

## HBR Blog Network



### Where Are the Ray Krocs of the Social Sector?

by Seth Merrin and Brian Walsh | 9:00 AM January 25, 2013

If you were offered the opportunity to finance a *high risk, low return* investment, how eager would you be to write a check? That is exactly the premise of most impact investing opportunities today. Until the return outweighs the risk, impact investing will remain a small niche category. To solve more social challenges in a financially sustainable way, we need to create opportunities with safe, dependable social and financial returns. It's time to bring a proven business model to the social enterprise space: the franchise.

Franchising has a special place in our economic system. It's not sexy, but it's effective. For example, it's much less risky to franchise a restaurant than to start your own. That's what Ray Kroc ([http://www.mcdonalds.com/us/en/our\\_story/our\\_history/the\\_ray\\_kroc\\_story.html](http://www.mcdonalds.com/us/en/our_story/our_history/the_ray_kroc_story.html)) did: He franchised a McDonald's, bought the company, and grew it to the largest restaurant chain in the world, with over 31,000 locations today, 80 percent of which are franchised. We need to find and support the Ray Krocs of the social sector, who can seek out promising social enterprise ideas sourced by philanthropic capital and take them to scale.

Right now we're effectively asking every social business to start from scratch. We conflate *inventors* with *developers* of social enterprises and romanticize the celebrity social entrepreneur. Instead, we should be searching for professional managers and investing in their capacity to turn a social entrepreneur's vision into a scalable, sustainable business. We should package proven social business models that motivated franchisees could copy. These business people would spend their energy building the business in a new market not experimenting with an untested model. This would provide scale to social enterprises and reliable returns to those who invest in them.

If we want to have an impact on a global level, we must stop using one-off social business models and find ways to replicate what works. Take Groupe SOS (<http://www.groupe-sos.org/>) in France, one of the largest social enterprises in the world with 10,000 employees, one million beneficiaries, and \$750 million in annual revenues. Over the past 28 years, they've refined nine different business models to serve traditionally excluded individuals. They're now actively working to franchise these proven models to other geographies, most promisingly in Seoul, South Korea.

To bring the franchise model to the social sector, we need to do four things:

1. **Determine which models work.** We know there are great models out there but we need to understand which have gone through the proof of concept phase and are ready to be taken to the next level. To determine which are appropriate for franchising, we need to sift through the multiple channels — early-stage impact investing

funds, academic field research, entrepreneurial competitions — and find social businesses that are successful and scalable.

2. **Package the essential elements of each model.** A restaurant franchise buys the core elements of the business — brand, menu, advertising. But then they adapt those fundamentals to their environment to make it successful. The core pieces of a winning social enterprise model must be packaged in a way that's portable to different environments. We aren't naïve to think that one size fits all, but there's a lot to be gained by bringing best practices and proven strategies to new geographies in thoughtful ways.
3. **Educate and "sell" to franchisees.** Once the fundamentals of a working model have been packaged, we must help people find the opportunities. We can equip them with ready-to-launch models and the basic management skills to take them to new markets — everything from impact measurement to supply chain management. We might consider offering a training curriculum within a university or another organization that would educate the franchisee on the business model and effective management, and then provide both start-up and ongoing support.
4. **Support the franchises.** Like a restaurant franchise that shares advertising costs, centrally develops new menu items, and shares other resources, we need to provide ongoing support for social impact franchisees. The nature of this support will vary, but this ability to spread the risk, reward, costs, and resources between the home office and independent franchisees is a core benefit. This two-way relationship will also improve the underlying business model as each franchisee provides valuable feedback on what's worked and what hasn't in his or her market.

We need to match the willing, motivated people who can change the world if they're given a blueprint with the vast amount of investment capital that wants the same. Right now we're missing a huge opportunity that's right in front of our noses. Instead of teaspoons of capital being spread across small entrepreneurs all over the world, we need to find proven models, capitalize them, train the management teams, and take them to scale. If we're willing to let go of the artisanal nature of social enterprise, we can have global impact.

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