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**Scaling Strategies of Social Entrepreneurship Organizations  
– an Actor-Motivation Perspective**

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To Chris, my parents, and Omi & Opi

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Anica Zeyen  
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**A. Framework Paper PhD thesis**

**Scaling Strategies of Social Entrepreneurship Organizations  
– an Actor-Motivation Perspective**

(including overview of papers)

## SCALING STRATEGIES OF SOCIAL ENTREPRENEURSHIP ORGANIZATIONS – AN ACTOR-MOTIVATION PERSPECTIVE

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### ABSTRACT

Despite their sometimes ingenious solutions, many social entrepreneurs fail to scale which is at odds with their overall objective of social change. Yet, though considered highly important in practice, scaling is still under-researched. Taking this imbalance as a starting point, my PhD thesis contributes to the social entrepreneurship literature by shedding new light on the role of the actor-motivation in scaling social ventures. Put together, papers 1-3 try to answer the general research questions of *how do actors and their specific motivations, particularly the social entrepreneur, influence the scaling strategies (and success) of social ventures?* Based on a brief review of the literature on scaling, I identify social franchising as a promising scaling strategy that requires more research. Here, paper 1 argues that the social mission of the involved actors can serve as an informal functional equivalent to formal contracts as well as a means to safeguard the local small group logic. Paper 2 discusses the effects of stewardship on social franchising coming to the conclusion that stewardship relationships may impede speed of and degree of scaling. Based on these insights, paper 3 more closely analyzes the motivations of social entrepreneurs in a post-founding stage. It empirically constructs a taxonomy of (social) entrepreneurs based on their motivations. To this end, paper 3 employs a three-step methodological approach that combines the inductive insights from 80 interviews with entrepreneurs with a statistical cluster analysis. Following, this paper then discusses contributions of and implications for scaling research as well as to social entrepreneurship, entrepreneurship, and management research.

**Keywords:** social entrepreneurship, social franchising, motivation, entrepreneurial types

Nürnberg, 07 June 2014

## INTRODUCTION

Social entrepreneurship uses innovative and entrepreneurial means to solve social problems (Dees, 1998) that are so far unmet by governments, existing nongovernmental organization (NGOs), and markets (Squazzoni, 2008). Due to its novel approach to tackle societal problems, social entrepreneurship is a field of increasing interest to both practitioners and researchers (Granados, Hlupic, Coakes, & Mohamed, 2011; Volkmann, Tokarski, & Ernst, 2012). While many social entrepreneurs have come up with ingenious ways to fight issues such as poverty, discrimination or unemployment (Bornstein, 2007), many social ventures fail to increase their impact beyond local boundaries, as they are small and remain so throughout their life cycle (Bacq, Hartog, & Hoogendoorn, 2013; for the German context: Spiess-Knafl, Schües, Richter, Scheuerle, & Schmitz, 2013). This empirical phenomenon is astounding when considering that these organizations set out to “save the world”, which entails reaching as many beneficiaries as possible so as to alleviate or eradicate the respective problem (Schram & Giardeli, 2006).

The most common term used to describe efforts to increase the impact of a social venture is *scaling* (e.g., Dees, Anderson, & Wei-Skillern, 2004b). In comparison to *growth* – the dominant term in entrepreneurship and management – scaling can occur without an increase in the size of the original social venture; be it in terms of employees or sales (Bloom & Chatterji, 2009). Due to the importance of scaling to the objectives of social entrepreneurship, practitioners place great emphasis on this subfield of social entrepreneurship (e.g., Bloom & Chatterji, 2009; Bradach, 2003). Yet, despite its importance to the phenomenon, scaling is still under-researched.

Taking this imbalance between practical relevance and academic attention as a starting point, my PhD thesis aims to contribute to social entrepreneurship literature by shedding new light on scaling strategies of social ventures. Specifically, this PhD thesis focuses on the key actor – the entrepreneur. I chose this focus to acknowledge the central of the (social) entrepreneur to their venture (Mintzberg, 2003; Woo, Cooper, & Dunkelberg, 1991) as their choices shape the strategy, structure, and operations of the venture. Therefore, their choices will also influence the scaling strategy of their social venture (see similar Delmar & Wiklund, 2008). In order to generate more insights into the role of the social entrepreneur in scaling processes and strategies of social ventures, my PhD thesis followed three separate approaches (paper 1-3). Put together, these papers try to answer the general research questions of *how do actors and their motivations, particularly the social entrepreneur, influence the scaling strategies (and success) of social ventures?* The purpose of this framework paper is to provide details on the separate papers as well as on their link. Moreover, this framework paper will also provide implications for research and practice for the areas of scaling, social franchising, social entrepreneurship, entrepreneurship, and management.

This framework paper proceeds in the following steps. First, I will provide a brief literature review on social entrepreneurship to justify the relevance of scaling for both practice and research. Specifically, I address three general shortcomings of the current social entrepreneurship literature that influenced the choice of research undertaken in my PhD thesis.

Second, based on a brief review of the literature on scaling, I identify social franchising as an interesting and promising scaling strategy that requires more research. Specifically, the question is raised *why some social franchises are successful while others fail?* To address this question, this section of the framework paper presents and combines the insights from paper 1 and 2 of my PhD thesis. While paper 1 used an agency perspective to understand social franchising, paper 2 used stewardship theory. In combination, both papers generate valuable insights into social franchising. For example, based on these two papers, my co-authors and I identified at least three different types of social franchising. This differentiation has so far been absent in the literature on social franchising. A second finding is that the suitability



and success of the various forms of social franchising depend on the behavioral pattern of the entrepreneur (and franchisee) as well as on the business model and context of the venturing.

In a third step, I take the insights from the foregone section as a starting point to more closely analyze the motivations of social entrepreneurs in a post-founding stage of their ventures. By transferring the known multi-dimensionality of entrepreneurial motivation to the post-founding phase, paper 3 empirically constructs a motivation-based taxonomy of entrepreneurs that cuts across the usual social-commercial dichotomy. To this end, paper 3 employs a three-step methodological approach that combines the inductive insights from 80 interviews with entrepreneurs with a statistical cluster analysis.

Step 4 then takes the insights from paper 1-3 to address the overarching research question of my PhD thesis as well as to respond to the question of why some social franchises work while others fail. Moreover, this step explores potential links between the identified types of entrepreneurs (paper 3) and existing scaling strategies. By briefly linking the insights of my PhD thesis to the existing literature on scaling and growth, I point to future research avenues.

In the fifth and final step, I go beyond the specific issue of scaling and discuss the more general contributions to and implications for social entrepreneurship, entrepreneurship, and management research. I emphasize the idea of combined samples of social and commercial entrepreneurs, the benefits of an actor-perspective to social entrepreneurship research, the implications of the idea of stewardship costs, and the insights to agency and stewardship theory that could be developed through the social mission focus of my analysis. I conclude with some final remarks.

## **SOCIAL ENTREPRENEURSHIP – A BRIEF REVIEW**

From a research perspective, the field of social entrepreneurship is still in its infancy (Bacq et al., 2013; Felício, Martins Gonçalves, & da Conceição Gonçalves, 2013; Granados et al., 2011; Welsh & Krueger, 2012). As a consequence, it is still very phenomenon-driven (Mair & Martí, 2006) and relies on single or small-N case studies (Hoogendoorn, Pennings, & Thurik, 2010; Short, Moss, & Lumpkin, 2009). Moreover, social entrepreneurship scholarship focused a considerable amount of attention on definitional questions, thus trying to identify ‘what social entrepreneurship is’. This literature review will start with this definitional perspective to clarify the core understanding of social entrepreneurship used in this paper and my overall PhD thesis. Second, this section will then provide a brief overview of themes and topics discussed in social entrepreneurship literature. I will use this overview to justify the need for more research on scaling in social entrepreneurship research.

### **The concept of social entrepreneurship**

The question of what social entrepreneurship is triggered extensive debates. To give an example, Dacin, Dacin, and Matear (2010) and Zahra, Gedajlovic, Neubaum, and Shulman (2009) counted 37 and 20 different definitions of social entrepreneurship, respectively. So the question emerges which aspects are scholars debating about?

The major points of continuous disagreement concern the type of venture and its funding structure. In their often-cited work, Dees and Anderson (2006) separate definitions in two major categories: The Social Enterprise and the Social Innovation School. The former is most concerned about the type of organization and its funding sources. Social enterprise representatives analyze nonprofit organizations that employ earned income strategies to achieve financial self-sustainability, i.e. independence of donations and grants (see also Defournay & Nyssens, 2010). An “extreme” form of this perspective is the concept of social business (Beckmann, Zeyen, & Krzeminska, 2014) as proposed by Muhammad Yunus (Yunus & Weber, 2010). A social business is entirely self-sustaining, thus it earns all its income through market mechanisms to fund its social mission (Yunus, Moingeon, & Lehmann-Ortega, 2010; Yunus & Weber, 2010).

In comparison, the Social Innovation School emphasizes the innovativeness of the solution to a specific social problem proposed by the social entrepreneur. In this regard, the Social Innovation School follows a Schumpeterian perspective on entrepreneurship as it calls, at least in part, for the “creative destruction” (Schumpeter, 1911) of current solutions and their replacement through more efficient and effective means. In other words, while the Social Enterprise School gives specifics about the venture form (nonprofit to social business) and the primary or desired funding strategy (earned income), the Social Innovation School delineates social entrepreneurship based on the novelty of the solution proposed. With its focus on a specific venture form, the social enterprise perspective would be too narrow to look at the issue of *scaling* social innovations—that is to grow innovative solutions irrespective of a particular venture or organizational form. As the social innovation perspective offers a greater variety of social ventures and social entrepreneurs for analyzing scaling, this PhD thesis primarily refers to this school of thought<sup>1</sup>.

Relative to the dispute on the ‘entrepreneurship’ part of the term social entrepreneurship, there is more of a consensus about the ‘social’ part of the concept. This part is grounded in the social mission of the venture (Dees, 1998). By social mission, social entrepreneurship scholars understand the objective to solve or alleviate problems that society faces (P. A. Dacin et al., 2010), which is the reason for the sheer diversity of issues addressed by social ventures. Therefore, social entrepreneurs are active in e.g. the field of education, health care, economic development, and environmental protection (Bornstein, 2007). Moreover, the social mission is often used as the key distinguishing factor that delineates social entrepreneurship from e.g. commercial entrepreneurship characterized as profit focused (Austin, Stevenson, & Weiskillern, 2006; Bacq & Janssen, 2011; P. A. Dacin et al., 2010; Lyon & Sepulveda, 2009; Martin & Osberg, 2007; Roper & Cheney, 2005; Rosengard, 2004; Short et al., 2009). Yet, despite the close-to-consensus on the social mission, the ongoing debate about the entrepreneurship part makes it unlikely that research finds a uniform definition (similarly Choi & Majumdar, 2014).

### **Brief review of the literature on social entrepreneurship**

Generally speaking, much of the research on social entrepreneurship aims to understand the distinctiveness of social entrepreneurship as well as the effects of its particular context conditions. Most frequently, these delineation efforts address the differentiation between social and commercial entrepreneurship. In this pursuit, social entrepreneurship scholars often employ concepts used in commercial entrepreneurship research. These issues include opportunity exploration and exploitation (Shaw & Carter, 2007), funding structures (Bacq et al., 2013), business models (Mair & Schoen, 2007; Mueller, 2012; Zeyen, Beckmann, & Akhavan, 2014), leadership styles (Thompson, Alvy, & Lees, 2000), and resource mobilization (Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010) as well as organizational structures (Bacq et al., 2013) and survival (Terjesen, Lepoutre, Justo, Bosma, & GERA, 2012). Overall, these studies came to ambiguous results suggesting that social entrepreneurship, social ventures, and the social entrepreneur are different in some aspects from their commercial counterparts (e.g. business models, see Zeyen et al., 2014) but are similar in others (e.g. resource mobilization, see Shaw & Carter, 2007).

From a more meta-level viewpoint, social entrepreneurship research suffers from at least three shortcomings. First, current research consists primarily of single or small-N case studies (Hoogendoorn et al., 2010; Short et al., 2009; Spiess-Knafl et al., 2013). Notable exception are the large-N study by Bacq et al. (2013), Estrin, Mickiewicz, and Stephan (2013) and in the specific context of Germany Spiess-Kraft et al. (2013). As a consequence, much of

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<sup>1</sup> Paper 2 is an exception to this rule.

the insights generated in extant literature cannot be easily generalized due to the focus on idiosyncrasies of specific cases.

Second, contrary to its commercial counterpart, social entrepreneurship research under-emphasizes the entrepreneur from an actor-perspective (Hoogendoorn et al., 2010). While there is a considerable amount of publications that highlight the role of the social entrepreneur (M. T. Dacin, Dacin, & Tracey, 2011; Montgomery, Dacin, & Dacin, 2012), these publications rarely apply rigorous theoretical or empirical methods but rather present narratives on the role of the social entrepreneur. This is noteworthy due to at least two reasons. For one, extensive and rich literature in commercial entrepreneurship substantiates the central role of the entrepreneur (Mintzberg, 2003; Williams & Tse, 1995; Woo et al., 1991). This is because their motivation and intentions shape their choices which in turn shape their behaviors (Carsrud & Brännback, 2011) and thus influence both strategy and daily operations of the entrepreneurial organization. Or as Shane, Locke, and Collins put it: “We believe that the development of entrepreneurship theory requires consideration of the motivations of people making entrepreneurial decisions” (Shane et al., 2003). On the other hand, in comparison to the academic literature on social entrepreneurship, the practitioner world almost over-emphasizes the entrepreneur leading to “heroization”. For example, some of the largest support organizations – Ashoka (2013), Skoll Foundation (2014), and Schwab Foundation (2014) – search for social entrepreneurs as individual “changemakers®” (Drayton, 2006). Due to the rich insights that commercial entrepreneurship research gained from an actor focus, it seems that social entrepreneurship research could also enhance its understanding of the overall concept by employing an actor-focus that goes beyond anecdotal narratives. Moreover, such a focus might also shed light on why practitioners place so much focus on these actors.

Third, much of the research in social entrepreneurship lacks theoretical grounding (M. T. Dacin et al., 2011; Zeyen et al., 2013). So far, social entrepreneurship scholars have predominately employed institutional theory (Mair & Marti, 2009; Nicholls, 2010a; Sud, VanSandt, & Baugous, 2008; Townsend & Hart, 2008), especially to understand the process of legitimization (Dart, 2004; Hervieux, Gedajlovic, & Turcotte, 2010; Nicholls, 2010b; Ruebottom, 2013; Rueede & Kreutzer, 2014). While other theoretical approaches start emerging, they are still scarce. Yet, in order to better understand social entrepreneurship, the application of additional theories seems of great value.

This call is echoed in various reviews on social entrepreneurship research (M. T. Dacin et al., 2011; P. A. Dacin et al., 2010; Short et al., 2009). Moreover, these reviews point towards research gaps, they consider worth studying. For instance, Short et al. (2009) suggest more research on the social dimension, in particular in regards to other social organizations, whereas M. T. Dacin et al. (2011) call for the exploration of the identity and cognition of social entrepreneurs.

Interestingly, these reviews do not call for research on scaling (for instance M. T. Dacin et al., 2011; Haugh, 2005; for a notable exception see Mueller, Nazarkina, Volkmann, & Blank, 2011). I consider this remarkable because scaling is a key element in enabling social entrepreneurs and their ventures to fulfill the proclaimed objective of social entrepreneurship, i.e. social change (Fisac-Garcia, Acevedo-Ruiz, Moreno-Romero, & Kreiner, 2013; Uvin, Jain, & Brown, 2000). Social change refers to systemic change (Bornstein, 2007), which is unobtainable without scaling. Again, this is a subfield of social entrepreneurship with an imbalance in emphasis between practice and research. While there is only little academic research on scaling (e.g., Bloom & Smith, 2010; Schmitz & Scheuerle, 2013), there is much debate amongst practitioners reflected in conference themes as well as handbooks (e.g., Bloom & Chatterji, 2009; Bloom & Smith, 2010; Brooks, 2008; Durieux & Stebbins, 2010; Harris, 2006). Furthermore, scaling is becoming a term synonymous to success in the world of social entrepreneurship practice (Davies & Simon, 2013). Due to the importance of scaling to social entrepreneurship, I believe it of great value to further research in this area.

In sum, this brief review section pointed to some important insights: (1) the social mission delineates social entrepreneurship; (2) social entrepreneurship lacks large-N research as well as (3) insights on the actor, and (4) only employs established theories in a limited way. In combination with (5) limited insights on scaling despite its importance to the concept, these insights build the foundation of my PhD thesis. For one, I used these insights to reformulate my overall research question to: *how do actors driven by a social mission, particularly the social entrepreneur, influence the scaling strategies (and their success) of social ventures?* On the other hand, to respond to the shortcomings identified, my PhD papers use and advance established theories (paper 1 and 2), as well as large-N rigorous empirical research that goes beyond case studies (paper 3). In short, I hope to contribute to both social entrepreneurship research and practice by shedding new light on scaling in social ventures by adapting an actor-motivation based perspective.

## SCALING STRATEGIES AND SOCIAL FRANCHISING

Similar to the term “social entrepreneurship”, there are also multiple understandings of the concept “scaling”. The more established understanding is derived from general management studies and therefore refers to reaching scale in the sense of efficiency and increasing the output (Uvin et al., 2000; VanSandt, Sud, Marmé, & Marme, 2010). In other words, the organization grows. However, in recent years, the discussion on scaling in the context of social entrepreneurship has moved away from this understanding and now focuses on the diffusion of the underlying social innovation. As such, the organization that originally invented and introduced the novelty does not necessarily need to grow or for that matter be involved in the scaling process (Uvin et al., 2000). As this PhD thesis predominately follows an innovation understanding of social entrepreneurship, I use the latter understanding of scaling.

### **An overview of the literature on scaling**

Overall, the scaling literature focuses on two main themes: barriers to and capabilities required for scaling and scaling strategies.

#### ***Barriers and capabilities in scaling***

Social entrepreneurs face multiple challenges when scaling. First, they often offer services that require specific knowledge (VanSandt et al., 2010). Take the example of a social entrepreneur providing care for the elderly. Not everyone can do this before receiving instructions or training. Second, there may be laws and regulations that require certain licenses or permissions from government agencies or specific trainings to deal with specific vulnerable groups such as children (Beckmann & Ney, 2013). If this is the case, it can greatly impede the speed of scaling. Third, as most social ventures externalize their benefits while internalizing costs (Morduch, 1999), scaling might not be possible due to lack of resources, be it human or financial (VanSandt et al., 2010). Fourth, this lack of resources can also limit or slow down their scaling efforts (Chowdhury & Santos, 2010; Heinecke & Mayer, 2012). Fifth, due to this lack of resources, scaling can also entail several management problems as the human resources available might not match the coordination efforts required (Wei-Skillern, Austin, Leonard, & Stevenson, 2007). Sixth, in order to scale, social entrepreneurs need to know what they wish to scale (Chowdhury & Santos, 2010; Dees, Anderson, & Wei-Skillern, 2004a). Put differently, they need to understand the core of their innovation. However, the process of determining this is time-consuming and complex (Dees et al., 2004a). Thus, if social entrepreneurs misinterpret the core of their innovation, scaling can fail or be impeded.

In order to overcome these barriers, scholars propose various options. For instance, Dees et al (2004) suggest that the social entrepreneur needs to ensure that their venture is ready for scaling i.e. it has sufficient knowledge about its context and innovation and that staff and volunteers are well prepared. One strand of this research has proposed the SCALERS model which stands for staffing, communication, alliance building, lobbying, earnings

generating, replicating, and stimulating market forces (Bloom & Chatterji, 2009; Bloom & Smith, 2010). The idea being that if social entrepreneurs focus on these seven elements, they will be able to successfully scale their ventures. Other proposed issues to overcome barriers include the increase in legitimacy of the venture and its provided goods or service as well as the use of information and communication technology (ICT) (VanSandt et al., 2010). However, most scholars agree that the key lies in the choice of the “right” scaling strategy (e.g., Dees et al., 2004; Heinecke & Mayer, 2012).

### *Scaling strategies*

There are various ways to distinguish scaling strategies, which is often reflected in nuances in the terms used. These terms include scaling up (Gillespie, 2004; London, 2011; Lyon & Fernandez, 2012; Uvin et al., 2000), scaling wide (London, 2011), scaling deep (Desa & Koch, 2014; London, 2011), scaling breadth (Desa & Koch, 2014) and replication (Coffman, 2010; Creech, 2008), adaptation (Coffman, 2010), and non-replication scaling (Clark, Massarsky, Schweitzer Raben, & Worsham, 2012).

Generally speaking, these distinctions in their respective combination primarily aim to make the same point. For that reason, I will only elaborate on one of these distinctions. London (2011) distinguishes between scaling deep, scaling wide, and scaling up. By scaling deep he refers to all scaling strategies that involve the same base of beneficiaries, i.e. the same beneficiaries receive more services by the social venture. In comparison, scaling wide uses the same services but offers them to new kinds of beneficiaries (different to their original target group). Finally, scaling up uses the same services or products and aims to reach the same kind of target group but in a different geographical region. Thus, whereas scaling deep and wide are qualitative forms of scaling that require substantial degrees of adaptive innovation, scaling up is quantitative and focuses on increasing the impact of an existing solution. As my PhD thesis looks at diffusing an existing solution to an existing target group, I refer to scaling up, thus focusing on strategies that allow reaching many beneficiaries and thus achieve social change.

Here, research identified three main types of scaling<sup>2</sup> strategies: dissemination, affiliation and branching<sup>3</sup> (Dees et al., 2004b). Branching is probably the most intuitive, as it greatly resembles growth strategies in commercial ventures. Here, organizations scale through the growth of their own organization. They may do so through the provision of new goods and services, reaching a wider customer (beneficiary) base through opening new sites, or by merging with or acquiring other organizations (Lyon & Fernandez, 2012).

In contrast, dissemination is a form of scaling that may occur entirely independent of the organization that originally innovated. Forms of dissemination range from training to open source. The “original” social venture, for example, uses training and coaching to instruct multipliers so that they can set up operations in other geographic areas. In comparison to branching, the social entrepreneur has no or only very limited control over whether and how the multipliers implement the social venture’s idea. Once, the training finishes, there is no further control or check-up unless the trainees ask for additional trainings. While there is still some limited control in training, as the social entrepreneur can at least control the duration and content of the workshops, open source models allow for virtually no control. Known from the world of software development, open source makes all necessary information to copy or de-

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<sup>2</sup> From hereon onwards, this PhD thesis refers to scaling up as scaling.

<sup>3</sup> While there are other typologies of scaling strategies, when looking at their content they usually boil down to the stated three strategies. Moreover, there are studies that only look at one or two of the three identified types (e.g., Uvin et al., 2000). Yet, for the purpose of this paper, I follow the typology with the widest scope in order to access the diversity of possibilities in scaling.

velop the idea further publically available, often through the means of ICT (Fisac-Garcia et al., 2013; Waitzer & Paul, 2011). In its extreme form, the social entrepreneur has no contact with the individuals or organizations using this or her idea or might not even know about replications through others.

The third type of scaling strategy – affiliation – is a mix between dissemination and branching. Instead of opening its own new sites, the venture cooperates with individuals or organizations through the means of contractual agreements. These agreements include partnerships, licensing agreements, and franchising. Here, the social entrepreneur is still partially involved in the scaling process, yet does not need to oversee the local operation in all its detail.

Overall, the strategies differ in their level of control over and speed of scaling as well as resources required to scale (Dees et al., 2004; Lyon & Fernandez, 2012). Whereas open source (dissemination) offers a means to scale fast even on a global level, branching is often a slow process. Similarly, branching is the most capital and resource-intensive, as the social venture will need to fund the entire process, whereas in open source the social venture only requires resources to put together their starting kit or develop trainings. Again, affiliation strategies are in the middle. Thus, the control over and speed of scaling are moderate as are the required resources. For that reason, many practitioners and scholars focus their attention on this scaling strategy type as it offers the “best of three worlds”. Amongst the affiliation strategies, social franchising is the one considered most promising (VanSandt et al., 2010), yet is still poorly understood (Schmitz & Scheuerle, 2013). Against this background, my PhD thesis will take a closer look at social franchising to better understand how it works.

### **Social franchising**

Put in simple terms, social franchising transfers the idea of franchising from the commercial realm to the nonprofit world<sup>4</sup> (Montagu, 2002). Franchising is a contractual agreement in which one party (the franchisor) grants another (the franchisee) the rights to her business model or products in exchange for a one-off franchise fee and continuous royalty payments (e.g., Lafontaine & Shaw, 1998).

So far, research on social franchising is scarce (Schmitz & Scheuerle, 2013) and has lead to ambiguous results. Whereas its proponents stress its benefits for scaling (Ahlert et al., 2008; Heinecke & Mayer, 2012; Heinecke, 2011; Volery & Hackl, 2010), some researchers come to the conclusion that it does not work (Tracey & Jarvis, 2007); while again others come to unclear conclusions (Kistruck, Webb, Sutter, & Ireland, 2011). Similar patterns emerge in practice. As current research does not help to gain a clear picture of the potential or challenges entailed in social franchising, I raise the question: *why do some social franchises succeed while others do not?* Specifically, *how does an actor-motivation perspective help to understand the success or failure of social franchises?*

Due to the ambiguous results of extant empirical studies (mainly case studies), I deem it useful to take a step back and consider social franchising from a conceptual perspective. By so doing, underlying mechanisms that might have been overlooked during empirical research may emerge, which can then help to inform future empirical research. To this end, the following subsections will first introduce theoretical approaches to commercial franchising. Following, the subsequent two subsections will then provide insights on paper 1 and 2, respectively. The final subsection will conclude with some general implications for social franchising practice and research.

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<sup>4</sup> In some studies social franchising is understood not as a scaling strategy but as a means of profit-generation (Netting & Kettner, 1987). To give an example, Ben & Jerry’s Ice-Cream grants free franchise licenses to nonprofits (Stephens, 2003), so that they can use the product sales as income for their social mission.

### *Theoretical grounding of franchising*

The first approach to theoretically explaining franchising was Oxenfeldt & Kelly's (1969) resource scarcity theory. This theory consists of two parts of which only the first could so far be empirically substantiated (Castrogiovanni, Combs, & Justis, 2006). In simple terms, according to resource scarcity theory, organizations choose franchising due to their lack of financial resources. Through franchising, they are able to tap into financial resources of other individuals who then take on the risk of opening new sites under a franchise agreement. The second part of this theory argues that once the franchisor has stable finances, they will start buying back the franchise outlets not held by them so that eventually all subsidiaries will be wholly-owned by the original organization. As mentioned previously, despite many attempts this part of the theory could so far not be verified.

Due to the ambiguous prediction capabilities of resource scarcity theory (e.g., Combs & Ketchen, 2003), researchers turned to other theoretical explanations for the occurrence of franchising. As a franchise agreement is a form of delegation, the most common theory used to illuminate franchising is agency theory (Combs, Ketchen, Shook, & Short, 2010; Combs, Ketchen, & Short, 2011; Combs & Ketchen, 2003). Agency theory indicates that franchisors engage in franchising as it reduces both the ex-ante costs of adverse selection as well as the ex-post cost of moral hazard (Combs & Ketchen, 2003). To be precise, entering a franchise is costly for potential franchisees, as they need to put up an initial franchise fees. Thus, only those individuals, who perceive themselves capable of running a franchise outlet, would apply as franchisees. Therefore, the applicants for a franchise outlet are generally more qualified, thus reducing the costs of adverse selection. Once the outlet is opened, the fact that the franchisee's income is entirely dependent on the performance of their franchise outlet reduces the risk of poor performance. In short, the ex-ante franchise fee and the ex-post financial rewards in a franchise arrangement help to align the goals of the franchisee to those of the franchisor, which would, according to agency theory, otherwise not necessarily be aligned (Eisenhardt, 1989).

As agency explanations have proven very insightful to commercial franchising research, it might be a good starting point for a theoretical exploration of social franchising. However, there are significant design differences between social and commercial franchising that may affect the predictions by agency theory. First, social franchisees are often organizations rather than individuals as in commercial franchising (Montagu, 2002). Second, as social franchisees are often organizations, the franchise operation is often only one fragment of their overall service provision. In contrast, commercial franchisees mostly operate their franchises as stand-alone ventures (Montagu, 2002). Third, social ventures have a different financial situation. In some cases their legal or organizational form does not allow for profit-making (e.g., Yunus & Weber, 2010). Moreover, social ventures sometimes pay below market wages (Volkman et al., 2012) and may be active in non-lucrative markets. As a consequence, operating a social franchise outlet is unlikely to yield much if any financial rewards. Yet, as the brief outline above indicated, financial incentives are a key element of the agency explanation for franchising. Based on these differences, it might seem apparent that agency theory is unsuitable for the context of social franchising. Indeed, such remarks are found in the literature (Volery & Hackl, 2010). In light of these alleged shortcomings of agency theory, there are two possible paths to continue the theoretical exploration of social franchising: either to use another theory or to refine agency theory such that it can be fruitfully applied to a social franchising context. My PhD thesis follows both paths. Paper 1 analyzes social franchising from an agency perspective. Specifically, it investigates how the social mission of specific actors affects agency costs. Paper 2 then uses stewardship theory, which emphasizes intrinsic motivations of individuals and might thus offer insights into social franchising.

***An agency and resource scarcity theory perspective on social franchising (paper 1)***

In my first paper entitled “Franchising as a Strategy for Combining Small and Large Group Advantages (Logics) in Social Entrepreneurship: A Hayekian Perspective“, Markus Beckmann and I theoretically explored the applicability of agency and resource scarcity theory in the field of social franchising. Thus, this paper addressed the research questions: *Do resource scarcity and agency theory help to explain why some social franchises are successful and others are not? How can a distinction between small and large groups help to understand the role of mission-driven self-selection and coordination for explaining successes and failures of social franchises?* (see Table 1<sup>5</sup>).

Before elaborating on resource scarcity and agency theory, paper 1 introduces an idea brought forward by Friedrich August von Hayek (1988). In his book “the fatal conceit”, he distinguishes between two forms of social order: the macrocosm (big group) and the microcosm (small group) logic, which occur simultaneously in modern societies. In the small group such as the family or the Stone Age tribe, members with a common identity rally around shared objectives and are thus end-connected. Personal face-to-face relationships can then enable the group to coordinate and achieve their goals. In the big group such as modern markets, in contrast, individuals coordinate in a rule-connected way. Despite different identities, individuals can pursue their pluralistic objectives through often impersonal or even anonymous, albeit rule-based interactions. While both coordination logics are consistent for themselves, problems occur if the logic of the microcosm (small group) is applied to the macrocosm (big group) and vice versa (Hayek, 1988).

Building on Hayek’s distinction between two coordination logics, we argue that this idea has great implications for the idea of scaling in social ventures. Volunteers or staff members often self-select and engage in a social venture based on its social mission (shared goal). However, if the social entrepreneur wishes to scale to widespread geographical areas, this small group would fall apart, as members from say Berlin and Munich could not constantly interact and coordinate on a personal and shared identity basis. Adding formal rules to coordinate the growing, however, would add big-group elements to the social venture which then undermine and conflict with the existing mission-based forms of small-group coordination and motivation.

In this situation, social franchising offers a means to ensure small group logics on a local level by separating the small group logic from the big group logic. To be precise, the big group logic is moved to the contractual (rule-based) interaction between the franchising organizations whereas the small group logic between local staff or volunteers is ensured.

This mechanism also holds insights in regards to agency and resource scarcity theory. First, the importance of the local small group indicates that an important resource in scaling for some social ventures is not necessary financial but social capital. For this reason, in social franchising, the local franchisee is typically an already existing mission-driven organization with a network of volunteers and supporters. Trust and local embeddedness therefore seem of greater importance than finances. Thus, social franchising may be explained through resource scarcity theory, if the latter is refined to include not only financial but also social capital.

A social franchising perspective on agency theory illuminates that as mentioned earlier, social ventures have little resources and could thus potentially not afford strict monitoring to ensure quality standards in the local outlets. Moreover, as franchisees are also social organizations they are unlikely to be able to pay high upfront license fees. Additionally, as the purpose of the franchise is not to generate income but to reach more beneficiaries, the key me-

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<sup>5</sup> Table 1 includes a complete overview of all three papers, their research questions, key findings and contributions to both the scaling literature and social entrepreneurship, entrepreneurship, and management research in general.



chanisms to achieve goal alignment in franchising is disturbed. So why are franchises such as Wellcome (illustrative case in paper 1) so successful?

In paper 1, we argue that the answer lies in the social mission drive of the actors involved. Local volunteers donate their time only to ventures they perceive as legitimate and honest. Similarly, individuals only enter employment in social organization based on their legitimacy as the wages are often under market wages and thus do not offer incentives. Due to their mission focus, members (staff and volunteers) self-select themselves to a venture which they consider worthwhile from an intrinsic perspective. Moreover, as members are highly motivated to achieve the social mission, they self-monitor each other and are more likely to report or exit, if activities emerge that are unrelated or even harmful to the venture's mission. In other words, informal mechanism of self-monitoring and self-selection of and between mission-driven individuals serve as functional equivalents to formal contracts and thus reduce agency costs and ensure goal alignment.

In sum, this paper contributes to social franchising research by introducing the idea of small and big groups. In particular, it sheds light on the function that mission-driven actors within a social venture can serve within a social franchise.

As mentioned above, paper 2 used stewardship theory to analyze social franchising. In the literature, stewardship and agency theory are often portrayed as opposites (Fox & Hamilton, 1994) where stewards are the “good” and agents the “bad” (Arthurs & Busenitz, 2003). In contrast to this viewpoint, I consider stewardship theory a complement to the agency perspective. Agency theory analyzes how contracts can serve to align and ensure continued alignment of goals between principal and agent. In comparison, stewardship theory assumes initial goal congruence between principal and steward a priori. Thus both strive for the same objective. While at first glance, this seems indeed the opposite of agency theory; stewardship theory also addresses measures to ensure the continuation of the initial goal congruence. Different to agency theory however, stewardship theory refers to informal mechanisms such as personal power and involvement-oriented management (Davis, Schoorma, & Donaldson, 1997). If these measures are not taken, stewardship theory predicts that the pro-organizational behavior of individuals turns to anti-organizational behavior, which can deteriorate the entire delegation relationship. Thus, while the starting point of both theories is different (goals need aligning versus goals are congruent), both theories try to ensure that goals between principal and agent/steward remain aligned. In the context of social franchising, paper 1 showed how the social mission of actors can reduce agency costs and aligns goals. Complementary to this perspective, the social mission may also allow stewardship relationships to occur as actors involved may share the same social mission. Taking the latter notion as a starting point, paper 2 analyzed how stewardship theory links to social franchising.

### ***A stewardship perspective on social franchising (paper 2)***

Anna Krzeminska and I employed this theoretical approach in paper 2 entitled “towards a stewardship (cost) theory of social franchising”. In particular, we looked at the success potential of social franchises based on a steward-steward relationship. For the purposes of analytical clarity, we narrowed our conceptual investigation to social franchises whose franchisee are non-beneficiaries. The research question of paper 2 is: *How does goal congruence based on a social mission affect the scaling potential of social franchises that franchise to non-beneficiaries?*

According to stewardship theory, stewards are intrinsically motivated by higher-order needs, and are other-regarding (Davis et al., 1997). Additionally, they perform pro-organizational behaviors and respond to personal power of their principal and involvement-oriented management. Throughout the paper, we use these characteristics in combination with those of a social enterprise to develop propositions on the effects of stewardship relationship on social franchising. This theorizing is divided into two parts: effects on the selection

process and effects on the management process. Throughout the analysis, we identified challenges that are rooted in the stewardship relationship, which we termed *stewardship costs*.

A closer look at the selection process in social franchising based on stewardship relationships indicates that the importance of this process increases. Not only are stewards motivated intrinsically to fulfill the mission of their principal, but they also react negatively to external incentives. Thus, once the steward is within the organization (as a franchisee), it is much more difficult to steer their behaviors than in agency relationships. Against this background, the franchisor needs to make sure that the potential franchisee fully identifies with the venture's mission as well as with the franchisor. The latter is essential, as this personal identification with the franchisor ensures that the steward will react to personal power when they enter the franchise chain. However, the identification of "true" intrinsic motivation and identification is a complex and time-consuming process. To build identification, the franchisor needs to interact with the potential franchisee regularly before entering the agreement. Yet, the franchisor can only arrange a certain number of such meetings per month to avoid losing track of other strategic and operative tasks. This bottleneck thus slows down the scaling process. Additionally, a focus on intrinsic motivation and identification during the selection process may lead to motivated but incapable franchisees entering the network.

Once stewards are franchisees, the franchisor needs to manage the franchise chain. Here, our analysis suggests that the need for involvement-oriented management delimits the maximum size of the franchise chain. In this form of management, members (franchisees) have the right to participate in decision-making processes. Thus, the larger the network, the longer such meetings will take until a consensus is reached. Moreover, practical issues also play a role. Once the franchise is spread widely, it will take time till meetings can be scheduled and it may require significant resources to get all members to the same location (particularly if the franchise is globally active).

Furthermore, stewards are part of the social franchise to help a certain target group. Thus, if frictions occur between helping the target group and helping the franchisor, stewards may have a greater tendency to shift their focus towards their beneficiaries. In such situations, the franchisor has no measures to return the franchisee's attention back to the franchise. As a consequence, the outlet and headquarter might drift apart.

Finally, the low power distance of stewardship relationships (Davis et al., 1997) impedes standardization efforts by the franchisor. One key benefit of franchise chains is that they all operate under the same brand and to the same quality standards (Combs, Michael, & Castrogiovanni, 2004). Thus, customers (or beneficiaries) that change their location will recognize the brand and remain involved with the venture. Therefore, standardization is an important part of franchising. However, due to a low power distance and the perception of being social entrepreneurs themselves, stewards are more likely to be reluctant to follow such standardization attempts, thereby potentially watering down the brand.

In sum, paper 2 suggests that social franchising enables the social entrepreneur to build their management on stewardship relationships by which they attract individuals that are (most likely) like themselves also intrinsically motivated to achieve a social mission. However, these relationships face stewardship costs of for instance reduced speed and scope of scaling.

### ***Implications for social franchising***

The following section presents two implications and contributions of paper 1 and 2 for theory and practice of social franchising. First, I point to the potential benefits of a more fine-grained analysis of social franchising based on different types. Second, I point to the contextual contingency of social franchising success.

*Different types of social franchising:* First, paper 1 and 2 point to a multitude of social franchising types. So far, the literature only distinguishes between social franchising as profit

generating or scaling tool (Netting & Kettner, 1987) and points to franchising by organizations rather than individuals (Montagu, 2002). Yet, paper 2 suggests that social franchisees may also be individuals. Moreover, social franchisees may be beneficiaries (as in Kistruck et al., 2011) or non-beneficiaries (paper 1 and 2). Based on paper 1, it would also be possible to delineate social franchises that build on a small group business model and those that do not.

By distinguishing different forms of social franchising, future research may be more accurately able to predict hurdles and success of specific franchises. In particular, future research could try to understand which type of franchise might be better managed based on agency or stewardship principles. I insinuate that such a more differentiated perspective might also help to resolve the ambiguous results in current literature. Finally, future research may discover additional dimensions that help to further fine-grain the analysis. To give an example, a social franchisor that deals with organizations would be ill advised to use stewardship management, as personal power will have a limited impact. To be precise, while in individual franchising the franchisor is likely to always be in contact with the same individual (franchisee), in an organizational context the person responsible for handling the franchise agreement might change, thus rendering personal power ineffective.

*Contextual contingency of social franchising:* Second, the success of the respective types of franchising depends on the situation and contexts in which it is embedded. As the case studies by Kistruck et al. (2011) showed, some of the social franchisees involved clearly acted on their own behalf rather than on behalf of the mission (as would be expected based on social entrepreneurship research). However, Kistruck et al. (2011) primarily looked at social franchises that employed the rural poor in developing countries. As such, these individuals are unlikely to portray stewardship behavior; yet not because they are per se “opportunistic” individuals but because they are in a situation that does not allow them to consider others or higher-order needs when their own family is still struggling to meet basic lower-order needs. Therefore, in such a situation, franchising that will most probably rely on stewardship management would be unsuitable. Rather, the franchisor would be advised to choose a different franchise type. For instance, the franchisee could be an organization active in economic development or an individual who is not the beneficiary of the social mission. He could then employ the rural poor. By so doing, the beneficiaries receive a steady income and the franchisee-franchisor relationship would be unperturbed by the economic situation of the beneficiaries.

In short, the findings, contributions, and implications of paper 1 and 2 seemingly substantiate the relevance of an actor-based perspective. Paper 1 showed the relevance of the mission-drive of the actors (staff and volunteers) involved to the success of social franchising, while paper 2 provided insights on how social franchising is affected by relationships between two intrinsically motivated actors.

As such, both papers also support the importance of motivation to the success and failing of social franchising and potentially scaling in general. Whereas agency behavior is more grounded in self-interested motivations, stewardship theory emphasizes pro-social motives. By turning to the literature on motivations, it becomes clear that individuals are motivated by multiple motives (Shane et al., 2003). Thus the final paper of this PhD thesis takes the insights on the importance of the actor motivation and the insights on the multi-dimensionality of motivations as a starting point to further investigate motives of social entrepreneurs as this may serve to gain an even deeper understanding into scaling.

## **TYPES OF ENTREPRENEURS AND THEIR DRIVERS**

Based on the insights from the previous section, I argue that the scaling literature can greatly benefit from better understanding the entrepreneur, in particular their motivations. To

substantiate this claim, I briefly turn to the literature on growth motivation in commercial entrepreneurship, as these insights are likely to relate to social entrepreneurs.

### **Motivation, growth, and types of entrepreneurs**

The motivations of an individual (and thus of an entrepreneur) influence their choices (Ajzen, 1991; Carsrud & Brännback, 2011; Delmar & Wiklund, 2008; Locke & Latham, 2002; Wiklund, Davidsson, & Delmar, 2003). Specifically, the literature on growth in commercial entrepreneurship has identified links between the motivation of the entrepreneur to grow and growth of the ventures (Barringer, Jones, & Neubaum, 2005; Delmar & Wiklund, 2008; Kolvereid, 1992; K. G. Smith, Baum, & Locke, 2001; N. R. Smith & Miner, 1983). For instance, Barringer et al. (2005) point out that growth aspirations by the entrepreneur once articulated in any form positively influence the growth of the venture. Additionally, research indicates that the type of entrepreneur is linked to the (growth) strategy type (Ucbasaran, Westhead, & Wright, 2001; Williams & Tse, 1995).

Recent studies started to recognize diversity in social entrepreneurs by introducing different types. For instance, Zahra et al. (2009) distinguish social entrepreneurs based on the type of innovation they recognize and implement. Others distinguish social entrepreneurs based on psychological aspects (Miner, 2000), based on the role of the social entrepreneur within the organization (e.g. CEO versus founder) (Roper & Cheney, 2005), the type of service they provide (Vidal & Claver, 2006), or on their scale reached or approach taken (Trivedi, 2010). While such differentiations help to perform more nuanced analyses of various topics in the field of social entrepreneurship, their potential to serve as types to identify strategic choices might be limited.

Turning back to the growth literature, it becomes apparent that the entrepreneur's motivation is an important element in a firm's growth strategy. Thus, following this line of scholarship, I argue that the social entrepreneur's motivation is crucial to understanding their choices in scaling strategies. Due to the lack of current research on such motivations, paper 3 used an exploratory approach to identify types of (social) entrepreneurs based on their motivation.

### **A motivation perspective on social and commercial entrepreneurs (paper 3)**

My third and final paper entitled "What Drives Entrepreneurs? An Empirically-Based Taxonomy Beyond the Social and Commercial Entrepreneurship Distinction" empirically analyzes the drivers of entrepreneurs. By drivers, I understand the motivations of entrepreneurs in a post-founding stage. In comparison to the rich literature on 'entrepreneurial motivation' which analyzes pre-founding motivations (Shane et al., 2003), this focus on 'entrepreneurial drivers'<sup>6</sup> allows me to gain insights into the entrepreneur who is in the situation of considering or already in the process of scaling their idea and/or venture. To achieve this objective, this paper addressed the following research questions: *What drives social and commercial entrepreneurs in a post-founding phase? Can these drivers be used to identify different types of entrepreneurs and, if so, what are these different types? How do these empirically observable entrepreneurial characters relate to the distinction between social and commercial entrepreneurship found in the literature?*

To this end, cluster analysis can serve as a powerful tool to empirically develop classifications (Rencher & Christensen, 2012). The objective of cluster analysis is to separate populations into homogenous subgroups with high inter-cluster heterogeneity. To perform a cluster analysis requires quantitative or quantified data.

While there is a rich literature on entrepreneurial motivation, this is hardly the case for entrepreneurial drivers. Moreover, the extant literature on drivers is often primarily focused

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<sup>6</sup> The term entrepreneurial driver is only chosen to avoid confusion with the established term of entrepreneurial motivation.

on growth while neglecting other motivations. Yet, other drivers might influence the growth aspirations of an entrepreneur. Additionally, the existing literature only recently included prosocial motivations (Renko, 2013), which, however, might be of particular importance to the context of social entrepreneurship. Thus, there is insufficient prior knowledge on entrepreneurial drivers of commercial and social entrepreneurs. Hence, I used an exploratory qualitative approach to collect the necessary data.

During data collection, I interviewed 30 social and 50 commercial entrepreneurs. By means of emergent coding (Saldana, 2009) of these interviews, I was able to derive codes on drivers of these entrepreneurs. These codes were then merged into code categories yielding seven dimensions of drivers. These are *numbers*, *personal gratification*, *employees*, *market*, *product*, *customers*, and *impact*. For instance, *numbers* reflects that indicators and their achievement drive an entrepreneur. *Employees* refers to wishing to achieve employee satisfaction, paying them good wages, and enhance their skills. *Impact* reflects the desire to help others and to improve the livelihood or situation of other people outside the organization (thus not employees). Overall, *numbers*, *employee*, *personal gratification* and to a lesser degree *customer* are more inward-oriented (towards the venture) whereas *market*, *impact*, and *product* are more outward-oriented.

As these categories are still qualitative in nature, I developed a scoring system to quantify the data and had three other researchers apply the scoring scheme independently. The final scores were then used as data in the cluster analysis. The cluster analysis combined the seven dimensions of drivers into unique combinations (in terms of the respective scores) and yielded five types of entrepreneurs. These are *the rational missionary*, *the bonding self-actualizer*, *the number junkie*, *the “textbook” businessperson*, and *the product-adjusting competitor*. While full descriptions of all types are provided in the paper, I will use the rational missionary as an example to illustrate the concept of the driver function.

The rational missionary is characterized by a high score in *impact* and *customer* (primarily described as customer satisfaction), by a medium score in *numbers* as well as by a very low score for *personal gratification* and *employees*. This indicates that the rational missionary is more outward-oriented as they wish to help others and their customers. However, during this pursuit, *numbers* are at least of a moderate importance in their efforts. (see Figure 1).

On a more aggregate level, only one out of the five clusters is comprised exclusively of commercial entrepreneurs (namely the “textbook” business person). The remaining four clusters both contain social and commercial entrepreneurs. I use this finding to suggest that future research could benefit from combined samples of social and commercial entrepreneurs.

In sum, paper 3 further supports the notion that there are multiple types of social entrepreneurs. As types of entrepreneurs seem to be linked to types of strategy (e.g., Ucbasaran et al., 2001), these findings will help to further research on scaling by offering a more differentiated perspective on the key actor.

**Figure 1**  
**Spider web diagram of rational missionary**



### **IMPLICATIONS FOR AND CONTRIBUTIONS TO RESEARCH ON AND PRACTICE OF SCALING STRATEGIES**

This section serves to summarize the contributions of paper 1-3 as well as to discuss their implications for future research. On a more speculative note, step 1 will link the types of entrepreneurs of paper 3 with the scaling strategies from the literature review. Second, I will briefly link some of the insights on scaling to those of the literature on growth. The third and final step will then go back to the initial research question of my PhD thesis and summarize the responses as developed in each paper as well as by linking paper 1-3.

#### **Types of entrepreneurs and types of strategy**

This subsection tries to give a rough and speculative response to Ucbasaran et al.'s (2001) call for more research that links scaling strategies with types of social entrepreneurs. I conjecture that the various drivers identified in paper 3 pull an entrepreneur towards certain scaling strategies and away from others (see Figure 1). For reasons of brevity, I will only elaborate on a selective number of driver dimensions and illustrate my argument on one type of entrepreneur.

For instance, I insinuate that the driver *impact* – i.e. the motivation to help other people and many of them – pushes a social entrepreneur more towards affiliation or dissemination strategies than towards branching. This is because dissemination strategies have the tendency to allow the fastest scaling (Dees et al., 2004a; Lyon & Fernandez, 2012). Thus, if a social entrepreneur is greatly motivated by impact, her inclination to scale fast will potentially be high.

In contrast, the driver *numbers* – i.e. the motivation to achieve indicators and check progress – is likely to have the opposite effect. Individuals that are motivated by achieving indicators will be less satisfied with scaling through dissemination strategies, as they will have no means to identify whether they have reached their set indicators. In other words, *numbers*-driven entrepreneurs may have a higher tendency to prefer some form of control as it is easier to measure progress of activities that one controls than those others act out. Therefore, numbers is more likely to pull a social entrepreneur towards affiliation or branching strategies.

The driver *customers* – i.e. the motivation to satisfy customers and build a reputation – is somewhat ambiguous at this stage. On the one hand, the part of this driver that desires to ensure customer satisfaction through quality would pull towards branching and affiliation, as they would enable control over the services provided. On the other hand, to satisfy customers also requires accessibility, thus this would pull the entrepreneur in the other direction to allow

more customers access to the services. In sum, *customers* will probably lead to a light pull towards affiliation and branching.

The driver *personal satisfaction* is a particularly interesting one and might have two effects. As this driver dimension is strong about the direct feedback an entrepreneur receives in her work (e.g. the “fun” working with the target group), both dissemination and affiliation strategies provide less of such feedback. Yet, even in branching, the nature of the entrepreneur’s work changes with a growing organization. And in effect, despite the proclaimed mission to change the world, many social entrepreneurs have a preference to stay small (Bacq et al., 2013).

To give one final example, take the driver dimension *employees*. This driver may push a social entrepreneur more towards choosing branching or affiliation strategies. In branching, the entrepreneur will have more contact with their employees and can thus ensure their satisfaction. While the entrepreneur may still have some influence on the job situation of affiliated organizations’ employees, he cannot influence this factor in dissemination strategies.

**Figure 2**  
**A speculative link between drivers and scaling strategy**

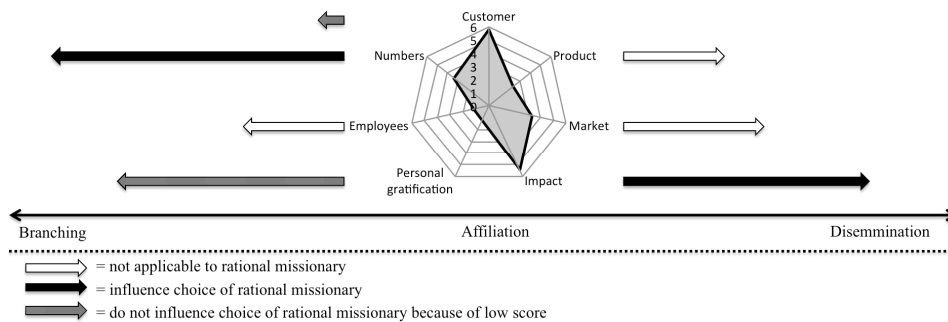


Figure 2 depicts the speculated choices of the rational missionary who scores high for *impact* and *customers*, modest for *numbers*, and very low for both *employees* and *personal gratification*. The high *impact* score pulls the entrepreneur towards the right of the continuum (dissemination). However, at the same time the moderate *numbers* score may counterbalance this effect by pulling the social entrepreneur more towards branching. The high score in *customers* also pulls the entrepreneur to the left. While *employees* and *personal gratification* would usually strengthen this pull towards the left (branching), as it has an extremely low score, it has no effect. As a consequence, the rational missionary might be most likely to scale through affiliation.

To be sure, as already indicated above, these tentative reflections are still at a speculative stage. However, I believe they give a clearer picture of potential research that could build on the identified types of entrepreneurs. In a first step, research could try to determine real-life examples of the various types through surveys or in-depth interviews. No matter the empirical approach, the seven drivers would need to be converted into items with scales. Such items could be loosely based on the original emergent codes of paper 3. Second, once empirical examples for each type are identified, research can then analyze their chosen scaling strategy. Note the importance of doing both steps closely together as motivations may change over time (Carsrud & Brännback, 2011). Thus, if the time delay between type identification and strategy identification is too long, there might be noise in the data. Moreover, scholars could use conjoint analysis to test if higher scores in certain drivers indeed influence the choice of scaling strategy. Such research may yield insights into the direction of correlation between drivers and types. Based on the speculation above, it is unclear whether rational missionaries

choose affiliation strategies because they are rational missionaries or whether other factors – e.g. a social investor – push the entrepreneur towards affiliation strategy, which in turn shapes their motivation so that they become a rational missionary. Such insights would also help practitioners, particularly in those organizations that invest in and support social ventures.

### **The “big picture” of scaling**

The focus of my PhD thesis was on actors to better understand scaling strategies. During the respective analysis, various influential factors emerged, of which I will state a few below. First and foremost, the social *entrepreneur* plays a central role in the scaling process of social ventures. More precisely, our analysis indicates that the motivations (paper 3 combined with previous subsection) and behavioral patterns (paper 1 and 2) of the entrepreneur influence the choice of scaling strategy as well its implementation.

Second, despite the focus on the actor, papers 1-3 also yielded insights that go beyond the actors involved. For example, all three papers point to the relevance of the *context* in which social entrepreneurs are embedded. Though only indirectly, paper 1 points to the influence of existing legal systems. The separation of the small and big group as described in paper 1 depends on the enforceability of contracts. In addition, the social franchising process described in paper 1 also requires other established social organizations to which the social entrepreneur can franchise. However, such established welfare organizations as in Germany do not exist in many other countries, especially those in the developing world. Paper 2 identified the effect of the economic situation of the scaling partner in affiliation strategies. Finally, the literature review of paper 3 conjectures that the motivations of individuals are dependent on their situation, be it at home or in their economic surroundings.

Third, paper 1 and 2 suggest an influence of issues *internal* to the social venture. The importance that the small group logic within the business model has for the franchise success supports this notion. Thus, the respective business model of the social venture will also factor in the choice of scaling strategy. Moreover, paper 2 discusses the influence of management style (involvement-orientation) and its consequences for social franchising.

These three overarching insights relate to the existing literature on growth in commercial entrepreneurship. Here, Davidsson, Achtenhagen, and Naldi (2010) developed a growth model that includes the three main blocks of entrepreneur, internal aspects of organization, and environment. In particular, they stress the interdependence of these factors, which is still only partially understood. Here, my PhD thesis is able to offer insights on the entrepreneur and some preliminary insights into the link between the three blocks. Future research could thus try to better understand these links.

Moreover, future research could elaborate on each of the blocks separately as well as analyzing their effects on each other. The following paragraphs provide some potential areas of future research on scaling based on the model of growth.

*The entrepreneur:* Other factors that influence the entrepreneur are their perceived abilities to grow (see similar Ajzen, 1991) as well as their past behaviors (Delmar & Wiklund, 2008), which have so far not been addressed in social entrepreneurship research. Furthermore, scaling literature could benefit from a better understanding of the cognition of the entrepreneur (M. T. Dacin et al., 2011).

*Internal aspects:* Internal factors that may influence the scaling process are the size or age of the organization. Indeed, recent studies indicate that the age of the organization influences the social venture’s growth aspiration (Bacq et al., 2013). As indicated by the insights of paper 1, the business model also influences the choice of scaling strategy. So far, research identified several business models in social entrepreneurship (Mueller et al., 2011; Zeyen et al., 2013, 2014). To be precise, the scaling strategy could be affected by the value architecture and/or revenue model (Osterwalder, Pigneur, & Tucci, 2005; Osterwalder & Pigneur, 2010). Furthermore, the degree of volunteer involvement is also likely to alter the choice of scaling



strategy. Thus research could aim to understand the link between business model and scaling strategy. Moreover, paper 2 points to the effect of management styles (e.g. involvement-oriented).

*Environment:* Here, research may benefit from systematically analyzing the PESTLE (political, economic, social, technological, legal, and natural environmental) factors (Dransfield, 2001) of a social ventures. For instance, Beckmann and Ney (2013) conjectured that institutional fragmentation and restricted access to administrative decision-makers could significantly impede scaling speed. In addition, similar to commercial entrepreneurs, social entrepreneurs are also in competition either for grants, donations, beneficiaries, or media attention (Dees, Emeson, & Economy, 2002). As such the competitive environment is also of importance to the scaling process.

In sum, future research on scaling will benefit from a better understanding of the respective links between the entrepreneur, their venture, and its context.

### **Scaling from an actor-motivation perspective**

This subsection serves to respond to the overarching research question of this PhD thesis: *how do actors driven by a social mission, particularly the social entrepreneur, influence the scaling strategies (and their success) of social ventures?*, as well as to the major sub-question: *why do some social franchises succeed while others do not? Specifically, how does an actor-motivation perspective help to understand the success or failure of social franchises?*

I start with the latter. Paper 1 answered this question by highlighting three main points. (1) Social franchising can be a means to not only safeguard local small group logics but to also use the small group logic as part of the franchise governance. However, such an approach only works for those social ventures that actually do build on small group coordination in their service provision. Yet, this is not necessarily the case for all social ventures. For instance, as discussed in paper 1, it would be inadvisable for a microcredit loaner to use social franchising, as their internal mode of service provision does not require small group interactions.<sup>7</sup> (2) Paper 2 showed that social franchising can be a means to employ stewardship management. However, this process incurs stewardship costs of, for instance, reduced maximum size and reduced speed. Thus, social franchising may succeed if the franchisor manages to properly set up stewardship management and finds ways to overcome or at least reduce stewardship costs. (3) Moreover, insights from paper 2 and stewardship theory also indicate that the success of this form of social franchising is dependent upon maintaining a steward-steward relationship. In other words, some social franchises may fail because either the principal or the steward changes their behavioral pattern away from stewardship and towards agency.

The latter reference to the importance of keeping stewardship behavior in sync becomes even more important when combined with the insights from paper 3 that motivations may change over time. Such changes in motivation may not only collapse a stewardship-based social franchise but may lead to challenges in any scaling strategy.

Based on the papers as well as on the brief discussion in the foregone subsection, scaling efforts may also fail because the social entrepreneur misjudges the context variables. For instance, rather than realizing that potential franchisees are not in a situation to act out stewardship behavior, the social entrepreneur tries to implement stewardship management instead of using a different scaling strategy (e.g., franchising based on agency mechanisms).

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<sup>7</sup> Note that the relevant relationship here is that between the microfinance institute and their borrowers – and not that between borrowers.

**TABLE 1**

**Overview of Research Questions, Key Findings, and Contribution of Papers**

| # | Research Question   | Methodology   | Key findings / contributions based on research question   | Additional findings / contributions   |
|---|---|---|---|---|
| 1 | Do resource scarcity and agency theory help to explain why some social franchises are successful and others are not? How can a distinction between small and large groups help to understand the role of mission-driven self-selection and coordination for explaining successes and failures of social franchises? | Conceptual<br>Illustrative case study   | <ul style="list-style-type: none"> <li>- Social entrepreneurs use social franchising as a means to safeguard local small group</li> <li>- Distinction between social ventures that rely on small group logic and those that do not</li> <li>- Social franchises dependent on small groups successfully scale if they manage to protect the small group logic</li> </ul> | <ul style="list-style-type: none"> <li>- Introduction of distinction between microcosm and macrocosm to debate on social entrepreneurship</li> <li>- Social mission as informal functional equivalent for formal contracts for the governance of agency relationships</li> <li>- Advancing of resource scarcity theory to include social capital</li> </ul> |
| 2 | How does goal congruence based on a social mission affect the scaling potential of social franchises that franchise to non-beneficiaries?   | Conceptual<br>Small case examples for plausibility                              | <ul style="list-style-type: none"> <li>- Social entrepreneurs can build on stewardship relationships to initiate a social franchise system</li> <li>- Stewardship relationships then reduce the speed of scaling through social franchising</li> <li>- Stewardship relationships limits the maximum number of outlets in social franchising</li> </ul>                  | <ul style="list-style-type: none"> <li>- Advancement of stewardship theory through the introduction of concept of stewardship costs</li> <li>- Social mission enables the establishment of stewardship relationships</li> <li>- Pointing to contextual dependence of stewardship relationships</li> </ul>   |
| 3 | What drives social and commercial entrepreneurs in a post-founding phase? Can these drivers be used to identify different types of entrepreneurs and, if so, what are these different types? How do   | Explorative interviews with emergent coding<br>Scoring scheme<br>Cluster analy- | <ul style="list-style-type: none"> <li>- Addresses the research gap of little research on motivation in a post-founding stage</li> <li>- Inductively identified seven dimensions of motivational drivers: numbers, employees, personal gratification, product, market, and impact</li> <li>- Empirically developed taxonomy of five</li> </ul>                          | <ul style="list-style-type: none"> <li>- Larger-N study on social entrepreneurship that employs a non-case study approach</li> <li>- Empirical elaboration of the multidimensionality of actor motivations</li> <li>- Suggestion of combined research on social and commercial entrepreneurship</li> </ul>  |

these empirically observable entrepreneurial characters relate to the distinction between social and commercial entrepreneurship found in the literature?

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types of entrepreneurs based on their post-founding drivers: rational missionary, bonding self-actualizer, number junkie, “textbook” businessperson, and product-adjusting competitor  
- Only one out of five types consists only of commercial entrepreneurs

- Methodological innovation through

An overview of the publication status and conference contribution of the three papers can be found in Appendix A.

Despite the valuable insights by the actor-motivation perspective, this approach suffers at least from one major limitation. The motivation of a social entrepreneur will only influence their choices in behavior if this choice is within their control (McCloy, Campbell, & Cudeck, 1994). Take the example of an entrepreneur whose motivation dimensions lead her to favor branching. However, she has an investor who greatly values social franchising concepts. Thus, even though she might want to use branching, the influence of the investor will push her towards franchising without – necessarily – changing her motives.

This notwithstanding, in sum, actors driven by a social mission influence the scaling process by (1) serving as an informal functional equivalent to formalized monitoring or contracts (paper 1), (2) allowing stewardship management that, however, may create specific scaling costs in turn, and (3) influencing the choice of scaling strategy.

### **IMPLICATIONS FOR AND CONTRIBUTIONS TO SOCIAL ENTREPRENEURSHIP, ENTREPRENEURSHIP AND MANAGEMENT**

In addition to providing insights on scaling and especially social franchising, this PhD thesis also offers several contributions and consequent implications for social entrepreneurship, entrepreneurship, and management scholarship in general.

#### **Social entrepreneurship research and practice beyond scaling**

Implications and contribution to social entrepreneurship research are six-fold. My PhD thesis contributes to social entrepreneurship research by (1) building on a larger-N dataset as well as (2) by applying and advancing existing theories to the context of social entrepreneurship. Moreover it offers a more nuanced view of the social entrepreneur that can enrich both (3) research and (4) practice. (5) It suggests that not all social entrepreneurs wish to scale. (6) It proposes linking dual identity literature with multiple types of entrepreneurs.

#### ***Larger-N sample***

Paper 3 responds to the call by Hoogendoorn et al. (2010) for larger-N samples in social entrepreneurship research. In particular, they criticized that the majority of empirical studies only uses three to five cases. Moreover, my empirical study also answers the call by Short et al. (2009) for more diversity in methodologies. The majority of social entrepreneurship research is case-based. Thus, by employing large-N scoring schemes and cluster analysis, my PhD thesis is able to offer a different methodological approach.

#### ***Application of established theories***

Many of the review articles on social entrepreneurship point to the lack of rigorous theoretical analysis in the field of social entrepreneurship (P. A. Dacin et al., 2010; Short et al., 2009; Zeyen et al., 2013). Thus, by applying and advancing agency and stewardship theory, paper 1 and 2 contributed to a more theoretically sound analysis of social entrepreneurship.

#### ***Entrepreneurial types may enhance research***

The findings of paper 3 support the notion that there are multiple types of social entrepreneurs. While this notion has been previously suggested in the social entrepreneurship literature (e.g., Vidal & Claver, 2006; Zahra et al., 2009), most studies still look at social entrepreneurs as one homogenous group of actors. As briefly discussed in the implications section of paper 3, I believe that social entrepreneurship research could generate valuable insights from taking a more differentiated perspective on the entrepreneur. Similar to the discussion on entrepreneurial types and scaling strategies, such a nuanced viewpoint may yield insights into the link between type of social entrepreneur and overall strategy, type of innovation employed, legal form used, or other strategic and operative differences within social ventures.

Therefore, by better understanding the actor, research might unlock other so far unknown mechanisms in social entrepreneurship.

***Multiple types of entrepreneurs help improve support programs***

A better understanding of the diversity of entrepreneurs also has implications for social entrepreneurship practice, especially for organizations that coach and support social ventures. Enhanced knowledge of the distinct types allows adapting programs to better suit the needs of the respective types. For instance, a number junkie would be responsive to different training offerings than a rational missionary. Take the rational missionary. She would be very responsive to trainings on achieving impact (high score). Yet, she might be less enthusiastic about a workshop on employee satisfaction (low score). Thus, support organizations would not only benefit from knowing what areas or themes a social entrepreneur is more responsive to, but also from being better able to identify in which areas they might be more reluctant to accept guidance.

***Not everyone wants to scale***

Furthermore, my research indicates that not all social entrepreneurs score high in impact. Indeed, during the interviews some of them did not even mention their mission or its impact. This is particularly noteworthy, as all social entrepreneurs in my empirical study were Ashoka Fellows. To become a Fellow, candidates go through a one-year rigorous selection program (Ashoka, 2013). One of the core aspects Ashoka looks out for during this process is the determination of the social entrepreneur to reach scale. This finding can be interpreted in at least two ways. First, some social entrepreneurs might not be as interested in their mission but e.g. equally in the reputational aspects of it. Yet, they nevertheless manage to pass as “genuine” social entrepreneur. Second, the motivation changed after the social entrepreneur was selected. Indeed, recent research indicates that older social ventures show much less growth aspiration than their younger counterparts (Bacq et al., 2013). Nevertheless, I conjecture that both scenarios emerge in practice and thus require managing.

***Multiple drivers lead to multiple identities?***

It would be interesting to social entrepreneurship research to combine the identified types of entrepreneurs with existing research on dual identities (Kreutzer & Jager, 2011; Moss, Short, Payne, & Lumpkin, 2011) or dual cultures (e.g., Dees, 2012). By simultaneously investigating existing dual identities or organizational culture and the driver function of the social entrepreneur might yield new insights into the occurrence of such phenomena.

**Entrepreneurship research and practice**

My thesis contributed to entrepreneurship research by (1) suggesting undertaking combined sample research and (2) by proposing to transfer the idea of small group logics to commercial entrepreneurship context.

***Combined sample research***

Based on the findings of paper 3, I suggest research that combines both social and commercial entrepreneurs in one sample. However, the purpose of such research would not be to delineate both groups but to identify common underlying patterns that may cut across the dual social-commercial distinction. In particular, such research could inform motivation research on the simultaneous occurrence of self-interested and pro-social behavior (De Dreu, Nijstad, Bechtoldt, & Baas, 2011)

***Building small groups in commercial entrepreneurship***

Some owners of small businesses do not wish to grow (Getz & Petersen, 2005) because they fear the effects organizational growth might have on their staff and themselves

(Davidsson et al., 2010; Wiklund et al., 2003). In other words, they wish to preserve the “feeling” of the small group. In particular small enterprises build on the personal interaction of employees. As such, they are not much different to social ventures. While small business employees do not rally around a social mission, they often still follow a shared goal, which may be to bake good quality bread or to provide good consultancy services. Here, the insights from paper 1 might help to develop growth concepts that safeguard the small group logic that some small business owner-manager prize so dearly. Thus, entrepreneurship scholarship could try to identify how the idea of splitting small and big group logics may be applied to commercial ventures. In addition, entrepreneurship practice could test such approaches and try to identify potential adaptations that need to be undertaken.

### **Implications for management research and practice**

My PhD thesis contributes to management research by (1) introducing the idea of stewardship costs as well as (2) by suggesting how a social mission can serve as a functional equivalent to contracts. Moreover, this subsection proposes potential future research in (3) the context conditions of stewardship relationships, and (4) on stewardship and dual missions.

#### ***The idea of stewardship costs***

Paper 2 proposes the concept of stewardship costs. Stewardship costs occur in situations in which two actors (the principal and the steward) engage in relationships that are governed by initial goal congruence. In other words, stewardship costs emerge because both principal and steward strive for the same goal. These costs are rooted in the specific characteristics of stewardship behavior. For example, the need to lead through personal rather than institutional power (Davis et al., 1997) has significant impacts on management. In addition, once the organization grows, stewardship management leads to the stewardship costs of decreased maximum size. In order to overcome such stewardship costs, research and practice could find out suitable measures. For instance, organizations could try to build up multiple principals, i.e. try to get stewards to grant personal power to more than one individual. By so doing, the principal becomes less of a bottleneck in the growth or general management process.

I propose that future research tries to empirically test stewardship costs as well as tries to identify more stewardship costs. Such research would help to better advise and instruct principals that wish to follow stewardship management.

#### ***Social mission and agency theory***

This PhD thesis contributes further to management research by introducing the concept of social mission into agency theory. This combination generated insights on how the social mission can create situations in which informal measures such as personal interaction reduce agency costs by serving as functional equivalents to formal contracts. To better understand this mechanism, future research could analyze the boundary and context conditions of such functional equivalents. For practice, this finding might support practitioners in identifying means to secure goal alignment in situations where contract enforceability is difficult or impossible.

#### ***Context conditions of stewardship theory***

Research on stewardship also analyzes corporate governance issues as well as internal management of some specific forms of companies – e.g., the concept of “familiness” in family businesses (Chirico, Ireland, & Sirmon, 2011). Thus, stewardship behavior can occur in different contexts. As paper 2 suggested, it is more likely to find stewards in economically sound conditions that allows them to act on their higher-order needs. In other words, stewardship behavior is some sort of superior good, if not even a form of luxury. Similarly, stewardship behavior might be responsive to other contextual conditions. Future research could aim

to unlock these. Moreover, practitioners could take these context variables into consideration when choosing a management style. For instance, it would be ill advised to use stewardship management in areas of destitute.

### *Stewardship and dual missions*

A common theme in social entrepreneurship research is the theme of dual mission, i.e. to serve both a financial and a social mission at the same time (e.g., Herranz, Council, & McKay, 2011). As my PhD thesis conjectures, the social mission of individuals allows the establishment of stewardship relationships. Yet, the question would be if this were still feasible in a dual mission context. If both principal and steward serve a higher-order objective (social mission) and a self-interested goal (financial) simultaneously, this may render stewardship relationships very unstable or make them impossible. Thus future research could try to understand how stewardship theory applies in situations of dual mission and dual identities.

## CONCLUSION

The purpose of this framework paper was to provide details on the background, findings, contributions, and implications of my PhD thesis on the role of actor-motivation in scaling social ventures. To this end, this paper started by briefly reviewing the literature on social entrepreneurship. Based on this review, it identified scaling as well as the role of the entrepreneur as so far under-represented subfields in social entrepreneurship research.

Against this background, this framework paper derived the overall research question of my PhD thesis: *how do actors driven by a social mission, particularly the social entrepreneur, influence the scaling strategies (and their success) of social ventures?* Based on the findings and insights generated by paper 1-3, this framework paper suggests that actors motivated by a social mission influence scaling in at least three ways. (1) In specific forms of social franchising, small groups of mission-driven actors can serve as an informal functional equivalent to formal contracts. Moreover, this process also helps to safeguard the small group logic on which the business model builds. (2) Social franchising allows for the establishment of stewardship relationships by pulling in intrinsically motivated actors. However, social franchises may fail precisely because they worked with intrinsically motivated franchisees. The reason lies in the inherent costs of stewardship relationships, which my co-author and I name stewardship costs. (3) Actors in social entrepreneurship are driven by a multitude of motivations, which can shape their choices in strategy and operations. Thus, different types of social entrepreneurs are likely to choose different strategies to scale. In other words, there is no “one-fits-all” scaling strategy but it depends on the actor and their motivation, internal features of their ventures, and the context in which they are embedded.

In addition to these insights on scaling, the framework paper also presents multiple contributions, and implications for social entrepreneurship, entrepreneurship, and management research. To give but some examples, my PhD thesis offers one of the first large-N empirical studies with original data. It contributes to social entrepreneurship research by offering five distinct and empirically developed types of social entrepreneurs. It provides suggestions on new growth models for small businesses that fear change in organizational climate when growing. In terms of management implications, my PhD thesis introduces the concept of stewardship costs to the research on stewardship theory (for a summary of contributions please see Table 1 & 2).

In conclusion, I hope that my thesis holds valuable insights to scholars in the areas of scaling, social entrepreneurship, entrepreneurship, and management theories.

**TABLE 2**  
**Overview of Addressed Research Gaps**

| Research gap  | Raised by  | Addressed in                                |
|---|--|---|
| Lack of large-N studies in social entrepreneurship  | (Hoogendoorn et al., 2010; Short et al., 2009)                         | Paper 3                                     |
| Need for multivariate analyses in social entrepreneurship research  | (Short et al., 2009)   | Paper 3                                     |
| Lack of theoretical rigor in social entrepreneurship  | (M. T. Dacin et al., 2011; Short et al., 2009; Zeyen et al., 2013)     | Paper 1 & 2                                 |
| Need for a more differentiated perspective on motivations / success notions of entrepreneur   | (Dyke & Murphy, 2006; Reijonen & Komppula, 2007; Walker & Brown, 2004) | Paper 3                                     |
| Need for insights on link between type of social entrepreneur and type of scaling strategy  | (Ucbasaran et al., 2001)   | Framework paper in combination with paper 3 |
| Need for more fine-grained analyses of the mechanisms of social franchising   | (Schmitz & Scheuerle, 2013)  | Paper 1 & 2                                 |
| Need for a more in-depth understanding of scaling in social ventures  | (Davies & Simon, 2013; Mueller et al., 2011)                           | Paper 1 & 2, framework paper                |
| Need for research that combines pro-social and self-interested motivations  | (Renko, 2013)  | Paper 3                                     |
| Necessity to better understand scaling strategies that do not involve increasing the size of the social venture                           | (Bradach, 2010)  | Paper 1 & 2                                 |
| Need for deeper analysis of Ashoka Fellows from all fields of work  | (Meyskens et al., 2010)  | Paper 3                                     |
| Need for more theoretical diversity in franchising research (beyond agency and resource scarcity theory)                                  | (Combs et al., 2010, 2004)   | Paper 2                                     |
| Need for a more in-depth analysis of the potential costs and benefits of relational contracting in franchising                            | (Combs et al., 2010; Tracey & Jarvis, 2007)                            | Paper 2 & paper 1 (partially)               |
| Need to understand how the societal context, within which franchising takes place, effects franchising outcome                            | (Combs et al., 2010)   | Paper 1 & 2, framework paper                |
| Need to develop or understand adaptations of commercial scaling mechanism to fit social ventures  | (Lyon & Fernandez, 2012)   | Paper 1                                     |
| Gain a more in-depth understanding of the role of motivations in social ventures  | (M. T. Dacin et al., 2011)   | Entire PhD thesis                           |
| Need to move away from the dichotomous perspective of social versus commercial entrepreneurship to generate insights into common patterns | (Mueller et al., 2011)   | Paper 3                                     |
| Need to analyze whether scaling modes can be adjusted to avoid agency costs in social franchising   | (Tracey & Jarvis, 2007)  | Paper 1                                     |
| Need to understand in detail what motivates different types of entrepreneurs (e.g., social and commercial)                                | (Carsrud & Brännback, 2011)  | Paper 3                                     |



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## APPENDIX A: PAPER OVERVIEW

### Overview of papers included in this cumulative PhD thesis

(in accordance with the guideline for cumulative dissertations in Sustainability Science [January 2012], in the following termed “the guideline”)

#### Title of PhD thesis

Scaling Strategies of Social Entrepreneurship Organizations  
– an actor-motivation perspective

#### Papers included

- [1] Beckmann, Markus & Anica Zeyen (2014): Franchising as a Strategy for Combining Small and Large Group Advantages (Logics) in Social Entrepreneurship: A Hayekian Perspective, *Nonprofit & Voluntary Sector Quarterly*, 43(3), 502-522, DOI:10.1177/0899764012470758)
- [2] Krzeminska, Anna & Anica Zeyen (2013): A stewardship (cost) theory of social franchising, in preparation for resubmission
- [3] Zeyen, Anica (2014): What drives them?: an empirically-developed taxonomy of social and commercial entrepreneurs; Revise and Resubmit in *Entrepreneurship Theory and Practice*

**Authors' contributions to the papers and papers publication status (according to §16 guideline)**

| # | Short Title | Specific contributions of all authors   | Author status                  | Weight | Publication status  | Conference contribution   |
|---|-------------|---|--------------------------------|--------|---|---|
| 1 | Hayek       | AZ: Literature review, conceptual development, writing<br>MB: conceptual development, writing   | Author with equal contribution | 1.0    | Published in Nonprofit and Voluntary Sector Quarterly NVSQ 2014 43(3) p.502-522 (IF: 1.49; HBR: 0.4; VHB: B)  | AOM 2012*<br>WOW 2012<br>EMES 2011*                               |
| 2 | Stewardship | AK: conceptual development, theory-building, writing<br>AZ: Literature review, conceptual development, theory-building, writing                                   | Author with equal contribution | 1.0    | In review in Journal of World Business (IF 3.96; HBR: 0.5; VHB: B)<br>Before in review in Entrepreneurship Theory & Practice (ET&P) (IF: 2.242;HBR: 0.7, VHB: A)                                      | VHB 2014 *<br>AOM 2013 (*)<br>NYU Stern 2012*†<br>Innovation 2012 |
| 3 | Drivers     | AZ: empirical analysis (qualitative exploration through emergent coding + quantitative exploration through cluster analysis), Framing, literature review, writing | Single author                  | 1.0    | Revise and Resubmit in Entrepreneurship Theory and Practice (ET&P) (IF: 2.242;HBR: 0.7, VHB: A)<br>Rejection after Revise and resubmit in Journal of Business Venturing (IF: 2.976; HBR: 0.7; VHB: A) | AOM 2012*<br>AOM 2011*<br>CCSBE 2010*                             |

**Explanations**

*Specific contributions of all authors*

MB = Prof. Dr. Markus Beckmann, Friedrich-Alexander University of Erlangen-Nuremberg, Germany

AK = Dr. Anna Krzeminska, Business School, The University of Queensland, Australia

AZ = Anica Zeyen, Centre for Sustainability Management, Leuphana University Lueneburg, Germany

*Author status*

According to §12b of the guideline: □

- Single author [Allein-Autorenschaft] = Own contribution amounts to 100%.
- Co-author with predominant contribution [Überwiegender Anteil] = Own contribution is greater than the individual share of all other co-authors and is at least 35%.
- Co-author with equal contribution [Gleicher Anteil] = (1) own contribution is as high as the share of other co-authors, (2) no other co-author has a contribution higher than the own contribution, and (3) the own contribution is at least 25%.

- Co-author with important contribution [Wichtiger Anteil] = own contribution is at least 25%, but is insufficient to qualify as single authorship, predominant or equal contribution.
- Co-author with small contribution [Geringer Anteil] = own contribution is less than 20%.  
Weighting factor according to §14 of the guideline
- Single author [Allein-Autorenschaft] 1.0
- Co-author with predominant contribution [Überwiegender Anteil] 1.0
- Co-author with equal contribution [Gleicher Anteil] 1.0
- Co-author with important contribution [Wichtiger Anteil] 0.5
- Co-author with small contribution [Geringer Anteil] 0

*Publication status/rankings*

|     |   |
|-----|---|
| IF  | Thomson Reuters Impact Factor/Journal Citation Report 2012, <a href="http://wokinfo.com/products_tools/analytical/jcr/">http://wokinfo.com/products_tools/analytical/jcr/</a> (15.01.2014)  |
| HBR | Handelsblatt Ranking BWL 2012, <a href="https://docs.google.com/spreadsheet/pub?key=0AuEtgCUuVBDUdGVpTzE3TEp6QWNTaU43SjZWT2tDVFE&amp;output=html">https://docs.google.com/spreadsheet/pub?key=0AuEtgCUuVBDUdGVpTzE3TEp6QWNTaU43SjZWT2tDVFE&amp;output=html</a> (15.01.2014) |
| VHB | VHB-JOURQUAL 2.1 2011, <a href="http://vhbonline.org/service/jourqual/vhb-jourqual-21-2011/jq21/">http://vhbonline.org/service/jourqual/vhb-jourqual-21-2011/jq21/</a> (15.01.2014)   |

*Conference contributions*

|                         |   |
|-------------------------|---|
| AOM 2014*               | “The Power of Words” 74 <sup>th</sup> Annual Meeting of the Academy of Management, August 1-5 2014; Philadelphia, USA<br><a href="http://aom.org/annualmeeting/">http://aom.org/annualmeeting/</a>  |
| AOM 2013 <sup>(*)</sup> | “Capitalism in Question” 73 <sup>rd</sup> Annual Meeting of the Academy of Management, August 9-13 2013; Lake Buena Vista, USA,<br><a href="http://aom.org/Events/2013-Annual-Meeting-of-the-Academy-of-Management.aspx">http://aom.org/Events/2013-Annual-Meeting-of-the-Academy-of-Management.aspx</a>  |
| AOM 2012*               | “Informal Economies” 72 <sup>nd</sup> Annual Meeting of the Academy of Management; August 3-7 2012; Boston, USA<br><a href="http://aom.org/Meetings/annualmeeting/Past-Annual-Meetings.aspx">http://aom.org/Meetings/annualmeeting/Past-Annual-Meetings.aspx</a>  |
| AOM 2011*               | “West meets East” 71 <sup>st</sup> Annual Meeting of the Academy of Management; August 12-16 2011; San Antonio, USA<br><a href="http://aom.org/Meetings/annualmeeting/Past-Annual-Meetings.aspx">http://aom.org/Meetings/annualmeeting/Past-Annual-Meetings.aspx</a>  |
| CCSBE 2010*             | 26 <sup>th</sup> Annual Meeting of the Canadian Council for Small Business and Entrepreneurship 2010; October 28-30 2010, Calgary, Canada<br><a href="http://www.ccsbe.org/conference_past_en.asp">http://www.ccsbe.org/conference_past_en.asp</a>  |
| EMES 2011*              | 3 <sup>rd</sup> EMES Conference on Social Entrepreneurship, Social Economy and Social Enterprise; July 4-7 2011; Roskilde, Denmark<br><a href="http://www.emes.net/what-we-do/publications/conference-papers/papers-from-the-3rd-emes-international-research-conference-on-social-enterprise">http://www.emes.net/what-we-do/publications/conference-papers/papers-from-the-3rd-emes-international-research-conference-on-social-enterprise</a> |
| Innovation              | 7 <sup>th</sup> Research Seminar „Innovation & Value Creation“; November 29 – December 1 2012; Chemnitz, Germany  |

- NY Stern 2012\*† 8th NYU Stern Conference on Social Entrepreneurship; November 8-9 2012; New York, USA  
<http://www.stern.nyu.edu/experience-stern/about/departments-centers-initiatives/centers-of-research/salomon-center-for-the-study-of-financial-institutions/conferences-events/new-york-fed-nyu-stern-conference-on-financial-intermediation/2012-conference/>
- VHB 2014\* Pflingsttatung des Verbands der Hochschullehrer der Betriebswirtschaftslehre, June 12-14 2014, Leipzig, Germany  
<http://www.bwl2014.de/>
- WOW 2011 Wittenberger ordnungsethischer Workshop; September 7-9 2011; Wittenberg, Germany  
 no webpage

† Paper presented by co-author

\* Conferences with double-blind peer review

() Paper accepted but not presented due to illness of presenting author

**DECLARATION (ACCORDING TO §16 OF THE GUIDELINE)**

I avouch that all information given in this appendix is true in each instance and overall.

Anica Zeyen  
Nürnberg, 07 June 2014



**B. Papers included in this paper-based PhD thesis**

**Paper 1**

**Beckmann, M. & Zeyen, A. (2014): Franchising as a Strategy for Combining Small and Large Group Advantages (Logics) in Social Entrepreneurship: A Hayekian Perspective, *Nonprofit & Voluntary Sector Quarterly*, 43(3), 502-522  
doi:10.1177/0899764012470758\***

\* For ease of reading, original page numbers of the published article have been replaced by continuous page numbers for the entire PHD paper.

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## Franchising as a Strategy for Combining Small and Large Group Advantages (Logics) in Social Entrepreneurship: A Hayekian Perspective

Markus Beckmann and Anica Zeyen

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# Franchising as a Strategy for Combining Small and Large Group Advantages (Logics) in Social Entrepreneurship: A Hayekian Perspective

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## Abstract

This article develops a Hayekian perspective on social franchising that distinguishes between the end-connected logic of the small group and the rule-connected logic of the big group. Our key claim is that mission-driven social entrepreneurs often draw on the small-group logic when starting their social ventures and then face difficulties when the process of scaling shifts their operations toward a big-group logic. In this situation, social franchising offers a strategy to replicate the small group despite systemwide scaling, to mobilize decentrally accessible social capital, and to reduce agency costs through mechanisms of self-selection and self-monitoring. By employing a Hayekian perspective, we are thus able to offer an explanation as to why social franchising is a suitable scaling strategy for some social entrepreneurship organizations and not for others. We illustrate our work using the Ashoka Fellow Wellcome.

## Keywords

social entrepreneurship, social franchising, scaling, volunteer involvement, agency theory

Dialogue in the Dark and Wellcome are examples of social entrepreneurship ventures that use franchising to scale. Social entrepreneurship uses innovative means to solve social problems (e.g., Dees, 1998) that are otherwise unmet by market or state (e.g., Squazzoni, 2009).

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With this article, we aim to contribute to the literature on social entrepreneurship, social franchising, and nonprofit organizations by introducing a new theoretical perspective on social franchising, that is, franchising as a means to increase impact (Mueller, Nazarkina, Volkmann, & Blank, 2011). In so doing, we show why social franchising is a suitable scaling strategy for some organizations, particularly volunteer organizations, and not for others.

To shed new light on these questions, we develop a Hayekian perspective on social entrepreneurship, scaling, and social franchising. We draw on Hayek's (1988) often-neglected distinction between the small-group logic of the microcosm (e.g., family) and the big-group logic of the macrocosm (e.g., capitalist markets). We argue that this distinction helps generate new insights to the question raised above. First, from a Hayekian perspective, social entrepreneurship particularly draws on the end-connected logic of the small group. Second, applying this Hayekian perspective to the issue of scaling, we argue that conflicts between the microcosm and macrocosm logics are prone to arise when a mission-driven small-group social venture tries to scale up to the macro societal level. Third, in Hayekian terms, social franchising can be understood as the attempt to separate and then recombine the distinct logics of the small group needed for the local delivery of mission-driven services and the big-group logic driving the scaling process to the social system level.

We develop this argument in five steps. First, we look at the general issue of scaling in social entrepreneurship. Second, we shift the focus toward conventional theories for explaining the use of franchising—resource scarcity and agency theory. The article then identifies open questions regarding the concept of social franchising. Third, we develop our Hayekian perspective on social franchising. The key claim is that mission-driven social entrepreneurial start-ups are firmly rooted in a Hayekian small-group logic. Although scaling such ventures is difficult, social franchising offers a possible solution. We show that a Hayekian perspective can be usefully combined with the established explanations for franchising provided by resource scarcity and agency theories. Fourth, we illustrate our conceptual discussion using the case of Wellcome, a German nonprofit social venture that has scaled up to more than 200 franchisees. In the fifth and last step, the article concludes and spells out some important implications of our argument.

## **Social Franchising as a Scaling Strategy in Social Entrepreneurship**

Social entrepreneurs and their organizations seek to solve societal problems (Dees & Anderson, 2006) that are otherwise unmet by market or government (Squazzoni, 2009). Therefore, their social mission is central to their organization (Zahra, Gedajlovic, Neubaum, & Shulman, 2009). Because of the recent increased attention on social entrepreneurship, there are numerous understandings in circulation. Whereas some define social entrepreneurship from an innovation perspective (e.g., Dees & Anderson, 2006), others define social entrepreneurship as profit-generation models of

**Table 1.** Scaling Methods in Social Entrepreneurship.

|   | Full intraorganizational growth | Contracting as hybrid governance | Extraorganizational multipliers  |
|---|---------------------------------|----------------------------------|----------------------------------|
| Contractual control of the "rules of the game"                      | Yes                             | Yes                              | No                               |
| Actual control of the "moves of the game"/actual production process | Yes                             | No                               | No                               |
| Degree of control   | ++                              | +                                | 0                                |
| Example   | Setting up own branches         | Franchising, licensing           | Open source, sharing information |

nonprofit organizations (e.g., Bagnoli & Megali, 2011; Cooney, 2011; Dart, 2004; Herranz, Council, & McKay, 2011). For the purpose of this article, we follow the former understandings so as to talk to all potential organizational forms regardless if they are social enterprises or nonprofit organizations rooted in voluntary work.

Because the very *raison d'être* of social entrepreneurs is to create social change, scaling seems unavoidable as social change can occur only when a large number of people alter their behavior (e.g., Schram & Giardeli, 2006). Therefore, most practitioner handbooks offer in-depth advice on scaling strategies (e.g., Brooks, 2008; Durieux & Stebbins, 2010). Moreover, in many conversations with practitioners or in practitioner-focused events, the issue of scaling is nearly always a dominant theme.

However, despite its practical importance identified in the literature (Bloom & Smith, 2010; Bradach, 2003; Mueller et al., 2011), to date little scholarly work has explicitly dealt with scaling in the context of social entrepreneurship (see, e.g., Ahlert et al., 2008; Bradach, 2003; Dees, Anderson, & Wei-Skillern, 2004; Grant & Crutchfield, 2007). Therefore, more research is needed (Mueller et al., 2011).

So far, various scaling strategies have been identified (e.g., Dees, 2008). Table 1 provides an overview of these strategies that differ in the degree of control the original organization has over the scaling of its idea. Thus, if social entrepreneurs follow a branching strategy, they have the highest level of control. Here, the headquarters has more control over the activities of its subsidiaries as the managers are employees. This option is often chosen in areas where control is necessary, for example, to ensure quality or where extensive training is a prerequisite. In contrast, control is lowest if an open-source-style replication strategy is chosen.

In social entrepreneurship practice, it is particularly the strategy of franchising that enjoys special prominence. Many successful social entrepreneurs choose this strategy (see Table 2 for examples). So far, there are various case studies on social franchise systems available in the literature (e.g., Kistruck, Webb, Sutter, & Ireland, 2011; Tracey & Jarvis, 2007; Volery & Hackl, 2010). Yet some more fundamental questions

**Table 2.** Examples of Social Franchise Systems.

|  | Brief description  |
|--|--|
| CASA—Care and Share Association <sup>a</sup> | Provide home care solutions for those who do not wish to enter residential care  |
| CORE Community Renewable Energy <sup>a</sup> | Aim to increase the number of community-owned renewable energy systems   |
| Dialogue Social Enterprise <sup>b</sup>      | Runs exhibitions, trainings, seminars, and restaurants in total darkness or silence to change perspectives on disability |
| EcoKids <sup>a</sup>                         | Provides education on environmental and sustainability issues to young children  |
| FIETSenWERK <sup>a</sup>                     | Provides bike mobility services (rental, repair, etc.)   |
| LeMat <sup>a</sup>                           | Sustainable and small-business tourism   |
| MyBank <sup>a</sup>                          | Financial support and education service to youth between 11 and 25 years of age  |
| Specialisterne                               | Provides suitable workspaces for autistic people and uses their special skills in the IT industry                        |

a. [www.socialfranchising.com](http://www.socialfranchising.com). Profiles of these organizations can be found on this website.

b. Volery and Hackl (2010).

remain unanswered. Why is franchising such a prominent strategy for scaling in the field of social entrepreneurship? Why does social franchising seem to work very well for some social ventures whereas others refrain from this practice? Before offering our Hayekian answer to these questions, the next section looks at the conventional literature on franchising and its established theories.

### *Theories of (Social) Franchising*

Franchising is a way of growing an organization without necessarily increasing its size. A franchise consists of two parties, the franchisor (original organization) and the franchisee (license taker), that enter a relationship based on a contractual agreement (Jensen & Smith, 1985; Ketchen, Short, & Combs, 2011). Franchising has been a growth strategy in the commercial sector for more than 80 years (Ahlert et al., 2008). Accordingly, there is a vast body of literature on franchising, albeit limited in scope (Stanworth & Curran, 1999) and in need of more thorough theoretical grounding (Ketchen et al., 2011).

In a nonprofit or social entrepreneurship context, there are two different understandings of franchising. One refers to franchising as means to generate profits (e.g., Netting & Kettner, 1987); the other attempts to transfer knowledge from commercial franchising to the nonprofit sector as a means to increase impact (Montagu, 2002; Volery & Hackl, 2010). As this article looks at scaling, we follow the second understanding.

In the following, we show how the two main theoretical explanations in franchising scholarship—*resource scarcity* and *agency theory* (Combs, Ketchen, & Short, 2011)—can be transferred to social entrepreneurship franchising.

**Resource scarcity theory.** According to resource scarcity theory, organizations wishing to expand their geographical range franchise to overcome problems of scarce resources (Nga & Shamuganathan, 2010) that hinder the rapid growth needed to secure market share and organizational survival in a competitive environment (Oxenfeldt & Kelly, 1969). These resource scarcity problems derive from an organization's liability of newness and smallness.

Social ventures seem to encounter similar challenges of scarce resources (Ahlert et al., 2008; Hoffman & Preble, 1991). They are often underfinanced because of operating in unchartered institutional environments (Mair & Marti, 2009), which increases their liability of newness. Therefore, as in the private sector, using a franchise can help in accessing important capital. Moreover, scaling through franchising is cheaper than branching, as the existing concept “only” needs to be scaled through others (Ahlert et al., 2008). Therefore, resource scarcity theory seems to apply also to social franchising.

**Agency theory.** Generally, agency theory analyzes the difficulties that arise when a principal hires an agent to perform a task in the principal's interest. Given conditions of incomplete and asymmetric information, the agent could then use this for his or her own interests and at the principal's cost (Eisenhardt, 1989; Jensen & Meckling, 1976). Agency theory looks at how different contractual arrangements deal with this problem of moral hazard. Moral hazard occurs when agents abuse their information advantage (e.g., regarding potential quality) to increase their own benefits by, for example, holding back essential information. However, no contract, no matter how costly, can cover in advance every possible situation that might occur (Alchian & Woodward, 1988). As a result, agency theory emphasizes the agency costs and benefits of alternative governance arrangements for delegating tasks from a principal to an agent.

In the context of franchising, agency theory focuses on the relation between the owner of the original company (principal) and the person running a local subsidiary (agent). There are two basic options for managing this principal–agent relation (Brickley & Dark, 1987): hiring a local manager or franchising (Tracey & Jarvis, 2007). From an agency perspective, this decision depends on the respective (dis)advantages of both alternatives, thus on trade-offs in agency costs (Brickley & Dark, 1987).

Franchising offers a company two fundamental advantages when managing a principal–agent relationship. The first advantage involves the *ex ante* problem of hidden characteristics and intentions. When recruiting highly talented staff to run a subsidiary, it is difficult to know whether the applicant is motivated, skilled, and experienced enough. However, since becoming a franchisee is costly, time-consuming, and lucrative only if one works hard, only those with the required characteristics are likely to apply. This self-selection mechanism allows an organization to recruit highly skilled and motivated entrepreneurs to run a subsidiary at limited agency costs (Hoffman & Preble, 1991).

The second advantage of franchising addresses the ex post problems of hidden action, hidden information, and moral hazard. Once a contract has been entered, the organization wants to be sure that the local entrepreneur will act in its interest. A salaried manager might not work as hard as desired. Franchisees, in contrast, have strong incentives to maximize the revenues of the subsidiary because they have a personal stake in them. This additional motivator can lead to lower monitoring costs (Norton, 1988).

Franchising, however, is not a perfect solution for principal–agent problems. For example, a franchise system cannot fully reduce information asymmetries and moral hazard. More generally, franchising can incur agency costs in terms of free-riding effects, that is, the agent either uses resources such as brand, knowledge, or materials of the principal without adequately paying for them or even abuses them. This is not the case only when franchisees free ride on (and thus reduce) overall system quality (Michael, 1991); it can also occur if a franchisee utilizes the knowledge and training received from the franchisor, terminates the contract, and starts up a competitor (Brickley & Dark, 1987).

In sum, however, agency theory suggests that franchising often incurs fewer agency costs than hiring a local manager (Brickley & Dark, 1987) and that this advantage explains why franchising is such a popular growth strategy.

Social franchising is also theorized to be a feasible strategy for recruiting entrepreneurial talent to operate and run a local subsidiary (Tracey & Jarvis, 2007). However, some striking differences have been identified. In their case study of Dialogue Social Enterprise, Volery and Hackl (2010) found that despite the existence of contracts, both sides—franchisor and franchisee—highlighted that if problems occurred, they would rely on their trust to solve them. Such findings might be interpreted as evidence that the key motivations for both social franchise parties are different from those of commercial franchises (Ahlert et al., 2008).

If this interpretation were correct, one could argue that the principal–agent dilemma does not occur in social entrepreneurship franchising as the common mission orientation of both parties makes potential information asymmetries irrelevant: Both are striving for the same good and thus have no conflicts of interest.

Yet, this interpretation can explain neither why franchising is used instead of open-source strategies nor why some social entrepreneurs use it with great success and others don't. We therefore follow the call by Ketchen et al. (2011) for new theoretical approaches to franchising and now introduce a Hayekian perspective.

## **Hayek's Two Worlds, Social Entrepreneurship, and Franchising**

The Austrian social philosopher Friedrich August von Hayek is a famous figure in the theoretical fields of innovation, entrepreneurship, and market evolution. In this section, however, we draw on a lesser-known aspect of Hayek's work that we believe offers a fresh perspective on social entrepreneurship, scaling, and social franchising. We develop our argument in three steps. The first step introduces and illustrates



Hayek's (1988) distinction between the microcosm of small groups and the macrocosm of big groups. The second step applies this distinction to the field of social entrepreneurship. The third step shifts the focus to social franchising and discusses our Hayekian perspective on social franchising as complementary to the perspective of resource scarcity and agency theory.

### *The Hayekian Distinction Between the Microcosm and the Macrocosm*

In his work *The Fatal Conceit*, Hayek (1988) sketches an evolutionary perspective on modern society. Hayek distinguishes two paradigmatic forms of social order. On one hand, there is the logic of the small group or microcosm. This microcosm focuses on social interactions characterized by face-to-face personal relationships and informal norms. For Hayek, small groups are end connected: Their coordination relies on all group members striving for one shared goal. In Hayek's perspective, this small-group dynamic was the dominant logic that shaped man during the Stone Age when people lived in small groups of hunters and gatherers. Imagine a Stone Age tribe hunting a mammoth. All tribe members participate equally as otherwise they could face social segregation because of strong face-to-face relationships. For Hayek, altruism and solidarity are remnant instincts of this heritage. The logic of the microcosm is still relevant today in small groups such as the family where we still share a strong collective identity and interact based on personal face-to-face relations.

Despite the continuing relevance of the microcosm, Hayek argues that modern society is built on the very distinct logic of the macrocosm. The "macrocosm" encompasses the complex and manifold interactions that take place in the larger society. Here, individuals follow their own pluralistic objectives, but do so within a framework of formal and informal rules. Such big groups are thus not end connected but rule connected. Their coordination relies not on personal relationships but on impersonal or even anonymous interactions. A case in point is modern capitalist markets. In global markets, millions and millions of people interact in complex ways, often without knowing each other. And yet there is order and coordination. This environment is founded not in the collective pursuit of shared goals but in the pursuit of individual goals coordinated by rules. Table 3 summarizes the Hayekian distinction between microcosm and macrocosm.

For Hayek (1988), a key challenge for modern humans is to simultaneously live in both kinds of "cosm." We need (or want) to be able to both live in families *and* interact in anonymous markets. Hayek emphasizes that frictions arise if one logic is inappropriately applied to the domain of the other. He forcefully warns that if we apply the small-group logic to society and try to plan, say, the economy like a family meal and directly decide who gets how much of the pie, we will destroy the workings of efficient markets. And, vice versa, we will destroy our intimate small groups if we try to run, say, our family life the same way we order our markets through prices and anonymous auctions.<sup>1</sup>

**Table 3.** Hayek’s Distinction Between Microcosm and Macrocosm.

|                                  | Small-group logic  | Big-group logic                                     |
|----------------------------------|--|---|
| Type of social structure         | Microcosm  | Macrocosm   |
| Pattern of cohesion              | End connected  | Rule connected                                      |
| Principle of social coordination | Informal norms focused on personal identity and group membership | Abstract rules with no regard for personal identity |
| Actor motivation                 | Shared group objectives  | Pluralistic individual objectives                   |
| Quality of relationships         | Personal   | Impersonal, even anonymous                          |
| Degree of complexity             | Low  | Potentially very high                               |
| Size                             | Small group  | Big group   |

Source: Based on Hayek (1988).

In short, Hayek points out that there are different logics of coordinating social interactions. Each logic is appropriate for a certain context, but tension will arise if one logic is inappropriately applied to the domain of the other.

**Social Entrepreneurship, Scaling, and the Small-Group/Big-Group Distinction**

Hayek’s distinction provides an interesting lens with which to look at scaling in social entrepreneurship. The key idea is that many social entrepreneurship ventures systematically build on a microcosm logic when founded and then experience difficulties when the process of scaling moves the organization toward macrocosm dynamics.

Although not only social ventures follow a small-group relationship-driven logic (Kreutzer & Jager, 2011), it is important to bear in mind the key differences between commercial and social entrepreneurship, differences that significantly magnify the microcosm nature of the social venture.

First, business entrepreneurs have commercial goals; social entrepreneurs have a social mission (e.g., Dees, 1998). When starting a social venture, they rally resources and people around a shared social goal and thus set up an end-connected small group. In comparison to a business start-up where private interests in the business such as equity shares are also important, social entrepreneurs often recruit people who primarily contribute resources (e.g., volunteer time or funding) based on the shared mission.

Second, the strong social mission of the small group helps social ventures not only to recruit resources but also to coordinate them. People in a small group motivated by a shared ethical goal build strong social relationships (Kreutzer & Jager, 2011),<sup>2</sup> the importance of which for entrepreneurial success is explicitly highlighted in literature (e.g., Unger, Rauch, Frese, & Rosenbusch, 2011). Moreover, the shared goal can serve

as a focal point (Schelling, 1960) for coordinating people. However, this is possible only if the group is of limited complexity and everyone can see and understand what the others do; thus, personal face-to-face relations also act as a monitor and potentially lower sanctioning costs (North, 2005). This is nicely illustrated by the mammoth-hunting example. While engaged in the hunt, men could communicate with each other and oversee the entire process. Anyone noticed to be not participating could be excluded from the meal. As a consequence, both in terms of monitoring and in terms of enforcing norm compliance, sanctioning is easier than in anonymous relationships.

Another difference between commercial and social entrepreneurship is that success measurement in commercial entrepreneurship is more clear-cut than in social entrepreneurship (Bagnoli & Megali, 2011). Even commercial start-ups are strongly embedded in the institutional structures of the market macrocosm. These market rules provide guidance for social coordination and agreed-on outside focal points. Prices and profits, for example, provide informative signals as to whether the venture is “on track.”

In contrast, the social entrepreneur strives for social betterment. To this end, the social entrepreneur may follow a combination of strategies from the private, the nonprofit, and the public sectors. Furthermore, to increase their impact, social entrepreneurs often do not charge market prices for their products. Put differently, social entrepreneurs initially often operate in an ambiguous institutional environment (Mair & Martí, 2009), and thus neither give nor receive the clear signals of success that are so established in the big-group logic of functioning markets and bureaucratic structures.

In short, social entrepreneurial start-ups often are particularly characterized by the microcosm. What is more, for some social entrepreneurs, their “business model” is actually based on a small-group logic. In these cases, important resources are not mobilized through the big-group price mechanism; rather, people voluntarily contribute personal resources because they follow a shared end. For a mission-driven start-up, the small-group logic of the microcosm thus can be vital.

In light of the predominance of the small-group logic in social entrepreneurship, it is easy to see why the process of scaling poses such a challenge for these ventures. If scaling means creating an organization that reaches thousands of customers in completely different places, then the process of scaling puts stress on the microcosm of the social venture. To grow the organization, more division of labor and specialization are needed, thus making personal interaction less central. As complexity increases, it becomes less obvious how each person is contributing to the shared mission. Instead of being end-connected, the mechanisms of coordination need to more strongly rely on rules and hierarchy. Such a development can lead to a clash of cultures. The very process of scaling thus may threaten the stability of the venture. Moreover, if the venture’s business model is based on small-group interactions, turning into a big-group organization will be difficult when, for example, personal interactions are the key element of motivation for volunteers (Garner & Garner, 2011).

The challenge of organizational growth is not unique to social ventures. Any start-up or family business that grows experiences the tensions that arise when an

organization reaches the point where informal rules no longer suffice to manage the business appropriately (Cressy, 2006). Nevertheless, the problem can be far more severe in a mission-driven group of people who have created or joined the organization based on the very premise of following an overarching goal. Given these difficulties, the next section looks at social franchising as a potential solution.

### A Hayekian Perspective on Social Franchising

We believe that Hayek’s distinction between small-group and big-group logic offers a fresh perspective to discuss social franchising as an interesting scaling strategy for at least three reasons: (1) franchising allows scaling without forcing organizational growth, (2) it addresses specific resource scarcity challenges, and (3) it can mitigate certain agency problems.

*Social franchising as a means of scaling without organizational growth.* Social franchising provides social entrepreneurs with a means of scaling without forcing organizational growth. Social franchising duplicates the original organization, thereby replicating small-group conditions locally. Figure 1 illustrates this point.

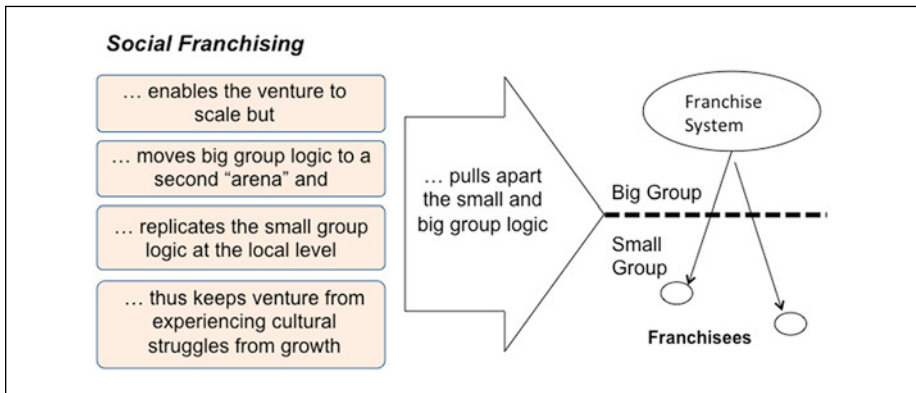


Figure 1. A Hayekian perspective on social franchising.

Note, in Figure 1, the differences between a subsidiary and the original social venture. A hired subsidiary manager is much more integrated into an impersonal rule system. Also, local volunteers and employees have less ownership and a weaker group identity. With the central organization being responsible for much of the decision making, face-to-face relations in the local subsidiary become less important and hierarchy and impersonal elements become more so.

A social franchise can be used to separate the small-group and big-group logic into two distinct arenas. Although the local franchise continues to be based on small-group interactions, the overarching franchise system can establish rules that allow reaping the efficiency advantages of a growing, impersonal organization that follows

a big-group logic. As a result, social franchising offers a strategy for social entrepreneurs to scale their impact without experiencing the cultural tensions of organizational growth. Social franchising allows reduced complexity and increased transparency in the local venture, even while the complexity and impact of the overarching organization increase. If the social entrepreneur's value creation model largely depends on a small-group culture, a systematic separation of small-group and big-group logics can be the key to successful scaling.

In short, duplicating and preserving small-group logics through social franchising can be of great value. The next two sections show that this idea has interesting implications for resource scarcity and agency theory.

*Social franchising and resource scarcity.* Like any other venture, social ventures need capital to grow. Since many social ventures are underfinanced, social franchising has been discussed as a means of overcoming this (Tracey & Jarvis, 2007). The focus of traditional resource scarcity theory, however, is largely on scarce financial capital (Oxenfeldt & Kelly, 1969). This is an undeniably important aspect, but our Hayekian perspective shows that it is possible to further amend resource scarcity theory.

In those social ventures that operate according to a small-group logic, a key asset is *social capital*. People cooperate in the small group not (only) for pay, but because they share a common group identity and believe in the same mission (Kreutzer & Jager, 2011). Like any other capital, social capital is scarce. Amending Oxenfeldt and Kelly's (1969) resource scarcity theory, we suggest that social franchising can be a way of overcoming the scarcity of social capital. In fact, it is very difficult for a centrally operated organization to find, mobilize, or build up social capital when scaling an organization to, say, another city. In like vein, we argue that, similar to financial capital in commercial franchising, a social franchisee would be willing to start a subsidiary only if he or she were already familiar with the local environment, already involved in social networks, and thus able to institute the small-group logic from the start.

It is interesting that this argument is in line with two empirical findings about social franchising. First, social franchisees typically already run a local organization and use the franchise as a complement (Montagu, 2002). This implies that they have already built up social capital that can then be accessed to sustain a small-group setting. Second, in a study by Zeyen and Beckmann (2011), almost all social entrepreneurs using social franchising reported that the franchisees had approached them proactively—thus indicating a strong self-selection effect.

In short, creating a separate small-group domain through social franchising can be an effective strategy for overcoming the problem of limited access to social capital. At the same time, it facilitates a self-selection process that helps social franchisors find qualified and motivated franchisees. Similarly, Chirico, Ireland, and Sirmon (2011) have suggested that the small-group "familiness" of family business can be an important aspect for facilitating the matching process between family-run franchisors and franchisees.

*Small groups and agency theory.* In commercial franchising, agency theory is employed to study the difficulties that arise because of conflicts of interests between

franchisor and franchisee as both parties are considered self-interested and with conflicting private interests.

How can this agency perspective be transferred to social entrepreneurship? This is an interesting question because much of the literature on social entrepreneurship emphasizes that the social entrepreneur is not interested in personal gain but is motivated by a strong social mission (e.g., Dees & Anderson, 2006). Thus, one could argue that a social franchise will not face the same principal–agent problems as commercial franchises.

We take a more nuanced perspective on agency problems in social franchising by differentiating between the narratives about social franchising and the actual underlying incentives.

The founder of Dialogue Social Enterprise once stated that he does not run a franchise but a “friendchise” (Heinecke, 2011). It is interesting that the very term *friendchise* strongly implies that the franchise system is characterized not by impersonal relations and formal rules but by personal relationships typical of the microcosm. In effect, Heinecke is stating that his franchise is built on friendship.

According to this narrative, social franchisor–franchisee relations follow a small-group logic. And, indeed, Volery and Hackl’s (2010) empirical findings on social franchising seem to support this claim. They found that franchising contracts were rather short or covered only crude essentials (Volery & Hackl, 2010). This contract brevity is striking from an agency theory perspective. After all, these franchise systems often have complex high-quality products and considerable information asymmetry. So, to limit opportunistic behavior, agency theory would predict that both parties would be willing to invest in relatively detailed contracts (Alchian & Woodward, 1988). Moreover, when considering the Dialogue Social Enterprise example, there are franchisees in 25 countries. How can such franchise systems work if the contracts are basic?

We suspect that the idea of friendchising is misleading if interpreted to mean that the franchise exclusively relies on the personal franchisor–franchisee relationship. No doubt, personal and even friendship-like relationships play a significant role in these networks; however, in a complex social franchise system, there is too little contact and too little transparency for the small-group coordination to be fully effective. In addition, such large franchising systems would be inherently unstable if they rested primarily on a friendship between the franchisor and the franchisees. What would happen if the franchisor became ill or left the organization?

We claim that the social franchise system has the potential to avoid opportunistic behavior, but not (only) because social franchisees and franchisors are per se close friends. Rather, we conjecture that the small-group logic within the local venture serves as a functional equivalent to detailed contracts between the franchisor and the franchisee. The argument is simple. If the “business model” of a social franchise hinges on mobilizing resources through a mission-driven small-group logic, then local employees, volunteers, and other supporters automatically act as strong control mechanisms. Endowed with local knowledge, they observe the franchisee’s behavior on a

daily basis. Moreover, they can also sanction any departure from the organization's mission through the feedback mechanisms of "exit" or "voice" (Hirschman, 1970). As a means of articulating criticism, people can either *exit* an interaction context—that is, they may quit their jobs, stop buying the products, or terminate contracts with that organization—or *voice* their dissatisfaction by, for example, hosting protests or complaining to the company.

Applying these options to a small-group social franchise, volunteers and other supporters can sanction a mission abuse either by leaving the organization (exit) or by contacting the original franchisor (voice), hence ultimately threatening the venture's survival. A Hayekian small-group logic may thus create strong self-monitoring effects for a social franchise. Note how different this situation is from commercial franchising. If a McDonald's restaurant sold poor-quality burgers, the employees might not be happy about it, but few of them would want to report this breach of contract to the McDonald's headquarters (voice) or would quit their job (job). Even if some did, they could be easily replaced. However, if a social franchisee violated important mission ethics, it would drastically erode its legitimacy and lose critical resources that cannot be easily replaced.

In other words, the small-group logic can solve both *ex ante* and *ex post* agency problems. For one, the small-group logic helps solve the *ex ante* problem of hidden characteristics and hidden intentions when recruiting franchisees. Because of the shared social mission, goal alignment can potentially be achieved more easily. After all, a nonprofit organization that applies to become a franchisee of another organization in the same field of work (e.g., youth welfare) does so because it perceives both organizations' goals to be similar or at least complementary.

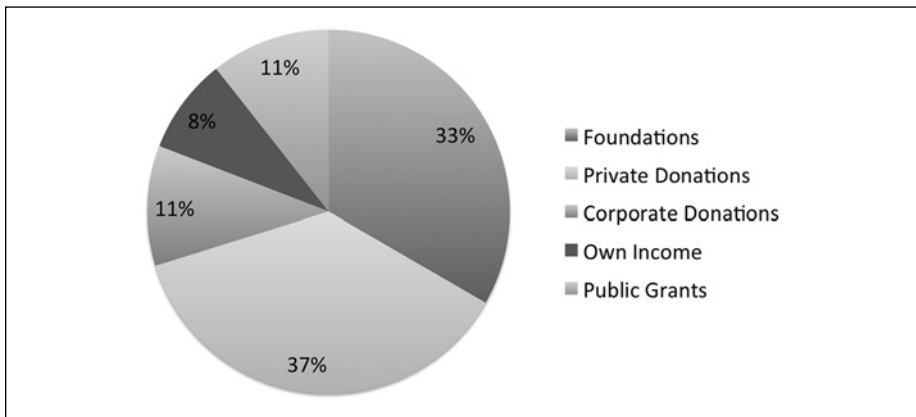
Also, the small-group logic addresses the *ex post* problem of moral hazard and hidden action by establishing an effective self-monitoring mechanism that enjoys the lower sanctioning costs of the small group (North, 2005) by moving both monitoring and enforcement from the principal to local stakeholders. The essential element for avoiding and addressing principal-agent problems between the franchisor and the franchisee is, in other words, the small-group relationship between the franchisee and their local employees and volunteers, which acts as a functional equivalent to detailed contracts. This thus makes it easier for a big-group logic relation to evolve between the franchisor and the franchisee. The franchisor-franchisee relationship can then be rule based (contract based, more formal, and more anonymous) without compromising the motivation of volunteers or other essential small-group elements of the value creation model.

In short, replication of the small-group logic through social franchising can be an effective strategy for lowering agency costs. The stronger the small-group logic in the subsidiary, the lower the agency costs. This explains both the brevity of many social franchising contracts and Heinecke's idea of friendchise. Given small-group logics, this somewhat idealistic-sounding narrative is not just a façade but is backed up by informal governance incentives.

In a final step, we now use the case of Wellcome to illustrate our arguments.

### An Illustrative Case Study: Wellcome

Wellcome is a German social venture founded in 2002 by Rose Volz-Schmidt. Wellcome’s objective is to support young mothers directly after birth to better cope with the emotional and logistical stress of having a completely different daily routine. In a way, Wellcome volunteers are substitutes for a role more traditionally played by the baby’s grandmothers or neighbors. As such, volunteers might watch the baby for an hour so that the mother can take a relaxing bath, share tips how to soothe the baby, or provide information about good pediatricians in the neighborhood. Volunteers stay in families for (usually) no longer than 6 weeks as this is the most turbulent time after birth. After 6 weeks, most new families have found their own routines and can cope on their own. It is important that Wellcome is not a substitute for youth welfare services but taps into the gap of families that are not in “enough” trouble to be a case for youth welfare services but still struggle in their first weeks as parents. The service is available to all mothers (and fathers) and costs a small but affordable amount. In addition, Wellcome started offering a new service to families with financial problems called “families in distress.” Here, families receive financial aid from “godparents” who help them afford a new bike, pay the fees for the school outing, or refurbish the child’s bedroom. These financial supports are not long term but for specific small investments that the families, however, cannot afford themselves. The budget of Wellcome is shown in Figure 2.



**Figure 2.** Composition of Wellcome’s 2012 budget of EUR 1.4 million. Source: Wellcome (2012).

Since 2002, the organization has expanded to more than 200 franchisees. The local Wellcome programs are embedded in existing social service delivery organizations that already deal with family issues (Wellcome, 2012). In 2011, Wellcome’s 2,335 volunteers offered almost 60,000 hours of support to 3,332 families across 15 of the



16 federal German states. In comparison, in 2004, Wellcome had only 150 volunteers supporting 250 families in two states (Wellcome, 2012). This enormous increase in locations, volunteers, and supported families has been achieved through the mechanism of social franchising.

Wellcome is an interesting example for demonstrating how social franchising can be used to separate and recombine elements of the two Hayekian logics. At its very heart, Wellcome is a volunteer organization that is firmly based in a small-group logic. In each Wellcome subsidiary, volunteers join with others who share the social mission to support young families in need of assistance. Furthermore, these women not only know each other personally, they also engage in peer coaching. They meet regularly to talk about their volunteer experience and discuss how they can better assist young mothers. The volunteers do not receive any remuneration; they work for Wellcome because they believe in its mission. A Wellcome group thus strongly builds on the small-group logic characterized by a shared mission, personal relationships, and frequent face-to-face interaction.

How do you scale up such an organization to the national level? How do you mobilize resources for expansion? How do you find and commit local partners and, above all, the volunteers who are essential for Wellcome's work?

The case of Wellcome nicely shows how social franchising can be used to solve these problems. By partnering with local social service organizations as franchisees, Wellcome mobilizes not only financial capital but also, even more important, much needed social capital. Each franchisee brings in its social networks, local reputation, and the credibility needed to replicate the small-group logic in the local Wellcome subsidiaries.

Note, however, that the franchise system itself draws heavily on elements of a big-group logic. The relationships within the franchise system are not between people but mostly between organizations. If a particular person leaves a local venture, the franchising arrangement remains largely unaffected. The system thus does not rely on face-to-face contact—which Volz-Schmidt could hardly sustain with a total of 250 local partners. Rather, the franchise partners coordinate their behavior through a set of general rules. These rules include following the guidelines on brand usage and service provision laid out in the contract, paying an annual fee of 500 Euro (see “own income in Figure 2”), and attending biannual trainings. Given this rule-connected governance model, Wellcome was able to detach its scaling efforts from the single small group, replicate its model widely, and increase its impact dramatically.

Just as we would expect for a small-group-based franchise system, Wellcome's franchising contracts are brief and selective (Ahlert et al., 2008). More interesting, the franchising contract is strongly focused on defining the mission and establishing those rules that guarantee the small-group logic of the local subsidiary. Most notably, franchisees must agree not to have more than 15 to 20 volunteers (Volz-Schmidt, 2011). If the number of volunteers exceeds this specification, they are split into two new groups. Keeping the group small not only makes coordination simpler but also ensures that all members will come to know each other, have the opportunity to actually engage in

volunteer work frequently, and interact regularly with each other. Moreover, peer coaching is mandated for each Wellcome subsidiary. In short, there are formal rules in the big-group logic contract that are specifically designed to protect the informal small-group logic of the local ventures.

The Wellcome franchise system is thus designed to strengthen and protect the small-group logic that serves as the very basis for its volunteer model. By so doing, it also addresses potential agency problems. In fact, the small size of each volunteer group and the principle of peer-coaching are effective mechanisms for ex ante self-selection and ex post self-monitoring. The social franchise model is thus a highly effective way of replicating and safeguarding the small-group logic in Wellcome's core service delivery. At the same time, it allows separating the small-group logic from more formal structures governing the big-group relations of a nationwide franchise system, thus clarifying expectations and minimizing friction.

The big-group logic is found not only in the franchisor-franchisee relationship but also between the Wellcome franchise and the new mothers. As mentioned earlier, the service is not free even though the volunteers are not paid. Having to pay for the service means that more parents use the program as many, especially the well-educated, are more comfortable paying for a service than receiving help from child care authorities (Volz-Schmidt, 2011). Employing the big-group logic of a priced service makes the program's users market customers instead of problem cases.

In sum, Wellcome is able to spread quickly while protecting the small-group logic necessary to the effectiveness of its volunteer work. At the same time, these small groups help stabilize the big-group interactions between franchisor and franchisee. Moreover, Wellcome utilizes the big-group logic to reach even more new mothers than if it offered the services for free.

## Implications and Concluding Remarks

In this article, we developed a Hayekian perspective on social franchising that distinguishes between the end-connected logic of the small group and the rule-connected logic of the big group. Our key claim is that mission-driven social entrepreneurs often draw on the small-group logic when starting their ventures and then face difficulties when the process of scaling shifts their operation toward a big-group logic. In this situation, social franchising offers a strategy to replicate the small group despite systemwide scaling, to mobilize decentrally accessible social capital, and to reduce agency costs through mechanisms of self-selection and self-monitoring.

This perspective has some interesting implications but is not without its limitations. First, our argument implies that the more strongly the small-group logic characterizes the core of a social entrepreneurship "business model," the larger the benefits of social franchising. However, this argument is applicable only if the mission-driven small-group logic is critical for the actual *production* of the venture's goods and services. This could be the case where volunteers carry the business model or where key beneficiaries of the social venture contribute to the team production with Hirschman options.

If, however, the production of a social venture does not necessarily hinge on a small-group logic, our argument for the benefits of social franchising is not just inapplicable; rather, social franchising might even be counterproductive. Take the case of micro-credits. Could micro-credits be provided by an organization that does not build on a mission-driven small-group logic? The existence of for-profit micro-lenders shows they can indeed. In this situation, franchising the Grameen brand to third organizations without significant contractual control mechanisms would be highly risky: It could attract franchisees who are in it only for the money and who would exploit not only the Grameen brand but also poor borrowers.

Second, if the small-group logic is important for the very operating model of a social venture, then scaling can be achieved by means of franchising that specifically strengthens the small-group logic in each local venture. As a policy recommendation for practitioners, franchising contracts—though still limited in length and complexity—could systematically include one or several of the following elements: (a) limitations on the size of the local group, (b) making peer-monitoring and peer-coaching elements mandatory, (c) increasing transparency and strengthening mechanisms for voice, and (d) investing in storytelling, shared branding, and so on to foster group identity and provide focal points for best-practice standards. In short, the idea is to use the formal big-group logic franchise system to promote the informal small-group logic on the ground. By doing so, it might help social ventures or nonprofit organizations to overcome conflicts of different identities (Kretzner & Jager, 2011). In addition, such contracts would support the “grassroots” link (Foreman, 1999) and provide governance structures to protect them.

Third, we believe we have answered the question of why so many successful social entrepreneurs seem to prefer social franchising to wholly owned subsidiaries or open-source forms of replication. With regard to the former, social franchising allows social entrepreneurs to avoid the problem of strong intraorganizational growth threatening its small-group logic mechanisms of motivation and coordination. With regard to the latter, social franchising offers the advantage of setting succinct but effective standards for safeguarding the small-group logic and thus exerting a limited, yet sufficient degree of control.

Given our still limited knowledge about social franchising, these implications are necessarily preliminary, but they point out many avenues for future research. For example, our argument suggests that social franchising is not the optimal strategy for every social venture. To test and refine our claims, empirical research could look into what types of social ventures choose social franchising as a successful scaling strategy and analyze whether this correlates to specific small-group logic business models. This line of work would also open rich opportunities to more closely link research on social franchising with the discussion about the differences and similarities between social and business entrepreneurship. Moreover, it could be of great interest to nonprofit and volunteer research to investigate social franchising as a specific social context in the often underresearched volunteer experience (Wilson, 2012).

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## Notes

1. As Hayek (1988) argues,

Part of our present difficulty is that we must constantly adjust our lives, our thoughts and our emotions, in order to live simultaneously within different kinds of orders according to different rules. If we were to apply the unmodified, uncurbed, rules of the micro-cosmos (i.e., of the small band or troop, or of, say, our families) to the micro-cosmos (our wider civilization), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were always to apply the rules of the extended order to our more intimate groupings, *we would crush them*. So we must learn to live in two sorts of world at once. (p. 18)

2. Similar yet slightly different ideas are discussed in the literature on reciprocity and cooperation. See, for example, Bowles and Gintis (2011) for an interesting discussion.

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**B. Papers included in this paper-based PhD thesis**

**Paper 2**

**Krzeminska, A. & Zeyen, A. (2013): Towards a Stewardship  
(Cost) Theory of Social Franchising  
(in preparation for resubmission)**



## TOWARD A STEWARDSHIP (COST) THEORY OF SOCIAL FRANCHISING

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### ABSTRACT

Despite the increasing popularity of social franchising to scale social enterprises, there has been little research on this topic. We further social franchising research through three key contributions. First, we argue that the general applicability of agency theory to social franchises is limited as the psychological and situational characteristics underlying the relationship between actors differ from traditional principal-agent relationships. To address this gap we *distinguish* different types of (social) franchises based on the franchisee's and franchisor's dominant motivation. Second, we *apply* stewardship theory as an alternative approach to explain the previously identified types of social franchising. To connect to two major aspects in existing franchising literature, selection and management, we draw on the psychological factors of stewardship theory to explain selection and use the situational factors to explain management in social franchising. Third, we *extend* stewardship theory by pointing towards *stewardship costs* that help to understand limitations of social franchising in scaling social innovations.

**Keywords:** Social franchising, stewardship theory, stewardship COST

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## INTRODUCTION

As former US president Bill Clinton once said, “nearly every problem has been solved by someone, somewhere. The challenge [...] is to find out what works and scale it up.” (Ashoka, 2013). Social franchising is an increasingly popular strategy of social enterprises to scale social innovations as it allows social enterprises to grow more rapidly and less resource-intensively than via branching but facilitates better quality control than dissemination (e.g. Ahlert et al., 2008; Bloom & Chatterji, 2009; Dees, Anderson, & Wei-Skillen, 2004; Heinecke & Mayer, 2012; Lyon & Fernandez, 2012). Similar to commercial franchising (Combs, Ketchen, & Short, 2011), social enterprises use franchising by licensing the right to use a brand name, a business format, and / or products or services to a franchisee (Montagu, 2002).<sup>1</sup> However, social enterprises differ from conventional businesses by combining the social mission of charity and non-profit-organizations (NPOs) with financial self-sustainability of conventional businesses (Defournay & Nyssens, 2010; Thompson & Doherty, 2006; Wilson & Post, 2011).

Despite its increasing importance and popularity in practice, there has been little research on social franchising (Kistruck, Webb, Sutter, & Ireland, 2011; Tracey & Jarvis, 2007). While existing research has generated important insights into understanding social franchising, we see three gaps in the literature that we aim to contribute to with this paper.

First, existing social franchising research has largely drawn on the same economic assumptions and theories as commercial franchising literature, mainly agency theory (see e.g., Kistruck et al., 2011 and Tracey & Jarvis, 2007 for social franchising research and e.g., Combs et al., 2011 and Combs, Michael, & Castrogiovanni, 2004 for commercial franchising research). Agency theory is based on specific economic assumptions about human behavior such as self-interested, profit maximizing, motivated by external incentives (Jensen & Meckling, 1976) and explains franchising based on financial ownership incentives of the franchisee (Eisenhardt, 1989). However, the general applicability of these assumptions to social franchises is limited as the psychological characteristics underlying the behavior of actors and situational characteristics underlying the relationship between actors differ in social enterprises. For example, social enterprises usually strive to maximize social not economic value (Austin et al., 2006), making it less attractive for actors whose psychological characteristics are based on a self-serving nature and an extrinsic motivation. This is also reflected in situational characteristics such as social enterprise’s use of legal arrangements that deliberately suppress financial ownership incentives by making profit reinvestment mandatory (e.g. Defournay & Nyssens, 2010; Yunus & Weber, 2010). As a consequence, explaining behavior in social franchises focusing on psychological and situational characteristics of agency theory is limited. To address this gap in the literature we *distinguish* different types of (social) franchises based on the franchisee’s and franchisor’s dominant motivation. We then delineate them from commercial franchising, and identify those types of social franchising that are least conducive to the application of the behavioral assumptions of agency theory and thus, most conducive to the application of different theoretical assumptions. This hitherto neglected distinction between different

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<sup>1</sup> We describe two examples of social enterprises that use franchising to grow, Dialogue Social Enterprise and Specialisterne, in the Appendix. We use those examples throughout the paper to underpin the plausibility of our theoretical arguments.

types of (social) franchising is important to avoid treating similar yet different phenomena with the same theory.

Our second contribution to the literature is to *apply* stewardship theory as an alternative approach to explain the previously identified types of social franchising. There are no studies applying stewardship theory to franchising or social franchising despite its particular suitability to address the “social” aspect of social franchising due to its behavioral assumptions of self-actualizing and collective-serving (Davis, Schoorma, & Donaldson, 1997; Hernandez, 2012). On top, it represents a complementary perspective to agency theory to explain the “franchising” aspects of social franchising (Caers et al., 2006). To connect two major aspects in existing franchising literature, partner selection and franchise management,<sup>2</sup> we draw on the psychological factors of stewardship theory to explain partner selection and use the situational factors to explain franchise management in those types of social franchising that we identified in the previous step. We respond to a call by Tracey and Jarvis (2007) who critically discuss the application of agency theory to social franchising and encourage fresh theoretical perspectives that make use of different i.e. non-economic behavioral assumptions.

Our third contribution aims at *extending* stewardship theory by pointing towards associated costs, which we term *stewardship costs*, that help to understand limitations of social franchising in scaling social innovations. To our knowledge, the concept of stewardship costs has so far been neglected in stewardship theory, which merely focuses on its potentially performance enhancing features (Corbetta & Salvato, 2004; Seelos & Mair, 2005). Although mutual stewardship relationships have the potential to maximize performance (Davis et al., 1997), focusing on the benefits only risk neglecting relevant costs that occur in every transaction (Arrow, 1969; Williamson, 1998) Thus, we identify potential stewardship costs that can reduce the performance potential of such relationships in social franchising and inhibit their scaling process. While, for example, agency costs result from weak goal alignment (Caers et al., 2006), we claim that stewardship costs are rooted in the psychological and situational factors of stewardship in situations of strong goal alignment.

We develop our argument in the following four steps.

First, we define social enterprise and social franchising and provide a brief overview of existing literature. In a second step, we use the concept of mutual stewardship relationships by Davis et al. (1997) to distinguish different types of (social) franchises and identify non-beneficiary social franchising as most conducive to the applications of stewardship theory. Third, to develop propositions we draw on the psychological factors of stewardship theory to explain partner selection and partner selection costs and use the situational factors of stewardship theory to explain franchise management and franchise management costs of non-beneficiary social franchising. To illustrate the plausibility of our arguments we will use two examples of non-beneficiary social franchising throughout the paper. Fourth, we discuss implications of our theoretical framework. We

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<sup>2</sup> With the term partner selection we refer to the process of the franchisor’s and the franchisee’s mutual selection. Agency theory has focused on the franchisor’s selection of franchisees (Tracey & Jarvis, 2007) while stewardship perspectives emphasize that selection is a mutual process (Chirico et al., 2011) With the term management we refer to what is described as control of franchisees by franchisors in agency theory. However, as stewardship proposes an involvement-oriented instead of control oriented management philosophy, we use the term management as it is neutral (Davis, et al., 1997).

point to potential future research avenues in the fields of social franchising, commercial franchising and stewardship theory.

## **SOCIAL FRANCHISING**

### ***Social Enterprise and Social Franchising Defined***

We define social enterprises as organizations that follow a business approach to achieve a social mission. While there is an ongoing debate regarding the exact specificities of a social enterprise<sup>3</sup> (e.g. Defourney & Nyssens, 2010; Kerlin, 2012), most researchers agree that the social mission and the business approach taken to achieve it are the main key features of social enterprises (Buckingham, Pinch, & Sunley, 2010; Clark & Ucak, 2006; Dees & Anderson, 2006; Di Domenico, 2009; Herranz, Council, & McKay, 2011; Mair & Martí, 2006; Peredo & McLean, 2006; Tracey & Jarvis, 2007). We distinguish social enterprises from other organization types based on their business approach. Social enterprises differ from the traditional nonprofit organization by using commercial activities such as selling goods or services to customers to generate the majority of their income rather than by collecting donations or grants (Yunus & Weber, 2010). Social enterprises differ from conventional businesses by deliberately suppressing financial ownership incentives. Particularly, they prohibit or greatly limit the possibility of dividend payments and make profit reinvestment into the enterprise or the mission mandatory (e.g. Thompson & Doherty, 2006). These governance mechanisms serve to direct as much financial value as possible into achieving the social objective (Yunus, 2007). By making profit reinvestment mandatory, the social mission becomes the focal point (Schelling, 1960) of the organization. As a result, owners and investors are not incentivized by potential financial gains but by the creation of social value through, for example, job creation for disadvantaged or disabled people (Austin, Stevenson, & Weiskillern, 2006; Zadek & Thake, 1997).

Increasingly, social enterprises use franchising to scale their operations (Ahlert et al., 2008; Heinecke & Mayer, 2012; Kistruck et al., 2011; Tracey & Jarvis, 2007). The concept of social franchising is a derivative of the franchising concept found in conventional business (Montagu, 2002). Franchising is generally defined as one firm (the franchisor) selling “the right to market goods or services under its brand name and using its business practices to a second firm” (Combs et al., 2004, p. 907) or an individual (the franchisee). We follow the legal definition by the US Federal Trade Commission that includes three criteria to identify franchising (Lafontaine & Blair, 2009). Thus, an enterprise uses franchising when (1a) it licenses a trademark or trade name that the franchisees operate under or (1b) the franchisees sell products or services recognized by this trademark; (2) it significantly controls or assists the franchisee over or during their operations; and (3) it receives a fee of at least US\$ 500 within the first six months.<sup>4</sup>

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<sup>3</sup> There are also various terms for the same or similar types of business in the literature such as social purpose business (e.g., Cooney, 2010), social purpose business venture (Hockerts, 2006), for-profit social ventures (Clark & Ucak, 2006), social entrepreneurial organization (Mair, Battilana, & Cardenas, 2012), or social enterprise (e.g. Defourney & Nyssens, 2010). While these organizations vary in the specificities of their design, all strive to achieve a social mission as their core objective and mainly do so through generating a profit (e.g. Haugh, 2006; Yunus & Weber, 2010). We use the term social enterprise as it is the most commonly used term.

<sup>4</sup> Although this distinction is based on US-American jurisdiction, other countries such as the European Union member states apply similar criteria to distinguish franchise systems from other networks (Lafontaine & Blair, 2009)

### ***Review of Social Franchising Literature***

Despite its increasing popularity in practice and importance as organizational form, there has been little research on social franchising (Kistruck et al., 2011; Tracey & Jarvis, 2007). A large proportion of social franchising research investigated the impact of social franchising on the welfare of their beneficiaries, communities, or society in general (e.g., Beyeler, York De La Cruz, & Montagu, 2013; Koehlmoos, Gazi, Hossain, & Zaman, 2009; Lönnroth, Aung, Maung, Kluge, & Uplekar, 2007; Ngo, Alden, Phan, & Phan, 2010), while only a few papers studied social franchising as organizational form and investigated the relationship between franchisee and franchisor (e.g. Beckmann & Zeyen, 2014; Kistruck et al., 2011; Tracey & Jarvis, 2007; Volery & Hackl, 2010). Our paper contributes to the latter stream of research.

Existing social franchising research has largely drawn on the same economic assumptions and theories as conventional commercial franchising literature, mainly agency theory. Applying agency theory some researchers came to the conclusion that agency problems are more prevalent in social franchising than in commercial franchising (Kistruck et al., 2011; Tracey & Jarvis, 2007). For example, studying the failure of the UK social franchise “Aspire Group”, Tracey & Jarvis (2007) state that “social venture franchising is not liable to lead to goal alignment, and may actually encourage goal asymmetry” (2007, p. 680) between the franchisor and franchisee. Similarly, Kistruck et al. (2011, p. 514) identified “opportunistic behavior and costs associated with monitoring and enforcement of the microfranchising relationship [as] a significant challenge to the microfranchisor and to the profitability and scalability of the overall model” in their study of microfranchising in developing countries across different industries. Contrarily, for example, Beckmann & Zeyen (2014) suggested that agency problems are similarly present but are dealt with differently in social franchising by pulling apart the small group logic of personal interaction from the large group interaction of contracts while Volery & Hackl (2010) suggested that agency problems are less important in social franchising due to trust between actors.

While existing research has generated important insights into understanding social franchising as organizational form, the applicability of economic assumptions and theories in the context of social enterprises is questionable (e.g. Kistruck et al., 2011; Tracey & Jarvis, 2007). For example, Tracey and Jarvis (2007, p. 680) state that “Both resource scarcity and agency theories can be criticized for their one-sided focus on the franchisor, and their narrow assumptions about human behavior, i.e., self-interested, profit maximizing, motivated by external incentives, and engaged in arms’-length relationships. [...] Other frameworks that draw on a range of behavioral assumptions [...] may provide fruitful lines of inquiry for future theorizing about social venture franchising.” To address this gap in the literature we identify those types of (social) franchises that are least conducive to the application of the behavioral assumptions of agency theory, delineate them from other types of social franchises as well as from commercial franchising and – following Tracey and Jarvis’ call – suggest stewardship theory as an alternative approach to explain social franchising.

To our knowledge there are no studies applying stewardship theory to franchising or social franchising<sup>5</sup>. Stewardship theory has been prominent in studies on family firms

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<sup>5</sup> One exception is the study by McCuddy, Pinar, Zeliha, & Bahar (2011). However, the authors address the ethical theory of stewardship, which differs from stewardship theory discussed in management literature.

(Le Breton-Miller & Miller, 2009; Davis, Allen, & Hayes, 2010; Miller, Le Breton-Miller, & Scholnick, 2007), while studies on family firm franchising have drawn on stewardship-akin concepts such as ‘familiness’ (e.g. Chirico, Ireland, & Sirmon, 2011). Although ‘familiness’ is coherent with stewardship behavior as both rely on long-term orientation, collective identity, and strong commitment to common values (Chirico et al., 2011; Davis, Schoorman, & Donaldson, 1997), it does not cover the whole range of psychological and situational variables of stewardship theory to explain social franchising. To address this gap in the literature we draw on the psychological factors of stewardship theory to explain partner selection and use the situational factors to explain franchise management in those types of social franchising that we identified in the previous step.

Moreover, the majority of studies on the effects of stewardship behavior or familiness in firm management stress its positive influence on performance (Davis et al., 2010; Le-Breton-Miller & Miller, 2009; Lee & O’Neill, 2003). Although some studies found stewardship to have mixed performance results (Le-Breton-Miller & Miller, 2009), most emphasize that stewardship behavior enables firms to leverage reduced agency costs in order to increase performance (e.g. Chrisman, Chua, & Litz, 2004; Corbetta & Salvato, 2004). As a consequence, existing research has neglected potential costs in stewardship relationships. To address this gap in the literature, we identify costs in the mutual stewardship relationship in social franchising, which we term *stewardship costs*.

### **STEWARDSHIP RELATIONSHIPS IN SOCIAL FRANCHISING**

To develop accurate predictions in the next section, in this section we identify situations of (social) franchising that are most conducive to the occurrence of stewardship behavior. In stewardship theory, actors are conceptualized as stewards who are characterized as self-actualizing and collective-serving individuals whose relationship with their principal is dominated by goal alignment rather than goal conflict (Davis et al., 1997; Donaldson & Davis, 1989, 1991; Hernandez, 2012). While most individuals will exhibit a mixture of self-serving behavior as prescribed by agency theory and self-actualizing, collective serving behavior as prescribed by stewardship theory, we will conceptualize human behavior as either more self-serving or more collective serving to develop meaningful propositions. The relationship between franchisee and franchisor is determined by their predominant motivation. In case both act out agency behavior, a mutual agency relationship develops, while a mutual stewardship relationship emerges when both behave as stewards. If, however, one party acts out stewardship behavior while the other party acts out agency behavior a mixed-motive (i.e., agent-steward) relationship develops, which will be prone to opportunism (Davis et al., 1997) (quadrant II and III). The table below illustrates how we distinguish different types of franchises based on different behavioral assumptions of franchisor and franchisee.

**TABLE 1: SYSTEMATIZATION OF DIFFERENT TYPES OF FRANCHISING**

|                                |   | Franchisor's dominant behavior   |  |
|--------------------------------|---|--|--|
|                                |   | Self-actualizing and collective serving  | Economic and self-serving  |
| Franchisee's dominant behavior | Self-actualizing and collective serving | <b>I</b><br>Social franchising, when franchisee is <u>not</u> beneficiary<br><br>Mutual Stewardship Relationship<br><br>Predominantly Stewardship Costs/Problems<br><br>Our study, examples are DSE and Specialisterne | <b>III</b><br>Does not occur as a stable situation<br><br>Mixed-Motive Relationship<br><br>Both Agency & Stewardship Costs/Problems  |
|                                | Economic and self-serving               | <b>II</b><br>Social franchising, when franchisee is beneficiary<br><br>Mixed-Motive Relationship<br><br>Both Agency & Stewardship Costs/Problems<br><br>e.g., Kistruck et al. 2011                                     | <b>IV</b><br>Traditional literature on commercial franchising<br><br>Mutual Agency Relationship<br><br>Predominantly Agency Costs/Problems<br><br>e.g., Combs et al., 2011 |

Based on our definition of social enterprise, we assume that social franchisors are more strongly self-actualizing and collective-serving than self-serving as they are deliberately willing to accept low financial compensation and bear entrepreneurial risks while pursuing a social mission aimed at benefiting poor or otherwise disadvantaged people (Brooks, 2008; Heinecke & Mayer, 2012; Weerawardena & Mort, 2006) (quadrant I and II in Table 1). It is tempting to assume that all social franchisees are rather collective serving as well, as they, too, pursue the social mission of the franchise organization and accept low financial compensation. However, the behavior of the social franchisee will depend on their predominant motivation for becoming a social franchisee. Social franchisees that rely more strongly on extrinsic economic rewards such as job creation and poverty alleviation are more likely to behave rather self-serving, while

franchisees that rely less on economic rewards and often resign from their better-paid jobs in order to serve others are more likely to behave in a collective serving way. Usually, social franchisees who benefit economically from being a franchisee are beneficiaries of the franchise.<sup>6</sup> For example, Kistruck and colleagues (2011) investigated microfranchises across different industries at the base-of-the-pyramid (BOP) in which the franchisees were the poor and disadvantaged people that the franchisors were “seeking to help” (Kistruck et al., 2011, p. 514). In this example, the micro-franchisees were the beneficiaries of the franchise (quadrant II). In case social franchisees are less motivated by economic rewards and more strongly motivated by self-actualization, franchisees are usually not beneficiaries but employ beneficiaries in their outlet or serve them as customers. Examples for these types of franchises (quadrant I) are Dialogue Social Enterprise (DSE), a German-based social enterprise that employs blind people to work as guides in their dark exhibitions and Specialisterne, headquartered in Denmark, that employs people with autism and utilizes their special abilities and attention to detail to offer services such as software testing to IT companies (Dialogue in the Dark India, 2013; Heinecke & Sonne, 2012; Specialisterne, 2013a). At DSE and Specialisterne franchisees are not beneficiaries of the franchise (i.e., they are not blind or autistic people) but employ them (INSEAD, 2010).<sup>7</sup>

This distinction is important as the predominant motivation of the social franchisee determines the type the relationship between social franchisor and social franchisee. While mixed-motive relationships and opportunistic behavior in social franchises more likely develop in social franchises with beneficiary franchisees (quadrant II) – as reported by Kistruck and colleagues (2011) – mutual stewardship relationships in social franchising more likely emerge in social franchises with non-beneficiary franchisees (quadrant I).

Based on our definition of social enterprise, we do not consider franchises as social franchises if the franchisor prioritizes self-serving over collective-serving behavior (quadrant III and IV). Most commercial franchising research has conceptualized franchisees and franchisors are rather economically motivated and self-serving (Combs et al., 2011) (quadrant IV) and successfully applied agency theory to explain their relationship. A situation where the franchisor prioritizes commercial over social objectives while the franchisees are more strongly behaving in a collective-serving way (quadrant III) represents a mixed-motive relationship situation conducive to opportunism (Davis et al., 1997). We, thus, conclude that such a situation does not represent a stable relationship. However, as with quadrant III relationships, it can occur as a result of, for example, mission drift (see Jones, 2007) when social franchises start off as a quadrant I relationship but the franchisor’s focus shifts from a dominant collective-serving to a dominant economic behavior due to situations of financial hardship or through the influence of new investors with finance-first motivation. With due care, the conflicts at and the eventual demise of the social franchise *Aspire* as reported by Tracey & Jarvis (2007) can be interpreted as a social franchise that developed from a quadrant I to a quadrant III relationship.

As the development of a mutual stewardship relationship is most likely in social franchises with non-beneficiary franchisees (quadrant I), the focus of this paper will thus

<sup>6</sup> While the franchisee’s role as beneficiary does not allow a perfect assessment the underlying motivation, it is a reasonably reliable and empirically observable proxy.

<sup>7</sup> See a more detailed description of those examples in the Appendix.



be the development of stewardship (cost) theory propositions for those types of social franchises.

### **A STEWARDSHIP COST THEORY OF SOCIAL FRANCHISING**

Partner selection and franchise management are the two key aspects of interest in franchising (Combs et al., 2011). To connect to existing franchising, in this section we apply stewardship theory to explain partner selection and franchise management and their associated costs in non-beneficiary social franchises. We draw on the psychological factors of stewardship theory – *motivation* (by higher order needs and intrinsic), *identification* (with organization and values), and personal *power* – to explain stewardship selection and selection costs in social franchising. To decide whether franchisee and franchisor can enter a relationship, identifying each other's characteristics, motivation and values are important. The situational factors of stewardship theory – *management philosophy* (involvement orientation) and *culture* (collectivism and low power distance) – become crucial once franchisee and franchisor have entered a mutual stewardship relationship. The way in which franchisee and franchisor interact is determined by the management philosophy and culture in the franchise network. Accordingly, we draw on the situational variables to explain stewardship franchise management and franchise management costs in social franchising. We illustrate the plausibility of our propositions with anecdotal evidence from social franchise examples such as Dialogue Social Enterprises (DSE) and Specialisterne.

#### ***Stewardship Selection in Social Franchising***

Stewardship theory poses that the motivation of stewards is intrinsic and based on higher order needs such as “self-efficacy, self-determination, and feelings of purpose” (Davis et al., 1997; Hernandez, 2012), while identification with the organization occurs when being a member of an organization becomes an important defining characteristic of the steward. It can be triggered by identifying with the organization's values, mission, and objectives as well as with the people who lead, work for or are associated with the organization. As opposed to institutional power that is based on a person's position in the organization, personal power as prevalent in stewardship relationships is grounded on expertise of and reverence for a person (Davis et al., 1997).

Applying stewardship theory to partner selection suggests that intrinsic motivation to pursue the social enterprise's mission, identification between franchisor and franchisee, and personal power are important psychological characteristics for the development of a mutual stewardship relationship (Davis et al., 1997). While intrinsic motivation refers to the support of an enterprise's mission in general – i.e., ‘what’ to do – , identification relates to the agreement with how a particular organization or person pursues the mission – i.e., ‘how’ they do it (see similarly Volery & Hackl, 2010). The franchisee's intrinsic motivation to pursue the franchisor's social mission – i.e., ‘what’ to do – is important because social franchises have limited financial resources to incentivize their franchisees extrinsically when franchisees are not beneficiaries (Tracey & Jarvis, 2007). As a consequence, they need to select intrinsically motivated franchisees that serve the mission without the requirement of additional incentives. Intrinsic motivation in stewardship relationships relies on psychological ownership (Hernandez, 2012), a “state of mind in which an individual feels as though the target of ownership or a piece of it is ‘theirs’” (Pierce, Kostova, & Dirks, 2003, p. 86) which develops independently of

financial or legal ownership status (Hernandez, 2012). Offering financial incentives may even crowd out the steward's intrinsic motivation under certain circumstances (Frey & Jegen, 2001; Gagné & Deci, 2005; Weibel, Rost, & Osterloh, 2007). Thus, we argue that the dominance of psychological over material ownership in social enterprises and franchises is reflected by the situational characteristics of deliberately suppressing financial ownership incentives (Yunus & Weber, 2010). For example, during selection, Specialisterne tries to understand how the potential franchisee is personally affected by the social problem e.g. being a family member of an autistic person. In turn, the franchisor, too, reveals her personal motivation and history (Heinecke & Sonne, 2012). Thus, the franchisee's intrinsic motivation to follow the franchisor's social mission – i.e., 'what' to do – is an important selection criterion in social franchising with non-beneficiary franchisees.

However, intrinsic motivation is not sufficient for successful mutual selection between franchisor and franchisee, as the franchisee may not identify with the franchisor's approach to solve the social problem – i.e., 'how' to do it (Chirico et al., 2011). Identification occurs when being a member of an organization becomes an important defining characteristic of the franchisee (Hernandez, 2012; Klein, Molloy, & Brinsfield, 2012). While identification can be triggered by identifying with the organization's values, mission, and objectives (Klein et al., 2012), identification in social franchising often focuses on a charismatic leader (see similar Miller et al., 2007). Thus, perceived personal power of the franchisor facilitates identification of the social franchisee with the social franchisor. Failure to identify with each other will likely inhibit mutual selection even if both franchisee and franchisor have the same high level of intrinsic motivation. For example, after almost one year of negotiation, the potential franchisee of Specialisterne's first unit in Germany decided to establish his own social enterprise employing people with autism because he eventually did not identify with Specialisterne's values and approach (Müller-Remus, 2012). In sum, the weaker franchisee benefits extrinsically the more both intrinsic motivation – i.e., 'what' to do – and identification with how a particular organization or person pursues the mission – i.e., 'how' they do it (see similarly Volery & Hackl, 2010) become important. We thus posit:

*Proposition 1: The weaker the extrinsic benefits of the franchisee, the more important are intrinsic motivation, identification between franchisor and franchisee, and personal power of the franchisor as partner selection criteria.*

### ***Stewardship Selection Costs in Social Franchising***

Selecting franchisees with a strong personal commitment to the business reduces opportunistic behavior and thus agency costs (Jambulingam, Joseph, & Nevin, 1999). However, we argue that the reduction in agency costs leads to an increase in stewardship costs during selection (i.e., ex-ante) and as a result of the selection process (i.e., ex-post).

#### ***Ex-ante stewardship selection costs***

Usually, franchisors draw on various criteria to select franchisees, such as financial background, previous work experience, local knowledge, and personality (Clarkin & Swavely, 2006; Jambulingam et al., 1999). While some criteria such as financial background and track record can be evaluated objectively and based on facts, personal motivation and identification require more intuitive assessment. More importantly, while intrinsic motivation for the cause is usually pre-existing in our scenario, identification between franchisor and franchisee and the perception of personal

power need considerable time to develop and are a dynamic, complex and interactive process (Ashforth, Harrison, & Corley, 2008). To determine intrinsic motivation as well as develop identification and a perception of personal power, both franchisee and franchisor have to get to know each other's values, personal history, and character through repeated personal meetings (Volery & Hackl, 2010). For example, at Dialogue Social Enterprises, it usually takes an average of 2 years from the first contact until the contract is signed (Heinecke & Sonne, 2012). Moreover, out of 20 requests from potential franchisees only one or two outlets are eventually established (INSEAD, 2010). To discourage not truly motivated individuals, Andreas Heinecke, founder of DSE, characterizes himself as 'the worst salesman' because he reveals the most unpleasant facts in the very first meetings with potential franchisees (Volery & Hackl, 2010).

Identification and the perception of personal power in the stewardship relationship have to be established between the person of the franchisor and the franchisee and cannot easily be delegated. Thus, the selection process in social franchises will be time and resource intensive and will, as a consequence, slow down the growth of the social franchise (Heinecke & Mayer, 2012). For example, established as a franchise in 1995 (INSEAD, 2010), in 2013 DSE operates 20 permanent exhibitions worldwide. While the two locations in Germany, the headquarter in Hamburg and the Frankfurt outlet, are company-owned, the remaining 18 outlets are franchised (Dialogue Social Enterprises, 2013). Thus, DSE has since grown by approximately one unit per year, while Specialisterne is growing at an even slower rate despite following an active growth strategy (Specialisterne, 2013b) and enjoying global media coverage. Founded in 2004, Specialisterne currently operates two locations in Denmark, six in other European countries, and one in the United States (Specialisterne, 2013a). Thus, ex ante stewardship selection costs emerge primarily as opportunity costs of delayed growth of the social franchise. We thus propose:

*Proposition 2: The more important intrinsic motivation, identification between franchisor and franchisee, and personal power of the franchisor are as partner selection criteria, the slower the growth of the franchise.*

#### ***Ex-post stewardship selection costs***

While identification between intrinsically motivated franchisees and franchisors increases the likelihood of successful mutual selection and decreases the risk of opportunistic behavior, it can have dysfunctional effects when overemphasized (Sluss & Ashforth, 2007). This "over-identification" can lead to the suppression of certain behaviors when identification is strong (Katz & Genevay, 2002) i.e., the franchisor or franchisee fails to see their counterpart's lack of necessary knowledge or capabilities. For example, one aspect in the failure of Aspire, a UK-based social franchise that provided employment and housing for the homeless, was the fact that the charismatic personality of one of the founder's, Harrod, obscured flaws in the business model and led investors and franchisees to invest although first issues had already become apparent (Tracey & Jarvis, 2007). Thus, over-identification increases the risk of selecting a "wrong" partner. While the negative effects of selecting a wrong partner despite everyone's honest efforts, may be indistinguishable from the negative effects of adverse selection due to opportunism, they are conceptually different (Hendry, 2002). The important difference is that wrong partner selection due to over-identification is not based on a combination of opportunism and information asymmetry but on a psychological dysfunction leading to a

selective information processing and perception (Sluss & Ashforth, 2007) leading to different managerial implications.

We hence propose:

*Proposition 3: There is an inverted u-shape relationship between the strength of identification between franchisee and franchisor and partner selection success.*

### ***Stewardship Management in Social Franchising***

Management in stewardship relationships is involvement oriented instead of control oriented and is characterized by participation and shared leadership practices, collaborative communication, empowerment, and trust (Hernandez, 2012; Meek, Davis-Sramek, Baucus, & Germain, 2011). Furthermore, collective responsibility for outcomes is achieved through autonomy, self-inspection and self-management and ensures high quality outcomes (Davis et al., 1997; Hernandez, 2012). While control orientation is more suitable if short-term cost control and productivity are important, involvement oriented management is preferable to achieve long-term effectiveness and performance enhancement (Davis et al., 1997; Hernandez, 2012). As stewards are conceptualized as collective-serving and other-regarding (Davis et al., 1997; Hernandez, 2012), a collectivistic organizational culture that emphasizes organizational membership and harmony among members is more favorable for the development of stewardship relationships than an individualistic organizational culture (Hofstede, 1980). Another aspect of culture in stewardship relationships is organizational power distance (Hofstede, 1980). Due to the collectivistic sociology and the motivational aspects, stewardship relationships are facilitated by a low power distance organizational culture, which usually favors decentralized organization and shared leadership (Davis et al., 1997; Hernandez, 2012).

Applying stewardship theory to franchise management suggests that involvement orientation and a collectivistic and low power distance organizational culture are important situational characteristics for maintaining a mutual stewardship relationship (Davis et al., 1997). As identification between franchisee and franchisor are central to establishing a mutual stewardship relationship in social franchising with non-beneficiary franchisees, maintaining the level of identification is key to maintaining a mutual stewardship relationship.

In a mutual stewardship relationship, it is counterproductive to control and monitor franchisees. “When stewards are controlled as if they were agents, they cannot enjoy the types of internal rewards they desire (i.e. growth, achievement, or self-actualization), and as a result, they may engage in anti-organizational behaviors (Argyris, 1964).” (Davis et al., 1997). Instead, involvement-oriented franchise management relying on participation, open communication, and trust is more suitable when franchisees are more intrinsically motivated (Davis et al., 1997). Thus, contractual agreements become less important in managing the social franchise system than social relationships between franchisor and franchisees. In effect, contracts are usually less detailed (Volery & Hackl, 2010). For example, in their contract with franchisees DSE merely requires that the exhibition must be in total darkness, that visitors need to pay entrance fees, and that the guides must be severely visually impaired or blind citizens (Volery & Hackl, 2010).

Stewardship relationships are conceptualized by a collectivistic organizational culture in which the success of the group is more important than individual success (Davis et al., 1997; Hernandez, 2012; Hofstede, 1980). This collectivistic nature in social

franchising is represented by the franchisor's and the franchisee's commitment to serve their beneficiaries. Within the social franchise network a collectivistic orientation is reflected by individual adjustments to fees and royalty rates in order to support weaker members of the franchise system. In the past, Dialogue Social Enterprises has, for example, initially reduced fees and royalties for franchisees with fewer financial resources to help them start-up and reduced or postponed payment of fees or royalty rates if a franchisee has (temporary) financial difficulties (Heinecke, 2011).

Furthermore, stewardship relationships are facilitated by a low power distance organizational culture, which leads to franchisee autonomy, shared leadership and small differences in salary and prerequisites (Davis et al., 1997; Hernandez, 2012; Hofstede, 1980). For example, at Specialisterne and DSE, franchisors are transparent about their wages that do not exceed twice the amount of the minimum entry wage of employees (Heinecke & Sonne, 2012).

We thus propose:

*Proposition 4: The weaker the extrinsic benefits of the franchisee, the more contractual controls will be substituted with involvement orientation and a collectivistic and low power distance organizational culture in franchise management.*

### ***Stewardship Management Costs in Social Franchising***

As in the case of social franchisee selection, we argue that while agency costs decrease, franchise management based on involvement-orientation, low power distance and collectivistic culture leads to stewardship costs.

Involvement-oriented franchise management practices require personalized managerial attention as even “the most carefully designed relationship will crumble without good, frequent communication” (Bleeke & Ernst, 1993, p. 16). As such, involvement-oriented franchise management requires frequent interactions, reciprocal feedback, informal communication, and the nurturing of individual relationships (Meek et al., 2011). In both our examples, the franchisor devotes a lot of time and resources in meetings, on the phone, or travelling to the respective subsidiaries to maintain good relationships with the franchisees (Heinecke & Sonne, 2012; Volery & Hackl, 2010). However, the franchisor can only manage a limited number of close personal contacts, which ultimately limits the total number of franchisees. Thus, the stronger the franchise system relies on involvement-orientated management, the more it limits size of the franchise. Put differently, stewardship involvement orientation management costs arise primarily as opportunity costs of limited maximum scale of the social franchise. We thus propose:

*Proposition 5: The stronger the franchise management relies on involvement orientation, the more limited will be the maximum size of the franchise.*

Although collectivistic orientation is an important factor in supporting stewardship behavior, it can lead to conflict between franchisor and franchisee. In social franchises in which the franchisee is not the beneficiary, there are multiple principal-stewards relationships, which favors the emergence of a collectivistic dilemma. From the franchise perspective the franchisor is the principal and the franchisee is the steward. However, from a social enterprise perspective, both franchisee and franchisor are stewards of the beneficiaries. As a consequence, the franchisee is a steward for two different groups, the franchisor and the beneficiaries. In an ideal situation the success of

both the franchise as a whole and the local units perfectly match. However, as soon as trade-offs emerge, the likelihood of a collectivism dilemma increases. In these situations, social franchisees are torn between the desires to serve both groups. As Tracey & Jarvis (2007) have shown social franchisees are more likely to prioritize the support of their beneficiaries (i.e., local units) over the success of the franchise in case of trade-offs. Heinecke (2011) reports similar issues.

Thus, although collectivists tend to preserve harmony in groups and avoid conflict (Davis et al., 1997; Hofstede, 1980), we argue that the franchisee's collectivistic orientation may potentially reduce cooperation between franchisee and franchisor in case of trade-offs between the success of the franchise and the unit. As in the case of Aspire this can lead even to the termination of the franchise relationship (Tracey & Jarvis, 2007). We propose:

*Proposition 6: In case of trade-offs between the support of the beneficiaries and the support of the franchisor, a stronger collectivistic orientation of the franchisee will increase the likelihood of conflict between franchisee and franchisor.*

Standardization is a key success factor in franchising as it minimizes cost, increases scale economies, facilitates benchmarking in quality control and leads to image consistency (Bradach, 2003; Kaufmann & Eroglu, 1998). However, low power distance increases the difficulty for social franchisors to standardize their operations. Low power distance increases franchisees' autonomy, which, together with less detailed contracts, facilitates local adaptation. Furthermore, most social franchises are business format franchises (as opposed to product franchising) (Heinecke & Mayer, 2012) and critical knowledge is often tacit (Bradach, 2003), making it more difficult to find the "delicate balance between the large-scale economies derived from system standardization and small-scale economies derived from local market adaptation" (Kaufmann & Eroglu, 1998, p. 70). Thus, the lack of standardization increases costs, reduces benchmarking and the associated the potential for improvement and learning. For example, Heinecke (2011) describes himself as a "toothless tiger" in his role as franchisor stating that franchisees are often unwilling to, for example, report results, accept changes or even pay royalties.

*Proposition 7: The lower the power distance between franchisee and franchisor, the higher the cost of standardization.*

## **DISCUSSION AND IMPLICATION**

Applying stewardship theory allowed us to develop propositions explaining partner selection and franchise management as well as their associated costs in mutual stewardship relationships in social franchising. However, we believe our propositions have important implications and contributions to make not only to social franchising and social enterprise literature and practice, but also to commercial franchising literature and practice as well as to stewardship theory development. We will discuss the implications and contributions of our propositions, the limitations of our study, potential for future research as well as its managerial relevance in the following.

### ***Implications for Social Franchising and Social Enterprise Literature***

There are two main implications of our study for social enterprise and social franchising literature. The first implication relates to the distinction between the

dominant motivations of beneficiary versus non-beneficiary franchisees and the second relates to franchising as a growth mechanism for social enterprises.

We introduced a hitherto neglected distinction between the dominant motivations of beneficiary versus non-beneficiary franchisees in social franchising that allows us to distinguish between different types of (social) franchising and determine the applicability of stewardship theory and its assumptions to the different types of (social) franchising (propositions 1 and 4). This distinction has implications for social franchising research. It contributes to guiding researchers in the choice of agency and/or stewardship theory when explaining social franchising phenomena. For example, Tracey & Jarvis (2007) study social franchising with non-beneficiary franchisees using agency theory. However, as we argued, stewardship theory is more suitable to explain social franchises with non-beneficiary franchisees as these types of franchises are more likely based on mutual stewardship relationships (quadrant I). Furthermore, using our framework of different types of (social) franchises would allow to study the shift from success to the demise of Aspire with a transition from quadrant I to quadrant III. Thus, applying stewardship theory framework to explain the Aspire case by Tracey & Jarvis (2007) would contribute to a more nuanced understanding of this case of social franchising and its demise. As a further implication for social franchising research and practice these propositions suggest that social franchisors should apply and researchers should consider different partner selection criteria and franchise management practices depending on whether franchisees are beneficiaries or not. While we proposed that selecting and managing non-beneficiary franchisees are rather based on intrinsic motivation, identification, and involvement orientation, future research could investigate selection criteria and management practices for beneficiary social franchises and their similarities and differences to commercial franchises. One interesting aspect to study could be how extrinsic ownership incentives are implemented in beneficiary social franchises to serve both the social mission and financial sustainability of the enterprise. A stimulating case in this regard could be Buffed, a recently established Australian beneficiary social franchise operating shoe shine stands in the major Australian cities. Buffed selects franchisees that are disadvantaged on the job market based on their drug addiction history or criminal record. To support the long-term success of their franchisees Buffed ties financial incentives such as reduction of franchise fees to the franchisee's compliance with quality standards of reliability, image, and reporting of market research data (Buffed, 2013).

Important implications from our propositions 2 and 5 refer to franchising as a growth mechanism for social enterprises, indicating that franchising may not be the best growth strategy for social enterprises when franchisees are not beneficiaries. First, opposing existing conceptualizations (Ahlert et al., 2008; Dees, Anderson, & Weiskillern, 2004a; Heinecke & Mayer, 2012), social enterprises may grow slower or more cost-intensively via franchising, than, for example, via branching. While branching requires more financial resource investment of the social entrepreneur (e.g. Heinecke & Mayer, 2012), franchising requires more resources to select franchisees *ex ante* as they cannot be monitored as effectively as employees via *ex-post* behavioral control. Resulting from proposition 2, we conclude that social franchises with non-beneficiary franchisees grow faster when the identification process between franchisee and franchisor can be shortened. This is achievable when franchisee and franchisor already know each other well by, for example, being friends or family members. Chirico et al. (2011) have shown that being a family member facilitates mutual selection in family firm franchises. However, this only solves the problem partially. First, while including family

and friends into the franchise network reduces selection cost, it limits the size of the franchise network to number of family and friends each franchisor has. Second, even if partner selection costs and time can be reduced, franchising confines the growth to the franchisor's capacity to maintain close relationships with franchisees (proposition 5). Thus, further research is needed to untangle those effects.

To grow beyond that capacity some social franchises have introduced a hierarchy of franchisees in which the upper-tier franchisees act as regional leaders "reporting" to the franchisor, allowing the franchisor to delegate some responsibilities to the upper-tier franchisees, and thus reducing the need of the franchisor to interact with the lower-tier franchisees (Volery & Hackl, 2010). However, the reduction of interaction between franchisor and all franchisees bears the risk of reduced identification between franchisees and franchisor. Furthermore, this raises the question whether hierarchies within firms or firm-owned outlets – at least at later stages of age or growth – do not represent a more suitable governance structure to achieve both scale and high levels of identification in social enterprises. This notwithstanding, hierarchies may shift the behavior of branch managers or lower-tier franchisees towards agency behavior. If the founder or franchisor continues to act out stewardship behavior, the resulting relationships could fail (Davis et al., 1997). Therefore, to safeguard mutual stewardship relationships, hierarchies both within firms and multi-tiered franchises only function if lower-tier franchisees or employees accept upper-tier franchisees or managers as a 'substitute' for the founder or franchisor. This acceptance entails the same degree of identification with and the ascription of personal power to that person. Moreover, as stewards may perceive reporting as interference, it is necessary to critically consider how such governance structures would need to be designed. These questions and their boundary conditions represent interesting avenues for future research.

Overall, a stewardship perspective on social franchising conjectures a paradox. At first, stewardship behavior helps to overcome limited extrinsic ownership incentives by substituting them with psychological ownership incentives. However, at the same time stewardship behavior incurs costs that slow down the speed of scaling and limit the size of the franchise network. Thus, regardless if mutual agency or mutual stewardship relationships prevail, both incur costs that need to be managed. To help practitioners to determine in which situations they should choose management based on agency or stewardship behavior, more research is needed into additional contextual factors. We introduced the distinction between beneficiary and non-beneficiary franchisees. However, other factors might be the financial situation of the franchisee or the enforceability of contracts, which might then also be applicable to commercial franchising.

These implications have to be considered against the background of some inherent limitations of our study. For example, as we apply stewardship theory, our framework is prone to the same limitations as stewardship theory. For example, it is questionable whether the psychological and situational factors of stewardship theory cover all aspects that explain when stewardship behavior likely prevails over agency behavior. Moreover, the cultural aspects of collectivism and low power distance are interdependent and often found in contradictory constellations such as low power distance but individualistic cultures as the US versus high power distance but collectivistic cultures such as Japan (Davis et al., 1997). Disentangling those interdependencies and studying how national cultures affect the emergence and cultures of social franchises is thus another important avenue for future research.



### ***Implications for Commercial Franchising Literature***

Existing franchising research has emphasized opportunistic and self-serving behavior (Combs et al., 2004), although self-actualizing and collective serving motivations can be observed in traditional commercial franchises as well, such as in “socioemotional wealth” in family businesses (Yu, Lumpkin, Sorenson, & Brigham, 2011), in family firm franchises (e.g. Chirico et al., 2011), in the mission of founders such as in Ray Kroc’s passion to bring lunch at a reasonable cost to America and the world (Kincheloe, 1977), or in practices such as waiving royalty payment at Ben and Jerry’s Ice Cream (Lafontaine & Blair, 2009). Thus, we call for more applications of theories that rely on behavioral assumptions of self-actualization and intrinsic motivation to commercial franchising. Our framework offers the opportunity for re-examining commercial franchising literature to identify potentially cases or phenomena of stewardship behavior that have been neglected in existing literature. Applying our stewardship theory propositions to those cases will contribute to a better understanding of differences in franchising practices such as in the amount of royalty rates or in phenomena such as sizes of the franchise network or proportion of company-owned versus franchised units (Lafontaine & Blair, 2009). For example, research in commercial franchising suggests that commercial franchisors emphasize or even prioritize commitment of the franchisee as a selection criterion over financial criteria (Clarkin & Swavely, 2006; Grandori & Soda, 1995; Jambulingam et al., 1999). Thus, the partner selection costs associated with personal interviews and the process of getting to know each other also seems to apply to commercial franchising settings. If this is the case, commercial franchisors, too, may face stewardship costs to the extent to which their franchise relationships are based on stewardship behavior. Furthermore, in situations commercial franchisors expect a high level of agency costs because ownership incentives are less effective, for example in cases of horizontal agency in outlets with little repeat business (Combs et al., 2004), they could resort to stewardship partner selection and franchise management to reduce agency costs for those outlets.

### ***Implications for Stewardship Theory***

In addition to applying stewardship theory to a new field of research we contribute to the development of stewardship theory by introducing the concept of stewardship costs that arise during establishment and maintenance of mutual stewardship relationships. Negative effects of stewardship behavior such as costs have so far been neglected in literature as steward researchers primarily focused on its potential to enhance performance (e.g. Chrisman et al., 2004). We identified opportunity costs of delayed growth and the cost of wrong partner selection due to over-identification as stewardship selection costs and limited franchise size and costs of standardization and conflict as stewardship management costs in mutual stewardship relationships in social franchising. Stewardship costs are conceptually different from agency costs. While agency costs result from weak goal alignment due to opportunism, stewardship costs result from psychological and situational factors that enable stewardship relationships leading to different recommendations for practice.

For example, our framework suggests a different perspective on agency costs in existing social franchising research. For example, applying our framework to explain the demise of Aspire (Tracey & Jarvis, 2007) suggests that maintaining the initial mutual stewardship relationship by managing franchisees involvement-oriented and

acknowledging their collectivism may have better helped to overcome Aspire's difficulties than "monitor[ing] closely the actions of franchisees" (Tracey & Jarvis, 2007, p. 680). While applying agency theory clearly leads to the identification of agency costs and the latter conclusion, applying our framework suggests that agency costs were obscured stewardship costs and thus leads to different conclusions and recommendations for practice. Reassessing the results of some commercial franchising studies may lead to similar conclusions and thus, represent an interesting avenue for future research.

The major limitations of our stewardship theory development are two-fold. First, our identification of stewardship costs is not exhaustive and focuses on the social franchising context. Thus, future studies should identify further stewardship costs occurring in different contexts. Second, as most studies applying agency or stewardship theory, we also apply an either-or perspective and do not integrate both theories. While this was necessary to establish the applicability of stewardship theory to (social) franchising, the next step should be an integrative approach that acknowledges that both agency and stewardship behaviors are inherent in every economic transaction. We thus call for shifting the agency-stewardship debate from a discussion about conflicting "models of man" to contingent "models of alternative situations". Both agency and (our) stewardship theory are paradoxical in the sense that they, on the one hand, explain how businesses can scale their operations using motivational mechanisms – financial ownership incentives in agency theory and psychological ownership incentives in stewardship theory – but, on the other hand, explain the occurrence of costs based on the very same motivations – agency costs based on ownership incentives and stewardship costs based on psychological ownership. Thus, combining both perspectives will allow a more nuanced explanation of which costs occur in under which circumstances. One notable example is a study conducted by Scarlata and Alemany (2011) who investigated venture philanthropy and found that the wording of contract clauses determines the prevalence of stewardship or agency relationships, respectively.

Finally, another important avenue for future research is the empirical testing of our propositions and the operationalization of the stewardship constructs and costs. For example, to measure identification, future research could draw on existing studies on organizational identification (e.g. Ashforth et al., 2008).

### ***Managerial relevance***

From a practitioner's perspective, our framework points to the importance of understanding the motivation of the actor's involved. Thus, if a practitioner is more intrinsically motivated, she should consider choosing franchisees (or employees) that are also intrinsically motivated. Moreover, if potential franchisees or employees are intrinsically motivated, management needs to reduce control mechanisms to avoid crowding out this motivation, which could lead to anti-organizational behavior.

More importantly, our conceptualization shows that even if both parties are intrinsically motivated, problems may occur. Practitioners need to be aware of these potential challenges and should thus weigh if the benefits of stewardship management – i.e. reduced costs of monitoring, are greater than potential stewardship costs of e.g. reduced growth.

Additionally, our framework indicates that franchising might not constitute the most suitable growth strategies for some social enterprises. Therefore, social enterprise managers who wish to grow their organization need to consider their management style –

agency-based versus stewardship-based – in addition to other factors that usually influence their decision on growth strategies such as resource availability or cultural closeness to the new location. Such considerations might be further influenced by the dominant local culture. If a potential franchisee is embedded in a national culture that is based on low power distance or collectivism, stewardship behavior might occur even more frequently than in other national cultures. Thus, a social enterprise may need to follow a mix of growth strategies including. This mix should not only depend on ‘traditional’ aspects such as the political, social or legal environment but also on the personal characteristics of a new franchisee as well as on the situation in which he or she is embedded. To give an example, if a social enterprise’s franchisees are also beneficiaries branching would be a more suitable option. However, even if franchisees are non-beneficiaries their economic situation might make branching a more promising option as poor franchisee will first need to satisfy their lower-order needs before they are able to act upon their higher-order needs.

In conclusion, we hope that our framework will help to enrich the theoretical foundations and empirical findings of future research when studying social franchises and enterprises as well as commercial franchises and stewardship theory. Going back to Clinton’s statement, more research is needed to better understand the advantages and disadvantages of social franchising as scaling strategy for social enterprises.

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## APPENDIX

### *Examples of Social Franchising*

Both examples qualify as social enterprises that use franchising to grow and where franchisees are not beneficiaries.

Dialogue Social Enterprise (DSE) is a German-based social enterprise that operates exhibitions called “Dialogue in the Dark” where blind guides escort seeing people through everyday situations in complete darkness (Volery & Hackl, 2010). The purpose of this experience is to demonstrate the circumstantial nature of disability. DSE’s social mission is to enable the dialogue between visually impaired people and people with ‘normal’ eyesight. DSE’s financial self-sustainability is based on admission fees to its exhibitions as well as on income generated through management trainings in the dark, which it offers to corporate clients (Volery & Hackl, 2010). Currently, DSE operates 20 permanent exhibitions worldwide.<sup>8</sup> While the two locations in Germany, the headquarter in Hamburg and the Frankfurt outlet, are company-owned, the remaining 18 outlets are franchised (Dialogue Social Enterprise, 2013). To franchise exhibitions, DSE signs a license agreement with franchisees that allows franchisees to run exhibitions under the brand name “Dialogue in the Dark”<sup>9</sup> against the immediate payment of a license fee and, depending on the contract, a share from sales (criteria 1a and 3 from Lafontaine & Blair, 2009) (Insead, 2010). DSE also supports and trains franchisees in various stages of their operation, gives out handbooks, and holds annual meetings for all franchisees to share their knowledge (criterion 2 from Lafontaine & Blair, 2009) (Insead, 2010).

Another example is the organization Specialisterne, headquartered in Denmark, that employs people with autism and utilizes their special abilities and attention to detail to offer services such as software testing to IT companies. While Specialisterne’s social mission is to support regular employment of people with autism, they operate financially self-sustainably by offering their services to companies at market rates. Founded in 2004, Specialisterne currently operates two locations in Denmark, six in other European countries, and one in the United States (Specialisterne, 2013). Specialisterne has been growing its operations through a license model that allows franchisees to use its business model and brand name for a license fee and share from sales (criteria 1a and 3 from Lafontaine & Blair, 2009). Specialisterne assists its franchisees with its knowledge on how to select, train, and support people with autism during their work, a model all franchisees have to comply with (criterion 2 from Lafontaine & Blair, 2009) (Sonne, 2012).

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<sup>8</sup> Since its opening in 1988 Dialogue in the Dark has been presented to more than 7 million visitors through exhibitions and workshops in more than 31 countries and 127 cities in the world.

<sup>9</sup> The exhibition name „Dialogue in the Dark“ is translated into the respective national language to ensure comprehensibility of its meaning.

**B. Papers included in this paper-based PhD thesis**

**Paper 3**

**Zeyen, A. (2014): What Drives Entrepreneurs? An Empirically-Based Taxonomy Beyond the Social and Commercial Entrepreneurship Distinction**

(revise and resubmit)

**What Drives Entrepreneurs? An Empirically-Based Taxonomy Beyond the Social and Commercial Entrepreneurship Distinction**

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**ABSTRACT**

Inspired by the entrepreneurial motivation literature, this paper empirically analyzes the post-founding stage of social and commercial entrepreneurs to derive a taxonomy of different entrepreneurial characters. The study uses a three-step empirical approach. First, based on 80 interviews, the article identifies seven dimensions of success, beyond the familiar social and commercial objectives, that drive entrepreneurs. Second, it quantifies the interview data with a scoring system. Using cluster analysis, the third step identifies five empirical types of entrepreneurs: rational missionary, bonding self-actualizer, number junkie, textbook businessperson, and product-adjusting competitor. The article ends with a discussion of contingency factors and implications.

**Keywords:** social entrepreneurship, commercial entrepreneurship, entrepreneurial drivers, types of entrepreneurs, motivation

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## INTRODUCTION

Social entrepreneurship organizations come in many shapes and forms, use a multitude of scaling and funding strategies, and are organized in very different ways. Based on single- or small-N-case studies (Hoogendoorn, Pennings, & Thurik, 2010), researchers try to discover the underlying mechanisms that lead one social entrepreneur to choose one specific scaling strategy while others use a different one. The work on commercial entrepreneurship also studies this and similar questions (e.g., Fern, Cardinal, & O'Neill, 2012).

To understand these choices, one strand of entrepreneurship literature takes on an actor perspective, finding that the entrepreneur plays a central role within the venture (e.g. Mintzberg, 2003; Smith & Miner, 1983). Given that the entrepreneur's choices strongly affect the venture's strategy and daily operation (B. McCarthy, 2003; Woo, Cooper, & Dunkelberg, 1991), researchers investigate entrepreneurial motivation (Shane, Locke, & Collins, 2003), entrepreneurial orientation (e.g., Lumpkin & Dess, 1996), and entrepreneurial traits (e.g., Rauch & Frese, 2007). However, much of this research predominately focuses on the pre-founding or early-stage entrepreneurship; to date, there is little research on what drives an entrepreneur once the organization is "up and running" except for growth aspirations. It is known, however, that motivations can change over time, especially when an individual's situational circumstances change (Carsrud & Brännback, 2011). Therefore, the factors that drive an entrepreneur in the post-founding phase might be different from his or her motivations before founding. Indeed, recent studies evidence that motivations alter with distance from the founding stage (Renko, 2013). Therefore, this paper aims to generate insights into what drives entrepreneurs in the post-founding phase.

Due to the diversity of entrepreneurial motivations (Shane et al., 2003), research on this topic often employs typologies or taxonomies to reduce complexity and achieve greater homogeneity within subgroups. For instance, the distinction between necessity- and opportunity-driven entrepreneurs sorts entrepreneurs by their initial motivation to found an organization (e.g., C. C. Williams, 2008). In contrast, this study develops a taxonomy of entrepreneurs that is not based on entrepreneurial motivation (i.e., it does not focus on a pre-founding and founding phase) but on their entrepreneurial drivers (i.e., it focuses on issues that drive entrepreneurs in a post-founding phase).

This approach has an added advantage of also providing a more differentiated perspective on the distinction between social and commercial entrepreneurs. Similar to the necessity-opportunity distinction, currently this differentiation is based on motivations. That is, social entrepreneurs are portrayed as striving to "do good"; commercial entrepreneurs are viewed as profit seekers (Dacin, Dacin, & Matear, 2010; Short, Moss, & Lumpkin, 2009). However, in light of the literature on entrepreneurial motivation that emphasizes the multidimensionality of motivations (Shane et al., 2003), the social-commercial distinction seems too simple, and may run the risk of overlooking important aspects. Thus, taking a closer and more differentiated look at the drivers of entrepreneurs may yield a more nuanced perspective on social and commercial entrepreneurs that goes beyond the simple commercial-social distinction and may even provide some insight into that special breed of founders who are both social and commercial entrepreneurs (Austin, Stevenson, & Wei-Skillern, 2006).

Thus the research questions are: *What drives social and commercial entrepreneurs in a post-founding phase? Can these drivers be used to identify different types of entrepreneurs and, if so, what are these different types? How do these empirically observable entrepreneurial characters relate to the distinction between social and commercial entrepreneurship found in the literature?* To answer, this paper employs a three-step approach that combines emergent coding

of 80 interviews with social and commercial entrepreneurs with a cluster analysis of the identified driver dimensions. As entrepreneurs are generally portrayed as being driven by the desire to achieve success (Perwin, 2003), the paper uses their understanding of success as a proxy for their drivers. This approach thus allows inductively determining what drives entrepreneurs. The analysis identifies not just two, but seven drivers. Using cluster analysis to study the combination of these seven drivers for all interviewed entrepreneurs produces five distinct entrepreneurial characters that can be observed empirically.

This study contributes to literature in the following ways. (1) It provides a more differentiated perspective of the factors that drive entrepreneurs in a post-founding stage. (2) It provides a description of five types of entrepreneurs based on their unique combination of drivers. (3) It offers evidence that when investigated from an actor perspective, social and commercial entrepreneurs, although different, are also quite similar.

The paper proceeds as follows. Based on a presented literature review, the paper combines three main arguments, which form the basis of the empirical investigation. These are: the centrality of the entrepreneur and a too narrow perspective on social and commercial entrepreneurs, the multi-dimensionality of entrepreneurial motivations and the lack of knowledge as to entrepreneurial drivers, and the benefits of taxonomies based on a sample with social and commercial entrepreneurs.

Second, the paper outlines a three-step methodology, which combines emergent coding of 80 interviews of social and commercial entrepreneurs with a scoring scheme and cluster analysis. Thus, it combines qualitative and quantitative methods. In addition, it provides a detailed justification for using the entrepreneurs' notions of success as a proxy for their drivers.

Third, based on the above, five identified clusters of entrepreneurs are described. These are *rational missionary*, *bonding self-actualizer*, *number junkie*, *textbook businessperson*, and *product-adjusting competitor*.

Fourth, three issues are discussed: (1) the question of whether social and commercial entrepreneurs constitute distinct types of entrepreneurs, (2) the difficulty of expressing and the complexity of success notions, and (3) contingency factors that correlate with certain types of entrepreneur. The paper concludes with implications for practice and future research.

## LITERATURE REVIEW

The entrepreneur, of course, is central to the entrepreneurial firm (e.g. B. McCarthy, 2003; Mintzberg, 2003; Smith & Miner, 1983; C. E. Williams & Tse, 1995; Woo et al., 1991). Entrepreneurs, equally obvious, constitute a diverse set (Ucbasaran, Westhead, & Wright, 2001), and thus entrepreneurship research tends to subdivide them into groups based on a specific commonality and then studies particularities of a subgroup and how it is different from others. Such distinctions range from gender differentiation to differentiation based on the overall goal of the entrepreneurial endeavor.

An example of the latter is the distinction between social and commercial entrepreneurs. One of the best-known examples of this type of research is Austin, Stevenson, and Wei-skillern (2006), in which the authors raise the question of whether social and commercial entrepreneurs are the same, different, or both. To answer this question, they propose a continuum that allows for overlap between social and commercial entrepreneurship by distinguishing between the two motivations of financial and social value creation. The following literature review provides a foundation for further refining the distinction between entrepreneurial types that goes beyond the social-commercial two-dimensional distinction.



### **Why look at the entrepreneur's motivation in the debate on social and commercial entrepreneurs?**

Social entrepreneurship aims at fulfilling a social mission. The missions are as diverse as the societal problems humankind faces and thus include poverty reduction as well as environmental protection (Dees, 1998, 2012). This form of entrepreneurship is receiving an increasing amount of attention from academics (Granados, Hlupic, Coakes, & Mohamed, 2011), yet is still poorly understood (Felício, Martins Gonçalves, & da Conceição Gonçalves, 2013; Welsh & Krueger, 2012). One issue of particular interest in this work is to understand the distinctiveness and particularities of social entrepreneurs and social ventures. To this end, scholars often use commercial entrepreneurship as a frame of reference. Studies in this strand of research investigate differences in funding structure (Bacq, Hartog, & Hoogendoorn, 2013), organizational layout (Thompson, Alvy, & Lees, 2000), legal form (see Dees & Anderson, 2006; Defourney & Nyssens, 2010; Roper & Cheney, 2005), need for innovation (e.g. Shaw & Carter, 2007), size (Bacq et al., 2013), and survival rates (e.g. Terjesen, Lepoutre, Justo, Bosma, & GERA, 2012).

Despite this diversity of perspectives on social entrepreneurship, the one thing scholars do seem to agree on is that social entrepreneurship is different from commercial entrepreneurship as it pursues social rather than financial value creation (Bacq & Janssen, 2011; Dacin et al., 2010; Mair & Martí, 2006; Short et al., 2009; Welsh & Krueger, 2012). Yet, despite this apparent clear-cut distinction, the literature on social entrepreneurship is still in flux over the precise “nature” of this distinction. In sum, there are three different perspectives—a dichotomy, continuum, and matrix perspective. The dichotomy perspective clearly distinguishes social from commercial entrepreneurship in an almost strictly binary way, i.e., a zero-one perspective of *either* social *or* commercial. The continuum perspective advances this zero-one view by reconfiguring purely social and purely commercial forms onto each end of a continuum (Austin et al., 2006; Tan, Williams, & Tan, 2005). However, this approach does not allow for ventures that have as their objective both high social and high financial value creation as it depicts the link between social and commercial as a tradeoff. That is, from this perspective, to achieve more financial value creation necessitates less social value creation and vice versa. The third view—the matrix perspective—overcomes this shortcoming by moving “social mission” and “profit seeking” from the ends of a continuum into two separate dimensions. From such a perspective, the entrepreneur can be motivated by different degrees of both financial and social value creation simultaneously.

Yet, despite their differences, all three perspectives have one thing in common: they take their start from the entrepreneur's *motivation*, be it financial or social. Along the same lines, this paper takes the insights of Mintzberg (2003) and Woo et al. (1991) on the central role of the entrepreneur within the entrepreneurial venture as a starting point to shed new light on the actors involved, i.e., the social and commercial entrepreneurs. Such an approach is common in commercial entrepreneurship literature yet less so in social entrepreneurship literature (Hoogendoorn et al., 2010). Looking at both social and commercial entrepreneurs, this paper analyzes the diversity of motivations these entrepreneurs experience in the post-founding stage of their venture. In so doing, the paper takes up the question as to whether only two motivations—social and financial—are sufficient for this purpose. This is an especially relevant question in the case of those entrepreneurs who fall into the “social and commercial” quadrant of the matrix perspective. Thus, to better understand social and commercial entrepreneurs and in particular those that cross the boundaries of “social” and “commercial,” a more nuanced look at the motives of both types of entrepreneurs in a post-founding stage seems valuable.

### Why look at entrepreneurial motivation and drivers of entrepreneurs?

Generally, research on motivation attempts to understand why individuals choose one course of action over another (Carsrud & Brännback, 2011). Taking a pronounced actor perspective, research on entrepreneurial motivation more specifically explores the reasons why an entrepreneur *founds* an own venture (e.g., Carsrud & Brännback, 2011; Hessels, Gelderen, & Thurik, 2008; Shane, Locke, & Collins, 2003; Verheul, Thurik, Hessels, & Zwan, 2010). Overall, entrepreneurial motivation is subdivided into push and pull motivations (Gilad & Levine, 1986). Push motivations are those that externally force an individual into entrepreneurial action, for example, unemployment (for more see, Carsrud & Brännback, 2011; Verheul et al., 2010). In comparison, pull motivations involve all the extrinsic and intrinsic factors that make an individual want to become an entrepreneur. These range from the wish to be independent (e.g., Carter, Gartner, Shaver, & Gatewood, 2005; Shane, Kolvareid, & Westhead, 1991) and self-actualize (e.g., Carter et al., 2005; Renko, Kroeck, & Bullough, 2011; Scheinberg & MacMillan, 1988) to proving the feasibility of an idea (e.g., Carsrud & Brännback, 2011; Scheinberg & MacMillan, 1988) to accumulating wealth (e.g., Carsrud & Brännback, 2011; GEM, 2011; Renko et al., 2011) to the desire for a better work-life balance (e.g., GEM, 2011) or wanting to employ talented people as staff (e.g., Verheul et al., 2010).

Although the entrepreneurial motivation literature focuses primarily on the pre-founding stage of entrepreneurial choices, this stream of research generates useful insights for looking at entrepreneurs in their post-founding stage as well. The fact that entrepreneurs start their ventures for multiple reasons and a diversity of motivations suggests that the two-dimensional perspective on social and commercial entrepreneur is too narrow to account for the diversity of motivations that drive entrepreneurs—the ‘entrepreneurial drivers’—in their post-founding stage. In this paper, “drivers<sup>1</sup>” are understood to include all the intrinsic and extrinsic motivations (Carsrud, Brännback, Elfving, & Brandt, 2009) of an individual entrepreneur that shape his or her choices and actions during the continuation and/or growth of the venture.

This paper claims that understanding these entrepreneurial drivers is essential as they influence the entrepreneur’s decisions, which in turn shape the venture’s strategy and daily operation. Indeed, the entrepreneur’s influence is well researched in the area of growth strategies (e.g., Barringer, Jones, & Neubaum, 2005; Baum, Locke, & Smith, 2001; Delmar & Wiklund, 2008; Getz & Petersen, 2005; Hessels et al., 2008; Kolvareid, 1992). These studies suggest that if an entrepreneur perceives great growth potential, it affects the venture’s growth strategies. If, however, the entrepreneur does not wish to grow the venture or does not perceive growth potential, the organization is unlikely to grow, whether it be in terms of sales or staff numbers. While these studies are of great value to the literature on growth, their potential to identify an exhaustive list of what drives entrepreneurs is limited due to their focus on growth.

With a reference to the entrepreneurial motivation (founding stage) literature, this paper conjectures that, just like the many and varied reasons people have for becoming entrepreneurs, what drives them after the decision has been made and the venture is founded is also most likely multi-dimensional. Yet, entrepreneurial motivation research falls short when it comes to actually explaining what drives entrepreneurs in a post-founding stage. As motivations change with time (e.g., Carsrud & Brännback, 2011; A. M. McCarthy, Krueger, & Schoenecker, 1990), it is inappropriate to assume that entrepreneurial motivations and entrepreneurial drivers are identical. Moreover, recent studies indicate that distance from founding influences entrepreneurs’

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<sup>1</sup> This paper refers to the motivations of entrepreneurs in a post-founding stage as “drivers” to avoid confusion with the well-established concept of entrepreneurial motivation.

motivations (Renko, 2013). Additionally, actions and the time allocated to them by entrepreneurs are also prone to change once the organization is founded (e.g., Mueller, Volery, & von Siemens, 2012). As behavior is shaped by motivation (Carsrud & Brännback, 2011), this further supports the idea that entrepreneurial drivers are not identical to entrepreneurial motivations. In short, entrepreneurial drivers constitute a relevant, yet so-far under-researched field of study, thus creating the potential for fruitful inductive research into the multi-dimensionality of the issues driving entrepreneurs in a post-founding stage.

### **Why build a taxonomy with social and commercial entrepreneurs?**

An inductive analysis of what drives entrepreneurs is interesting not only for purposes of understanding the multidimensionality of drivers per se; knowing what these drivers are can also aid in deriving and describing different types of entrepreneurs based on their unique combination of the various drivers. Such classification approaches are common in the entrepreneurship literature to enhance comparability (Gundry & Welsch, 2001). To derive such a taxonomy empirically is the overall purpose of this study.

Previous classifications of different types of entrepreneurs have used the traits or the educational background of the entrepreneur (Jones-Evans, 1995; Miner, 2000; Siu, 1995), the size and industry of the venture (e.g. Webster, 1977), extent of entrepreneurial experience (Delmar & Davidson, 2000; Westhead & Wright, 1998), or type of entrepreneurial activity (for details, see Maniam, Leavell, & Renteria, 2001). Others classify entrepreneurs based on their motivations or objectives. For instance, the distinction between the “craftsman” and the “businessman” focuses on the entrepreneur’s objectives (Miner, 2000; Siu, 1995; Woo et al., 1991): the former type focuses on products and has no clear intention of growing the organization, the latter is much more market and growth oriented (Cohen, Smith, & Mitchell, 2008; Filley & Aldag, 1978). Despite its established position in the entrepreneurship literature, Woo et al. (1991) consider this dichotomy too narrow and call for more research to uncover more entrepreneurial types.

Another popular distinction is that between necessity- and opportunity-driven entrepreneurship (Verheul et al., 2010). In broader terms, this classification is based on push and pull motivations, as discussed above. To date, entrepreneurship research has benefited a great deal from both the craftsman-businessman and the necessity-opportunity classifications, but critics also point out that there may be other types of entrepreneurs (Ucbasaran et al., 2001; Woo et al., 1991). This paper takes this criticism and the fact that neither classification scheme includes social entrepreneurs as its inspiration for employing an empirical approach to discover new types of entrepreneurs.

To achieve this objective, it seems useful to have as diverse a sample as possible, and thus this study uses both social and commercial entrepreneurs. Specifically, the concept of social entrepreneurship introduced an until-then overlooked motivation or driver of entrepreneurs: the desire to help others (Carsrud & Brännback, 2011) yet insinuates the potential diversity of individual motives (Spear, 2006). Due to its novelty, this motivation is as yet not well-researched (Renko, 2013), but that is no grounds for believing that only social entrepreneurs experience this motivation. And, ironically, if this is the only motivation investigated for social entrepreneurs, other, equally important ones might be overlooked. Furthermore, recent empirical studies indicate that prosocial and self-interested motivations are not mutually exclusive but may occur simultaneously (De Dreu, Nijstad, Bechtoldt, & Baas, 2011; Sharir & Lerner, 2006). Moreover, so far there is little knowledge on the link or co-occurrence of prosocial and self-interested motivations (Renko, 2013). Thus this could be some benefit to studying social and commercial entrepreneurs together (Renko, 2013) as both types may have the same sets of motivations (see

similar Dacin et al., 2010) and thus a combined sample might generate insight into the link or co-occurrence of both prosocial and self-interested motives.

Indeed, social entrepreneurship scholarship shows that many entrepreneurs blur the boundary between social mission and profit (Austin et al., 2006; Wilson & Post, 2011). By investigating their underlying drivers, this paper will provide a better understanding of these mixed types of entrepreneurs. In particular, it will shed light on similarities between social and commercial entrepreneurs and, to preview the results, discover new entrepreneurial types.

In short, the literature calls for more refined ways of classifying entrepreneurs. To answer this call, this paper suggests using entrepreneurial drivers, i.e., the motivations of entrepreneurs in a post-founding stage, as a basis for developing a taxonomy. However, despite the rich literature on entrepreneurial motivation (pre-founding and early-stage motivations), there is little research on entrepreneurial drivers (post-founding stage). Moreover, as motivations change over time, entrepreneurial motivations and entrepreneurial drivers may differ. Thus, this paper employs an inductive approach to determine these drivers based on a sample of social and commercial entrepreneurs. This diverse sample is chosen to discover as many drivers as possible. Moreover, methods such as cluster analysis can be used to investigate whether there are new types of entrepreneurs that cut across the social-commercial distinction and thus offer a more nuanced perspective on entrepreneurship.

## METHODOLOGY

This empirical study employs a three-step approach to develop a taxonomy of entrepreneurs based on their unique combination of multi-dimensional drivers, i.e., the factors that motivate entrepreneurs during a post-founding phase. An often-used tool for developing classifications or taxonomies is cluster analysis (step 3). This powerful statistical tool enables researchers to find structures within datasets by identifying subgroups with high intergroup heterogeneity but high intragroup homogeneity (Kleinbaum, Lawrence, Nizam, & Rosenberg, 2013; Punj & Stewart, 1983; Rencher & Christensen, 2012). Thus, on that score, cluster analysis would appear suitable for the purposes of this paper. However, cluster analyses require quantified or at least quantifiable data, and such datasets or the required information to collect them quantitatively are not available. As a consequence, primary qualitative data was collected from open-question interviews, which allowed capturing the diversity of drivers. To quantify these insights, categories were derived from the emergent coding process (step 1) and then used as a basis for a scoring system (step 2). These scores then became the data for a cluster analysis (step 3). The following subsections provide details on the research design and methods of data collection and sampling, as well as on the chosen measure.

### Sample

The purpose of this paper is to identify the drivers of entrepreneurs in a post-founding stage and use them to classify entrepreneurs. Specifically, the research tries to find out whether such types go beyond the two-dimensional distinction of social and commercial entrepreneurs. To do so, the sample needs to include members of both groups and thus purposive sampling was done (Kerlinger, 1973; Warwick & Lininger, 1975). Put differently, if the sample only included “social” entrepreneurs, it would not be possible to identify any overlap of this type with “commercial” entrepreneurs, much less discover any new types that go beyond the social-commercial distinction. Thus, the sample purposively comprises social and commercial entrepreneurs who were identified by award-bestowing agencies through a standardized selection process. Moreover, the analysis focuses on one country—Germany—to minimize effects of cultural diversity in responses and thus obtain clearer data.

*Social entrepreneurs:* The Ashoka<sup>2</sup> database was relied on to procure a sample of social entrepreneurs, as Ashoka Fellows are widely recognized as being social entrepreneurs (e.g. Sen, 2007). Following Meyskens, Robb-Post, Stamp, Carsrud, and Reynolds's (2010) call and to ensure diversity within the subsample, the subsample contains social entrepreneurs from all fields of work. The raw sample included all 47 German Ashoka Fellows (as of end of 2012), all of whom were contacted. In contrast to Ashoka Fellows in many developing nations, all German Ashoka Fellows included in the final sample started their venture before becoming Fellows. As such, they are all in a post-founding stage.

*Commercial entrepreneurs:* Commercial entrepreneurs were chosen on the basis of their receipt of awards similar to an Ashoka Fellowship—in terms of prizes and selection process and criteria (see Table 1) to enable comparability. Hence, these commercial ventures are also in a post-founding stage. This created a list of a total of 217 commercial entrepreneurs. The entrepreneurs were then randomly chosen until 50 interviews were reached. The final sample contains 30 social entrepreneurs and 50 commercial entrepreneurs. Details of the sample in terms of demographics and so forth can be found in Table 2.

### **Success as a proxy for drivers**

To date, there is little research on drivers in a post-founding stage (see previous section), which necessitates an empirical approach. However, the investigation of drivers entails at least one major challenge. An entrepreneur might not be willing to disclose all his or her drivers due to issues of social desirability, and this reluctance might be even more pronounced in the case of social entrepreneurs. Take, for example, a social entrepreneur who in the course of fighting for the integration of minorities has developed a taste for media attention. Out of fear of damaging her “hero” image, this entrepreneur might be reluctant to openly reveal her love affair with the media, as in social entrepreneurship circles there is a general norm that press attention is “good” if it is for the cause, but “bad” if it is for personal reasons. In short, most social entrepreneurs (and many commercial entrepreneurs for that matter) would likely not give high scores to a survey item such as “I like personal media attention.”

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<sup>2</sup> Ashoka is a dominant player in social entrepreneurship as it was the first and is still the largest organization that seeks social entrepreneurs to support with its fellowship program (Ashoka, 2013).

**TABLE 1**  
**Overview of Award-Granting Organizations**

| <b>Name</b>             | <b>Criteria</b>  | <b>Prize</b>  | <b>Funding sources</b>   |
|-------------------------|--|---|--|
| <b>Ashoka</b>           | Social entrepreneurs with innovative and scalable ideas  | Stipend for three years and coaching/consulting   | Primarily companies; no government funding   |
| <b>EXIST</b>            | Innovativeness, potential market performance of idea   | Monthly scholarship, support for material expenses, coaching  | German Federal Ministry of Economics and Energy, European Social Fund                            |
| <b>GruenderChampion</b> | Successful in the market, profitability, creation and maintenance of jobs and apprenticeship, interplay of profitability and ethical responsibility, achieving a work-life balance | Certificate, possibility to present the company at the conference for German founders and entrepreneurs (deGUT), support from a PR agency, prize money of 6,000 € | Kreditanstalt für Wiederaufbau (KfW) – Promotional Bank for Re-Financing and Development Finance |
| <b>IKT innovativ</b>    | Innovation, market potential/competitiveness, feasibility, qualification/experience of participant   | Prize money between 6,000 and 30,000 €, coaching, written feedback  | German Federal Ministry of Economics and Energy  |

Source: Ashoka (2013); Drayton (2006); EXIST (2014); Fuer Grunder (2014); GruenderChampion (2013)

**TABLE 2**  
**Overview of Sample (as Included in the Cluster Analysis)**

|                      |                               | Type       |        | Total |
|----------------------|-------------------------------|------------|--------|-------|
|                      |                               | Commercial | Social |       |
|                      | Total                         | 43         | 30     | 73    |
| Industry Categories* | Professional Services         | 6          | 4      | 10    |
|                      | Social Services               | 1          | 21     | 22    |
|                      | Production                    | 13         | 2      | 15    |
|                      | Services                      | 1          | 2      | 3     |
|                      | Information and Communication | 22         | 1      | 23    |
| Gender               | Male                          | 41         | 21     | 62    |
|                      | Female                        | 2          | 9      | 11    |
| Org. Age             | Median**                      | 3          | 8.5    | 5     |
| Org. Size            | Median**                      | 6          | 14     | 8     |

\* All organizations were first assigned to an industry according to the International Standard Industry Classification (ISIC) as issued by the United Nations Department of Economic and Social Affairs (ISIC, 2008). Certain industries were combined into an industry group as some industries contained only one entrepreneur. For example, we combined M - Professional, scientific and technical activities, K - Financial and insurance activities, N-Administrative and support services, and L - Real estate activities into "Professional services."

\*\* Medians were chosen to avoid noise in the data due to outliers.

To overcome these difficulties, this study uses the entrepreneur's notion of success as a proxy for the entrepreneur's drivers in a post-founding stage. Success is an inherently subjective term and thus allows insight into the perspective of the respective actor. On the other hand, from an etymological perspective, success refers to achievements and goals (Oxford Dictionaries, 2014), which ties in well with the common notion of an entrepreneur as an achievement-driven individual (Perwin, 2003; Renko, 2013; Shane et al., 2003; Stewart & Roth, 2007). In addition, this relates back to pull motivational factors. Thus, an entrepreneur's goals will determine his or her choices (see Locke & Latham, 2002). Similarly, the theory of planned behavior posits that once individuals have set a goal (defined for themselves what "success" is), they will adjust their behavior to achieve it (Ajzen, 1991; Armitage & Conner, 2001). Goal setting theory also postulates similar relationships between goals and behaviors (Locke & Latham, 2002).

Thus, asking an entrepreneur to explain how they understand success can provide insight into those issues that drive them in their strategic as well as daily decisions. Moreover, previous studies on success notions also indicate that these are multi-dimensional (Dyke & Murphy, 2006; Reijonen & Komppula, 2007; Walker & Brown, 2004).

### Data collection

Interviews provided the opportunity to obtain non-guided responses (Creswell, 2009). Spontaneous responses were of particular interest as such are less likely to be influenced by social desirability. To ensure spontaneity, interviewees were not informed about the subject of the interview either prior or during the interview. The essential question as to their notion of success was asked within an interview that also addressed questions of scaling strategies, barriers to and success factors of their ventures, as well as their understanding of social entrepreneurship (if applicable). Thus it is unlikely that the interviewees were aware of the actual purpose of the interview, further reducing the chances of their answers being affected by a social desirability

bias. As discussed above, their understanding of success served as a proxy for their drivers. Thus, interviewees were asked to describe future circumstances in which they would consider themselves successful. The interviewees did not receive prompting in any particular direction, even if they appeared to struggle with the answer.

All interviews were conducted in German via phone or Skype. The interviews were then transcribed and translated into English. Translations were double-checked at random by a person not personally involved in the research project. The interviews were between 20 and 45 minutes in length with an average of 36 minutes, resulting in 48 hours of interview data. The interviews were conducted between January 2011 and July 2013 and between July 2012 and March 2013 for social and commercial entrepreneurs, respectively. In total, 80 entrepreneurs were interviewed.

## Research Design and Analysis

To most effectively and appropriately discover the drivers of social and commercial entrepreneurs, and in answer to Short et al.'s (2009) and Hoogendoorn et al.'s (2010) call for more diversity in methodologies, this study employed a three-step research design.

### *Step 1 – Category development based on emergent coding*

The first step employed emergent coding to determine different drivers. Emergent coding was used as this inductive content analysis tool allows discovery of drivers with no regard to whether or not they have been previously mentioned in the literature (Saldana, 2009). This inductive approach, which utilized the qualitative data analysis software HyperResearch, led to a total of 58 codes. To make the data more manageable, the 58 codes were condensed into seven code families (in accordance with Saldana, 2009). For example, statements such as: “I want to be satisfied at work and have fun” (12), “We [founders] are successful if we are having fun” (36), “that I can work” (26), “From a personal perspective, [success is] when independence is secured and maintained” (13), or “I see success in that I can implement my ideas such as [states several new ideas]” (31) were coded as “personal satisfaction” (12), “having fun—entrepreneur” (12 & 36), “generating income for entrepreneur” (26), “being independent—entrepreneur” (13), and “implementation of ideas—entrepreneur” (31), respectively. These codes were then combined into the category labeled *personal gratification*.

The final code categories derived through the condensation of the emergent codes are *numbers*, *employee*, *personal gratification*, *market*, *customer*, *product*, and *impact*. A description and exemplary quotes for each category are set out in Table 3. To enhance reliability of the coding process, another researcher and the lead author both performed the emergent coding and category-building process. Disagreements in coding and category building were discussed and resolved.

### *Step 2—Quantifying qualitative data through a scoring system*

The seven code categories (see Table 3) then served as a basis for quantifying the qualitative data and preparing it for a statistical cluster analysis. A scoring system was employed in which the code categories were included as column headings. The second part of the scoring table was made up of interview fragments. Each case (entrepreneur) could have multiple interview fragments. These fragments were taken from step 1 (see coding example in the previous subsection) and constitute the smallest content item found in each interviewee's response.



**TABLE 3**  
**Code Categories, Their Meaning, and Exemplary Quotes**

| Name of Category       | Description of Category   | Exemplary Quotes  |
|------------------------|---|---|
| Numbers                | <ul style="list-style-type: none"> <li>- Reference to indicators (calculable numbers)</li> <li>- Content of indicator can be both financial and nonfinancial</li> </ul> | <p>“Success for me primarily is numeric, that is profit and turnover” (E65)</p> <p>“to increase cost-efficacy” (E68)</p> <p>“our placement rate” (E79)</p>  |
| Employees              | <ul style="list-style-type: none"> <li>- Reference to staff</li> <li>- E.g., satisfaction, salary</li> </ul>  | <p>“to work in interdisciplinary teams with qualified staff” (13)</p> <p>“that we can pay our staff appropriate wages” (E32)</p> <p>“securing secure jobs for our employees and to ensure that they can develop their skills further” (E33)</p> <p>“Moreover, our staff should have fun working here and feel some sort of fulfillment” (E67)</p> |
| Personal Gratification | <ul style="list-style-type: none"> <li>- Entrepreneurs talk about themselves</li> <li>- E.g., wage, independence, satisfaction</li> </ul>                               | <p>“to be able to develop our skills further” (E8)</p> <p>“as we spend half of our live at work, I consider it success if I manage to have design this half so that I have fun” (E40)</p> <p>“To design the venture so that we can live from it” (E70)</p>  |
| Market                 | <ul style="list-style-type: none"> <li>- Reference to their current or desired position in the market</li> </ul>  | <p>“if we are able to influence the market” (E19)</p> <p>“we are known in the market” (E31)</p> <p>“If we are able to establish as the ‘go-to’ [service]” (E42)</p>   |
| Customer               | <ul style="list-style-type: none"> <li>- Reference about customer satisfaction</li> <li>- May refer to beneficiaries if they are considered customers</li> </ul>        | <p>“[Success] is customer satisfaction, if they return, how often they return” (E52)</p> <p>“The highest goal is satisfied customers” (63)</p>  |
| Product                | <ul style="list-style-type: none"> <li>- Reference to the product or service offered</li> <li>- E.g., quality, price, unique selling proposition</li> </ul>             | <p>“[Success] means short product development cycles” (E22)</p> <p>“[Success is] simply to have really cool and innovatie products” (E25)</p> <p>“a system that is fast, reliable and continuously offers support” (76)</p>   |

| Name of Category | Description of Category                            | Exemplary Quotes   |
|------------------|--|--|
| Impact           | - Reference to impact or desired impact on society | “to continuously increase our political influence, in particular in a [specific] ministry so that we can influence legislative processes” (E 7)<br>“to inspire others to start their own ventures so that more people can benefit from help and support” (E53)<br>“the biggest success would be our own redundancy i.e. [our services] are no longer needed” (E56) |

Therefore, the final table contained 285 rows, i.e., one row per interview fragment, even though there were only 80 interviews. The 285 fragments were then sorted alphabetically so that the different fragments from one entrepreneur were much less likely to appear near each other. Furthermore, the fragments were made anonymous, i.e., every mention of the name of the entrepreneur or his or her organization and any identifying detail of activity was erased or replaced with generic phrases such as “our company” or “our product.” This was necessary to ensure the anonymity of the interviewees but even more so to reduce a bias during the scoring process as knowing which fragment came from a social or a commercial entrepreneur might have influenced the scoring coders in their interpretation.

Three researchers (excluding the author) then assigned a score between 1 (not applicable) and 3 (fully applicable) to each interview fragment for each category. The scoring coders were taught the meaning of the categories during two workshops. Inter-coder reliability was 77%. Following the scoring process, the interview fragments and their respective scores were cumulated into one set of scores for each case (entrepreneur). The maximum score approach, i.e., the highest overall score of each category for each case, was used for the final case score. For example, imagine a case (entrepreneur) with two interview fragments: “I want to have fun” and “I want to make profit.” The first fragment would score a “3” in the *personal gratification* category and “1”s in the remaining six categories, whereas the latter would score a “3” in the *numbers* category and “1”s in the other categories. In this scenario, the maximum score approach merely means that this entrepreneur would accumulatively score a “3” in both *numbers* and *personal gratification* and a “1” in the five remaining categories. This would not change even if the second quote would also have score a “3” in *personal gratification*. This process was done separately by all three score coders. In a final step, the average of the scores per case were calculated.

### ***Step 3—Cluster analysis***

In a final step, the case scores were used in a cluster analysis. Cluster analyses are one form of multivariate statistical analysis (Fraley, 1998; Kleinbaum et al., 2013; Rencher & Christensen, 2012), but in contrast to other multivariate methods (e.g., regression analysis), cluster analysis is an exploratory method of identifying structures in datasets (Fraley, 1998). Specifically, cluster analysis aims at creating subgroups that are in themselves homogenous but heterogeneous to other subgroups of the sample (Cormack, 1971). Cluster analysis is a well-established tool in marketing research where it is used to identify stereotypical personas (Punj & Stewart, 1983). As the purpose of this empirical investigation is to identify types of entrepreneurs, cluster analysis seems appropriate. A cluster analysis usually follows a two-part approach. The first part involves identification of dimensions (step 1 above) and collection of numeric data for each dimension (step 2 above). In the second part, the data analysis process follows a two-step procedure: determination of cluster numbers and identification of cluster centroids (Kleinbaum et al., 2013; Milligan, 1980; Punj & Stewart, 1983). For the first analysis step, this study employed Ward’s method, a type of hierarchical clustering that outperforms other hierarchical clustering methods (Punj & Stewart, 1983). Based on the resulting dendrogram, the analysis identified seven outliers that were not part of any cluster and were thus excluded from the remainder of the analysis. For reasons of reliability, the dendrogram was cross-checked by another researcher; this researcher arrived at the same number of clusters and identified the same outliers. To determine cluster centers, the *k*-means method, which is an integrative method (Kleinbaum et al., 2013; Rencher & Christensen, 2012), was utilized. The resulting clusters are part of a specific classification, i.e., variables not part of the cluster variables (e.g., age and size of organization) may vary within each cluster (Woo et al., 1991). Prior to the cluster analysis, the

initial scoring scheme of 1–3 was expanded to 1–7; however, this expansion has no mathematical influence on the final outcome and merely improves readability.

### **Limitations**

The sample studied suffers from three biases. First, the dataset is biased toward companies operating in information and communication technologies (ICT) (see Figure 1). This bias is the result of choosing award-winning entrepreneurs because the funding structure of such awards is biased toward high-technology innovation. Second, but somewhat relatedly, the analysis is based exclusively on award-winning entrepreneurs, who may have certain unobservable characteristics that make them a less generalizable sample. Third, the sample was comprised entirely of German entrepreneurs, meaning that the results may be influenced by cultural factors.

Another limitation lies in the maximum score approach. This approach does not account for multiple mentions of the same category. For example, imagine that an interviewee said that profits, sales, turnover (each an aspect of *numbers*), and own satisfaction comprised his notion of success. The final score for *numbers* would remain at the maximum of “3” even though this entrepreneur clearly is more focused on numbers than on *personal gratification*, which was only mentioned once but also receives a “3.” Other methods, however, such as weighing responses according to number of repetitions or order would not have yielded a uniform scale, which would potentially have increased noise in the data.

A third limitation is methodological. The measure used in this study (success notions) is only a proxy for the research subject (drivers). Therefore, some drivers might not have been uncovered. Moreover, interviews cannot fully mitigate effects of social desirability despite the measures taken (e.g., open-questions, no information about interview objective).

## **RESULTS**

This section first presents some general findings in regard to the overall research query. These are followed by a brief description of the identified clusters.

### **General findings**

The general analysis resulted in three major findings. First, the analysis identified not just two dimensions of drivers, but seven. That is, the analysis identified seven categories of drivers that can independently drive an entrepreneur’s decisions and actions. Second, combining these dimensions into one seven-dimensional “function of drivers” made possible the identification of five distinct clusters of entrepreneurs in this sample. Put differently, the study revealed five types of entrepreneurs, each of which has a unique combination of scores in the various dimensions, i.e., while one type might score high in dimensions 1 and 2, medium in 3, 4, and 5, and low in 6 and 7, a second type will have a different combination (e.g., high in 4, 5, and 7, medium in 1, and low in 2, 3, and 6). No common pattern was found among the clusters; each has its unique driver function, i.e., there is no category that always scores high or low. Third, one of the five clusters could be exclusively assigned to the subset of commercial entrepreneurs in this sample. However, the remaining four clusters contained both social and commercial entrepreneurs (see Table 4).

### **Identified clusters**

The analysis revealed five distinct clusters. The separate spider web diagrams of Figure 2 illustrate these clusters. Below are stereotypical descriptions of each type of entrepreneur, along with some exemplary quotes from entrepreneurs of that type.

**TABLE 4**  
**Identified Clusters and Their Potential Contingencies**

|                           |   | Rational<br>Missionary | Bonding<br>Self-<br>Actualizer | Number<br>Junkies | Textbook<br>business<br>person | Product-<br>adjusting<br>competitor |
|---------------------------|---|------------------------|--------------------------------|-------------------|--------------------------------|-------------------------------------|
|                           | Frequency   | 19                     | 14                             | 15                | 5                              | 20                                  |
| type of<br>entrepreneur   | social entrepreneurs<br>% of total                        | 14<br>47%              | 3<br>10%                       | 3<br>10%          | 0<br>0%                        | 10<br>33%                           |
|                           | commercial entrepreneurs<br>% of total                    | 5<br>12%               | 11<br>26%                      | 12<br>28%         | 5<br>12%                       | 10<br>23%                           |
| Venture<br>demogr.*       | Age of the organization                                   | 7                      | 3                              | 6                 | 2                              | 6.5                                 |
|                           | Size of organization (no. of<br>employees)                | 11                     | 9                              | 5                 | 8                              | 8                                   |
| Gender of<br>entrepreneur | male<br>% of total men                                    | 15<br>24%              | 12<br>19%                      | 14<br>23%         | 5<br>8%                        | 16<br>26%                           |
|                           | female<br>% of total women                                | 4<br>36%               | 2<br>18%                       | 1<br>9%           | 0<br>0%                        | 4<br>36%                            |
| Industry                  | Professional Services<br>% of total Professional Services | 1<br>10%               | 0<br>0%                        | 4<br>40%          | 1<br>10%                       | 4<br>40%                            |
|                           | Social Services<br>% of total Social Services             | 11<br>50%              | 1<br>5%                        | 2<br>9%           | 0<br>0%                        | 8<br>36%                            |
|                           | Production<br>% of total Production                       | 1<br>7%                | 4<br>27%                       | 4<br>27%          | 1<br>7%                        | 5<br>33%                            |
|                           | Services<br>% of total Services                           | 1<br>33%               | 1<br>33%                       | 1<br>33%          | 0<br>0%                        | 0<br>0%                             |
|                           | Information and Communication<br>% of total ICT           | 5<br>22%               | 8<br>35%                       | 4<br>17%          | 3<br>13%                       | 3<br>13%                            |
|                           | Legal<br>form**   | Nonprofit legal form   | 11                             | 3                 | 1                              | 0                                   |
|                           | For-profit legal form                                     | 3                      | 0                              | 0                 | 0                              | 4                                   |
|                           | Mix of legal forms  | 0                      | 0                              | 2                 | 0                              | 1                                   |

\*Medians were chosen to avoid noise in the data due to outliers.

\*\*Only for social entrepreneurs; according to German law.

### ***Rational Missionary***

The rational missionary is the entrepreneur most driven by creating *impact*. They care most deeply about achieving a social or environmental value and thus are very outward-oriented. An interviewee in this cluster stated: “Success ... would be to play a little, medium or maybe even big role in [a big societal change] or by transforming [the industry] in the whole of Europe or even the world towards a more intelligent use of resources. Short, being part of a historical change process” (19). Another boldly stated: “Success is when we are not needed anymore—the problem is solved” (80).

This outward-orientation is accompanied by a focus on *customers*. While they are intent on achieving a mission that benefits individuals outside their organization, they do not do so naively, which is indicated by their medium scores for *numbers* and *market*. For example, one rational missionary said: “The one thing is that we help as many [our beneficiaries] as possible,

yet we still need to make sure we achieve our marginal return at the same time” (9). Another said: “We measure it [success] by looking at how effective [our services] were, how people use them, if they tell others ...” (24).

As the quotes suggest, the numbers mentioned by these entrepreneurs include both those aimed at impact, e.g., number of people reached, and those aimed at internal aspects such as financial stability. They wish to help others but do so in a rational manner, making sure that they achieve what they want to achieve. They seem to pay almost no attention to their staff, seeing as they have the second lowest score among all clusters on this dimension (1.1 out of 7).

### ***Bonding Self-Actualizer***

This cluster scores the highest in *personal gratification* and second highest in *employees* within the cluster and between all clusters. Bonding self-actualizers focus their attention both on themselves and on their employees. They are interested in their own satisfaction, independence, and wages as well as the same for their employees. It appears that these entrepreneurs need to have happy and satisfied employees to bolster their own satisfaction. Example quotes from bonding self-actualizers include: “As I spend half my life at work, I want to design it in a way that I have fun. [...] I bring motivation to the team through my high-spirits” (40), “that I can work scientifically” (13), “To make sure our employees have a safe job and are able to develop their skills further” (8), and “that we [...] are happy doing what we’re doing... And have satisfied staff” (41).

Interestingly, this type of entrepreneur is relatively less focused on *customers* but does have a medium *impact* score. This may indicate that they are interested in creating value for society, perhaps as another way of making themselves “feel good.”

### ***Number Junkie***

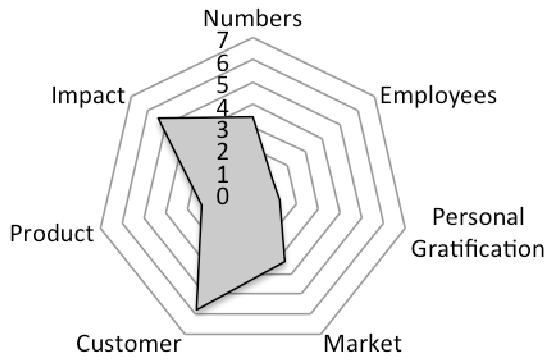
Number junkies are almost one-dimensional when it comes to what drives them. Their *numbers* score is not only the highest, it is much higher than the second highest score within the cluster (6.8 to 3.2). Moreover, 6.8 is the highest score in all categories and every cluster. This indicates a very strong emphasis on achieving certain financial return or growth, with the term “growth” being used in reference to finance, participants, or visibility. Number junkies do not seem interested in their *employees*, their *products*, or their *impact* on others. Number junkies can be found among both commercial and social entrepreneurs. One number junkie summarized this type of entrepreneur nicely: “Success is reaching the indicators and numbers you set for yourself. That is number of projects, increase in partners, and sales” (60).

### ***“Textbook” Businessperson***

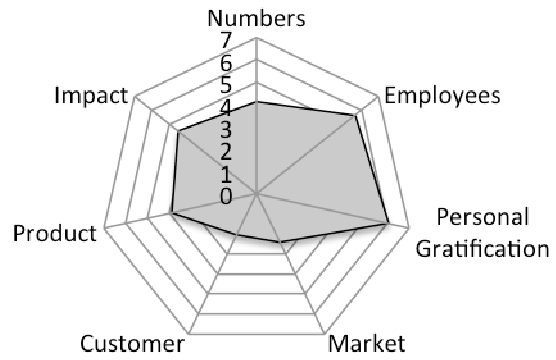
This cluster is the smallest with only five members. Interestingly, textbook businesspersons score high in six of the seven categories, making them almost a complete opposite from the number junkies. Number junkies are almost one-dimensional; “textbook” businesspersons are six-dimensional. The only category they do not seem to associate with success is *impact*. However, they have the highest overall score for *employees* and *product* and the second highest for *personal gratification*, *numbers*, and *market*. “[Success] is to easily get access to customers and increase the customer base; that the customers themselves recognize the value of our services and the things we offer, so you don’t have to explain to the customer what the benefit is; that we are able to generate enough sales to pay not only our [entrepreneur] own wages but also those of our employees” (21). In short, these entrepreneurs are driven by the success of their organization, their products, and their own and employees’ satisfaction to an almost equal degree. Interestingly, this cluster contains male commercial entrepreneurs only.

**FIGURE 1**  
Spider web diagrams of identified clusters

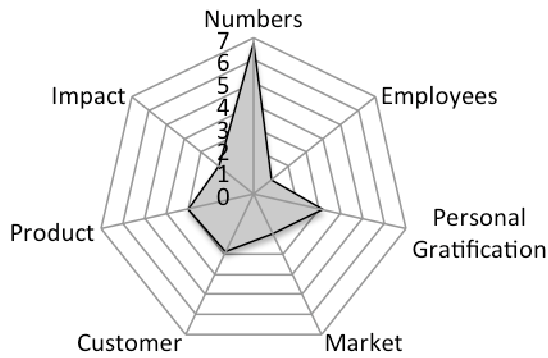
**Rational Missionary**



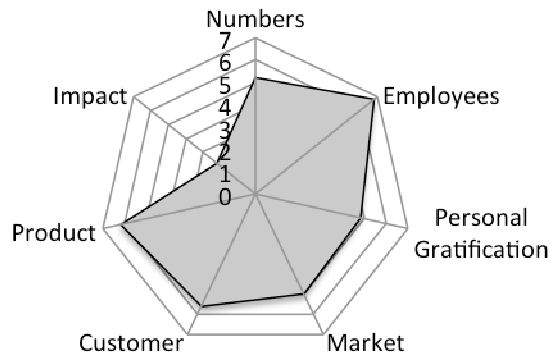
**Bonding Self-Actualizer**



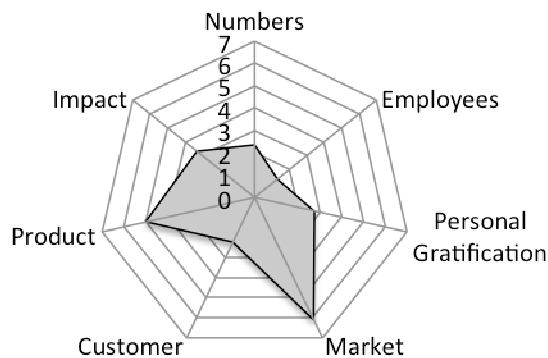
**Number Junkie**



**Textbook Businessperson**



**Product-adjusting Competitor**



***Product-Adjusting Competitor***

The largest cluster is that of the product-adjusting competitors. Their highest score is *market*, which is also the highest overall score for market. Additionally, they score fairly high for *product*. Their high market focus indicates their preoccupation with their position in the market. For example: “to place ourselves well in the market” (49), “[Success is] when our operations are available in all of Germany, thus blanket-coverage” (42), and “that [company name] is well-known and that our brand is understood as such” (31).

To ensure this position, they are interested in product quality and other product-related issues, as they want to provide products that match market demand. Entrepreneur 14 said: “Success for me is when customers choose us over others, as there are so many others they could choose from.” Or as one interviewee put it: “Success is when you got a good product that places nicely in the market and in the end makes money. We are operating in niche markets and define our success in that we are market leaders in those niches, sometimes even world leader” (58). In addition this type of entrepreneur tends to connect success at least with a medium score to *impact* and to a lesser degree to their *personal gratification*.

**DISCUSSION AND IMPLICATIONS**

In the following, results of the cluster analysis are discussed and some suggestions made for future research. The discussion particularly focuses on the distinction between entrepreneurs, the multi-dimensionality of drivers, and contingency factors.

**Social, profit, or a combination thereof? This is not the question**

Earlier in this paper, the question was asked whether a two-dimensional perspective on entrepreneurs, i.e., “social mission” versus “profit focus” was sufficient. The answer found in this paper is “no.” Otherwise, the emergent coding process would have revealed only two drivers. Moreover, the fact that four out of five clusters contained both social and commercial entrepreneurs indicates that when investigated from an actor perspective, social and commercial entrepreneurs might be more alike than different. Indeed, recent research suggests that social and commercial entrepreneurs are very similar when it comes to opportunity recognition and resource mobilization (e.g., Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010) and may not differ in their traits (e.g., Dacin et al., 2010).

This study’s findings suggest that the field might benefit from empirical studies that investigate samples that exhibit diverse driver functions, instead of continuing to focus on conceptual differentiations such as “social” or “commercial” entrepreneurs. Such research might generate more insight into the linkage between an entrepreneur’s drivers, his or her choices, and the venture’s strategy and structure (as called for by Simpson, Tuck, & Bellanney, 2004) as well as between specific entrepreneurial types and their strategic choices (Ucbasaran et al., 2001). Moreover, such an approach might lead to more accurate results. As the identified clusters indicate, there are social ventures that have only a medium or even low impact focus. If these are included in the same sample with social ventures having a high impact focus, results might be blurry or difficult to interpret. Ultimately, there seems to be much more heterogeneity *within* allegedly homogenous groups such as “social entrepreneurs” than sometimes assumed. The number of studies on types of commercial entrepreneurs (see literature review) and scattered research on social entrepreneur types further supports this (e.g., Miner, 2000; Vidal & Claver, 2006; Zahra, Gedajlovic, Neubaum, & Shulman, 2009).

Moreover, such integrated research projects might find connections and patterns between and among entrepreneurs that have so far been overlooked due to research mostly focusing on only one type of entrepreneur. For example, research will probably gain more insight by



investigating the 20 product-adjusting competitors as one group, rather than dividing them into halves. Such an approach may also overcome the small-N problem in social entrepreneurship research (e.g., Hoogendoorn et al., 2010; Mair, 2010; Short et al., 2009). By combining social entrepreneurship cases with commercial entrepreneurship cases, much larger samples can be created.

Despite these potential benefits, however, this sort of integration may be suitable for only specific types of research questions, namely, research engaged with the aim of better understanding entrepreneurs and their drivers and motivations. Integrated samples would be less useful in studying contextual situations, as these are often very different for social and commercial entrepreneurs. Nonetheless, integrated-sample studies could be very valuable in shedding light on commercially-oriented social ventures and socially-oriented commercial ventures.

### **Knowing what success is, isn't easy**

The study indicates that what drives entrepreneurs is far from being only two-dimensional. This finding is in line with Reijonen and Komppula (2007), who call for a more differentiated perspective on entrepreneurship, and with Walker and Brown (2004), who urge considering diversity of motives when studying entrepreneurship. Indeed, multiplicity of success notions (and thus drivers) revealed in this paper paint a much more complex picture of entrepreneurs than is often found in the extant research.

This complexity also seems to make it difficult for some entrepreneurs to articulate their individual notions of success. During the data-collection process, 15% of the interviewed entrepreneurs struggled to answer the question about how they defined success. This struggle manifested as longer than usual pauses before answering (up to 10 seconds), in expressions such as “blimey, that’s a tough one ... let me think,” and in a multiple repetition of the first few words of the first sentence. Note that the same entrepreneurs did not struggle in answering any of the other interview questions. Adding to the puzzle is that in many studies, entrepreneurs are described as decisive and focused individuals who know what they wish to achieve, whether it be profit maximization (e.g., Carland, Hoy, & Carland, 1988; Drucker, 1999) or social change (e.g., Dees, 1998). Therefore, it might be a good idea to take a fresh look at the traits ascribed to entrepreneurs (for a review, see Rauch & Frese, 2007; Zhao & Seibert, 2006) and find out whether they vary between entrepreneurs who are very clear about their goals and those who appear to be less certain, or at least less articulate, about them. Moreover, studying these “struggling” entrepreneurs might also be of value to research on goal setting theory (Locke & Latham, 2002) or on the theory of planned behavior (Ajzen, 1991).

It is thus proposed that future research attempt to understand why some entrepreneurs are less clear about their own success notions than are others. Possible factors could include personal situation (e.g., home life), time spent with the venture (e.g., dilution over time), or changes in the market. Entrepreneurship practice and, in particular, organizations that support entrepreneurs might benefit from better understanding the consequences to the organization of the entrepreneur either being unclear about his or her objectives or in the process of changing them. It would also be interesting to discover if driver functions change over time and what triggers such changes.

### **It all depends on the context**

The following subsections briefly and non-exhaustively elaborate on potential contingency factors that correlate with the different types of entrepreneur.

### ***Gender***

The cluster analysis suggests that rational missionaries and product-adjusting competitors are 1.5 times more likely to be women than men (see Table 3). In comparison, men are 2.5 times more likely to be number junkies than are women. These findings are at least partially in accord with gender differences discussed in the literature. In general, women tend to focus more on relationships or so-called soft factors, whereas men generally are described as more rational (Dyke & Murphy, 2006; Harding, 2006; e.g. Kirkwood & Walton, 2010; Walker & Brown, 2004) and more focused on growth or profit (Dyke & Murphy, 2006; Hughes, 2006; Kimmel, 1993). However, these gender differences fail to explain why product-adjusting competitors are more likely to be women than men. Future research could investigate to what degree gender plays a role in the individual driver function of an entrepreneur.

### ***Industry***

The findings suggest that certain types of entrepreneurs are found more often in a certain industry. For example, organizations active in social services are most likely to be either rational missionaries or product-adjusting competitors. The former seems obvious, as this cluster is most focused on impact, which is the perceived key driver of an organization active in education, health care, or social work (e.g., Defourney & Nyssens, 2010). However, the latter appears counterintuitive at first glance as product-adjusting competitors have a very low impact score yet score high for market and product. However, in many cases social service organizations find themselves in tight competition with other social service organizations (e.g., Aldashev & Verdier, 2010). This competition predominately involves grants or subsidies, but could also touch on public awareness or staff and volunteers. For that reason, these organizations may focus on the market to better understand what new projects or ideas their competitors have. If they perceive a competitor's idea superior to their own, they might adjust their own products.

However, this study cannot explain why some social service organization entrepreneurs are rational missionaries while others are product-adjusting competitors. Put in simple terms, the data do not allow for discovering whether it is the industry that shapes the entrepreneur, or whether, instead, a certain type of entrepreneur seeks a certain industry. Thus, future research could include other factors, such as type of product, external environmental factors, or entrepreneur background, to discover the direction of causality. Such work would benefit support organizations wishing to further a certain industry, as they would better understand the entrepreneurs and could tailor their programs based on industry.

### ***Age and size of the organization***

The data suggest that those clusters that contain younger organizations—bonding self-actualizer and “textbook” businessperson—place much higher emphasis on their employees than do the other three entrepreneurial types. While it would be tempting to conclude that the age of the organizations or its size influence the success notions and drivers of the entrepreneur, such a conclusion would be extremely speculative and cannot be made based on the single-point data. However, it would be of great value to both practice and academia to further investigate these possibilities by conducting longitudinal studies to understand the effects of change in age and size of the organization on the drivers of the entrepreneur (and vice versa).

These insights could improve support structures both in terms of funding and coaching. Thus, if what drives an entrepreneur changes with the size and age of the organization, entrepreneurs will be more responsive to or in need of different types of coaching. Additionally, the different entrepreneurial types might be interlinked, i.e., one may be a predecessor of another.

Future research could investigate the influence of other factors often discussed in entrepreneurship literature such as educational background and work experience of the entrepreneur. Other factors with potential influence include age of the entrepreneur and his or her “membership” in a specific generation such as generation Y (Martin, 2005), economic situation, ethnicity (Edelman, Brush, Manolova, & Greene, 2010), and the venture’s geographical placement (see Reijonen & Komppula, 2007). The identification and testing of contingency factors will benefit both entrepreneurship scholars and practitioners in fine-tuning their research or support efforts.

### **CONCLUSION**

Inspired by the literature on entrepreneurial motivation, this paper looked at the post-founding stage of social and commercial entrepreneurs and conducted an empirical analysis to discover what drives them. Based on these drivers, a taxonomy of different entrepreneurial types was developed using a three-step empirical approach. First, based on 80 interviews with social and commercial entrepreneurs, seven dimensions of success that drive entrepreneurs were identified. Second, the interview data were quantified with a scoring system. Using cluster analysis, the third step then identified five empirical types of entrepreneurs. The identified clusters are rational missionary, bonding self-actualizer, number junkies, “textbook” businessperson, and product-adjusting competitor. Contingency factors that correlate with specific types of entrepreneurs were discussed and suggestions made for future research.

This paper thus contributed to the literature by investigating what drives entrepreneurs in the post-founding stage of the venture, expanding the list of motivations to encompass more than the usual profit or social good dichotomy often found in the literature on social and commercial entrepreneurship. The paper describes five types of entrepreneurs, a taxonomy that will aid future research in better understanding the entrepreneur from an actor perspective. Finally, this paper is one of the few on social entrepreneurs that goes beyond a single or low-number-case perspective and uses a larger-N sample. In conclusion, this paper contributes to the understanding of social and commercial entrepreneurs as well as to entrepreneurship research in general.

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