Scaling up for greater impact: Social franchising to fight food insecurity

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Abstract

Finding ways to alleviate food insecurity is a crucial issue, not only in developing countries but also in developed economies where the "working poor" is unable to purchase healthy and nutritious food. Social supermarkets were created in Europe in the 1980s and are starting to emerge in the United States. This social venture allows shoppers to maintain their dignity by controlling their grocery shopping instead of receiving food baskets. They also aim to provide fresh food instead of low-quality prepackaged goods. In order to achieve transformational impact, social enterprises need to scale-up and plan for it very early on.

This paper examines the ways to develop a strategy to achieve this goal by examining how social franchising as an organizational model could help social food distribution to scale up for stronger impact.

Key words: Social franchising, social supermarkets, social food distribution

INTRODUCTION

According to the USDA, 41.5 million Americans or 12.5% of the population were eligible for food assistance in 2021. In comparison, the FAO (2019) report states that 2.7% of the European population is food insecure (Grimaccia, and Naccarato, 2022). Additionally, the 2023 food desert locator published by the USDA revealed that 13.5% of Americans live in food deserts: that means that these individuals are located over one mile from a supermarket in urban areas and 10 miles in rural areas and have limited access to healthy food while fast food restaurants and convenience stores are plentiful in those locations. The problem is particularly acute in the medium to large size metropolises where 82% of the population lives in urban areas and a high percentage resides in low-income neighborhoods with low access to individual transportation. Compounding the problem, the United States currently wastes over 40% of its food (Hall et. *al*. 2009). Unfortunately, most nutrition assistance programs typically supply processed and canned food and rarely include fresh and nutritious options. At the local levels, organizations such as food banks and non-profit cooperatives are trying to help but these efforts have limited impact due to their lack of national visibility and their inability to scale up. In that regard, Smith *et al.* (2016) write that the choice of organizational form is highly significant for the success of scaling up a social enterprise. Guidici et al. (2020) argue that social franchising is becoming a method of choice to scale social values but that challenges arise due to conflictual goals between social focus and profitability. The purpose of this paper is to investigate whether social franchising could be a viable and recommended organizational mode to fight food insecurity by helping social enterprises in food distribution to scale up for stronger impact.

This paper will first review theoretical models in regard to transformational scaling and social franchising. The last section of the article will consist in a discussion of the merits and limitations of social franchising as an organizational mode in the social food distribution sector and will examine concrete examples.

SCALING UP FOR SOCIAL IMPACT

Importance of scaling up for social impact

Walske and Tyson (2015) believe that social enterprises that do not grow will be left behind and that larger organizations that are typically considered more impactful will attract most funding. Ross (2014) believes that for social ventures, scaling is more important than innovation. He considers that it is critical to first organize for scaling and to obtain community support in order to change behaviors and attitudes in an impactful manner. On the contrary, Westley *et al.* (2014) argue that for most social ventures, scaling is not a necessity and cite several highly successful programs that serve only local clients. Westley *et al.* (2014) also recognize that most social ventures are not capable of operating the drastic operational change necessary to scale their organization without any strong operational support that they may be lacking. Bloom and Dees (2008) argue that social ventures are dealing with specific challenges in their pursuit of growth: the first challenge resides in the lack of economic or financial incentives for investors to support scaling. Instead, social entrepreneurs need to appeal to investors' sense of altruism. However, tax incentives offered by the government may help alleviate this issue if the social venture is a non-profit. Bloom and Dees (2008) also believe that social entrepreneurs often lack the physical distribution or supply chain infrastructures to support their development and that they typically serve clients who cannot pay market price for their services. Therefore, social entrepreneurs must find ways to bridge these financial and operational gaps. Smith et al. (2016) write that the choice of organizational form is highly significant for the success of scaling. They argue that it is essential to understand why a social entrepreneur decides to choose one form of organization versus another and more specifically the reason why an entrepreneur decides to expand its venture through open or closed channel. They consider that this choice is directly moderated by certain personality traits of social entrepreneurs and specifically by their desire for control.

Achieving “transformative” scale

Launching for-profit ventures to increase their financial independence and reduce their reliance on fundraising has helped certain social organizations increase their social impact (Foster and Bradach 2005, Khieng and Dahles 2015). Several authors (Alvord et al. 2004, Sharir and Lerner 2005, LaFrance et al. 2006, Grant and Crutchfield 2007, Bloom and Chatterji 2009, Bloom and Smith 2010, Weber et al. (2012), Bradach and Grindle (2014) have developed models and/or guidelines in order to help social ventures select their path to scaling. The SCALERS model, presented in appendix, developed by Bloom and Chatterji (2009) and subsequently tested by Bloom and Smith (2010) identified drivers to success for social impact, and considered situational contingencies such as labor needs or start-up capital and dispersion of beneficiaries as moderators to the outcome. More specifically, the organization needs to respond appropriately by staffing, communicating, building alliances, lobbying, generating earnings, replicating and stimulating market forces. It seems unlikely that a small social venture could deliver on all these fronts or even some of these domains. Therefore, the establishment of a solid umbrella entity seems a preliminary necessary condition for scaling up.

Weber *et al.* (2012) claim that scaling strategies differ depending on the type of social venture and that considering the diversity of the social ventures certain scaling strategies will be more appropriate than others. They identified four paths to scaling: 1) Branching or capacity building by expanding the existing operation to other locations while maintaining control; 2) contractual by using partnership such as franchising or cooperatives; 3) dissemination by diffusing knowledge through open channels; 4) diversification by serving another target group or starting new activities.

SOCIAL FRANCHISING

Bradach (2010) believes in growth of social ventures through replication but argues that nonprofits are usually reluctant to embrace an approach they consider too “corporate” and not adapted to their mission. It seems that the conventional organizational modes may have to adapt to the specific scaling needs of social enterprises. Litalien (2006) is very hopeful that the nonprofit sector could greatly benefit from franchising. He cites a study by Massarsky and Beinhacker (2002) that identified the skill gaps in many nonprofit entities that would prevent them from being sustainable and that could be alleviated through social franchising. Aliouche and Schlentrich (2015) consider that social franchising is a governance mode that could impressively increase the impact of social enterprises.

Defining social franchising

Social franchising consists in organizing a network of individual social entrepreneurs in a franchise system where the franchisor provides processes and means to augment the social impact of each entity at the local level and collectively. Zafeiropolou (2017) insists on the duality of objectives inherent to social franchising that are both commercial and social. As in business format franchising resource scarcity (Oxenfeld and Kelly 1969) and agency theory (Jensen and Smith 1985) are relevant in social franchising. The main challenge of social enterprise is to scale up in order to maximize social impact; therefore, access to resources is an essential motivator (Lafontaine and Kaufmann 1994). The difference between social and conventional franchises is that social franchisees are expected to deliver on two fronts: social and commercial objectives. It is therefore more complex to align the goals of the franchisors and the franchisees and that results in higher agency costs such as monitoring or sanctioning in social franchises (Tracey and Jarvis 2007, Guidici et al. 2020). The role and sustainability of the franchisor's headquarters is also more questionable than in conventional business format franchising. In a case study, Krzeminska and Zeyen (2017) noticed that low power distance between a franchisor and franchisees is typical in the nonprofit sector and that it creates network management difficulties for the franchisor. Franchisees may be more reluctant to accept directions regarding guidelines and brand identity from their franchisor. Free riding is rampant and agency costs are high.

Social franchisees may also be more unwilling to do financial reporting or to pay their dues. It is therefore important to distinguish between the traditional business format franchising model and social franchising that may require more autonomy.

Non-profits and social franchising

Bradach (2003) notes that the non-profit sector is highly segmented in the United States. Thousands of small entities are operating in limited geographic sectors and few organizations have a broad impact. He believes that in certain cases, independent local non-profits are more effective at the local level but that in many circumstances it is a waste of time for each organization to reinvent themselves instead of benefiting from proven programs that could be replicated. He considers, however, that concept uniformity is not the best option for social ventures. He recommends, instead, a model where franchisees are expected to reach certain results but are granted a degree of freedom in program development and processes: a small number of core components in the franchise model are to be replicated without substantial deviation across the network, while other components should be localized. In order to succeed, these franchisees should be able to leverage the knowledge, know-how acquired by others but be allowed to adapt them to their local environment.

Aliouche and Fernandez (2015), Du Toit (2017), argue that franchising is an attractive organizational mode for nonprofits both in emerging and developed countries, because it allows them to scale with limited initial capital. Indeed, a nationally recognized model is an excellent way to attract more substantial funding and receive governmental attention. When standardization of the operating model around its core components is possible, the network could be loose, and monitoring could be reduced to the minimum but if it is not the case tighter monitoring and additional costs may be required.

The next section examines how the social food distribution and more specifically social supermarkets are currently organized and whether social franchising could benefit them.

MERITS AND LIMITATIONS OF SOCIAL FRANCHISING: THE SOCIAL FOOD DISTRIBUTION SECTOR

Food insecurity is a world-wide phenomenon and not exclusive to developing countries. Previously exclusively addressed through foodbanks and other local charities, food distribution to vulnerable low-income populations is starting to happen through social supermarkets. Social supermarkets are social enterprises, functioning as hybrid organizations that combine non-profit status with revenue earning practices.

Social supermarkets

The concept of social supermarkets started in the 1980s in France and Austria (Holweg and Lienbacher 2010). The purpose of a social supermarket is twofold: help financially insecure population to purchase nutritious food at a lower price and reduce food waste by selling surplus close to expiration date or slightly damaged products such as “ugly” produces or ripped packaging that are usually rejected throughout the traditional supply chain. Usually managed by non-profit organizations, social supermarkets receive cash and food donations and acquire discarded items at low prices or for free. For the most part, the stores look like regular supermarkets where customers make their own selection. This is different from foodbanks where customers have limited control for what they receive. In a social supermarket, customers are expected to pay for their purchases, but prices are substantially lower than in regular supermarkets. Most social supermarkets require free membership, usually granted according to certain socio-economic criteria but some accept everybody. The concept is slowly growing in the United States where restrictive legislations have limited it over the years. Two examples could be cited: Doug Rauch, former founder of Trader Jo’s recently launched a new concept of social supermarkets, the Daily Table. It is a non-profit that purchases food surplus at low price and receives cash donations from corporations. Doug Rauch plans to grow the chain organically and to maintain full control of the new stores. The second example is a store created in Los Angeles by Glen Curado. World Harvest was founded in 2007 and is open to everybody. After making a small cash donation, customers fill their carts with quality low price items donated by local supermarkets and producers. Approximately 70% of the items are organic. It is interesting to note that the operating modes are slightly different for these two stores: Daily Table pays its suppliers while World Harvest receives donations from producers and retailers. It is worthwhile to note that the U.S. legislation on food donation was until recently very restrictive and was just recently relaxed in terms of liability for the donors. In addition, it is illegal in the United States to sell donated food. This explains the choices made by these two social supermarket brands: the former purchases goods at a low price and charges its customers a moderate price while the later does not charge for the purchases but receives instead a cash donation from customers.

Nevertheless, these restrictive laws have certainly slowed the expansion of social supermarkets in the United States.

While the concept is emerging in the United States, it has matured in Europe over the last 30 years. Several governance structures are used: some networks are entirely owned by the central non-profit, while others signed-up affiliates.

Scaling up as a corporate chain or a franchise network or both

Baglioni *et al.* (2017) present the cases of two social supermarket chains in Italy and Germany that have scaled-up. All the stores are owned by a central non-profit entity that receives large donations and administers the chain, but each local branch receives broad independence for local decisions. In the UK, several social supermarkets are organized as social franchising and have rapidly grown. They require franchisees to pay a modest start-up fee and annual royalties to help cover the administrative costs of the franchise (Berelowitz 2012): for example, the Community Shop was recently founded as a subsidiary of the Company shop and uses a plural form of governance where certain stores are corporate owned, and others are franchised. In addition, they recently entered a partnership with the Trussell Trust's foodbank, a non-profit that recruits churches as social franchisees. Similarly, the Austrian network Soma Oesterreich und partner is a non-profit that has a "franchise" like model for its 30 social supermarkets that are also non-profits. These stores follow clear guidelines established by the umbrella organization in terms of pricing and food safety. The French network ANDES presents some similarities with the Community Shop from a governance perspective, but its members are affiliates, not franchisees. 70% of the 370 stores in that network are also local non-profits. They pay 100 Euros per year to belong to the network and benefit from advice from ANDES. Similarly, the German network, Bundesverband Deutsche Tafel counts over 900 non-profit affiliates among them foodbanks and social supermarkets. Tafel is partly subsidized by the German federal government but also receives donations from individuals and corporations.

DISCUSSION

These European examples reveal that organizing as a chain with an umbrella brand is the natural progression for social supermarkets. Depending on the countries, their local legislations and infrastructures, the models are different but, in most cases, the umbrella organization is a non-profit and the affiliates or franchisees are also non-profits. These organizations use a dual model of funding: as non-profits they receive government subsidies and donations from individuals and corporations and attract volunteers to help manage the stores, but they also earn a revenue that covers some or all their operating expenses. The organizations that have scaled-up are more visible as a brand and receive nation-wide support from governments and corporations. They bring professionalism and standards to their network and reassure corporate partners. These social franchise examples seem to achieve the goals outlined in the SCALERS Model discussed above (Bloom and Chatterji 2009). The umbrella entities are usually non-profit organizations that attract a network of existing non-profits. These non-profits are expected to generate earnings through their stores and to fundraise locally. They partner and build alliances with their respective national and regional governments and corporations and sometimes other non-profits. These umbrella entities have gained national visibility and are starting to influence national policies. The literature agrees that the key to achieving transformational impact for a social enterprise is to have a consistent and clear mission that could be easily replicated throughout a network. Although reluctant to align with the corporate world, social supermarkets are dependent on corporations for their survival. A strong central entity could hire professional administrators familiar with business practices and able to attract governmental and corporate attention through communication campaigns and consistent messaging. The franchising model seems to be the best option to achieve these results. Recruiting the right franchisees, training them, and establishing clear guidelines on core principles, allow these franchised networks to gain stronger credibility than their counterparts. In any case, it is important to create a model where franchisees receive a broad autonomy for local decisions. It is also important to set achievable objectives in terms of start-up fees and royalties. Social franchisors usually supplement these fees by launching nationwide fundraising campaigns, but franchisees are expected to generate local earnings from their stores and to complement their revenue through local fundraising. The cooperative model may also be an intermediary step for independent social supermarkets that are not ready yet for franchising from a financial and operational perspective.

LIMITATIONS AND NEW FUTURE RESEARCH

The obvious limitation of this conceptual paper is its exploratory nature. The literature on social franchising is still in its infancy. Moreover, in their bibliometric and theoretical review, Naatu and Alon (2019) discovered that only 11.39% of the current literature on social franchising addressed the business sector, while most of the research is focused on the health sector. Giudici et *al.* (2020) also noted the lack of theoretical models specific to social franchising and deplored the fact that we were still using the business format franchising theories when discussing social franchising. Similarly, there is limited research on social supermarkets (Knezevic et *al*.2021). There is therefore a strong need for future empirical research on this topic.

This exploratory paper briefly presented the SCALERS model (Bloom and Chatterji 2009) as a potential theoretical model to assess scaling in social enterprises. The proposed next step for future research is to develop case studies using the SCALERS model to assess the results of social supermarkets. Comparing the results obtained through different governance of social supermarkets such as corporate chains, cooperatives, social franchising, and plural forms could also allow us to assess the advantages and inconveniences of social franchising as a form of governance for social supermarkets.

CONCLUSION

Food insecurity is a world-wide phenomenon and not exclusive to developing countries. Previously exclusively addressed through foodbanks and other local charities, food distribution to vulnerable low-income populations is starting to happen through social supermarkets. Social franchising seems to be a legitimate option for developing an impactful social supermarket network. This is particularly true in the United States where the need for social supermarkets is becoming crucial in certain underserved metropolises and, where lobbying for legislation on food donation and food waste is in its infancy. There is a strong opportunity there to create these food distribution networks from the ground-up using a social franchising model. Scaling up allows these organizations to be heard and respected at a national level and attract funding and corporate partnerships. Social franchising, as implemented in Europe and in the UK, seems to be a viable solution to achieve this goal.

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Appendix

The SCALERS Model (Bloom and Chatterji 2009)