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# Successful Scaling in Social Franchising: The Case of Impact Hub

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Social entrepreneurs increasingly use franchising to scale social value. Tracey and Jarvis described how social franchising is like commercially-oriented franchising, but noted critical challenges arising from dual goals. We investigate a social franchisor that overcame these challenges and describe how the social mission became the source of business model innovation. We show that the social mission fostered a shared identity that guided the search for adaptations to the franchise model. The shared mission-driven identity created pressure toward (1) decentralized decision-making, (2) shared governance, and (3) a role for the franchisor as orchestrator of collaborative knowledge sharing among franchisees. Findings should help social franchisors avoid common pitfalls and suggest future research questions for social entrepreneurship and franchising scholars.

**Keywords**
social entrepreneurship, social franchising, mission-driven identity, Franchising, Business Models

Interest in social entrepreneurship is rising rapidly, fostered in part by the celebration of heroic individuals who are "changing the world" (e.g., Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds, 2010). Social entrepreneurs create "social value by providing solutions to social problems" (Dacin, Dacin, & Tracey, 2011, p. 1204) with the primary aim of advancing societal well-being (Stephan, Patterson, Kelly, & Mair, 2016). They typically pursue strategies that involve revenue-generating activities (Di Domenico, Haugh, & Tracey, 2010) and possess a strong desire to spread their solutions widely (Austin, Stevenson, & Wei-Skillern, 2006; Smith, Kistruck, & Cannatelli, 2016). The focus on social value creation, usually embedded in an explicit social mission (Stevens, Moray, & Bruneel, 2015), makes social entrepreneurship distinct from commercial entrepreneurship in "multiple areas of enterprise management and personnel motivation" (Austin et al., 2006, p. 3).

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Social entrepreneurs have increasingly turned to franchising to scale social solutions and replicate success in new locations. Similar to commercial franchising, social franchising involves an organization (the social franchisor) allowing others (social franchisees) to offer its social solution using its brand name and operational processes in exchange for upfront and ongoing fees (cf., Combs, Ketchen, Shook, & Short, 2011). Social franchising is popular as evidenced by its widespread use by large social organizations such as The Big Issue, E4Impact, the School for Social Entrepreneurs, United Way, the Trussell Trust, and YMCA (cf. Oster, 1992; 1996) and dedicated support institutions, including the Social Sector Franchising initiative (www.socialsectorfranchising.org) of the International Franchise Association in the United States, and the International Center for Social Franchising (renamed "Spring Impact" in 2017) in the United Kingdom.

While scholars have extensively investigated commercial franchising (for reviews, see Combs et al., 2011; Gillis & Castrogiovanni, 2012), theoretical work on social franchising has progressed little since Tracey and Jarvis (2007). They found that, as in commercial franchising, access to capital and local expertise motivates social franchisors. However, Tracey and Jarvis (2007) also describe how the social mission generated conflicts that contributed to the demise of the organization they studied.

Studying failure is important, but it also raises questions about how so many social franchisors successfully scale social value. Past research shows that the scaling up process is challenging for social entrepreneurs due to the absence of "ready-to-wear" business models (Baden-Fuller & Mangematin, 2013) for reconciling tensions between social and commercial goals (Moss, Short, Payne, & Lumpkin, 2011). However, scholars also theorized that these tensions might yield unexpected benefits by pushing social entrepreneurs to "engage in active integration attempts… to develop more novel and creative social enterprise models" (Wry & York, 2017, p. 453; see also, Battilana, Sengul, Pache, & Model, 2015). The purpose of this article, therefore, is to advance social entrepreneurship research by investigating the role of the social mission as a source of innovation in franchising models used to scale social value.

Our results are based on a 2005, 2015 field study of Impact Hub, a global network of social business incubators and co-working spaces that adopted franchising in its early years but, unlike the case described by Tracey and Jarvis (2007), innovated key elements of its business model (e.g., allocation of decision rights, franchisor–franchisee relationship) to successfully scale social value.[1] Our analysis of interviews, direct observation, and archival documents confirms Tracey and Jarvis (2007) observation that franchisees' business model must be financially and operationally replicable and that achieving balance between social and commercial goals is difficult. Moving beyond Tracey and Jarvis (2007), our findings offer two contributions. First, our data substantiate and elaborate recent theory suggesting that dual social and commercial missions can do more than create tension (Wry & York, 2017); the social mission generated a shared mission-driven identity that not only motivated stakeholders to resolve tensions but also guided adaptations that strengthened Impact Hub's business model. Second, we contribute a description of the specific franchise business model adaptations that the shared mission-driven identity created pressure toward—that is, (a) decentralized decision making, (b) shared governance, and (c) a shift in the franchisor's role toward the orchestration of collaborative knowledge sharing among franchisees (away from vertical knowledge transfer).

## Theoretical Background

The defining characteristic of social entrepreneurship is the entrepreneur's focus on creating value for others rather than capturing it for themselves (Santos, 2012). Over the last two decades, research on social entrepreneurship expanded significantly (for a review, see Rey-Martí,

**Table 1.** Known Differences Between Commercial and Social Franchising.

| | Commercial franchising | Social franchising |
|---|---|---|
| **Strategic goal** | (Primarily) value appropriation and aligning incentives between franchisor and franchisees. | (Primarily) Value creation with dual commercial and social goals. |
| **Motivation for franchising** | Franchisors' gain access to franchisees' capital and labor with low selection and monitoring costs. Franchisees seek high returns relative to risks. | Franchisors share their solution to a social problem. Franchisees may become part of a larger movement and solve a social problem locally. |
| **Sources of conflict** | Franchisors might not offer adequate support service or brand building; franchisees might fail to maintain quality (i.e., free ride). | Overemphasis by either party of the social mission at the expenses of economic sustainability, or vice versa. |
| **Key reference** | Combs et al. (2011) | Tracey and Jarvis (2007) |

Ribeiro-Soriano, & Palacios-Marqués, 2016) and scholars widely debated whether social entrepreneurship is a distinct area of inquiry from commercial entrepreneurship (cf., Nicholls, 2010). There is consensus that socially-oriented contexts introduce important differences (e.g., multiple institutional logics, Battilana & Lee, 2014; non-economic incentives, Miller, Grimes, McMullen, & Vogus, 2012) that challenge assumptions and insights from existing theories about commercial entrepreneurship (Dacin, Dacin, & Matear, 2010). At the same time, there is recognition that many commercially-oriented organizations often seek to create social value (e.g., Austin, Stevenson, & Wei-Skillern, 2006) and that social entrepreneurs must introduce enough commercial-orientation to remain viable (e.g., Smith, Besharov, Wessels, & Chertok, 2012). Thus, the distinction between social and commercial entrepreneurship can also be "conceptualized as a continuum ranging from purely social to purely economic. Even at the extremes… there are still elements of both" (Austin et al., 2006, p. 3).

Some social entrepreneurs devote themselves to serve specific local communities, while others feel a moral urgency to scale up their initiatives (Smith et al., 2016) so that their "impact on society becomes wider (i.e., helps more people in more places) and deeper (i.e., reduces the problem's negative effects more dramatically)" (Bloom & Smith, 2010, p. 127). In the scaling process, selecting appropriate business models is critical to ensure that social organizations "resist pressures to 'drift' toward either social or economic objectives at the expense of the other" (Battilana & Lee, 2014, p. 419). In recent years, social franchising has become very popular as a model for dealing with these challenges (e.g., Bruder, 2013, January), but research is still limited and relies mainly on theory adapted from commercial franchising (e.g., Oster, 1992; Oster, 1996). We review these theoretical foundations briefly in the next sections. Table 1 summarizes research on commercial and social franchisors.

## *Research on Commercially-Oriented Franchises*

Much of the research investigating franchising attempts to explain why and under what conditions franchisors use franchisees rather than building and managing outlets through the corporate hierarchy. The first explanation was resource scarcity, which predicts that entrepreneurs franchise in response to pressure to achieve economies of scale faster than available resources would otherwise permit (Oxenfeldt & Kelly, 1969). An entrepreneur with a locally successful business model can grow quickly with fewer resources because franchisees invest their own capital and labor (Castrogiovanni, Combs, & Justis, 2006).

The second more dominant explanation, agency theory, predicts that franchisors use franchising in situations where the costs of monitoring local employee-managers are high compared to the cost of using franchisees (Gillis & Castrogiovanni, 2012). Such costs are higher, for example, when outlets are geographically dispersed (Perryman & Combs, 2012), in unfamiliar markets (Fladmoe-Lindquist & Jacque, 1995), or too small to monitor efficiently (Lafontaine, 1992). Franchisees are less expensive because their invested labor and capital gives them a strong incentive to work hard to maximize outlet profits (Rubin, 1978), but franchisees might do so in ways that do not benefit the franchisor or other outlets in the system. Franchisees might, for example, boost profits by reducing quality (Jin & Leslie, 2009), refusing to participate in promotions (i.e., "participation may vary"), or failing to upgrade facilities (Bradach, 1997; Kidwell, Nygaard, & Silkoset, 2007). These actions harm the brand's overall image (Michael, 2000) and result in less franchising (relative to corporate ownership) when a standardized brand image is important (Lafontaine & Shaw, 2005).

Other research focuses on structural and social relationships between franchisees and the franchisor. Structurally, franchise business models differ according to whether customers rely on the brand to signal a common experience, which requires franchisors to centralize decision making and put systems in place to maximize standardization (Ater & Rigbi, 2015; Bradach, 1997), resulting in what Castrogiovanni and Justis (1998) call a "carbon copy" form. In situations where customers do not travel, a physical product is involved, or service delivery is complex (Mumdžiev & Windsperger, 2011), decisions can be decentralized to franchisees resulting in a "confederation form" (Castrogiovanni & Justis, 1998). Franchise systems also change and evolve over time. Young franchisors often have under-developed franchisee support but develop training, communication systems, and centralized support as they grow (Shane, 2001). Finally, franchise systems change when franchisees develop new process and product innovations that the franchisor learns about and implements system-wide (Bradach, 1997; Darr, Argote, & Epple, 1995; Kaufmann & Eroglu, 1999).

Research also describes how the social relationship between franchisees and the franchisor affects important outcomes. Relational norms such as trust (Chiou, Hsieh, & Yang, 2004), communication (Meek, Davis-Sramek, Baucus, & Germain, 2011), and cohesion (El Akremi, Mignonac, & Perrigot, 2011) have been tied to outcomes such as franchisee satisfaction, commitment, and compliance. The social relationship appears particularly important when franchisees have greater autonomy (Cochet, Dormann, & Ehrmann, 2008). Indeed, when relational norms break down, franchisees often join (adversarial) independent associations to counterbalance the franchisor's power (Lawrence & Kaufmann, 2011).

Overall, research focused on commercial franchising describes multiple reasons why franchising is used over company ownership and points to important differences among franchisors regarding key business model elements, such as the level of franchisee autonomy and the nature of the relationship between the franchisor and franchisees.

### *Scaling Social Value Through (Social) Franchising*

Social franchising is definitionally the same as commercial franchising in that it involves a contractual arrangement wherein a brand name and operational support are offered to local franchisees in exchange for up-front fees (usually) and on-going royalties/fees (Tracey & Jarvis, 2007; Combs et al., 2011). As in social entrepreneurship more generally, it differs in that social value creation is more important relative to financial value capture (cf., Kistruck, Webb, Sutter, & Ireland, 2011). Franchising is attractive for social organizations because it promises an efficient and sustainable business model to spread social solutions. It is also attractive for local social entrepreneurs because it provides a structured way to solve a local social problem and offers an opportunity to become part of a larger socially-oriented community. Despite its attractiveness, however, social franchising appears more challenging in practice than what is suggested by its appearance as a "ready-to-wear" business model.

Although scholarly research is limited, two kinds of social franchises can be identified. First, micro-franchising involves the use of franchising to generate social benefits in base-of-the-pyramid markets by giving beneficiaries job opportunities as franchisees (Alon, 2014; Christensen, Parsons, & Fairbourne, 2010). The Big Issue (www.bigissue.com), for instance, uses micro-franchising to provide job opportunities to homeless people in the UK. Once vetted, homeless people are authorized to sell the *Big Issue* magazine. They buy copies upfront from the franchisor and retain all profit from sales. Recognizing challenges that like-for-like adoption of commercial franchising entails in such contexts, Kistruck et al. (2011) suggested certain business model adaptations. They stressed the need to give micro-franchisees more flexibility to tailor offerings to local conditions and advocated for a more consultative franchisor role. Micro-franchising, however, involves a very close overlap between franchisees and the beneficiaries of the intended social impact.

Tracey and Jarvis (2007) investigated a second type of franchising wherein franchisees are geographically dispersed social organizations that, in turn, deliver social value to beneficiaries. They investigated Aspire, a UK-based organization that partnered with local nonprofit franchisees to provide employment for homeless beneficiaries. They found similarities with commercial franchises in that Aspire tried to overcome resource scarcities that might have otherwise hindered growth. However, contrary to agency theory's prediction that the best franchisees will self-select and self-monitor (Rubin, 1978; Shane, 1996), they found that Aspire incurred higher selection and monitoring costs because franchisees' goals diverged from its own by over-emphasizing the social mission at the expense of economic sustainability. More recently, scholars used the Aspire case to show how the social mission made it easier to overlook franchisee-agents' competence and removed economic incentives as an effective motivational tool, creating "stewardship costs" (Krzeminska & Zeyen, 2017).

The Aspire case provides important foundations for understanding what makes social franchising challenging, but its failure does not explain the many successful examples found in practice. The Trussell Trust (www.trusselltrust.org), for instance, uses franchising to manage 400 foodbanks across the UK. In 2016, it provided nearly 1.2 million 3-day emergency food packages to end-beneficiaries. E4Impact (www.e4impact.org) delivers higher-education programs for social entrepreneurs in several sub-Saharan African countries through a system of university partners serving as local franchisees. To date, it has trained around 650 social entrepreneurs across seven countries, supporting the creation of nearly 3,500 jobs with impact on over 180,000 end-beneficiaries. Thus, while social entrepreneurship research points to a general need for business model adaptation to reconcile social and commercial goals (e.g., Wry & York, 2017), franchising remains under-theorized and lacks empirical evidence about the types of adaptations that might work.

## Method

To illuminate successful adaptations in the social franchise context, we conducted a qualitative field study, which is fitting due to the early stage of theory development (cf. Gioia, Corley, & Hamilton, 2013). We studied Impact Hub, the largest global network of business incubators and co-working spaces devoted to socially-oriented organizations. The social mission of Impact Hub is

> to support enterprising initiatives for a better world by growing a locally rooted, globally connected community for measurable positive impact. [It] seeks to inspire, connect, and enable people to take entrepreneurial action in order to pioneer a just and sustainable world where business and profit are used in service of people and planet (Impact Hub, Article of Associations 2.1).

Tenants incubating at Impact Hubs are mostly individuals or organizations that themselves have a social mission. Our analysis focuses on 2005–2015 when, similar to Tracey and Jarvis (2007), Impact Hub experienced notable growth and turbulence. Contrary to their case, however, Impact Hub did not collapse but innovated its business model with adaptations to accommodate its dual social and commercial goals.

## Data Collection

Data collection spanned 8 years, with primary data collection from 2011 through 2015 and confirmatory follow-ups in 2017 and 2018. As summarized in Table 2, we conducted 33 interviews, participated in more than a dozen events, engaged in field visits to multiple countries, and attended the global gathering in 2015. In the first data collection round, we selected interviewees through personal connections with our local hub manager, and then used referrals to connect with additional hub managers. In the second round, we obtained endorsement from Impact Hub's senior actors who provided additional contacts. One researcher conducted first round interviews, and another conducted the remaining rounds.

We fully briefed all informants about the academic nature of the research and reassured them that their personal names and business names would be anonymized to encourage full information sharing. The questions we asked were initially exploratory—for example, "What is the relationship between your hub and other hubs in the network?" As we compared emerging evidence with the literature (Miles, Huberman, & Saldaña, 2014), the questions evolved into semistructured interviews with an increased focus on franchisee–franchisor and cross-hub relationships—for example, "How did governance work when your hub was launched? What were the terms of agreement, and how did they evolve over time?" Given our reliance on retrospective interviews, we proactively counterbalanced risks of recall bias by triangulating evidence with other data sources, including archival material, but mostly direct observation and experience. These activities allowed us "to gain first hand exposure to the processes under study, instead of solely relying on interviewee accounts" (Danneels, 2002, p. 1098).

## Data Analysis

Our data analysis followed analytical procedures set out by Gioia et al. (2013). We followed three key steps to make sure that empirical observations were "connected to extant theoretical ideas to generate novel conceptual insight and distinctions" (Langley, Smallman, Tsoukas, & Van de Ven, 2013, p. 11). This analytical process requires researchers to systematically examine competing theoretical explanations in light of emerging empirical evidence. Figure 1 presents our final coding structure.

*Step 1. Event-History Analysis and Open Coding.* We started by creating a database based on the chronology of our material and field notes. This step was useful to make sense of our material and to reconstruct the history of Impact Hub. After each interview round, we engaged in a process of "open-coding" (Strauss & Corbin, 1998) wherein we read the transcripts line-by-line and created a dataset of codes using words or short phrases summarizing the meaning of different parts of text (i.e., *in-vivo* codes; cf. Gioia et al., 2013). For example, we used the code "identity"

**Table 2.** Data Use and Sources.

| Data sources | Type of data | Use in the analysis |
|---|---|---|
| **Direct observation** | **Attendance to local events and meetings (2011, 2015)** | |
| | Participation to 11 events and workshops open to hub members at Impact Hub Milan (6) and London King Cross (6). | Acquiring familiarity with the Impact Hub environment. Understanding the mission and modus operandi of Impact Hub. |
| | **Field visits (2011, 2016)** | |
| | five educational visits to Impact Hub Milan with university students. | Gaining insights about Impact Hub external communication, organizational image and identity. |
| | Regular clinics with members at Impact Hubs in London. | Gaining insights on members' activities and interaction |
| | Visit at Impact Hub Accra. | Gaining insights about local adaptation in a recently established hub. |
| | **Attendance to the Impact Hub's global gathering Unlikely Allies (June 2015)** | |
| | Non-participant observation for 2 days (open to hub founders and staff members only) dedicated to the assessment of the 10 years of the network and the discussion of its future evolution. | Gaining knowledge about governance related issues; triangulation of data collected from other sources; member validation. |
| **Interviews** | **Semistructured interviews – first round (2011)** | |
| | 17 interviews with Impact Hub founders and managers. | Building, integrating, validating the event history database. Gaining insights about decision making within the franchise while the governance structure was still in flux. |
| | **Semistructured interviews – second round (2014, 2015)** | |
| | five interviews with Impact Hub founders and managers. | Gaining further insights about decision making within the franchise after its governance structure reached stability and matured. |
| | **Semi-structured interviews – third round (2015)** | |
| | four interviews with members of the global management team of Impact Hub. | Triangulating facts and observation; exploring expected changes in the franchise's governance structure and their rationale. |
| | **Confirmatory interviews – fourth round (2017, 2018)** | |
| | four interviews with two members of the global management team of Impact Hub plus three interviews with senior management of social organizations with comparable franchising business model. | Confirming final data interpretation and theorization; strengthening the potential for analytic generalizability and transferability of findings. |

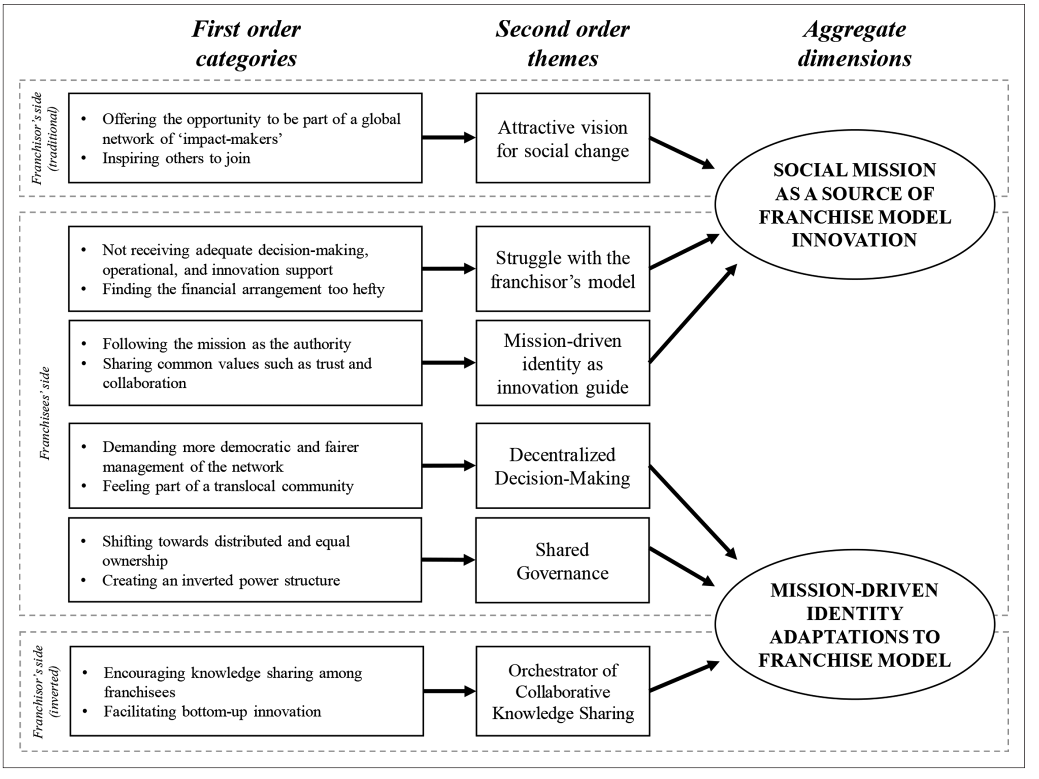


**Figure 1.** Coding structure.

to summarize "it is [Impact Hub's] DNA, there is a common cause, common identity." Next, we consolidated redundancies and defined our first-order categories so that they reflect our informants' *concepts-in-use* (Gephart, 2004). For example, *in-vivo* codes such as "falling in love with the founder's idea" and "being inspired to launch a new hub after meeting the founder" were consolidated into the first-order code "inspiring others to join."

*Step 2. Axial Coding.* We coded the data via several cycles of comparisons between data and theory, acting as *knowledgeable agents* (Gioia et al., 2013) to interpret evidence. We initially grouped first-order categories according to areas of prior research on social entrepreneurship (e.g., "following the mission as the authority"), business models (e.g., "creating an inverted power structure"), and social movements (e.g., "offering the opportunity to be part of a global network of 'impact-makers'"). We also distinguished data as being related to either the franchisor or franchisees. We then grouped conceptually overlapping first-order categories into second-order themes (Gioia et al., 2013). Finally, two authors read the evidence independently and worked closely comparing and discussing their coding structures. This effort teased out some factors seemingly central in the challenges experienced by Impact Hub. Pressures on the franchisor's business model from conflict between franchisor and franchisee expectations were particularly evident.

*Step 3. Generating Propositions.* In the last step, we compared our second-order themes with theoretical predictions and insights in extant literature. That is, "to develop and contextualize our findings theoretically" (Tracey & Jarvis, 2007, p. 673), we asked how our emerging theory was similar or different from prior social entrepreneurship and franchising research. We repeated this process until we were able to aggregate our second-order themes into stable aggregate dimensions reflecting an even higher degree of abstraction. "Social mission as a source of franchise model innovation" and "mission-driven identity adaptations to social franchise model" were the final aggregate dimensions used to derive our propositions. To check the "trustworthiness" (Lincoln & Guba, 1985) of our work during the data collection, we regularly discussed emerging findings with key informants.

## Research Setting: Social Franchising at Impact Hub

Impact Hub is a global network of organizations that provides a mix of co-working spaces and incubation services mostly to socially-oriented organizations and individuals (called "members"). At the time of final writing, Impact Hub had 103 hubs in six continents with over 16,000 members (for detailed narratives, see Bachmann, 2014, and Watson, 2015).

"The Hub" (renamed "Impact Hub" after a 2013 trademark dispute) was launched in London, UK, in 2005 by a group of students with experience in international NGOs and UN agencies. It was informally led by Jonathan Robinson, a young anthropology graduate. Between 2005 and 2007, with funding provided by impact investors, Robinson and colleagues ran the first hub in a 3,230-squarefoot space on the top floor of an old warehouse in London's Islington district. The business model was membership-based and rather simple, revolving around a mix of co-working space rental, event organizing, and member-led business clinics. Members paid a fee based on the amount of time and space they needed. In 2008, following the opening of nine new locations around the world, Impact Hub adopted franchising. This decision had been inspired by the Body Shop's franchise, since one of the early investors was Gordon Roddick, co-founder of the Body Shop. According to one informant (Hub #7a),

> [The team was] very much influenced by… a group of visionary people who had founded the Big Issue and the Body Shop… [Impact Hub] was conceived… with a model that blended business and social aspects… a sort of micro Body Shop, with a profit entity at its centre.

The franchisor became a limited liability company called Hub World owned by Robinson. By 2010, Impact Hubs were in 27 cities worldwide with a long list of prospective applicants.

This rapid growth, however, brought significant organizational challenges due to rising divergence between the way the franchisor and franchisees envisioned the evolution of Impact Hub's business model. We investigated these challenges and the subsequent changes in Impact Hub's business model. Remarkably, Impact Hub did not collapse but managed to reorganize and sustain its growth trajectory. Key milestones are summarized in Figure 2.

## Findings

Our purpose is to use the Impact Hub case to learn about the different ways that the social mission affects successful adaptation of the franchising business model. The findings are organized in two sections according to the coding structure in Figure 1. Overall, we found six second-order themes that we grouped under two aggregate dimensions. The first aggregate dimension describes how Impact Hub's social mission fostered a shared identity that became the source of motivation for stakeholders to come together and search for innovative ways to adapt the franchise business model to better accommodate competing financial and social pressures. The second describes

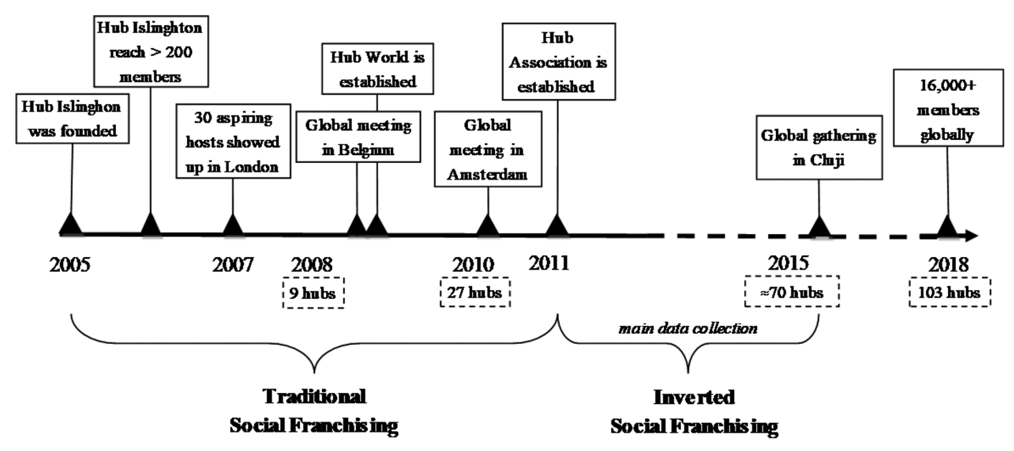


**Figure 2.** Impact hub milestone.

how this mission-driven identity fostered specific and ultimately more successful business model adaptations.

After describing the evidence supporting each aggregate dimension, we compare the case with prior research on franchising and advance propositions regarding the role of the social mission in (a) sparking the search for business model innovation and (b) guiding the successful adaptations that Impact Hub adopted. Table 3 summarizes key implications of the social mission among more commercially- and more socially-oriented franchises.

## *Social Mission as a Source of Franchise Business Model Innovation*

While the business model for franchisees was fairly clear, simple, and replicable, Impact Hub faced several challenges as a franchisor as it worked to establish a business model that was both financially sound and capable of scaling social value.

*Attractive vision for social change.* The vision of Robinson and his co-founders was to gather early-stage and aspiring social entrepreneurs to create a community of likeminded people with the drive to create social value and positively impact their local communities—so called “impact-makers.” The first hub in London had few plans to expand geographically but the value proposition proved to be attractive for people who sought to be part of something larger and wanted to replicate the approach. “People start coming in asking how they could make a hub in their own countries, and they started opening hubs here and there…” (Hub #6 [interviewee numbers were randomly assigned]). “We all were looking for ways to have a social impact,” another newcomer (Hub #12) observed, “We were all attracted to the idea of not just starting a business, but of uniting and enabling others to have an impact.” Most of these people already knew one another through participation in other international student networks and had experience working in international NGOs or government agencies.

At the time, Robinson traveled extensively, inspiring others to join. “Immediately when I met him, I felt in love with him, with the idea, with the legend and the story of the Hub,” remembered an early (local Hub) founder (Hub #18). His approach was captivating, and he was granting the license to the brand in an informal way. “We started very much in friendship,” another informant (Hub #1) who joined in that period pointed out, “We ended up signing an agreement… to

**Table 3.** Implications of the Social Mission for Franchise Business Models.

| | More commercially-oriented franchises | More socially-oriented franchise |
|---|---|---|
| **Franchising Business Model (P1a-c)** | Must reliably deliver economic returns that attract and keep franchisees. Franchisees pay fees and royalty in exchange for replication rights and central support services. Economic profit is central motivation but social identity matters too. | Must reliably solve a social problem that attracts franchisees while generating self-sustaining economic returns. Franchisees pay fees and royalties in exchange for replication rights and central support services. Social mission-driven identity is central motivation, but economic stability matters too. |
| **Decision Making (P2a)** | Centralized when standardized experience around a common brand is important, but decentralized for those decisions that require local adaptation (e.g., pricing) and when franchisees' tasks are difficult to standardize and/or customers do not expect it. | Mostly decentralized to franchisees who can be trusted because of a shared identity; certain functions (e.g., support services) are centralized but franchisees can implement flexibly. Franchisor actively promotes and protects (e.g., through selection) shared mission-driven identity. |
| **Governance (P2b)** | Franchisor owns and runs the franchise. Franchisees may progressively gain voice through social relationships and via franchisee councils/associations. | Shared governance with frequent input from franchisees is desirable and possible because it aligns with the social mission. At the extreme, the shared mission makes shared ownership possible. |
| **Role of the Franchisor (P2c)** | Franchisor teaches franchisees about the business model (i.e., vertical learning) and monitors implementation. Changes to the business model sometimes starts with franchisees but are vetted by the franchisor before widespread distribution. | Franchisor orchestrates knowledge sharing among franchisees (i.e., horizontal learning) and supports innovation. Franchisee innovations are shared widely and individual franchisees decide which innovations to implement. |

demonstrate that we were part of a global world… more like a commitment fee." The original agreement required a licensing fee to use the brand name but had no other particular requirements. In 2007, the founding team received over one hundred requests to replicate hubs in other cities and, by 2008, nine new hubs were established.

The attractiveness of the vision generated significant challenges because "the bottom-up pull was so strong that London did not have the capacity to direct [the process]," argued one informant (Hub #10). The need for a more robust business model that could sustain growth became evident. At a lively meeting in Belgium in 2008, a franchising structure was agreed upon that required a £30,000 franchising fee plus an 8% royalty fee on revenue. The newly created franchisor, Hub World, was controlled by Robinson and tasked with providing services such as consulting on new hub openings and supporting shared IT. The original plan was to transfer equal shares of Hub World to each local hub and introduce more decentralized decision making. "People bought into the concept of the central organization [to be] implemented as a social franchise with a legal franchise agreement but run very much as a large partnership" (Hub #8)." "We constantly had to innovate… innovation was both a need and an inherent motivation to co-create something together worth doing," argued another: "Unlike the [commercial] franchise approach… we were driven by purpose and by the ability to respond to societal goals: we had to seek a form to support that" (Hub #1).

When we compare our second-order theme *attractive vision for social change* with franchising research and Tracey and Jarvis (2007) failed social franchise case, we see an attractive social vision as a necessary but not sufficient condition for scaling social value through franchising. In both cases, franchisees were attracted to the social vision and it is difficult to imagine their achieving similar growth without attractive social visions. While commercial franchisees might also be attracted to the franchisor's corporate social responsibility profile, more commercially-oriented franchisees are unlikely to give up a significant portion of their return on capital and labor in exchange for the privilege of being involved in social value creation (cf. Shane, 1996). However, an attractive vision for social change is not sufficient. As in commercial franchising, successful geographic expansion depends on the presence of a business model that can be replicated and that delivers sufficient economic returns to attract and retain good franchisees (Combs et al., 2011). A major reason for the collapse of the social franchise described by Tracey and Jarvis (2007) was that the franchisees' business model—that is, employing the homeless in catalog distribution and order fulfillment—while attractive, proved too difficult for franchisees to replicate. Impact Hub went through similar challenges.

> [Impact Hub] attracted amazing people… In anything to do with social entrepreneurship… there is the sense of the vision of what is possible which attracts people and brings people together… but then there is the functionality of making it actually work… if you cannot sustain yourself, then you are gone and so goes the social mission (Hub #1).

Accordingly, scaling social value through franchising appears to require both a replicable and financially stable franchisee business model and an attractive vision for social change that draws franchisees in (and thus generates growth).

> ***Proposition 1a:*** *Successfully scaling social value through social franchising requires both a financially stable and replicable business model and an attractive vision for social change.*

*Struggle with the franchisor's model.* The adoption of a model that mirrored commercial franchising yet with a social mission did not reduce turbulence among stakeholders. Tensions rose once again for three main reasons. First, the transfer of shares to franchisees was never implemented, leaving Robinson as the sole shareholder and creating a decision-making bottleneck. This "led to a quite conflictual period" (Hub #11). Second, the operational support provided by Hub World did not improve sufficiently and franchisees started questioning the value received for the money. "[They were saying], understandably to me, 'I am paying a chunk of money to this central organization for support and so on… what value is it providing to me?'" (Hub #8). Third, the terms of the franchising agreement were problematic because the hefty financial conditions and limited support hindered local franchisees who struggled to cover royalty payments. "It was a cascade system…" because paying Hub World high fees forced franchisees to charge their local members more and "this created very high entry barriers [to attract paying members]" (Hub #10).

The situation degenerated quickly because Hub World was increasingly under pressure from its investors and had to chase fees from local hubs to stay alive. One informant (Hub #7a) remembered that "[Robinson] had likely negotiated a certain return on investment with [investors]… and was meeting people around the world to collect promises from prospective founders [to show investors.]." "[Jonathan] was telling a story: 'let's make the world better, but then give me the money'… People could see that these two things were in conflict… [some] felt that Hub World was like 'a mother eating her own children'" (Hub HQ). Some franchisees—particularly those who did not attend the meeting in Belgium—stopped paying their royalties, adding pressure on Hub World. At the beginning of 2010, all those involved had "to acknowledge that the system did not work anymore" (Hub #15).

In February 2010, around 50 people gathered in Amsterdam to discuss the challenges surrounding the franchisor's business model. Robinson and his team faced difficult questions from Hub World investors and franchisees about strategy, leadership, and budget. Attendees recalled heated discussions. There was general recognition of the need for change but little agreement on what to do. "We'd been very excited about what we want to do, but did we really want to fight for a better model? …We needed it, but there was no model" (Hub #6). The meeting became a watershed moment with a real chance that the franchise would disband. Investors who had provided funding to Robinson in previous years were demanding rights to the brand and repayment of their money, and some franchisees decided to abandon Impact Hub. In the end, most participants decided to establish a working group with key stakeholder representatives to explore and propose a new business model.

In March and April 2010, the working group benchmarked organizations perceived as similar—for example, AIESEC (aiesec.org) and the Swedish Natural Step (www.thenaturalstep.org)—and proposed a novel business model called the "Volcano Model" because of its bottom-up governance structure. This model was then extensively discussed and modified before being approved in early 2011. In the meantime, for nearly a year, the Hub World franchisor was left running at limited capacity and did not experience significant growth. The final approved business model created a new central organization, "Hub Association," in the form of a nonprofit entity collectively co-owned by all local hubs as equal shareholders. Impact Hub was "effectively, still following the social franchising model" (member of the global management team, Hub HQ; cf., Watson, 2015); each local hub paid a franchising fee and a royalty on revenues, albeit much less than before at €15,000 and 2.5%, respectively.

In comparing the second-order theme *struggle with the franchisor's model* to research on commercial franchising, we see important commonalities between commercial and social franchising. While commercial franchisees have less commitment to a social mission, they are both financially and personally (through their labor—Norton, 1988) committed to the brand and identify deeply with it (Lawrence & Kaufmann, 2011). Thus, when franchisors fail to provide adequate support (e.g., Shane, 2001) or take actions that franchisees believe threaten their livelihood (Cochet & Ehrmann, 2007), for example, by offering pricing discounts that generate royalty revenue for the franchisor but harm franchisees (Lafontaine, 1999), angry franchisees band together to call for change, often through independent associations (Lawrence & Kaufmann, 2010). High royalties and inadequate support similarly angered Impact Hub's franchisees and, just as commercial franchisees' anger is heightened by their strong brand identification (Lawrence & Kaufmann, 2011), social franchisees' anger is heightened by their sense of injustice with respect to their commitment to the social mission.

What made Impact Hub different is that franchisees stayed committed because they "believed" in the social mission and were "neither willing to abandon it nor to let financial considerations take over without a counterproposal" (Hub #7a). Further, rather than taking an adversarial stance, key stakeholders—that is, investors and franchisees—shared a commitment to the social mission that led to a process wherein they engaged in "multiple and progressively more creative integration attempts" to generate a novel business model that successfully integrates social and commercial goals (Wry & York, 2017, p. 451). The shared mission created a bond among Impact Hub's stakeholders that motivated them to work through the challenges and find adaptations to the business model to overcome the problems they confronted:

> ***Proposition 1b:*** *The more important the franchisor's social mission, the more it creates pressure to engage in business model innovation to resolve tensions between social and financial goals.*

Finally, the aggregate dimension *social mission as a source of franchise model innovation* sees the *mission-driven identity* as a guide for business model innovations that reconcile social and commercial goals (see Figure 1). Facing the collapse of the franchise, franchisees came together around what united them in the first place: their mission-driven identity. "Those were challenging times because it comes back to identity… If we did not believe in the social mission, we would not have continued through those crazy times…" (Hub #1). Reflecting on the change process, one informant (Hub #20) told us in mid-2011: "Right now, it is a matter of identity: What makes Impact Hub? Who are we, and who do we want to be?" "In our core DNA there is a common cause, a common identity" argued another: "What is really 'becoming' a global network is its strong identity and links between the hubs" (Hub #19). One of the informants (Hub #20) stressed that the fundamental question in 2010 was: "'What is the authority'? In a [traditional] franchise, the authority is the franchisor. Right now, our authority is our vision which we can refer to when we discuss what should be the specifications and what makes the Hub." Hub Association was created at the center of this revised business model to align franchisees around Impact Hub's social mission. "What we have done is to elevate shared purposes, shared principles, and shared values… with the intent to hold each other to account" (Hub HQ).

The mission-driven social identity also included a sense of being part of a broader community. "[It is like] belonging to something larger than yourself…," argued one informant: "When you walk [into a hub] and say 'I'*m* a Hubber', people will immediately be very welcoming to you, very friendly, and happy to share or help" (Hub #6). At first, we found the description of this community feeling difficult-to-accept, but we experienced it ourselves over several interactions we had with local hubs. For example, while collecting data for another project in May 2016, one author attended an event unannounced at an Impact Hub in Africa where he was met with some suspicion at the door. As soon as he told the host—who happened to be the local founder—that he was a member of another hub, the host greeted him warmly with a big hug and exclaimed: "Welcome, my friend: You're family!"

Our data suggest that a mission-driven identity becomes more important and central as among more socially-oriented franchisors. This is conceptualized in the second-order theme "mission-driven identity as innovation guide." While commercial franchisees also form deep social identities (Lawrence & Kaufmann, 2011) and perceptions of cohesion can reduce free riding (El Akremi et al., 2011), research suggests that these social forms of motivation or "clan control" are secondary to "output controls" (Eisenhardt, 1989; Ouchi, 1980) based on profits (Combs et al., 2011). Even when franchisors decentralize most key decisions, it is done for economic reasons—that is, because service delivery is complex and/or requires local adaptation—not (primarily) because a shared mission motivates and directs franchisees' behavior—and franchisees are motivated to perform in these decentralized franchises (e.g., real estate) because of their economic (output) incentives (Rubin, 1978).

Consistent with Tracey and Jarvis (2007), our data suggest that economic incentives are a less effective source of motivation among socially-oriented franchisees because their ultimate purpose is to implement effective social solutions (cf., Krzeminska & Zeyen, 2017). While economic incentives were certainly important—the franchisees could not perform their social mission while paying high royalties—our evidence suggests that Impact Hub franchisees joined because they believed in its social mission and that their loyalty to the shared identity was an important mechanism holding them together during turbulent times. In this respect, the revised and less hefty financial arrangement was perceived as less relevant than other changes designed "precisely to avoid putting such a profit-led mechanism at the core of a network whose vision was to support social entrepreneurship" (Hub #7a). Tracey and Jarvis hinted at the importance of this "shared identity and sense of purpose that characterized early franchise interactions" (Tracey & Jarvis, 2007, p. 679). Research argues that an organization's identity "acts as a guidepost for organizational action [and] influences which organizational activities are pursued" (Anthony & Tripsas, 2016, pp. 417, 418). Our data suggest that the specific franchise business model adaptations Impact Hub adopted (described below) were both stimulated and made possible by the organization's strong shared mission-driven identity. We thus formalize our third proposition:

***Proposition 1c:*** *The more important the social mission, the more adaptations to the franchise business model leverage the motivation provided by a shared social mission-driven identity.*

### *Mission-Driven Identity Adaptations to the Franchise Business Model*

Having a mission-driven identity has been identified as a common and important element in social entrepreneurship outside of the franchising context (e.g., Battilana & Lee, 2014). Our data suggest that this shared identity guided the model in particular ways with respect to decision making, governance, and network leadership, as conceptualized in the next set of three second-order themes.

*Decentralized decision making.* At the meeting in Amsterdam, strong demand for more democratic and fairer management emerged: "We want to share value; we don't want to be 'adapted' from a central organization that captures value from the local organizations." (Hub #8). There was a desire to "go back to the original idea of decentralizing power to local hubs, with a democratic, open process" (Hub #3).

Importantly, the desire for decentralization and local control was a direct expression of the shared mission-driven identity. "People wanted to be driving this [social mission] themselves" (Hub #11). Franchisees sought a horizontal redistribution of responsibilities "so that each of us could add [social mission] value to the network" and "so that the contribution of local hubs to supporting new openings could be recognized" (Hub #10). "We were pushing for decentralized decision making… [but] If we had just decided to decentralize, we would have become a loose network… but we valued [what we called] 'value-creating coherence'… that's where the Volcano model came out of" (Hub #1).

> There isn't a magic wand to manage a global network… a confederation where power is diffused among the nodes… the center dilutes its power every time a new hub joins… but it is a necessary journey of participation to strengthen the [social mission-driven] identity of the network (Hub #7a).

The new decentralized franchising structure re-initiated growth because it improved the adaptability of the business model to a wider variety of local conditions. Impact Hub was on a trajectory to become "a global network yet very much contextualized in each country" (Hub #10). "We started something which is locally rooted and international connected," one franchisee (Hub #1) argued; "[We] call it translocality: it means being able to co-create something new with your own uniqueness [based on the global model]." The implementation of the general franchising model to the local context required franchisees "to get into the core of the understanding of the mind-set of local people, how they look at business [in the local community]" (Hub #2). After years of turbulence in its governance, all franchisees were fully autonomous, but all aligned around the same mission-driven identity. "We want to go in the same direction and create a space for people who have ideas for a better world… We have, however, the same vision which is adapted differently country by country" (Hub #1).

More commercially-oriented franchisors also sometimes decentralize extensively but for different reasons. When customers are mobile and expect the same service quality at each outlet, commercial franchisors typically control all core decisions (Kaufmann & Eroglu, 1999) and only give franchisees a limited range of control over decisions that require local decision making, such as staffing (Mumdžiev & Windsperger, 2011) and pricing (Lafontaine, 1999). However, when the service is complex (e.g., real estate), customers are not particularly mobile (e.g., fitness centers), and in product license franchising (e.g., autos and gasoline), franchisees are often given considerable latitude to select and design facilities and tailor offerings to local clients' needs (Castrogiovanni & Justis, 1998; Mumdžiev & Windsperger, 2011).

Our data show that the social mission is an additional factor that facilitated decentralization at Impact Hub. Decentralized decision making at Impact Hub was made possible in part by some of the same practical reasons found among more commercially-oriented franchisors—that is, service delivery is complex, local needs are important, and Impact Hub's members rarely travel to or expect identical services from other hubs. However, the shared mission-driven identity also played a role in facilitating decentralization in that the franchisor and other franchisees could trust that everyone would work hard to fulfill the organization's mission. Commercially-oriented franchisees will also work hard without direct supervision, but their motivation is to maximize local profits (Lafontaine, 1992; Shane, 1996), and they sometimes do so by "free-riding" on the brand's reputation (Kidwell et al., 2007; Rubin, 1978). Free riding was less of a problem in our data because franchisees' central motivation came from their shared identity, which made it possible to decentralize without developing extensive procedures to monitor and correct franchisee behavior. "There really wasn't any quality monitoring… because we trusted each other" (Hub #1). Stated formally:

> ***Proposition 2a:*** *The more important the social mission, the more a shared mission-driven identity among franchisees drives the business model toward decentralized decision making.*

*Shared governance.* The new business model also included a substantial change toward shared governance with the creation of Hub Association. "That's our call, this is why we see ourselves as a network of peers with no central entities controlling us" (Hub #9). The application process for new prospective franchisees, for example, now required recommendation letters from two existing hubs before being presented to the general assembly. Impact Hub now had "a model which is community-driven, it is run from the ground-up, and it is open to deviations… as long as they are embraced by the community" (Hub #12). When we attended the global gathering in 2015, we collected first-hand evidence of how this push toward shared governance had been incorporated into the contractual agreement with members, for example, by detailing how hubs were to measure social impact and common rules for, among other things, using the brand and logo, managing partnerships and new members, and building relationships between hubs.

We asked direct questions about the relationship between the social mission and governance changes and found evidence that the social mission-driven identity both influenced the desire for shared governance and made such governance possible.

> [One reason why commercial] franchising did not work was… that value creation was not coming from one central body, it was coming from the edges which is in line with our [social] mission… You can't sell something [to franchisees] based on collaboration and not make the [governance] model collaborative.

The social mission became how franchisees were held accountable:

> More and more people [were saying] "how do we hold each other accountable?" …You need, for a lack of a better word, not legal contracts, but social [mission] contracts… In [commercial] franchises you can pull a franchisee away much more easily… it was very important to differentiate [our model] from commercial franchise (Hub #1).

"That is why we started a transition where every Hub is an equal partner" (Hub #8).

Franchisees also have a governance role in more commercially-oriented franchises. Early franchisees are often personally recruited by the founder, have direct communication with the founder, and feel like members of a family with a shared identity (Lawrence & Kaufmann, 2011). Larger franchisors often develop franchise councils comprised of selected franchisees who advised the franchisor on key decisions, and when there is conflict, independent franchise associations form to air grievances and negotiate with the franchisor (Lawrence & Kaufmann, 2010). Our data suggest, however, that as the social mission becomes relatively more important, it adds pressure toward adaptations that allow all stakeholders—including franchisees—to be more involved in organization-wide decisions. Prior research suggests that social organizations spend "considerable time, energy and other resources discussing and modifying their governance structures" (Widmer & Houchin, 1999, p. 34) to minimize the risks of mission drift (Santos, Pache, & Birkholz, 2015) and to strike a balance "between the need for greater *efficiency* and *centralization* and the need for *representation*" (Cornforth, 2012: 14, emphasis in the original). Our data suggest that, at least in the social franchising context, the social mission-driven identity increases bottom-up pressure for representation and thus more collaborative ownership structures. More formally:

> ***Proposition 2b:*** *The more important the social mission, the more a shared mission-driven identity among franchisees creates pressure toward shared governance.*

*Franchisor as the "orchestrator" of collaborative knowledge sharing.* The new Impact Hub franchisor (Hub Association) was given a new role as orchestrator of conversation and collaboration among hubs: "We put a lot of effort in building the infrastructure… to get more effective relationships between the various hubs" (Hub #11). Franchisees obtained more freedom in the new business model. Although collaborative knowledge sharing had always been central for Impact Hub, the franchisor was now specifically responsible for "gathering and sharing knowledge to support the whole network through training, networking opportunities, and access to specific technologies"

(Hub #12). This more supporting role improved knowledge dynamics because franchisees felt "like partners working together rather than franchisees that are following instructions from the center… the relationship with [Hub Association] has been one of support, encouragement, advice, rather than instruction and insistence" (Hub #11). They welcomed sharing knowledge with others because they were "in a co-creating relationship with others for a shared purpose" (Hub #1), and because "Impact Hub is a value-based system where there is collaboration among people and entities" (Hub #5). Nonetheless, the franchisor maintained an important coordination and monitoring function. For example, Watson (2015) reported in the *Financial Times* that the franchisor had to find ways to control the risk of "local hub entrepreneurs selling out their stake to others who might not share the group's social business agenda."

As with decentralization and shared governance, the shared mission-driven identity both supports and helps make the franchisor's new role possible. Fostering knowledge sharing is easier and more effective "if the center diffuses principles and values, rather than systems" (Hub #6).

> Our most important values are trust, collaboration, and community… Every year we meet twice for the strategy gathering and the practice gathering… we definitely get benefits in network collaboration… [if we need help] we can reach out to [Hub Association] and there is a lot of open trust, sharing and collaboration… that's amazing! (Hub #6).

In comparing this final second-order theme—*orchestrator of collaborative knowledge sharing*—with research focused on more commercially-oriented franchisors, we found that the mission-driven identity guides more socially-oriented franchisors a different leadership role with respect to knowledge dynamics. Horizontal knowledge flows among franchisees can be important in commercial settings. Darr et al. (1995), for example, show how a pizza chain's franchisee innovated operational solutions that spread first to the franchisee's other outlets, then to nearby franchisees, and then to others through regional franchisee gatherings. Castrogiovanni and Justis (1998) describe some franchisors as "confederations" of semi-autonomous franchisees who experiment locally to solve problems that are then shared with others through franchisee councils and/or the franchisor's intranet. However, because such sharing is voluntary (Darr et al., 1995), franchisors typically bear responsibility for refining the franchisee's business model, either through investments in new knowledge—for example, new product development, brand building, IT systems—or through the discovery, evaluation, and codification of knowledge from franchisees (Bradach, 1997; Kaufmann & Eroglu, 1999). The franchisor also needs to manage vertical knowledge flows through communication (e.g., training programs) and by monitoring ongoing implementation of operating procedures (Kidwell et al., 2007). In short, while both horizontal and vertical knowledge flows are important, franchising research tends to emphasize vertical knowledge flows.

Rather than learning about, evaluating, and promoting best practices top-down, the evidence from Impact Hub suggests that social franchisors benefit from greater focus on horizontal knowledge—by encouraging and facilitating collaborative knowledge sharing across geographically dispersed franchisees (cf., "open-system orchestration" in Giudici, Reinmoeller, & Ravasi, 2018). The shared mission-driven identity provides franchisees with a stronger motivation to share and collaborate than what is found among more commercially-oriented franchisors. In the new structure, the franchisor serves as a repository for best practices, but its main goals became (a) to make sure that local hubs have all the necessary resources to innovate locally, (b) to connect the hubs so that franchisees could learn from each other, and (c) to foster collaborative engagement among franchisees and members. Accordingly, we submit the following proposition that formalizes this peculiar franchisor role:

***Proposition 2c:*** *The more important the social mission, the more a shared mission driven-identity shifts a social franchisor's role toward the orchestration of collaborative knowledge sharing among franchisees (i.e., horizontal learning) and away from centrally codifying and teaching franchisees (i.e., vertical learning).*

## Discussion

Although social entrepreneurs have increasingly turned to franchising to scale social value, theoretical and empirical advances have been limited. Tracey and Jarvis (2007) observed that the social mission creates a destabilizing source of conflict in social franchising, but there has been little understanding of how social franchisors successfully overcome this challenge. To illuminate this issue, we conducted a field study of how Impact Hub, one of the largest social franchises by geographic reach, successfully innovated its business model and navigated the challenges identified by Tracey and Jarvis (2007).

### *Theoretical Contributions*

We contribute to social entrepreneurship research in two main ways. First, we provide theoretical elaboration and empirical substantiation to the idea that the social mission can be a source of business model innovation and not just a source of conflict and tension. Although the distinction between social and commercial entrepreneurship can be conceptualized along a continuum with several shades of gray between purely social and purely commercial (Austin et al., 2006), prior work often treats the social mission as fundamentally at odds with the commercial mission and extensively highlights the trade-offs that socially-oriented organizations face when balancing diverging goals (Dacin, Dacin, & Tracey, 2011; see Doherty, Haugh, & Lyon, 2014, for a review). Wry and York (2017), however, questioned this long-held view and theorized that the social mission can be a source of innovation with respect to social organizations' business models. Our study substantiates and expands upon their theorizing in the franchising context. Not only did the attractive vision become the glue that held stakeholders together during turbulent times (Proposition 1a), the resulting shared mission-driven identity motivated them to find solutions (Proposition 1b), and the solutions they found leverage the mission-focused motivation that comes from a shared identity (Proposition 1c). The idea that shared values and norms can substitute for behavioral monitoring and/or output controls is not new (Mintzberg, 1989; Ouchi, 1980), but despite the importance of the social mission in social entrepreneurship (e.g., Austin et al., 2006), its role in business model design was yet to be elaborated in the social franchising context.

Our second contribution to social entrepreneurship research is to explain how franchising can be used to successfully scale social value. Prior research offers rich insights into the resources and capabilities (e.g., Liu, Eng, & Takeda, 2015) and alternative strategic approaches (e.g., Di Domenico, Haugh, & Tracey, 2010) that foster growth among social organizations. Yet, we know little about the organizational models that support scaling social value (cf., Cannatelli, Smith, Giudici, Jones, & Conger, 2017; Smith et al., 2016). We take a step in this direction by theorizing and illustrating how the shared mission-driven identity encouraged (a) decentralized decision making, (b) shared governance, and (c) a shift in the franchisor's leadership role away from vertical knowledge transfer toward the orchestration of collaborative knowledge sharing. All of these features can be found to some extent among commercially-oriented franchisors (e.g., Lawrence & Kaufmann, 2011; Meek et al., 2011), but our evidence suggests that the shared mission-driven identity is an additional force that pushes franchisors' business models, all else equal, further along these dimensions. Social franchisors are freer to take an additional step in these directions because franchisees can (and expect) to be trusted to carry out the organization's mission without overt supervision and, as Tracey and Jarvis (2007) demonstrated, economic incentives are not particularly helpful in this context.

Our theoretical contributions and insights are grounded in a single case study of a social organization, Impact Hub, that provides business incubation and co-working spaces and services. While we are unable to establish external validity and rule out the possibility that incubators present somewhat idiosyncratic characteristics that do not apply to other social organizations, this limitation is attenuated by the potential for analytical generalizability (Yin, 2013). In line with best-practice approaches to analytical generalizability (see Cardador & Pratt, 2017 for a recent example), our work provides an important starting point for theory development in an area, social franchising, that is still emerging. In addition, the kind of organization that we investigated—a network of business incubators and co-working spaces—is far from contextually unique but one among many organizations engaging in what recent work calls "open-system orchestration" (Giudici et al., 2018) that involves leading and supporting innovation and collaborative knowledge sharing among geographically dispersed actors. Open-system orchestrators include business incubators and other "pro-social" organizations such as venture associations and government agencies (Giudici et al., 2018). Although it is ultimately an empirical question, we believe that our findings about the role of the social mission in fostering business model adaptations could be transferred to many such organizations. There are also several global non-profit organizations engaged in social entrepreneurship, such as E4Impact, the School for Social Entrepreneurs, and the Trussell Trust, that have adopted social franchise business models similar to Impact Hub, reinforcing the notion that our theoretical insights have potential to be transferred to similar organizations in similar contexts (Lincoln & Guba, 1985).

Overall, our contributions regarding (a) the social mission as a source of franchise business model innovation, and (b) the adaptations that leverage the shared mission-driven identity appear to have analytical generalizability, and thus have implications for both social entrepreneurship and commercial franchising research.

## *Implications for Future Research*

*Implications for social entrepreneurship research.* Our study provides evidence in one context supporting recent theory that tensions between commercial and social goals can be harnessed to better achieve both (e.g., Battilana et al., 2015). Recent evidence, however, highlights that there are important contingencies that impact the ability of social entrepreneurs to manage tensions between social and commercial goals; social impact appears easier with less intractable problems, supportive institutional contexts, and skilled management (Wry & Zhao, 2018). Recent theory also suggests that different social entrepreneurs identify differently with their social and commercial missions (Wry & York, 2017). Taken together with our findings, future research might benefit from investigating how specific business model adaptations and their effectiveness with respect to social and commercial missions vary across both institutional contexts (Wry & Zhao, 2018) and social actor's identity (Wry & York, 2017). For example, Santos et al. (2015) suggested that the risk of (social) mission drift is higher and financial sustainability more difficult in contexts where beneficiaries are different from the social organization's clients. Thus, future research might compare the business model adaptations that we identified (where the ultimate beneficiaries are clients of the franchisees) with those identified by Kistruck et al. (2011) in micro-franchising (where the franchisees are the beneficiaries). It seems likely that one important distinction is that the mission-driven identity is shared by both the franchisor and franchisees in social franchises like the kind we studied but might only be held by the franchisor in micro-franchising. Thus, adaptations such as shared governance that helped Impact Hub thrive might be less likely in the base of the pyramid context where micro-franchising often occurs (Kistruck et al., 2011)..

A second implication our study offers for social entrepreneurship research is the need to consider "socialficing": "the purposeful pursuit of social objectives at the expense of financial efficiency" (Kistruck, Beamish, Qureshi, & Sutter, 2013, p. 60). This notion was developed as an analog to Simon's (1957) concept of "satisficing" to recognize less-than-optimal outcomes created by trade-offs between financial and social goals. In our study, franchisees who were not benefitting from Impact Hub's business model invested their time and money into the franchise because of their shared mission-driven identity, effectively trading-off financial efficiency to preserve social value. The existence of socialficing behavior among social franchisees in our case generates salient questions such as: Is socialficing a trade-off judgment that social entrepreneurs make *a priori* or a rationalization after underperformance in either the social or financial realm? Is there a minimum threshold for financial stability that could be acceptable for social franchisees, and social entrepreneurs more broadly? How does socialficing behavior vary across types of entrepreneurs and social organizations and environments?

Another future research implication is that our results point to the need to investigate how the embeddedness of social ties shape the scaling of social value. Prior research theorized that the degree of embeddedness is inversely related to the potential scale of geographic growth and positively related to more autonomy among key actors (Smith & Stevens, 2010). The case of Impact Hub seems to confirm the latter prediction because its business model shifted toward more decentralized (autonomous) decision making. Diverting from the former prediction, however, strong embedded social ties remained even as the organization continued to grow. Our case data imply that growth despite embedded ties occurred with the support of a strong social identity, and a change in the franchisor's role from one of vertical knowledge distributor to horizontal knowledge orchestrator—highlighting the need for social entrepreneurs' roles to change as the enterprise evolves (Cannatelli et al., 2017; Santos, 2012). Accordingly, we believe that a deeper appreciation of how social embeddedness enables or constraints the scaling of social value is a promising avenue for future research.

*Implications for future franchising research.* By explaining ways that a strong shared mission-driven identity influenced the direction of a social franchisor's business model, our contributions are primarily to social entrepreneurship research. However, our findings also raise questions for research on more commercially-oriented franchisors. An emerging "symbiosis perspective" describes the balance between chain-wide standardization and local market adaptation as a central challenge for franchisors (Perryman & Combs, 2012); company-owned outlets are viewed as keepers of standardization and franchisees are the source of innovation and adaptation. Although the symbiosis perspective suggests that franchisors benefit from learning about franchisees' local innovations, most emphasis remains on enforcing standardization (Ater & Rigbi, 2015) and franchisors appear slow to learn about franchisee innovations (Darr et al., 1995). Our observation that Impact Hub transitioned successfully into an orchestrator of collaboration among franchisees leads us to wonder if some commercial franchisors might develop better "orchestration capabilities" (cf. Dhanaraj & Parkhe, 2006) than others with respect to their franchisees and raises questions for future research about what organizational structures might facilitate this. Existing evidence suggests that franchisors differ in the quality of communication with franchisees and that such communication can improve outcomes (e.g., Meek et al., 2011), but little is known about how franchisors develop communication capabilities and whether these are part of a larger set of capabilities for working with franchisees. Do such franchisors send more people to and openly engage with franchisees at their annual meeting? Do they incentivize the "consultants" who work with franchisees to bring back franchisee adaptations for further testing (or do they reward consultants for keeping franchisees from innovating)? Do they have personnel dedicated to learning about and testing franchisee innovations?

Although much research focuses on the role of standardization (e.g., Ater & Rigbi, 2015; Bradach, 1997), commercial franchise business models vary considerably, especially in terms of the extent to which franchisees have autonomy to adapt products and services to the local market (Castrogiovanni & Justis, 1998; Kaufmann & Eroglu, 1999). However, the theoretical rationale for such variance is usually economic—for example, because local offerings are complex, customized, or require modifications to meet local demands (Castrogiovanni & Justis, 1998; Kaufmann & Eroglu, 1999; Mumdžiev & Windsperger, 2011). Our study suggests that Impact Hub's franchise model shared characteristics with the decentralized "confederation form" described by Castrogiovanni and Justis (1998) but also that the social mission generates additional pressure that pushes social franchising a step further, closer to Mintzberg's (1989) "missionary organization," which is held together by members' shared identity and values. Prior research suggests that franchisees in a commercial context can have a shared identity (Lawrence & Kaufmann, 2011) and that perceived trust (Chiou et al., 2004) and cohesion (El Akremi et al., 2011) yield better outcomes, but the possibility that relational factors such as a shared identity among franchisees might also, as in the missionary organization, move the business model further toward decentralization, greater franchisee voice, or change the franchisor's leadership role, has not been considered and seems worthy of future inquiry. It might also be fruitful to ask these questions of other geographically dispersed network organizations, such as retailers' or producers' cooperatives, that share features with franchising but use different contracts and/or fee structures.

### Implications for Social Entrepreneurs

Our findings offer practical guidance for social organizations seeking to scale social value via franchising. First, given the importance of shared mission-driven identity, our study implies that social franchisors will gain from investing time and attention assessing potential franchisees' commitment to the social mission during franchisee recruitment and selection. This is important because monetary incentives lack motivational force (Krzeminska & Zeyen, 2017), leaving the shared mission as the primary source of franchisee motivation. In our study, Impact Hub accomplished this in part by requiring prospective franchisees to acquire two referrals from existing hubs. Second, because the shared-mission driven identity is the primary hedge against free-riding, results imply that social franchisors might benefit from shifting resources away from monitoring toward activities that reinforce the shared identity, such as ongoing councils and frequent conferences. Impact Hub orchestrated regular global franchisee gatherings—like the one we attended in 2015—and used task forces with members from several hubs to manage specific franchisee management and growth processes. Indeed, such a resource shift might also benefit commercial franchisors as a means of lowering agency costs—at least among those where franchisees identify strongly with the brand.

## Conclusion

Although many social entrepreneurs have turned toward franchising as a way to scale social value, theory development for explaining how the franchise business model might be adapted to the social context has lagged behind. Tracey and Jarvis (2007) showed that social franchising is indeed distinct from more commercially-oriented franchising, and that the social mission creates challenges regarding how to balance social and financial goals. Our detailed investigation of a social franchisor that overcame these challenges showed that the social mission can be a powerful source of business model innovation and that franchisees' devotion to a shared mission-driven identity is central. It not only motivated stakeholders to find adaptive solutions within the franchise model, the solutions they identified leverage the motivation that shared identities bring. Our hope is that these insights spark fruitful future inquiry for both social entrepreneurship and franchising research.

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## Note

1. We acknowledge, but do not cover in this paper, the fact that in 2015 Impact Hub initiated further transformation of its governance (labeled ‘3.0 governance’) wherein transparent accountability based on shared measurement systems and protocols for relational norms became progressively more important.

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