can be helpful – the candidates trying hard to become a franchisee will most likely be the ones willing to work hard to achieve the business goals too. Therefore, selecting the right people seems to be one of the main challenges of franchising.

A proper selection of franchisees seems to also be important in order to ensure another success factor for franchising – good communication between the franchisor and the franchisee. Having chosen the franchisees, the franchisor must build support for their strategic decisions. In order for all the parties involved in the franchise system to share a common understanding of what is needed to succeed, they need reliable ways to exchange their ideas, knowledge and experiences (Chell & Tracey, 2005). Denying franchisees a voice makes them feel alienated and reduces their commitment level (Tracey & Jarvis, 2006). Frequent communication can create close and committed ties (Huber & Daft, 1987), reduced operating costs (Cannon & Homburg, 2001), increases cohesion among teams and decreases organizational conflict (Peters & Fletcher, 2004). Reciprocal feedback, which emphasizes the importance of "two-way" conversations (Joshi, 2009), is an equally valuable component of good communication. It reduces ambiguity and uncertainty in the relationship (Daft & Lengel, 1986). Exchange partners tend to also be more patient with the partners whom they have good feedback with (Anderson, Lodish & Weitz, 1987) and Huselid (1995) proves that proper feedback has a positive influence on financial performance. The higher the commitment of franchisees, the less time and capital the franchisor needs to spend on monitoring them.

Furthermore, a very important element of a successful franchise system is having enough resources for its creation and maintenance. Although franchising, as indicated by the Resource Scarcity Theory, is a form of acquiring resources that would otherwise take much longer to obtain, it needs to be acknowledged that any expansion requires incremental resources. Hence, the need for entrepreneurs to have a plausible resource plan in mind before expansion. The financial model may be adapted to local conditions by considering if the innovation can be spread in a way that could reduce costs while retaining effectiveness and if there are opportunities to generate new reliable revenue streams (Dees et al., 2004). The ability of a franchise to sustain itself without help of the headquarters is yet another feature of a successful franchise systems (Shane & Spell, 1998). The local demand must be high enough to ensure sufficient revenues for the franchisee. The financial model should also be standardized as much as possible in order to achieve transparency and easiness of replication (Dees et al., 2004). Finally, the franchisor needs to consider the resources needed to monitor and manage the entire network. This is also affected by the relationship between the franchisor and the franchisee – when the need to control the outlets is high, the initial organization can run the risk of suffering as a result of becoming overstretched managing franchisees (Richardson & Berelowitz, 2012). The need to meet all the above-mentioned conditions seems to create a lot of possible challenges for a new franchisor.

2.4.2. Motivation to franchise and associated challenges

The above-mentioned factors influencing success or failure of an enterprise's growth through franchising are affected by various external and internal circumstances. The first aspect that has a very big impact on these factors is the entrepreneur's initial motivation to franchise – the explanation to why this particular form of expansion had been chosen. This has been characterized in chapters 2.2.2 and 2.2.3 using the Resource Scarcity Theory and the Agency Theory. Table 2 describes the potential influence of the motivation to franchise provided by these theories on the previously mentioned factors for success of a franchise system. The Social Capital Theory, even though it is not a typical explanatory theory for the motivation to franchise, has also been included there, since it has especially much relevance for social entrepreneurs and it somewhat complements the Agency Theory. A more detailed description of the challenges is presented in Table 2.

The Resource Scarcity Theory claims that the main motivation for a business owner to choose franchising as a way to expand is the shortage of financial and managerial resources, which are meant to help with a rapid expansion. Since fast growth is so important to a cost-competitive establishment of a new franchisor's brand name, the business owners might be prone to concentrating too much on absorbing new resources and that can result in overlooking other important aspects. A company rushing to expand might not yet be fully prepared to grow. The crucial elements for replication may be not chosen yet and the operations and systems not yet proven efficient. The franchisor may also neglect basing the franchisee selection on their personal features, overlooking this significant element because of the focus on their available resources. Moreover, the communication between the parties could be distorted by the franchisor's general preference for full ownership – as indicated by the concept of "ownership redirection", the owner of the venture would be willing to eventually repurchase the franchisees – therefore, there is a risk of the franchisor negatively influencing the relationship by trying to execute too much control over the outlets. Finally, the franchisor should not forget about the need for incremental resources when growing the system, as well as time and capital needed to manage it.

Success Factors	Potential Challenges		
	Resource Scarcity Theory	Agency Theory	Social Capital Theory
Readiness to expand	Too much rush to expand the business	Overlooking the replication of crucial elements when focusing on final goals	*Not much influence*
Selection of franchisees	High focus on resources resulting in overlooking other aspects	Neglecting candidates' skills in favor of their motivation	Too much focus on personal traits
Franchisor–franchisee communication	Executing too much control over franchisees	Relying only on initially composed written contracts	"Group thinking" resulting in limited freedom to innovate
Resources	Neglecting the need for incremental resources	Not enough focus on franchisee's resources	Excessive claims on others in the system

Table 2: Potential challenges to expansion through franchising according to the Resource Scarcity Theory, the Agency Theory and the Social Capital Theory (Source: own analysis)

According to the Agency Theory as a motivation to franchise, the entrepreneurs are willing to expand their business anyway and they choose franchising as a way of doing it because of the possibility to align their goals with the agents. Therefore, they should have their business model already prepared for replication. Nevertheless, they need to make sure that all its elements identified as crucial for replication are in fact put into effect, as the focus on final objectives – which in commercial franchising are usually financial – might cause the franchisee to steer away from other brand-building components, such as culture or service quality. When selecting the franchisees, the franchisor may overestimate the value of motivation to achieve similar goals and not examine the candidates' skills and qualifications thoroughly enough. The Agency Theory also uses explicit contracts as the main source of rules and norms. This can affect the franchisor-franchisee communication negatively, as such a system might not leave enough space for open discussions and reciprocal feedback. The franchisor must also carefully consider if the franchisees will have enough resources and local market knowledge to be able to sustain themselves.

The additional Social Capital Theory is focused more on the situation and behaviors within the network when it's already created, so it does not have much influence on the organization's readiness to expand. It does, however, affect especially the entrepreneurs who have a stronger belief in the value of creating a social network. When selecting the franchisees, they might be driven towards focusing on the personal traits of the candidates – such as ability to co-operate with others – and undermine the importance of their skills and experience, as well as their accessibility to resources. Considering resources, one of the risks of exploiting social capital is when too much trust and cooperativeness leads to excessive claims on others in the network (see chapter 2.3.3) – the parties might start to be dependent on each other's resources instead of striving for self-reliance. Finally, the feeling of solidarity and identification may distort effective communication when the parties involved turn to "group thinking", resulting in limited freedom for introducing innovation.

2.4.3. Challenges for social franchise systems

In addition to the challenges experienced by all new franchise systems, social entrepreneurs may experience additional or different difficulties due to the dual nature of their ventures. The researchers typically claim that they need to balance their social and economic objectives and be clear when communicating the importance of this balance to the franchisees (Pharoah et al., 2004; Tracey & Philips, 2007). Social impact is definitely the primary goal of a social enterprise, but it can be very difficult to achieve ambitious social objectives if they are not supported with a strong business model. This might mean that the franchisees have to sometimes compromise their social goals in order to achieve financial sustainability (Tracey & Jarvis, 2006). However, it may not be easy to convince the franchisees about the need for such compliance, especially if social impact is the reason why they decided to establish the franchisee in the very beginning.

Another possible challenge for social franchisors seems to be the selection of franchisees. Finding candidates with the requisite social commitment tends to be easier than finding ones with the ability to manage a profitable business. However, franchisees with business experience are more likely to lead a commercially viable social venture (Tracey & Jarvis, 2006). If franchisees have no commercial track record, the franchisor needs to educate them about franchise management and that involves spending time and other valuable resources (Bradach, 1998). Seeking proper candidates may also be more difficult in a social franchise system than in a commercial one, as for many social entrepreneurs autonomy is an important part of their psychic income and they prefer building their own ideas to implementing someone else's (Bradach, 2003). The struggle of selection may cause the franchisors to lower their standards – especially the entrepreneurs with new concepts may have considerable difficulty in finding suitable applicants (Bernstein, 1968). If the innovation will be implemented incorrectly or fail to achieve its intended impact, both parties will not only have wasted significant amount of time, money and other resources, but the reputation of the franchisor and the credibility of the innovation will also suffer (Dees et al., 2004).

There are also differences in the aspect of communication between the franchisor and franchisees. On one hand, social entrepreneurs are typically more involved in social behaviors (Volery & Hackl, 2010), so trust and co-operation play a great role in their relationships with others. However, this seems to be able to cause a certain conflict of interests, because the need for control may be higher in social franchises than in the commercial ones, since the success of social franchises is measured in social impact – including the long-term one – and that is much more complicated to determine than financial results (Smith, 2002). Moreover, contrary to its commercial version, social franchising frequently requires dealing with organizations rather than individuals. Such organization-based franchisees will most likely already have prior commitments, culture or clientele (Dees et al., 2004). This may be a source of trouble when the specific systems or organizational culture have been identified as crucial for replication and need to be implemented in such a franchisee.

Finally, social enterprises often operate under difficult working conditions. The ones situated in the developing areas of the world can be subject to poor transportation, road conditions and infrastructure including lack of electricity or running water. They can experience bad communication infrastructure and lack of information technology, as well as poor supply chain capabilities of the market (Seid, 2009). Furthermore, social ventures often decide to employ disadvantaged people in order to enhance the social impact. Regardless if they are the franchisee owners or store-level employees, they might not have the necessary qualifications for their work and need to be trained. However, even after such trainings an employee may not perform the job well. Yet, it is very difficult to dismiss such an employee, because he or she is also supposed to be a beneficiary of the program (Tracey & Jarvis, 2006). And even if there is no problem with the employees or infrastructure, the consuming public might be unable to pay the full price for products and services provided by the enterprise (Seid, 2009). All these factors can make the already difficult situation of social franchise systems that try to succeed even more challenging.

While the researchers suggest that many of these factors may result in challenges for social enterprises that expand through franchising, still a lot is yet unknown about this topic. Some of the features of a social enterprise seem to be causing difficulties when franchising, which might not be experienced by commercial franchise systems. Nevertheless, much of this theory is based on assumptions that social enterprises are businesses that are operated by different people under different conditions that typical commercial ventures and that is why their experience of franchising should also be different. However, the authors of the previously referred theory have not necessarily carried out a research in order to prove if these assumptions are true. Therefore, this study aims to check to what extent the theory matches the reality.

3. Methodology

This chapter describes the research design selected for this study, explaining the reasons behind choosing the particular method and approach, as well as the specific case to investigate. It also provides a detailed explanation of the ways in which data was collected and analyzed, including an understanding of possible limitations for the study caused by the selected research method.

3.1. Research design

Typically, researchers distinct three possible purposes of a study: explanatory (also known as causal), descriptive and exploratory (Saunders, Lewis & Thornhill 2009). An explanatory study puts major emphasis on determining cause-and-effect relationships, while developing new theories and explanations for the investigated phenomena (Mills, Durepos & Wiebe, 2010). Descriptive studies require an already established picture of the phenomenon in order to assess a sample based on the theoretical statements, so the phenomenon must already be scrutinized and articulated prior to conducting the research (Mills et al., 2010; Saunders et al., 2009). On the contrary, the aim of an exploratory study is to gain more understanding and discover new ideas about the analyzed phenomenon without too much of a focus on explaining why it happens. Such a study is appropriate when the goal is to learn more about less known circumstances (Saunders et al., 2009) and it enables the researchers to investigate "what is happening; to seek new insights; to ask questions and to assess phenomena in a new light" (Robson, 2002, p. 59). Since little has been written by researchers so far about the challenges that are faced by social enterprises when expanding through franchising, this study contributes to the exploration and enhanced understanding of an emerging concept and is therefore of an *exploratory* nature.

An exploratory study is typically associated with an inductive research approach, where the researcher develops new concepts or models through interpretation of empirical data (Thomas, 2006). Since the goal of this study is to gain new insights and obtain more understanding about the challenges experienced by social franchises, an inductive approach is applied here to a certain extent. However, some of the already existing theories are also used in order to examine the consistency of previously developed theoretical assumptions with the findings from the empirical data, which is known as a deductive approach (Thomas, 2006). Therefore, combining the two, an *abductive* approach is followed in this research, which means that the empirical data is interpreted in the light of theoretical preconceptions and there is a dialogue between the conceptual and empirical investigation (Järvensivu & Törnroos, 2010; Suddaby, 2006). Such an approach allows the researcher to be more flexible than when using the traditional inductive and deductive approaches, leading to generation of new ideas (Suddaby, 2006). Concerning this study, it means that the existing theories on franchising and its possible challenges for social enterprises are used for comparing to real-life situations and developing new concepts based on that comparison. Yet, as Järvensivu & Törnroos (2010) notice, when using the abductive approach, one has to be careful not to let the initial theoretical insights suppress the generation of new ideas. Therefore, in this study the analysis is supposed to be based mostly on the empirical research, using the theoretical framework mainly as guidelines. The research has gradually developed over time with such an empirically driven approach.

According to Conger (1998, p. 108), using a qualitative research method is more appropriate than a quantitative "in the exploratory phases of researching a topic area". It is especially relevant when the study aims to build new theories through understanding social processes and requires direct access to the organization and people involved in it (Holme & Solvang, 1997). Bryman and Bell (1997) argue that a qualitative study enables the researcher to capture the complete meaning – hence, get a thorough understanding – of the people's comments, statements and perceptions. Franchising involves many social processes and much interaction, so it is important to conduct an in-depth observation of the social aspects – which would be difficult with a quantitative approach, as it makes it complicated to describe social interaction and put social values and norms into context (Ahrne & Svensson, 2011). For these reasons, a *qualitative* method is used in this research. Such approach also allows for a holistic view (Holme & Solvang, 1997), which makes it possible to connect all the potentially significant aspects of the study in order to properly answer the research question. Since this research is – as mentioned above – of an exploratory nature, not all of these elements are known in advance. Therefore, it is crucial to keep an open mind when conducting the research and a qualitative method allows for much more flexibility in this regard than a quantitative one.

Given the exploratory nature of this study with the chosen abductive approach and qualitative style, a case study method has been selected to conduct this research. According to Yin (2003), case studies are suitable when “how” or “why” questions are being asked, which is typically the target of an exploratory study, such as this one. Stake (1994, p. 244) claims that they are an appropriate research form to be used when “opportunity to learn is of primary importance”. Case studies enable researchers to generate new theories (Benbasat, Goldstein & Mead, 1987) and allow for a holistic study of a phenomenon (Yin, 2003). A case study approach is also favorable when there is little previously done research in the field (Miles & Huberman, 1994). Hence, it can be considered a natural choice when researching the still novel idea of social enterprises expanding through franchising. Furthermore, social enterprises are usually strongly influenced by the external conditions they operate in (because that is where they are trying to bring the social impact), so it is important not to separate the subject of the study from the context. Using a case study enables facilitation of rich data in a specific context (Hartley, 2004). Yin (2003) also believes that case studies are preferable when the focus is on the events happening in a real-life context.

Another possible research method aiming to answer the “how” and “why” questions could be an experiment or an observation. However, an experiment requires a certain degree of control over the events (Yin, 2003) and that would not be feasible in this case, as well as not really relevant, as the point was to investigate real-life situations without having any influence on them. An observation, on the other hand, could also be applicable here. Nevertheless, such a method normally requires longer periods of time spent with the organization (Saunders et al., 2009), which would not be possible due to the limited time frame of this research. Therefore, a case study was considered the most appropriate choice of a research method here and, owing to the fact that it included interviewing people directly involved in the investigated processes, also a very interesting one.

3.2. Case selection

Once the case study method has been selected for the research, the next decision concerned choosing either a single case or multiple cases to investigate. Both approaches have their benefits and drawbacks. Analyzing several cases can increase external validity, as well as support preventing observer bias to emerge (Voss, Tsikriktsis & Frohlich, 2002), which makes withdrawing generalized conclusions easier. However, as this is not an explanatory but an exploratory study, finding universal strategies to avoid or prevent the difficulties that social enterprises experience when franchising is not as important as performing a deeper investigation in order to explore what these challenges actually are and where they come from. Therefore, analyzing a single case seemed to be more adequate, since it allows for a greater depth of observation (Leonard-Barton, 1990). Furthermore, using a single case keeps variables caused by the external conditions constant, which is also important because social enterprises are highly integrated into the environment they operate in. Moreover, Yin (2003) argues that a specific situation making the use of a single case preferable is when the case study represents a critical test of the existing theory. That means that the selected case study is set in a context in which all the conditions for testing the theory are believed to be correct. As this research takes on an abductive approach, aiming to compare theory with empirical data from real-life situations, it can be considered as a way of testing the existing theory. Therefore, the use of a single case in this research is a reasonable choice, as long as the case meets all the necessary criteria needed to provide a thorough examination of the subject that results in bringing reliable outcomes.

There were several important criteria that needed to be fulfilled when selecting the right case for this study. First of all, the chosen organization had to meet the conditions from the definition of a social enterprise used in this research (see chapter 2.1.1). Therefore, its primary goal needed to be creating positive social impact, but it also had to be fully self-sustained financially. This was an important point in the selection process, as some organizations calling themselves social enterprises are in fact a mix of a social enterprise and a charity or a foundation, since they are partly financially supported by various donors. Such cases were eliminated in the selection process. Secondly, in order to have a better overview of the possible challenges that the franchising social businesses may experience, the chosen company needed to be one that had already established several franchises but is still in the ongoing process of expansion. This way both the events from the past and the contemporary ones could be analyzed, providing the study with insights not only on what the challenges experienced by the franchising organization are right now, but also about how they changed over time – in different stages of development – and what their consequences were. Finally, another essential factor for selection was having an access to the executives of the organization, with whom it was possible to conduct reliable interviews where they would describe their experience in detail and not simply try to put their business in a good light, but talk openly and honestly about the troubles they have been facing.

Searching for such a case was initially a challenge since expanding social businesses through franchising has only recently become more popular and there are still not many organizations that already have some experience in the process. Nevertheless, after contacting several of such companies, one of the cases has been selected as the most appropriate one – concerning the amount and quality of information possible to obtain from them, as well as the feasibility of conducting the study. Furthermore, choosing this particular case allowed to get in touch more easily with the people at the company, as well as ensure higher reliability and quality of the data provided by them in the interviews, since they were contacted through an intermediary (see Hartley, 2004) – an acquaintance who is also one of the executives in this social enterprise.

3.3. Data collection

The exploratory research of the case was conducted through deep semi-structured interviews with company representatives. Semi-structured interviews are one of the most commonly used methods of performing a qualitative study, as they present many advantages. The most significant is the fact that the open-ended technique gives the respondent time and space to elaborate on certain views or ideas, which contributes to a better understanding of their answers by the researcher. At the same time, while the researcher guides the focus of the interview, there is still enough flexibility to shift the conversation into certain topics and allow for the issues to be discussed in a way that would prove to provide the most of essential information about the investigated situation (Longhurst, 2003). Semi-structured interviews allow the researcher to cover the same general area of information with each of the interviewees, while still giving the opportunity to ask follow-up questions and obtain unexpected findings (Gillham, 2000). Therefore, this method seemed to be the right choice in order to provide the best quality of the information for the case study. Semi-structured interviews are also recommended when the researcher might not get another chance of interviewing the person (Bernard, 1988). This was another reason why such interview type used, as with most of the respondents it would be difficult to conduct interviews more than once. Even in the cases where it would be possible, it was not considered time-efficient and both parties agreed that one longer deep interview is a better option than a few shorter and less detailed ones.

The interviews were conducted with ten people from the organization: the Managing Director, the Business Development Manager, the HR Manager, the Credit Manager, two Regional Managers and four Franchise Owners. The Managing Director and the Business Development Manager are also the co-founders of the organization, so their participation – as the initial franchisors – was essential for this research. They could provide detailed information on the development of their franchise system over time, as well as their opinions on the challenges that such an expansion form creates. The HR Manager is responsible for recruiting and training the franchisees – therefore, her insights were also highly valuable. The inputs from the Credit Manager helped to get a clearer view of the financial situation in the franchise system. Each of the Regional Managers supervises eight of the franchisees, making him an important mediator between the franchisees and the headquarters and the person who could comment on the challenges from both perspectives. Finally, four of the franchisee owners also shared their opinions on what they believe to be the most troublesome and the most important aspects of succeeding in a franchise system as a social enterprise.

The interviews lasted approximately from 40 to 60 minutes and were conducted over the phone or via Skype. Following the advice of Voss et al. (2002), the respondents were accustomed with the purpose of the interview in advance in order to properly prepare for it. They were also assured about keeping their names anonymous in the study, which was considered to be an important factor especially when talking to franchisee owners – otherwise there was a possibility that they could not be feeling comfortable enough to honestly discuss the issues concerning their communication with the headquarters. Therefore, the people in the case study will be referred to by their positions in the organization and not their names, which should not reduce the value of their opinions in any way though. The interviews were constructed using a funnel model (Voss et al., 2002), meaning that they started with broad open-ended questions and became more specific as the conversation continued. The questions were also adjusted depending on the position of the person in the organization and – because their roles in the organization are not similar – two different interview guides were used for the franchisors and the franchisees. Nevertheless, the interview guide was used more as a tool for giving direction to specific topics and it was not followed too strictly, as some of the interviewees would share a lot immediately, while other respondents had to be asked for more specification and elaboration on the discussed issues. At times, a topic not included in the interview guide would also be picked up during the conversation, as it could bring more insights to the research.

In addition to the interviews, the studied organization also provided some company documents to be used as sources of secondary data for the case study. These documents included company presentations, the franchisee manual, franchisee training materials, monthly reports and company newsletters. They were used mostly as supporting materials in order to create a better understanding of the company situation and the systems that are implemented in their franchise network. A few interviewees also referred to some of these documents in their responses and the materials could then be used for clarification of the discussed concepts.

3.4. Data analysis

After collecting the data from the interviews, the next step was to conduct an analysis of the obtained results. As suggested by Yin (2003), the interviews were firstly looked at individually. This allowed for getting a clear and coherent understanding of what had been said or implied in the interview. The challenges that each respondent talked the most about and highlighted as the hardest to cope with were recognized, as well as their views on different aspects of franchising. After all the interviews had been conducted, the results from the interviews were compared in order to find certain patterns and pinpoint the main challenges of social franchising recognized by the interviewees. While doing that, the role of the interviewed person in the company and their relation, as well as attitude, to the specific challenge were also taken into consideration. Furthermore, a somewhat higher level of importance was given to the challenges identified by the franchisors than by the franchisees, since the challenges for them are the main concern of this research. After the patterns were identified and the most difficult areas of franchising pinpointed and categorized, the data from the interviews, as well as from company documents, was used in order to also find out how the company coped with the challenges that they had experienced.

Once a clear view was established on the challenges experienced by the social enterprise when franchising, the next part of the analysis included identifying similarities and differences of these difficulties to the ones experienced by commercial franchises, as well as the degree to which they are different. In order to do that, the data obtained from the case study was compared to the already existing theories on franchising presented in chapter 2. The theoretical framework was also used to further analyze why the challenges for social franchise systems might, or might not, be alike with the commercial ones. This comparison allowed compiling the empirical data from the case study with the previously researched theories into a sound analysis, which led to new findings. The results of this analysis were further reflected on, which brought the final theoretical, as well as managerial, implications.

3.5. Limitations and credibility

As the study is set and conducted within a limited scope and specific context, there are various aspects to consider when assessing its credibility. Depending on the type of the research, there can occur different limitations to its credibility and, as a result, different ways to evaluate it. Qualitative research and case studies are often more criticized, regardless of their widespread use in the organizational research. However, according to Buchanan (2012) it is less a result of their poor design or improper methodology than of the conflict between positivist and constructivist epistemologies.

Therefore, the credibility of a case study should not be considered inferior to the one of a quantitative research simply because of its qualitative nature. Nevertheless, there are certain limitations to it, which need to be remembered when the aim is to make the results of the study as credible as possible.

The main concern when assessing the credibility of qualitative studies is usually their objectivity, described as a relative neutrality and freedom from unacknowledged researcher biases (Miles & Huberman, 1994). In order to minimize possible biases and keep the objectivity level high, all the interviews were recorded and transcribed. This, as well as referring to quotes of the respondents, allowed for putting more focus on the actual content of the interviews regarded as raw data, instead of turning to immediate interpretation of the interviewees' words. In order to ensure that the respondents would honestly answer the questions, they were assured of their anonymity in the research and the fact that the results of the interview would not be used anywhere else than this thesis. They were also asked if they felt comfortable with the interviews being recorded and none of them had any objections. Additionally, the findings from the interviews were supported by company documents (see chapter 3.3), which were deemed a relatively objective source of data and not possible to be influenced by researcher biases.

Another significant aspect to consider when assessing the credibility of a study is its reliability, meaning the extent to which the study could be repeated with the same results (Yin, 2003). It could be argued that choosing a different set of people to talk to could have made some difference in the outcomes. The main difference could be to interview different Franchise Owners, who could bring other insights from their perspective. However, the main findings from the study concern the franchisor's side and not much could be changed here, as most of the people from the headquarters – and both founders – were interviewed in this study. As their opinions were the most valuable and brought the most important information, it can be assumed that if the study was to be repeated – even with a different set of Franchise Owners – the final outcomes and conclusions would be very similar.

The next quality aspect often discussed is the internal validity of the research. That means finding out if the outcomes of the research make sense and give an authentic portrait of the reality (Miles & Huberman, 1994). In order to achieve that, the interviewees were asked clarifying questions if anything seemed unsure. During the analysis, some follow-up questions were also asked to the franchisors, who answered each of the questions broadly and supported some of the answers with the information from other sources, such as company reports, which enhances the validity of the results (Yin & Campbell, 2003). Therefore, it is believed that the case study and its analysis do not present a distorted view of the reality. A way to ensure that would be to have the interviewees read the findings and the analysis, however, the value of such confirmation was not considered worth the time and effort it would take. The fact that the transcripts of the interviews were supported by organizational documents – and the availability of asking follow-up questions – seemed to bring enough internal validity to the research.

Finally, there is an issue of the external validity of the study – the extent to which the outcomes of this research can be generalized to a broader field (Voss et al., 2002; Bryman & Bell, 2007). In the case of this thesis, it would infer that its conclusions could be applied to any other case of a social enterprise. Conducting the analysis based on only one case can be used as an argument to question the generalizability of the research. Nevertheless, as it was stated before (see chapter 3.2), it is not the main goal of this study to invent solutions or strategies that could be applicable to every social enterprise, but to explore more of this, rather unknown yet, field. Nevertheless, the comparison with the theory allows for withdrawing certain inferences of how the challenges for social franchises may differ from the ones for commercial ones. Therefore, even though the main aim of this study is not discovering standardized solutions, some patterns were found that could be applied to other cases of social enterprises expanding through franchising.

4. Empirical Case – SolarNow

This chapter provides the empirical results from the case study interviews and secondary data. In the first part it presents the background and short history of the investigated organization, as well as its business model and the motivation for franchising, while the second part presents the findings regarding the challenges experienced by the company when expanding through franchising.

4.1. Company overview

4.1.1. SolarNow – a solution to Uganda's development obstacle

The case investigated in this research is SolarNow, a social enterprise operating in Uganda with a mission to make solar energy accessible and affordable in the rural parts of the country. In a country where 83% of people live in the rural areas and only 6% of rural households have access to an electricity grid[1], being able to afford an independent access to an energy source makes a huge difference in the quality of everyday life. The users of solar energy systems can have better access to communication and information through the radio and their mobile phones, children can study in the evening with better quality light and in general, people can spend more time on both income-generating and leisure activities. Solar energy systems also provide more of a "green solution" to the typically used kerosene lights and candles, as replacing them with solar energy not only saves money for the users, but also improves air quality in households and reduces fire risks. It reduces carbon dioxide emissions and by improving the quality of life in the poor rural areas, using solar energy can even contribute to reducing migration to often over-populated urban centers. Therefore, making solar energy affordable and accessible brings many benefits for the inhabitants of the rural regions of Uganda and can be considered a big step towards speeding up the country's development. Through its actions, Solar Now is aiming to achieve this social goal. As the company's Business Development Manager claims:

[1] All the numerical data in this chapter comes from SolarNow company documents.

“At SolarNow we see a future where solar energy leaps past the era of centralized, high-cost power plant electricity distribution, just as mobile telephony overtook the development of landlines in Africa”.

4.1.2. NGO turned into social enterprise

The SolarNow initiative started in 2007 as a program of the Rural Energy Foundation, a Netherlands-based NGO focused on the solar energy supply chain, which directly addressed the issue of the solar energy sector lacking the necessary scale to have a real impact on the rural communities. The aim of the NGO was to identify retailers and distributors, train them in solar energy technology, marketing, sales and business administration, and then help them establish their businesses selling solar energy products. The Rural Energy Foundation did not charge for its services, only monitored its operating costs in relation to the value of the sales. The foundation was grant-funded by the DOEN Foundation (through the Dutch lottery) and the Dutch Ministry of Foreign Affairs, as well as several other foundations and individuals. It has proven to be successful in introducing Ugandans from the rural regions to solar energy and many of them purchased solar lanterns or solar home systems. Nevertheless, the global financial crisis had a negative impact on the funding of the foundation’s actions. Even though the impact of the increased use of solar energy was clearly visible, the NGO form of the organization could not be considered a sustainable option anymore. As the Managing Director stated:

“We wanted to reduce dependency on donor funds because it was not sustainable given the economic situation at that time. Donors were cutting aid because of the effects of the credit crunch. Starting a social enterprise was a more sustainable way of doing business”.

Therefore, in the mid-2010 appeared the idea of transforming the foundation into a self-sustainable social enterprise, as an exit strategy for the Rural Energy Foundation. At the time, the foundation piloted a few projects that brought their own profits. One of the successful pilot projects was a hire purchase scheme for solar home systems, which managed to attract funding from initial investors and eventually became the core business of SolarNow. In addition to providing affordable solar home systems to bottom-of-the-pyramid customers, SolarNow also helps them with the financial side of such a purchase, employing the hire purchase scheme – a credit mechanism in which customers make regular payments until they cover the full price of their solar home system. As soon as this happens, the ownership title of the system is transferred to the customer. Therefore, the enterprise works not only as a distributor and retailer of solar energy products, but it also incorporates some functions of a financial institution. The business model of SolarNow is explained in the following section.

4.1.3. Business model of SolarNow

SolarNow sells solar home systems of 50W to 500W with a price range of $330 to $3000, which provide energy for 10 to 20 years, depending on usage. The product is targeted at off-grid customers in rural areas, who can use it both for residential and commercial purposes. The product is more expensive and offers higher levels of power than solar lamps or micro solar products and it requires installation and wiring in a brick building with a solid roof. Considering these requirements, a SolarNow home system is a serious investment by a household, which creates a certain degree of self-selection of the target market by rural families and businesses with relatively steady incomes. Typical customers include rural professionals, institutions and small businesses, as well as households with main income coming from farming, supplemented by some additional forms of income, such as remittances or microenterprise activities. According to the company's estimations, the target group, defined by off-grid households with an income of more than $2 per day, constitutes around 1.9 million households in the entire country. So far, only 45,000 of them own functioning solar home systems.

The unique selling point of SolarNow is the high quality of their solar systems and the fact that the company's interaction with the customer does not stop at the moment of purchase. Apart from selling, the company also installs and services the solar home systems, providing a 24-month warranty and free maintenance period. Even more importantly, SolarNow ensures affordability of the systems for many customers by providing them with an opportunity to buy products through a 12-month hire purchase arrangement called PayPlan. The company conducts a credit assessment of the possible client and if the outcome is positive, the customer makes a down payment of 25% or 50% of the total cost of the system and pays the rest in equal 12-month installments. After the initial payment is made, the system is dispatched and installed within the next 14 days. In order to ensure quality and establish a better relationship with the customer, SolarNow makes on-site inspections within 30 days and then again in the next three months. The hire purchase system with a warranty not only makes solar home systems affordable for more people, but also works toward building a strong and credible brand in an environment where solar systems often have a weak reputation due to previous experiences with poor quality and fraud.

In order to ensure affordability and accessibility of solar energy for more customers, SolarNow design the products based on modularity concept, which minimizes cost and maximizes simplicity of system installation and maintenance. Each system consists of a combination of 50W solar panels, maintenance free gel battery, inverter, charge controller, and internal wiring with a base station. A client can choose how many of the 50W panels he or she can pay for at the moment and after the system is fully paid for, they can easily upgrade by adding more panels to the system. The terms of the upgrade payment are also more favorable than for the initial parts, as a way of enabling – and attracting – already existing clients to purchase more. The Business Development Manager explains the model:

"Instead of having one solar panel of 100W, we supply two panels of 50W. So clients who want 100W but can't afford it will buy a 50W system first and upgrade after completing the final payment. Because we understand our clients, we know that their energy needs are always higher than their purchasing power. That is why we use PayPlan and modularity – to make sure that clients gets a solar system that fits their energy needs over a period of time, which they can afford".

The business model of SolarNow is based on an innovative idea of combining sales and service of solar home systems with an in-house credit facility. The founders of the company knew from the beginning that for such an innovative idea to succeed as a self-sustaining business and hence, have a real impact on the society, scale needs to be achieved.

4.1.4. Development of the franchise system

In 2011, after the founders of SolarNow decided to transform the project of the Rural Energy Foundation into a self-sustaining social business, the company was established and the first products were sold. At the same time, SolarNow executives knew that the success of the innovative business model of SolarNow depended highly on achieving scale. The need to expand was crucial for several reasons. Achieving economies of scale would help in driving down the costs and, as a result, help lower the prices of the solar home systems. It would also enable the company to order directly from manufacturers and avoid the charges, which were paid in the beginning when working with Ugandan importers. Furthermore, for the sales and installation procedures to be effective, the outlets had to be located near the customers, hence the need for geographical expansion.

In 2011 SolarNow bought all the assets of the Rural Energy Foundation. A few months later, the company got a $1 million loan from the Africa Enterprise Challenge Fund and the AlphaMundi Group. At the same time, the grant agreement with the Rural Energy Foundation had ended and the newly established social business had to start their operations in order to bring revenues and make the company financially self-sufficient. Therefore, in mid-2012 the exclusive franchise model was introduced. The Managing Director reasons the decision to choose such an expansion form with the possibility of accessing more resources and sharing costs:

"A franchising model depends entirely on entrepreneurial skills and resources to be successful. Franchising enables us to share costs with the entrepreneurs".

He also points out that proving that the concept can work in different places around the country was a factor influencing potential investor's impression of SolarNow. The investors were not confident about SolarNow's business model in the beginning, because the idea of having a one-stop center for products and financing was new and not verified yet. Therefore, using franchising could make the model work in different locations and provide SolarNow with the proof of concept for the investors.

The Business Development Manager also mentions the importance of ensuring same level of quality in the outlets in order to build a strong brand. He believes that choosing franchising as an expansion form helped in keeping the high quality level in all the branded outlets of SolarNow:

"Solar sector in Uganda has suffered from negative publicity because of poor quality products, poor installations and limited after-sales service. For SolarNow to succeed we needed to differentiate ourselves from competitors and with franchising we can control the quality of products and services offered to clients".

Therefore, a franchise system was introduced. SolarNow started setting up their first franchises in mid-2012 any by the end of the year 20 franchises situated all over Uganda were already selling and installing solar energy systems. By September 2013, this number has gone up to 35 outlets through which the company has sold over 2,700 systems, influencing the lives of around 20,000 people. The current goal of SolarNow is to scale up the business in a way that will enable 200,000 people have access to solar systems by 2015. The company is also planning to expand to Tanzania in 2014.

4.2. Elements of SolarNow's social franchising

4.2.1. Preparing for expansion

Achieving large scale has been the goal of SolarNow ever since the enterprise was first conceived. Therefore, the company executives were inventing and preparing the business model and the systems around it already with an expansion in mind. During the process, they tried to standardize and codify as much of knowledge and systems as possible in order for the model to be easily transferable to other locations. The franchisors have identified three crucial elements for replication:

- product range: affordable and good quality solar energy systems help strengthen the brand's position on the market;
- hire purchase mechanism: as high upfront costs are one of the major factors that hinder uptake of solar systems, this credit facility allows to reach a wider market segment;

- back-office management: an online enterprise management software used to track clients' payments ensures that all the important financial information is easy to access and always updated.

The information about all the procedures that need to be followed by franchises in order to ensure standardization of the replicated elements has been prepared in a few documents, which were later to be distributed to the franchises, the most important of it being the Franchisee Manual. The Franchisee Manual explains all the details of sales, marketing, credit assessment and even installation of the systems. One of the Franchise Owners comments:

"In the beginning it was a lot to grasp. I've had some technical experience of working with solar systems before, but there are many rules about sales, marketing and how to check if someone can get the hire purchase deal or not. When I was in doubt, I could always look it up in the Franchisee Manual".

The Franchisee Manual is regularly updated, as well as other documents, including Payment Plan manual, franchise reports, Regional Manager reports, and training materials. The payment software is also constantly under control. When codifying the knowledge and implementing the systems, SolarNow executives could make use of their experience with the project under the guidance of the Rural Energy Foundation.

4.2.2. Setting up new franchises

Once the business model was established and all the systems ready to be implemented on a larger scale, SolarNow could start setting up new franchises. The first step of the process was finding the right people to manage the outlets. In the initial phase, the company had a network of solar dealers that they worked with as a foundation, so they selected a few franchisees from this group. Then some of the employees also decided to become franchisees, like the ones who worked previously as technicians for the Rural Energy Foundation or were involved with the creation of SolarNow.

After contracting these franchisees, the company had to search for new ones. SolarNow wanted to expand rapidly and establish numerous franchisees, however, not at any cost. As every new franchisee required an investment of time and resources, the executives were trying to find ways to attract people who would be able to run the franchisees efficiently. As pointed out by one of the Regional Managers:

"We wanted many franchisees, but more than that – we wanted efficient franchisees. They needed the business and technical skills, but also motivation and loyalty".

The company decided that the best way to search for techniques to attract new franchisees was through discussing the topic with the already established ones. The Managing Director describes the process of finding incentives for the franchises as one of the bigger challenges when starting a franchise system. To solve this problem, the headquarters of SolarNow decided to engage the already existing franchisees in inventing incentives, since they should know best what attracts potential new franchisees. As a result, many ideas were developed and implemented, while the company was also very flexible with changing the incentive schemes in case any of them did not work the way they were supposed to. Currently, the Managing Director describes the incentive scheme as follows:

"The SolarNow franchising model helps entrepreneurs that would not start a business otherwise by taking away the hardships of starting a solar business, like initial capital, limited training opportunities and sourcing good quality products at affordable prices. Also, franchisees do not pay royalties. They pay only a Security Fund – 10-20% of sales, which is used as a form of an insurance both for the franchisee and for the company's investment into the franchisee".

The Business Development Manager adds that the company is also creating incentives for higher sales. Franchisees get a sales-based commission, which is paid for every service offered. On top of that, there are reward programs with bonuses where franchisees can get new office equipment, headquarters-sponsored events or even branded vehicles. Franchisees are also offered travel insurance, as they often need to travel to their clients.

Some of the candidates are encouraged to start their own outlet through word-of-mouth, by other already existing franchisees, such as this Franchise Owner who describes how he started his involvement with SolarNow:

"My friend, who had his own franchise of SolarNow, told me about the access to energy that is clean and profitable at the same time. Lack of electricity has been a problem in my area, so I saw this as an opportunity to make money, but also to light up my area at a much lower price".

Eventually, after SolarNow introduced the incentive scheme and advertised in the newspapers and on a few websites, people started to show interest in becoming franchisees. The next crucial decision was the selection of people to become new Franchise Owners. The Business Development Manager remembers it as difficult, especially deciding on what skills are crucial for a good franchisee:

"The hardest part was creating the ideal profile of a franchisee. We sell a technical product with a credit component. So we wanted someone with business, technical and credit skills. We were asking ourselves: do we need business people or technical people? In the end a franchisee with both business and technical skills would be the best, but that is hard to find".

The franchisors also emphasized the need for franchisees with internal motivation, which will propel franchisees to achieve outstanding results. They decided that they needed people with entrepreneurial skills to run the outlets, so previous business experience is very useful. However, even more importantly, they should be driven by independence and a desire to earn high profits through running their own business.

Deciding on the desired franchisee profile was not an easy task for the executives of SolarNow. They did not know if they should put more emphasis on the business or technical aspect, on the skills or the personality of candidates. As a result, the franchisors decide to try with many profiles and see which ones were more successful. Then, they identified the features that the most successful franchisees had in common and started using this profile as a template for future recruitment. The recruitment strategy was also adjusted towards the new recruitment profile.

Currently, the attributes that a SolarNow franchisee candidate needs are: entrepreneurial personality (creative, problem solver, people person), sales skills, understanding of the technology, motivation and self-drive, customer orientation. In order to be selected, franchisees also need to have some relevant experience. They should have either installed solar systems before or have experienced running their own business. As one of the Regional Managers claims, with some initial experience and the right attitude, franchisees can learn other important skills while already running an outlet of SolarNow:

"The best franchisee we have was recruited straight from the technical institute. After being given training and coaching, he has managed to do a great job".

After franchisee candidates are interviewed and accepted by the SolarNow management, they undergo a 4-week training, both practical and theoretical, on running a franchisee of SolarNow. The training includes all the aspects of sales, marketing, credit facility and solar home systems installation. As SolarNow's business model includes many different aspects, the training is essential in order for the franchisee to completely understand how the business works. The Managing Director describes their first experiences with explaining the business model to franchisees as challenging:

"We struggled to get a common understanding of the business model. Since it was a unique idea, it was hard for franchisees to conceptualize and most times they were inclined to business as usual".

As the business model can be difficult to understand immediately, after a two-weeks-long selection process, four weeks of training need to take place, so that the franchisees get a clear understanding of how the concept works and what is expected from them. After the training part is over, another four weeks are devoted to setting up the new outlets. During this time the headquarters helps the new franchisees establish their businesses in order to start making first sales. They invest in rent for the location of the outlet and its branding and furnishing. As transport may be a challenge for the franchisees, SolarNow also provides a motorcycle on a loan basis.

Setting up new franchises is described by the headquarters as one of the most time- and effort-consuming parts of running a franchise system. It involves selecting the franchisees, training them, finding a location, buying furniture and office supplies – all this requires a lot of time, money and effort before the franchise can even start bringing any revenues.

4.2.3. Managing the resources

As SolarNow aims to be a self-sustaining business, it needs to gain its own resources for investments. At the moment, the company is still highly dependent on loans from external sources. It is, however, on the verge of reaching the breakeven point, which should happen in the next few months. The Credit Manager claims:

" We are expecting to reach the breakeven point in Uganda soon. But we need to keep focused on this, because we have to reach it before we can start the expansion to Tanzania. We are planning to go there as soon as possible, but investors will only provide resources for the expansion once the breakeven point is reached".

SolarNow gains its revenues from sales of the solar home systems. The company gains a 15% margin on their sales. However, their costs – apart from importing the elements of the systems and distributing them among franchises – also include support for franchisees, payment of the sales-based commission and special rewards for best-performing outlets.

The headquarters of SolarNow supports the franchises financially by paying the rent for the outlets, as well as furnishing the building and painting it in brand colors. Every franchise becomes equipped with a computer, a scanner, a printer, a motorcycle with a helmet (which are used on a loan basis) and a certain amount of stock (however, some of the equipment is only provided after the first 10-20 sales are made). The marketing materials, a company sim card and some office supplies are also provided. Therefore, the franchisees only need to spend their own money on promotion campaigns and everyday operations – they are advised by the headquarters how to make this most cost-effective, and sometimes also supported to some extent. In addition to that, the company also offers trainings for sales executives and technicians when needed.

Nevertheless, the franchisees are expected to bring with them a certain level of experience, entrepreneurial motivation and the knowledge of local market conditions. Once they start their outlet, they do not get much help from the franchisors and are expected to perform well – while the target is 15 sales per month, the franchisees selling less than 8 systems for two consecutive months risk losing their authorization to sell SolarNow products. They do not pay royalty fees, which is another financial advantage for them, but 10% or 20% (depending on the franchisee's experience) of their sales-based commission is transferred into a Security Fund, which is a form of the franchisee's insurance in case of calamities, client default or replacement of assets. The wide network of franchises also allows for sharing some of the resources among the franchisees. The Managing Director notices:

"Franchisees communicate among each other. They refer clients to the nearest franchise or share best-case practices. Sometimes they even use the same technicians to install solar systems. So some resources are shared in the network and others not".

A very important step for SolarNow was taken in August 2011, when the company got approved by the Ugandan Rural Electrification Agency to become a partner for the distribution of the World Bank-funded solar home system subsidies of up to $250 per household unit. SolarNow quickly managed to become the primary delivery channel for these subsidies and accounted for 800 out of 1000 subsidies delivered by June 2012. The involvement in this program enabled SolarNow to gain many customers at a lower financial risk. The company's success in the World Bank initiative also led to a further partnership with the Ugandan Energy Credit Capitalisation Company, a government agency encouraging the financing of supply chains in the renewable energy sector in order to reduce the gap between installation of the system and payment of the subsidy, so that cash flow issues can be avoided. Undoubtedly, SolarNow's participation in these public partnerships was a very important source of raising investment capital and retaining a steady cash flow.

4.2.4. Managing internal communication

The franchise system of SolarNow is based on the assumption that franchisees act as independent entrepreneurs and their success is their own responsibility. Therefore, apart from following the rules stated in the Franchisee Manual, they are given much freedom with their operations. They recruit their employees, decide on marketing campaigns to implement and get support mostly from the Regional Managers, without much interference from the executives. The daily work schedules are also not prescribed by the headquarters. The interviewed Franchisee Owners are satisfied with this system and feel like they have enough freedom with choosing their actions. Below are some of their comments:

"I believe we have 100% freedom and we also have 100% support from the head office on how to maximize our efficiency, which we are grateful for",

"I feel like I have my own business and SolarNow just helped me with starting it",

"Being a SolarNow franchisee means I get to run a business without necessary worrying about investments in sourcing products".

The management of SolarNow believes that they should not execute much power over the franchisees and treat them as equal. That is why they have regular meetings with the franchisees, where they discuss feedback and ideas. There is a big annual meeting held at the beginning of the year, which brings together all the franchisees. Every three months there are also regional franchisee meetings and every week someone from the head office visits several franchisees. These meetings are the main avenue for communication. When there are structural changes, for instance on prices, additional consultative meetings are held between franchisees and headquarters.

Another regular way of communication is through the Regional Managers who are responsible for supporting a number of franchisees and work as middle management. They travel throughout the country and pass on information from the head office to franchisees and from the franchisees back to the head office. In addition to that, the franchisees and the head office also contact them very often through phone calls. The communication through phone calls is also valued by the Franchisee Owners, as one of them mentions:

"We have corporate airtime packages paid by the head office, so our phone calls are way more subsidized than any other in the country. Our phone calls are cheap, so we constantly communicate with the Regional Managers and the main office".

SolarNow also entails a culture of feedback, which is given and received by both parties when management visits the franchisees, during quarterly meetings at the headquarters and through Regional Managers. Most feedback consists of discussing what worked as planned and what did not. Franchisees also suggest ideas for improvements. This helps management understand the underlying causes of problems and prescribe solutions. According to the Business Development Manager, feedback is crucial because it allows learning from past mistakes:

"At SolarNow we strongly believe in learning. Proper feedback can help us recognize our mistakes, which are used to constantly improve the model. Externalizing problems is forbidden".

Another feature of SolarNow's company culture described as valuable by the interviewees was openness. They believe that the company has an open environment, in which communication flows both ways and there is always a dialogue.

It is worth mentioning though that, as one of the Franchise Owners notices, the franchisees value communication with each other just as much as the one with headquarters:

"We get to know each other from the meetings and trainings we have together and we share a lot, even on the phone after the trainings. In this way, we can think together of new ideas, like on marketing or improving sales levels".

According to most of the respondents of the interviews, SolarNow does not explicitly persuade the employees and franchisees to follow certain company values, but there is an internal culture of openness, equal treatment and dialogue with constructive feedback. The idea sharing occurs between the franchisees and headquarters, as well as among different franchisees. The interview results show that both the franchisors and the franchisees are satisfied with this culture and the various ways of communication, which so far have proven to be effective.

4.2.5. Monitoring the franchisees

One of the most important elements of managing SolarNow's franchise system is constant monitoring of the franchisees. Monitoring is important in any franchise system, but as SolarNow's business model includes credit facility, it is particularly sensitive. However, constant control over the franchisees takes a lot of time and attention. Therefore, SolarNow executives have invented a three-step system for the franchises and they put them in one of the following categories:

- B: new franchises, sold less than 50 systems;
- A: more mature franchises, sold more than 50 systems;
- A+: franchises with much credit experience.

According to this franchise development program, the more experience a franchise gains, the more credit tasks it can take over, resulting in faster processing of client applications and higher sales commissions. This means that in line with experience, the franchise gains more trust from headquarters and the need for control lowers. This is especially important when it comes to PayPlan Officers, who need to accompany the less experienced franchises with credit assessment. The Credit Manager views this as somewhat troublesome:

"At the moment, the biggest difficulty with my day-to-day operations is the workload in terms of credit assessments and approvals. Sometimes we have very many clients to assess or approve and not enough personnel for it. Usually we need to get support from the Customer Care Team and the Regional Managers. We also have to prioritize the assessments and approvals".

Therefore, the aim is to have as many A+ franchises as possible, in order not to waste time and resources on controlling the new ones. Nevertheless, all the franchisees are monitored by the Regional Managers, each of who is assigned from seven to ten franchisees to control and support. The franchisees need to insert all the payment information into the internal software and send daily reports to the Regional Managers, which are then forwarded to the headquarters. The reports include information on how many customers are currently enrolled in the hire purchase program and how many of them are late with the installment payments. This is an issue that needs to be monitored very thoroughly, as the goal of SolarNow (which is currently maintained) is having more than 99% repayment and less than 1% write-off. The Credit Manager explain the franchisees' dilemma which causes late payments as follows:

"From a credit perspective, it is hard for franchisees to balance between the number of sales and the quality of sales. Since franchisees also do the credit assessments and are paid on commission for every sale, there is a tendency for over-financing and clients then get a solar system that they cannot pay off. This in some cases leads to increased delinquency".

The Managing Director and the Business Development Manager, when asked about the occurrence of late payments, state that poor repayments are the biggest challenge that SolarNow is experiencing at the moment. Since they believe that it is a result of low franchisee and client discipline, they are currently reviewing the credit policies in order to increase that discipline level.

There are many actions being undertaken in order to lower the percentage of late installments, especially the ones being more than 30 days late. In the meetings and through newsletters the franchisees are reminded to constantly follow up on their clients (from the first day after the payment is due) and, if the payment is not made within two to three weeks, undertake necessary steps, such as obtaining the payment from the guarantor or even disconnecting the solar energy system. The franchisees need to have high performance levels – both regarding sales and the repayment level – if they do not perform well, they can lose their authorization rights. However, as every new franchise is an investment for the company, it is in the best interest of SolarNow not to let such situations to occur.

The executives, as well as the HR Manager, stressed the fact that the first step of the headquarters is always trying to fix the situation. She points out that when the franchisees are underperforming, the franchisors first evaluate the causes and if they believe that they are skill- or knowledge-related, training is provided for the low-performing franchisees. However, when the problem is with the franchisee's motivation, actions are undertaken in order to terminate the contract. One of the Regional Managers explains the process:

"So far out of 35 franchisees, we have replaced three of them because of the poor performance. Every franchisee has three months to deliver on expected targets. We review why they have not achieved the targets – if it's a case of limited knowledge, we do more trainings; if it is marketing support, then we increase our efforts. Our actions come from the desire to understand what our contribution was to this franchisee not being successful. Where we feel that it's the franchisee's incompetence or negligence, the decision to dismiss is instant".

The Credit Manager points out that many franchisees lack discipline to follow procedures regarding monitoring of clients in arrears. This makes the credit situation difficult, as the number of clients is high and there is limited capacity for credit. Therefore, the HR Manager continuously trains franchisees on delinquency management, while the company rewards those of the franchises that have a portfolio at risk of less than 2% and penalizes the ones not performing well – they have to share the costs of write-off in case of no client payment.

As much as SolarNow tries to handle the cases of poor performance by introducing new incentives and helping the franchisees, there have been situations where terminating the contract had to take place instantly. Three of the franchisees were immediately replaced because they conducted fraud – the employees in the head office discovered that they took cash from clients and never deposited it. It was very important for the executives of SolarNow to finish the co-operation with these franchisees instantly in order to signal that such behavior is not accepted and once the trust is given to a franchisee, it must not be betrayed. The Business Development Manager recalls the issue:

"We ended the franchisee contract immediately. Trust is very important for us, to keep our franchise network working well, and we can't afford to work with people who can't be trusted".

After this situation, the executives decided to take steps to avoid possibility of fraud happening in the future. They increased monitoring by putting in place an inspection team, which calls and visits all of the clients. Also, during credit approval the clients are asked whether they know how much money to pay and whom they had paid it too. SolarNow also changed the policy on cash handling. They introduced no-cash policy – the clients can make payments to SolarNow only through bank transfers or mobile money. Clients are also informed about the consequences of giving money to staff or franchisee. This monitoring system is working well, however, the downside is that it requires using additional resources.

Proper monitoring of franchisees plays an important role in SolarNow's business, but it requires using a lot of resources, often more than are actually available at the moment. Therefore, the focus on building trust is a very important aspect of SolarNow's network. While poor performance caused by lack of required skills of knowledge can be worked on through training, the franchisees that turn out to be neglectful, irresponsible or not trustworthy are immediately dismissed.

4.2.6. Understanding the social mission

Apart from the day-to-day struggles with the business side of SolarNow's operations, it cannot be forgotten that the main goal of a social enterprise is the positive impact it has in the society. Therefore, it is important that all the employees, both at the headquarters and at the franchises, understand the social mission of the company. The Business Development Manager believes that in the case of SolarNow the business side and the social side are related to each other:

"We measure the impact of our actions by the number of successfully sold solar home systems. We constantly work on reducing the price of the systems, while remaining their high quality, so that more people can afford to have solar power accessible at

home or in the office. The more clients we reach, the more people will have access to affordable sources of energy – and that is our impact".

The Credit Manager describes the mission of SolarNow as improving quality of life for people in rural areas. He claims that the solar energy systems sold by SolarNow help improve people's lives by saving costs, increasing incomes and reducing the use of fossil fuels. He adds that with a credit facility many people are able to afford quality solar systems, so SolarNow earns a profit by selling a product that helps improve standards of living.

The Franchisee Owners see the advantage of the product mostly as a way of saving money for many people in their areas, as they say:

"I measure the impact on savings made by using a solar home system compared to kerosene. This is seen in the improved standards of living",

"People travel long distances to charge their phones, so with a commercial solar phone charging system my clients will earn money",

"I can help people in my area get a radio or a TV because now they have a way to charge the batteries and they can afford it".

In general, all of the interviewees were well aware of the positive impact that SolarNow has on society. Interestingly though, when talking about the social impact, the Franchisee Owners had a tendency to focus mainly on the financial benefits brought to their communities, without mentioning other advantages, such as the enhanced possibility to study or engage in income-providing activities, the health benefits of using solar lights over kerosene lamps, or even the possibilities of employment for small entrepreneurs like themselves. Moreover, only the Managing Director and the Business Development Manager brought up the topic of reduced carbon dioxide emissions.

4.2.7. Handling bottom-of-the-pyramid customers

As SolarNow provides their services in the poorer and less educated parts of Uganda, it is essential to understand the needs and behaviors of this market segment. The HR Manager describes it in the following words:

"A social enterprise that wants to succeed through franchising needs to understand the market and find innovative ways of serving this market, because bottom-of-the-pyramid markets have unique characteristics and the enterprise needs to consider them when it's developing its business model".

One of the issues with such customers is the problem with regular payments. This is of particular significance for a company like SolarNow, whose business model is dependent on a high repayment rate. Therefore, the credit assessments need to be done very carefully and the payment plans adjusted properly to customers. That is why customers with seasonal earnings (for instance, from farming) must pay 50% of the total price upfront and almost all customers need a guarantor to sign the deal too. For similar reasons, as already mentioned before (see chapter 4.2.5), a PayPlan Officer helps less experienced franchisees with credit assessment.

However, poor repayments are not the only challenge of handling bottom-of-the-pyramid customers. Another problem is their poor understanding of solar technology. While awareness of it is widely disseminated, there is very limited understanding of how it works. One of the Franchise Owners mentions it while explaining his sales techniques:

"The best form of marketing is to show people how solar energy works. So they can see that it's charging their mobile, they can see that the TV is switched on – then they really feel that solar power works".

Little understanding of the technology combined with a desperate appetite for the benefits of access to power makes people vulnerable to unethical sales practices and incompetent technicians. Low income also creates an inevitable attraction to the cheapest products, which in turn encourages manufacturers to produce poor quality components and dump them on the market. This has resulted in a widespread distrust for solar energy products and many potential customers are skeptical, thinking that the products will not be worth the investment. Overcoming this bad image and improving customer's perception of solar energy products is one of the main goals of SolarNow, aimed to be achieved through providing excellent quality solar power systems.

4.2.8. Working with poor infrastructure

The franchisees of SolarNow operate in relatively difficult areas. Since the goal of the company is to reach the poorest rural regions that have no access to electricity, the infrastructure in these places is poor and the working conditions are difficult. As transport can be an issue, SolarNow provides each franchisee with a motorcycle (together with guidelines on safe driving), as well as travel insurance. Security of stock and office equipment is another important issue – the headquarters provides all the franchisees with strong high-quality padlocks, which the franchisees are supposed to use to close their outlets. In case anything is stolen, the franchisees are the ones responsible for it. Moreover, the previously mentioned Security Fund is a form of insurance for the franchisees in case of unexpected events. Nevertheless, not all the problems can be easily solved, such as the issue of very limited possibility of reaching the clients through the Internet. It is visible in the complaints of the HR Manager:

"Doing surveys about client satisfaction is a very time-consuming job at the moment. The system we use is tedious, where we have to call all the clients".

Clearly, SolarNow has been – and still is – experiencing many challenges with its expansion through franchising: from preparation of the internal systems, through setting up and monitoring the franchises, to ensuring understanding of the dual nature of social business and handling the difficult working conditions. Some of these difficulties are common for all franchise systems, while others are typical only for social enterprises. In order to identify how and to what extent the challenges of social franchising are different from the ones of commercial franchise systems, the findings from this chapter will be analyzed with a comparison to the theory.

5. Analysis

This chapter aims to answer the research question through analyzing the empirical results and comparing them to the theoretical framework. It presents the biggest challenges found in the case study, as well as the ways the company coped with them. Based on that, the similarities and differences to commercial franchise systems are identified, followed by an explanation how some of these challenges differ from the ones of commercial franchising.

5.1. Challenges for SolarNow as a social franchisor

5.1.1. Limited belief in the innovative business idea

Proper preparation for expansion can be crucial to the success or failure of an expansion and SolarNow's executives were well aware of it. Even though they aimed for rapid growth and started building the franchise system immediately, as the plan to achieve large scale was at the center of company's strategy from the very beginning, they ensured enough preparation to guarantee that the crucial elements for replication are identified and all the systems – such as the back-up office software – are in place. Nevertheless, what turned out to be a big obstacle on their way to grow was the business idea itself. In order to reach more customers in rural areas and make a positive social impact by bringing electricity to the ones who would not be able to access it otherwise, SolarNow decided to join the sales and distribution of solar home systems with a credit facility. While solar energy products have already been present on the market in Uganda, connecting their sales with a financial service was a novel – and somewhat revolutionary – business idea, which many did not initially believe in or even truly understand.

Therefore, on one hand, the potential investors were not convinced if they should support the enterprise. The idea was not proven yet and it needed a lot of control over the cash flow. SolarNow executives decided that what they needed was a proof of concept and they aimed for rapid expansion. Once it was visible that the model could work well in different locations around the country, the investors would decide to invest in the project. Therefore, franchising was a way of growing the business and at the same time – proving that the business model works – so that it could raise capital to grow even more. Nevertheless, what needs to be pointed out is that SolarNow could use the funds that used to belong to the Rural Energy Foundation, which allowed the company to set up their first franchises, before the investors were convinced that SolarNow's idea could bring revenues. Once the proof of concept was achieved, the company gained attention from more investors.

On the other hand, there were the franchisees that also had trouble understanding the complete business model in the very beginning. While some of them may have had some experience with business or technical issues, they were usually not used to connecting it to the credit facility. In order to deal with that issue, SolarNow decided that all the systems and important know-how should be codified in documents, contracts and manuals, which were distributed to the franchisees, with the Franchisee Manual being the most important document. As the business model might have seemed complicated at first, SolarNow also prepared training materials through which it could be explained what rules and procedures the franchisees need to follow and where they have freedom to implement their own ideas. The theoretical and practical training of a new franchisee takes up to four weeks, but proper preparation is one of the factors resulting in high success rate of the SolarNow franchisees, as only 6 out of 35 of them needed to be replaced.

5.1.2. Finding right incentives for franchisees

Another major challenge for SolarNow when turning into a franchise system was finding the right incentives to attract potential franchisees. The incentive scheme had to be created in a way that would attract the right people, but would also be reasonable for the headquarters. As the company had trouble finding what attracts the franchisee candidates the most to run their own outlet of SolarNow, they decided to turn to the already existing franchisees for advice, since they were the ones who obviously must have known for what reasons people might want to join the franchise system. Before inventing the right incentive scheme, the executives of SolarNow also decided to be flexible – they tried many different options and continued with the ones that had proven successful. Interestingly, the opportunity of running their own business turned out to be enough of an incentive for most of the Franchise Owners, because they would not have a chance to do it otherwise.

5.1.3. Development of the ideal franchisee profile

Finding the right people to run the franchisees is essential for the brand success. At the same time, SolarNow invests money in setting up new franchises (rent, furniture, motorcycle), so the costs of selecting an incompetent person are high. Deciding on an ideal franchisee profile was described by all of the interview respondents from the SolarNow headquarters as one of the greatest challenges. Ideally, the company searches for people who have business and technical skills, as well as the internal motivation and the entrepreneurial spirit. The right candidates also needed to understand the social mission of the company. However, it was very difficult to find interested franchisee candidates with all the mentioned attributes. Therefore, SolarNow had to decide which of these features were vital to the franchisee success and should be highlighted in the recruitment process.

The company decided to start by contracting people with different profiles – some of them had experience in business or credit, others used to install solar systems, there were also some who simply showed a very entrepreneurial spirit. After trying with these different profiles, the franchisors looked at which of the franchisees were the most successful and identified what they had in common. Based on that, they pinpointed the most important features of a successful franchisee and created an ideal franchisee profile, which is now used for recruitment. The recruitment campaign was also adjusted towards reaching the people with that specific profile.

Even though the ideal – and quite realistic – franchisee profile has been created, it is still not that easy to find the right candidates, especially considering that the company does not simply look for people who will follow the rules of the Franchisee Manual – they want passionate entrepreneurial franchisees with an internal self-drive, always willing to achieve more. This high focus on personal traits, while at the same time not compromising the need for previous business or technical experience, can at times result in contracting under-qualified people and then having to train them in various areas of the business. While such franchisees after receiving necessary training usually perform well, it requires using additional company's resources.

5.1.4. Lack of internal financial resources

When hiring the franchisees, their financial resources were not as important to SolarNow as their skills and motivation. Therefore, the company could not rely on gaining capital from the owners of the new outlets. That is why SolarNow as a relatively young organization, before being able to fund the investments from their own profits, is highly dependent on their investors. As described before, it was initially hard to convince anyone to invest in the company's innovative idea before it proved successful. Fortunately, SolarNow could still use the financial resources from the grant of the Rural Energy Foundation, which allowed them to be able to set up the first franchises. This was important, as SolarNow cannot turn to their franchisees to invest in the business themselves (they simply do not have enough assets) and needs capital to start every new franchise. Later, the organization also highly benefited from the partnership with the World Bank and their subsidy project, as well as their co-operation with the Ugandan Energy Credit Capitalisation Company. Thus, the partnerships with public institutions had a large effect on the enterprise's development.

However, as much as SolarNow makes use of the available public partnerships, they are not a non-profit organization and are aware of the fact that the business needs to be able to survive also without help from the public institutions. That is why SolarNow decided to establish the Security Fund for each franchisee, where they are obliged to put 10% or 20% of their revenue until a certain – decided by the headquarters – sum of money is reached. This fund, serving as insurance for both the franchisee and the franchisor, is a way of securing the financials in a system where – due to the credit facility – steady cash flow is of an essence.

5.1.5. Trust versus control – monitoring issues

As admitted by all the interviewees, both from the franchisor and franchisee side, SolarNow promotes a culture of openness, feedback and dialogue. These features allow for an effective honest communication, which is very important since the company puts a lot of emphasis on learning from their own mistakes. Through regular meetings and internal company-paid phone calls, franchisees are encouraged to pursue dialogue not only with the headquarters, but also among each other. They exchange ideas and sometimes even decide to use each other's resources, such as the same technicians. The franchisees work mostly independently though, so the risk of having excessive claims on the system is not really high. Through this frequent and honest communication, SolarNow is hoping to achieve high levels of trust in the network, so that the need to spend additional resources on controlling would not be too much of an issue.

Currently, the need for franchisee monitoring is a big problem for SolarNow. Particularly after the situation with three of the franchisees committing fraud, the monitoring efforts have been increased. As the issues concerning customers' money are now closely watched by the inspection team and all the new clients are asked if they were informed about the payment policies, additional time has to be spent on these activities. The franchisees are also controlled on their sales performance and repayment rates everyday, because at the moment many of them show low discipline regarding delinquency management. Steady cash flow is essential for SolarNow's business, so late payments cannot be accepted. Yet, the need to execute the control over the franchisees results in the need for additional resources spent on these tasks, especially the employees' time. It often happens that, because of this, there are not enough people to perform both the monitoring activities and their other everyday responsibilities and they need to seek help from other departments, which in the long run is not a sustainable solution.

SolarNow tries to manage these issues through the implementation of a three-step system, where the main office executes less control over the franchisees with more experience, based on the number of sales they had done. Still, it is hard to determine if a high number of sales is necessarily a good prediction of the franchisee's trustworthiness. There are also frequent trainings offered to the franchisees not performing well enough, which prove to be quite effective, but still require additional resources to be spent. Moreover, the company implements an incentive and penalty system aimed to motivate the franchisees to obtain the payments from their clients in time. Nevertheless, SolarNow is struggling with the need to spend a lot of time and capital on monitoring their franchisees and the franchisors have not come up with a perfectly working solution for this challenge.

5.1.6. Difficult customer base

As the goal of SolarNow is reaching the rural communities in Uganda, the target market base is made mainly of bottom-of-the-pyramid customers, who have specific characteristics, such as low income, low education and often lack of access to modern infrastructure. These features cause some difficulties for the sales and services offered by SolarNow. Low income of SolarNow's customers leads to the possibility of poor credit repayment rates. Their low education level, together with the previous negative experience of low-quality solar energy products, results in a widespread mistrust for solar energy systems and the company representatives need to put much effort into gaining their interest in buying SolarNow's products. The lack of access to modern infrastructure causes the need for time-consuming traveling to the clients, as well as makes it difficult for SolarNow to contact their customers efficiently – such as the lack of possibility of quickly reaching them through the Internet.

Therefore, SolarNow needs to come up with their own ways of establishing a successful relationship with their customers. The franchisors try to ensure a high repayment rate through assessing the creditworthiness of the customers and providing them with a suitable payment plan based on this assessment. They also, as mentioned before, provide incentives for franchisees with high repayment rates. Moreover, even though the customers of SolarNow are the beneficiaries of the social project, according to the company rules, the company does not offer any preferential treatment – if the customers do not pay on time, they have to face the consequences of their solar energy system being disconnected. It might seem as if SolarNow is enforcing a tough strategy on its own beneficiaries, but it is deemed the only sustainable (as well as fair to the other customers) strategy, which means that in the long term it can bring more advantages to the community.

The sales executives at the franchises also work hard to encourage people to try SolarNow products and therefore, build trust for the brand. To be more credible, the company also provides a 24-month warranty and after-sales service. Nevertheless, especially in locations where the SolarNow brand is not known yet, it is often a difficult process of convincing households to invest in a solar home system. The company also needs to look for innovative ways of reaching the customers – at the moment this problem is not solved yet. The company representatives either travel to visit the customers, which requires an investment of time and money, or reach them through phone calls, which has been described as "tedious".

Since the customers live in the difficult areas and the outlets need to be located relatively close to them, the franchisees are usually also faced with difficult working conditions. They need to deal with poor infrastructure, lack of transportation possibilities and security issues. Therefore, the specific customer base of SolarNow affects not only the ways of dealing with clients, but also all the other everyday activities of the franchisees. Even though SolarNow tries to overcome many of these difficulties by providing the equipment from the headquarters, not all of the problems can be solved this way.

5.2. SolarNow compared to commercial franchise systems

5.2.1. Similarities with commercial franchise systems

Many of the challenges experienced by SolarNow during the expansion through franchising are similar to the ones typically experienced by commercial franchise systems. According to Richardson and Berelowitz (2012), new franchise systems typically need to standardize and codify all the elements of their business model that are supposed to be replicated, in order to avoid misunderstandings. This was also the case for SolarNow, when in the very beginning the organization had to create the systems and manuals for how to operate as a branded SolarNow franchisee. These documents helped the newly established outlets run their own businesses while following the rules and procedures invented by the headquarters of SolarNow. Avoiding misunderstandings from the very beginning was a significant part of the company's successful expansion.

Attracting and selecting the right people to become franchisees is also crucial to any franchise system (Bradach, 2003; Wattel, 1968). That is why it is typically advised for franchisors to put a lot of effort into creating a suitable franchisee profile to base the recruitment on (Shane & Spell, 1998). For SolarNow the issue of coming up with such a profile was also quite troublesome. First, they struggled with finding with features that are necessary for a successful franchisee, and then they had to develop strategies of attracting people with such profiles. These challenges resemble the ones of any new commercial franchise system. In particular, the trade-off between the skills and the motivated personality – deciding what is more important is a common problem for new franchisors. SolarNow decided not to compromise the necessity for business or technical skills, but include the aspect of self-selection – the franchisees had to show their motivation to contact the company and go through the recruitment process. Such use of self-selection is also advised as helpful to commercial franchise systems (Wattel, 1968).

Another aspect resembling commercial franchise systems is the need to find resources for creation and maintenance of the franchise system. Shane and Spell (1998) claim that the franchisees should aim to be financially independent from the franchisor. Even though SolarNow's franchisees cannot afford to be fully self-sustained from the start, this is the eventual goal of SolarNow, which uses the Security Fund as one of the ways of creating an additional source of capital, should the franchisees have any future financial problems. Moreover, SolarNow, just as many new commercial franchise systems, is facing the challenge of attracting the potential investors. The company first needed to prove that the idea works in order to be supported and now it needs to reach the breakeven point so that the investors will be willing to provide further capital for the Tanzania expansion.

Furthermore, even though it does not present a challenge to SolarNow at the moment, it is worth mention that the enterprise puts strong emphasis on ensuring the right communication between the franchisor and the franchisees. Through regular meetings and the culture of learning and openness, it provides possibilities for exchanging ideas, knowledge and experiences, which is considered by researchers an essential part of building a successful franchise network (Chell & Tracey, 2005). The company also focuses on building internal trust through frequent communication, which is also advised to commercial franchise systems, as it creates close and committed ties (Huber & Daft, 1987) and decreases possible organizational conflict (Peters & Fletcher, 2004). In addition to that, Solar Now makes good use of feedback and open dialogue, which are also described as significant aspects of a well-functioning commercial franchise (see Joshi, 2009; Daft & Lengel, 1986; Anderson et al., 1987).

Therefore, it is apparent that many of the challenges faced by SolarNow are the same ones that are experienced by commercial franchise systems. All the problems mentioned above, such as the needs to codify and structure knowledge, attract and select the right people, find the financial resources to grow and create an effective communication system within the network could just as well be encountered by any commercial enterprise expanding through franchising. That being the case, SolarNow's main franchising challenges and the ways of dealing with them do not seem to be that much different from the commercial franchise systems.

5.2.2. Differences from commercial franchise systems

Despite the many similarities that the challenges of SolarNow present in comparison to commercial franchise systems, there are also some that show the differences resulting from the fact that it is a social enterprise. The first of them is that the fact of SolarNow being a social enterprise is connected to the need for an innovative business idea, as it is required in order to make a positive change in the society (Tracey & Jarvis, 2007). Therefore, there was a higher risk of misunderstanding the somewhat complicated concept than if it was a regular commercial franchise system, such as a fast-food chain. This resulted in the additional challenges of both having to convince the investors that the business model can be profitable, as well as going through some hardships of explaining the model to the newly established franchisees.

The next noticeable difference of SolarNow compared to commercial franchise systems is connected to the way of obtaining resources. As much as the company is not aiming to operate based on grants or funds from donors, its social mission was definitely a factor enabling it to establish partnerships with public institutions, which helped SolarNow gain more customers and establish their position on the market (especially through the initial $1 million loan and the World Bank subsidies). This would not be so easy if the company was not a social enterprise. Therefore, even though the investors were initially skeptical, SolarNow could do something that commercial franchises would not – turn to organizations that sponsor innovative development projects of the poorest regions in the world. Therefore, being a social business provided more ways of finding financing for the expansion of SolarNow.

The process of establishing franchises was also slightly different than what typically happens with commercial franchise systems. Since the new franchisees did not have money to invest in the business, SolarNow had to support the establishment of all new outlets and could not rely on franchisees bringing new capital to the company. Therefore, the need for selecting the right people – and later monitoring the franchisees – might have been even higher than for the commercial franchises, as the cost of terminating the contract after investing so much in the franchisee was also relatively high. On the other hand, providing potential candidates with incentives to become SolarNow franchisees did not turn out to be very difficult. For most of them the possibility of running their own franchised outlet was enough of an incentive – since they would not have the capital to start their own business otherwise. Thus, it was probably easier to find interested candidates for SolarNow than it would be for a typical commercial franchisor.

Finally, a large part of the differences of the challenges experienced by SolarNow in comparison to the ones faced by commercial franchise systems is connected to the working conditions of SolarNow. As it operates in rural regions of Uganda, there are problems with poor infrastructure, little possibilities of efficient transportation, difficulties with reaching the customers, as well as problems resulting from the clients' low income and low education. These are some challenges, which can be experienced only by enterprises operating in similar conditions and aiming at the bottom-of-the-pyramid market segment.

6. Discussion

This section discusses the results of the analysis done in the previous chapter in comparison to the theoretical framework presented in the second chapter. It shows the similarities and differences of the studied case to commercial enterprises and compares the findings from the analysis with the theoretical expectations.

6.1. Similarity of SolarNow to commercial enterprises

According to the Social Enterprise Spectrum (see Table 1, chapter 2.1.2), SolarNow can be situated partly in the “purely commercial” column and partly in the middle one, which indicates that the way it operates highly resembles a regular commercial business. The main difference from a purely commercial business is that SolarNow is driven not only by the market, but also by its mission, and that it aims to reach both social and economic value. Furthermore, the company constantly works on lowering the prices of the solar home systems and includes the credit facility, in order for its customers to be able to benefit from SolarNow’s offer as much as possible.

However, the other aspects of interacting with key stakeholders are much more similar to a commercial enterprise than to a non-profit organization. The capital is not received as donations, but in the form of loans from investors. The prices are kept possibly low, but they are not in any way subsidized, the credit facility is considered enough of added advantage. There are no volunteers and the employees and franchisees are paid well, according to the market rates. The suppliers also do not lower prices or make in-kind donations – the imported system elements are fully paid for, just as if any other organization was purchasing them. Therefore, while the goal of SolarNow and the beneficial credit program are representative for a social venture, its everyday operations resemble a commercial enterprise.

The typical dilemma of social enterprises is choosing between more profit and more impact. Many researchers (see Pharoah et al., 2004; Tracey & Philips, 2007) suggest that the franchisors need to be careful when balancing the social and economic objectives and ensure that the franchisees are also aware of the primary social goal of the enterprise. Tracey & Jarvis (2006) point out that achieving both financial sustainability and the social goals might be a challenge and require compromising the social side at times. However, this does not seem to be the case for SolarNow. The enterprise managed to connect the business goal with the social goal very well. As the social goal for SolarNow is to provide access to affordable energy to as many rural households as possible, the calculation is simple in this case – the higher the sales, the more of a positive social impact. Through the interdependent connection of the economic and the social goal, the executives of the company were enabled to run it in a very business-oriented way, knowing that their rapid business growth and a rising number of sales are indicators of the social impact they achieve.

6.2. Motivation to franchise

The motivation to franchise of the studied enterprise can be described as a mix of all the theories presented in the chapter 2: the Resource Scarcity Theory, the Agency Theory and the Social Capital Theory. The executives claim that franchising allowed them for sharing costs with the franchisees and having access to more resources. This, combined with the need for rapid expansion, is typical according to the Resource Scarcity Theory. However, despite the management talking about the need for resources, the Resource Scarcity Theory usually focuses on the financial ones, which was not the case for SolarNow. As a social enterprise operating in poor rural areas of a developing country they could not expect their franchisees to have a lot of capital to invest in their business. Therefore, the resources that they focused on included mainly technical or business experience of the franchisees, as well as their entrepreneurial personality and better knowledge of local market conditions. It is not very common in comparison to commercial franchise systems, but the nature of social enterprises, where the employees – and in this situation, franchisees – are often also beneficiaries of the social impact, results in the social enterprise having to focus more on the possibility of obtaining non-financial resources.

Some elements of the Agency Theory are also visible in SolarNow’s motivation to franchise. All of the interview respondents from SolarNow’s management stressed the fact that they look for entrepreneurial franchisees who understand how solar energy works and are motivated to create a positive social impact by reaching high numbers of the solar home systems sales. This implies an essential feature of the Agency Theory – the need for goal alignment. The franchisees must understand the business and be motivated to earn money, but at the same time be willing to work hard to achieve the goals of social impact. In case of SolarNow this impact is directly connected to sales, which makes it much easier for franchisees to relate to aiming for both profit and positive impact. Nevertheless, having a clear view on the need for both franchisees and franchisors to have the same goals seems to be a decisive matter for a social enterprise when choosing this expansion form.

The factors of Social Capital Theory are not as evident in SolarNow's motivation to franchise as the two previous theories. The company does not focus too much on creating feelings of solidarity and unity among its franchisees. They consult ideas with each other, but do not show signs of excessive "group thinking", franchisees work independently and do not feel any group pressure, they are comfortable to freely use their own ideas. The company is in general focused more on business than culture, which was noticed through the way the franchisors and franchisees talk about their experiences at SolarNow. The franchisors and franchisees interact with and exchange ideas among each other, but it is more a result of working towards improving profitability than building relationships. Only one feature of Social Capital Theory can be visibly noticed in the head office's attitude towards business – the aim to build trust. It can be seen through the implemented three-level franchise development program (with franchises going from level B to A+), as well as the act of instantly replacing the franchisees that committed fraud. The strive to reach high levels of trust in the company is not easy for SolarNow, as the experience shows that it requires the organization to do much initial screening and monitoring before a franchisee can be accepted and treated as fully trustworthy. Yet, it is difficult to tell if the aspire to have a trustworthy network is related to the fact that SolarNow is a social enterprise or if it is simply a way to avoid problems with the business.

Therefore, SolarNow's motivation to franchise also shows its similarities to commercial enterprises. The motivation can be explained mostly by the Agency Theory, with some additional points from the Resource Scarcity Theory. This can also be seen through the difficulties that the company experienced. According to the

Agency Theory, the potential challenges for a franchisor include neglecting the skills of candidates in favor of their motivation, relying too much on the written contracts and trusting that the franchisees will strictly follow these rules, and not putting enough focus on franchisees' resources (see Table 2, chapter 2.4.2). SolarNow faced all these problems: when they had to provide additional training to franchisees that did not have the necessary skills to run the business, when they put trust in the franchisees and later discovered that they had committed a fraud, and when they need to spend resources on investing in establishing every single franchise, as the Franchise Owners do not bring any initial capital with them. The enterprise was also prone to the danger of a too quick expansion, which is in line with the Resource Scarcity Theory, but luckily, the executives prepared for them well. On the contrary, none of the possible challenges presented by the Social Capital Theory could really be noticed in the case of SolarNow. This again shows that, thanks to the fact of the social goal of the business being almost identical as the economic goal, SolarNow shows features of a typical commercial franchise – both in their everyday operations and behaviors, as well as their reasons for expansion.

6.3. The influence of being a social enterprise

It has already been noted that SolarNow operates a lot like a commercial enterprise, because they decided that this is the way through which they can best achieve their goal. Nevertheless, the fact of being a social enterprise had a certain effect on the challenges that appeared for the organization when expanding through franchising. Most of the researchers point out the dual nature of the business as a root for problems (Pharoah et al., 2004; Tracey & Philips, 2007; Tracey & Jarvis, 2006). As explained before in the chapter 6.1, connecting the social mission to the financial objectives has proven to be very effective for SolarNow and the company did not need to face any dilemma concerning these matters. Therefore, the claims that a social enterprise is inevitably inclined to conflicting goals simply because of its nature were not confirmed in this case. Another possible challenge for social enterprises deciding to franchise indicated by the researchers is the high possibility of communication issues between the franchisor and the franchisees resulting from the difficulty of measuring the social goal (Smith, 2002) or the necessity of dealing with organizations as franchisees instead of individuals (Dees et al., 2004). Again, none of these problems appeared in the case of SolarNow, as their social goal is very easily measurable – the number of sold solar home systems – and the company is dealing only with individual frachisees.

Nevertheless, some of the theories on the challenges of social franchising appeared to be true in the investigated case. One of them was the implication that finding candidates with the ability to manage a profitable business can be difficult for social enterprises (Tracey & Jarvis, 2006), as well as that the franchisor often needs to educate the franchisees about managing their outlet and that involves spending time and other valuable resources (Bradach, 1998). For SolarNow these factors seemed to be closely connected with the location of their operations, as it is often difficult to find well-educated people with all the necessary skills in the poorest parts of Uganda. Since the operations of social enterprises are often situated in the developing countries and addressing the problems of the poorest communities in the world, it is usually impossible to avoid difficult working conditions, as also suggested by the theory. As argued by Seid (2009), this research confirms that social enterprises need to cope with bad communication infrastructure and lack of information technology, as well as poor supply chain capabilities of the market. They also have to cope with the specific customer base, who might often not be able to pay the full price of the product or to make the payment on time. Therefore, many of the challenges experienced by social franchises are results of the working conditions in the place where they carry their day-to-day operations.

Worth mentioning is also the fact that because of the need of a social enterprise to find a new way of solving a social problem, such businesses are very likely to experience the difficulties of introducing an innovative business idea. That was the exact case of SolarNow, who decided to connect the sales and distribution of high-quality solar energy systems with a possibility of financing these purchases in one business model. The fact that the idea was novel and yet untested had much influence on the initial skepticism from the investors.

Finally, what was found in the empirics and has been mentioned in the theoretical section, the investigated case shows that social enterprises have an additional advantage over commercial enterprises of higher possibility of partnerships with public institutions. For SolarNow it had a very large impact on the possibility of expansion. It is also an opportunity that should not be neglected by the social entrepreneurs who are considering an expansion.

7. Conclusion

This is the last chapter, which provides the theoretical and managerial implications of this thesis, as well as suggestions for further research.

7.1. Theoretical implications

Many researchers suggest that the nature of social enterprises, especially their dual mission and the personality attributes of social entrepreneurs are supposed to result in social enterprises facing different or additional difficulties than commercial franchise systems when choosing such an expansion form. The case of SolarNow proves that when an organization manages to make a sound connection between the social and the financial goal of the enterprise, these aspects do not need to be considered as an issue. A social franchise can avoid the additional difficulties of the social mission mixed with the need for profit when it is motivated by the same reasons as a commercial enterprise and operates in a similar manner.

However, there are certain features of a social enterprise that are likely to cause additional troubles when creating a franchise system. These are particularly caused by the need for an innovative business idea and the difficult working conditions – often including the bottom-of-the-pyramid customer base, since most social enterprises typically operate in the poorest regions of the world.

Nevertheless, as long as the mentioned characteristics are taken into consideration, the challenges experienced by SolarNow when franchising do not show very many differences compared to the ones of commercial franchising. This can imply that while many researchers consider franchising of social enterprises as a different field of study than franchising in general, this might not be needed. The results of this research show that social franchising does not necessarily need its own theories, as the theories of commercial franchising apply to franchising of social enterprises well.

However, it cannot be forgotten that this research is an investigation of only one single case study. Therefore, there should be further investigation done – for instance, analyzing different cases especially the ones where the social and the financial goal are not so well aligned. Another suggestion could include studying the cases of some social enterprises operating in developed countries – and how much different their challenges are.

7.2. Managerial implications

The example of SolarNow also allows for withdrawing some inferences for managers of social enterprises. Aligning the social mission with the financial goal seems to be the key for SolarNow's success. Looking at the results from this study, it is also visible that the challenges for social franchising do not have to be very different from commercial franchising. Therefore, when preparing for an expansion through franchising social entrepreneurs can just as well review the available literature on franchising in general, instead of looking for specific titles on social franchising.

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