Social Entrepreneurship and Franchising: A Panacea for Emerging Countries? The Case of Algeria

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Abstract One of the most intractable social and economic challenges in emerging countries, namely, high unemployment, may be tackled by social entrepreneurship and franchising. In this ongoing research, we focus on Algeria as the case study to demonstrate the practical application of social entrepreneurship and franchising in an emerging country. Though Algeria has invested heavily in large-scale government-sponsored employment programs, unemployment, especially among the youth, remains stubbornly high, leading to a number of serious social and security problems (criminality, drug usage, suicides, illegal emigration, terrorism, etc.). We argue that social entrepreneurship combined with franchising has the potential to foster quickly a large number of social entrepreneurs, leading to the creation of a large number of sustainable jobs, especially among the educated youth in Algeria and, by extension, in many emerging countries.

1 Introduction

Emerging countries face a number of tough social and economic challenges, including lack of access to education, poverty, and high unemployment. These challenges in turn often lead to severe and dramatic crises. Terrorism and armed conflicts are rampant in many regions of the world. Mass migrations from many African, Middle Eastern, and Asian countries have recently plunged Europe into an unprecedented crisis. Though not always the case, often the main actors of these tragedies are young unemployed people who have lost all hope of a decent life in their birth countries. It is revealing that one of the greatest social and political events in recent memory in the Middle East—the *Arab Spring*—can be traced back

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to a young Tunisian, Mohamed Bouazizi, who could only support himself and his family by selling fruits in the street. After having his produce confiscated by the police in December 2010, he set himself on fire, causing his death and unleashing massive youth riots that quickly spread to the rest of Tunisia and then to many countries in North Africa and the Middle East, ultimately leading to the demise of many long-lasting regimes in the region (Tunisia, Libya, Egypt, Yemen, etc.).

Youth unemployment has been a serious social, economic, and political problem in many countries for decades. It is now increasingly recognized that neither the private sector alone nor government programs alone have been particularly effective at alleviating this and other social challenges (Schwab Foundation for Social Entrepreneurship 2013). *Social entrepreneurship*, a new approach combining social mission (such as fighting poverty) with market-based solutions, has been gaining popularity as a method of tackling stubborn social and economic challenges in both emerging and more economically developed countries. However, because of the massive magnitude of the challenges in many countries, scale is a key factor for a meaningful and lasting impact of social enterprises. *Franchising* the best social initiatives would create and grow small and medium businesses and generate employment and wealth on a large scale. In that sense, *social franchising*—the application of franchising to social entrepreneurship—may be a potent model to multiply the impact of social enterprises to match the magnitude of these challenges in emerging countries.

In the first stage of an ongoing research on emerging countries and solutions to social issues, we focus on Algeria, an emerging country that, though rich in natural resources, has been faced with stubbornly high youth unemployment and other related social challenges. The World Bank classifies Algeria as an "upper middle-income" country with a gross national income (GNI) per capita in 2014 of $5480 (World Bank 2015b). Algeria is an oil- and gas-rich country with foreign reserves estimated at $200 billion in 2014. Algerians, however, often speak of Algeria as "a rich country with a poor population." Unemployment, particularly among young people, is still very high, keeping large segments of society in poverty and fueling resentment and frustration among the youth. Well before the *Arab Spring* that started in 2011, Algerian youth took to the streets in violent riots in October 1988, resulting in hundreds of deaths and eventually leading to the dismantlement of the one-party political system in place since independence in 1962; the instauration of a multiparty system; democratic reforms, including organization of the first relatively free political elections in North Africa and the Middle East, and freedom of the press; and the liberalization of the economy. However, continuing high unemployment and lack of opportunity among the young, as well as other social and political problems, led to a vicious civil war that lasted almost a decade—the *Black Decade* of the 1990s—and claimed the lives of almost 200,000 people. Youth unemployment and lack of opportunity for the youth are very serious social, economic, and political problems that can have very destabilizing effects on a country and whole regions, as the Algerian experience and the *Arab Spring* and its aftermath have shown.

In this article, we argue that *social entrepreneurship* and *social franchising*, the combination of franchising and social entrepreneurship, can be effective and potent ways to mitigate the destabilizing problem of youth unemployment, particularly in emerging countries such as Algeria. By extension, our ongoing research agenda will focus on various social issues, such as access to education, medical care, water, etc., in different emerging countries. First, we present social entrepreneurship, franchising, and social franchising and their potential for job creation and poverty reduction. Then we discuss Algeria's youth unemployment challenge and the programs developed by government agencies to tackle it. We then argue that social entrepreneurship and franchising may be unique ways to complement current efforts to make a lasting impact on youth unemployment and other social problems by creating large-scale sustainable employment and fostering entrepreneurial talent.

2 Social Entrepreneurship: Solving Social Issues with Market-Based Solutions

Emerging countries face a number of tough social and economic challenges, including poverty and high unemployment, often resulting in widespread misery and tragic crises as recent events in the Middle East and Africa have shown. Governments, nongovernmental organizations (NGOs), charitable institutions, international agencies such as FAO[1] and UNICEF,[2] and private businesses have been engaged in fighting economic and social challenges all over the world for decades. Much progress has been made in reducing extreme poverty and improving, to some extent, many people's lives in various parts of the world. According to the United Nations, 700 million people moved out of extreme poverty over the 1990–2010 time period, halving the global poverty rate. However, there still remain 1.2 billion people living in extreme poverty worldwide (United Nations 2015).

Though government, nongovernment, international, and private programs have had some successes, they may have contributed to the indefinite dependency of the aid recipients. Furthermore, the long-term sustainability of these programs is questionable. It is now increasingly recognized that new ways of tackling the persisting massive social challenges such as poverty and unemployment in a sustainable way are needed (Schwab Foundation for Social Entrepreneurship 2013).

Social entrepreneurship, a new entrepreneurial approach combining social mission (such as fighting poverty) with market-based solutions, has been gaining popularity as a method of fighting stubborn social and economic challenges. In essence, this new approach applies market-based principles to solving social problems (Aliouche and Schlentrich 2015).

[1]Food and Agriculture Organization of the United Nations http://www.fao.org/home/en/

[2]United Nations International Children's Emergency Fund https://www.unicef.org/

Social entrepreneurship is a relatively new field of academic research. Only 152 journal articles on social entrepreneurship have been published since 1991 (Short et al. 2009). A decade ago the concept was rarely discussed even though the practice of delivering social values to the population has been around for years (Abdul Kadir and Sarif 2016). Efforts that combined the concept of entrepreneurship and social development were established years before the emergence of the term. Only in recent years, the concept of social entrepreneurship is making a significant breakthrough. A variety of definitions of social entrepreneurship have been proposed. For example, Dacin et al. (2010) discuss 37 definitions. Nevertheless, two features are present in most definitions: the use of market-based principles and the pursuit of a social mission. A simple definition that encapsulates the essence of social entrepreneurship can be that it is *the application of market-based principles to solving social and environmental problems* (Aliouche and Schlentrich 2015).

A number of social enterprises have been started in recent years. Though they may be called different names—including "market-based solutions to poverty, inclusive businesses, impact enterprises, social enterprises, or enterprises serving the Bottom of the Pyramid (BoP)" (Prahalad (2006))—they all use market-based principles to address the basic needs of the poor and the underprivileged: providing employment and decent incomes, affordable access to goods and services, low-cost healthcare, etc. Examples include Naya Jeevan (Pakistan), Aravind (India), and Projeto Cies (Brazil) in the healthcare field; PlanetRead (India) and Lumni (Peru) in the education field; Friends International (Cambodia), Education for Employment (Middle East), and Hapinoy (Philippines) in the employment field; Cinepop/Hormiga (Mexico) and Waste Concern (Bangladesh) in the urban development field; and SELCO (India), Proximity Designs (Myanmar), and HSSi (Philippines) in the rural development field (Schwab Foundation for Social Entrepreneurship 2013).

Though social entrepreneurship has had some undeniable successes, the social needs and challenges around the world are of such magnitude that scaling and sustaining this approach have become key requirements. *Franchising*—a business model that can sustainably scale up business operations—may be an effective way to grow and multiply social enterprises.

3 Franchising: A Choice Method of Scaling the Impacts of Social Entrepreneurship

Franchising is a powerful business model that creates and grows small and medium businesses and generates employment and wealth on a large scale. In the United States—the country where modern franchising is most developed—franchising was responsible, directly or indirectly, for 17.4 million private nonfarm jobs (11.8% of all such jobs), generating $708 billion (9.7% of all payroll in this sector) and contributing $1.2 trillion to private nonfarm gross domestic product (9.7% of the total in this sector) in 2007. In that year, franchise establishments totalled more than 828,000 (IFA 2011). The franchise model is an economic growth engine. According to International Franchise Association president and CEO Steve Caldeira, franchised small businesses grow at a faster rate, create more jobs, and produce higher sales growth than other businesses (IFA 2015).

Though the basic concept of franchising can be traced all the way back to the Middle Ages in Europe, modern-day franchising developed in the United States with the launch of now well-known franchise companies such as McDonald's, KFC, International House of Pancakes, etc. (Aliouche and Schlentrich 2015). Today, there are two major categories of franchising: product distribution franchising and business format franchising. Product distribution franchising is characterized as a supplier-dealer relationship whereby the owner of a branded product or service (*the franchisor*) licenses its trademark and logo to independent businesses (*the franchisees*) who then can sell its products and services. This category of franchising dominates in soft drinks (Coca-Cola), automobiles (General Motors), and gasoline distribution (Shell). The other category of franchising, business format franchising, is characterized by a more involved relationship between the owner of a brand (the franchisor) and the franchisees. Not only does the franchisor license its brand and logo to the franchisees and allow them to sell its products and services, it also provides them with all the information and tools necessary to operate the business. This includes an operation manual, a marketing plan, training, and ongoing technical and managerial support. Franchisees pay the franchisor a franchise fee to join the franchise network and ongoing royalty fees (generally a percentage of sales revenues). Recently, in the United States, business format franchising has been more dominant, with almost 20 times as many establishments and more than 5 times as many jobs as product distribution franchising (IFA 2011).

An entrepreneurial business can expand by building and operating its own establishments or by franchising. Resource scarcity theory and agency theory are the two theoretical frameworks generally used by franchise scholars to explain the motivation of business firms to franchise. Resource scarcity theory sees franchising as a solution to the capital, managerial, and informational challenges faced by expanding business firms (Oxenfeldt and Kelly 1968; Caves and Murphy 1976; Norton 1988; Carney and Gedajlovic 1991; Shane 1996).

Through franchising, a growing firm gains access to scarce capital (the franchisee's capital) in a cost-effective way. The franchising firm also gains management talent (in the form of franchisees) dedicated to growing the business and valuable local market knowledge provided by the franchisees (Minkler 1990). For the proponents of agency theory, franchising helps mitigate the agency problems that exist whenever the owner of a business (the principal) delegates management responsibilities to an individual or an organization (the agent) (Jensen and Meckling 1976; Eisenhardt 1989). As both franchisor (principal) and franchisee (agent) benefit from a successful franchise system, their interests are generally aligned.

Entrepreneurs who want to start their own business venture may start an independent business or join an established franchise system as a franchisee. In exchange for the franchise fees and royalty payments to the franchise owner (the franchisor), the benefits to the franchisee are many: possibility to use an established brand; joining a proven business concept; franchisor-provided technical and managerial support and assistance in critical areas such as site selection, facility design and layout, inventory purchasing and control, equipment purchasing, or leasing; training; quality control standards; marketing support; etc. As a franchisee, the budding entrepreneur can "go into business for yourself, but not by yourself" (Besthel 2001).

Because of its inherent characteristics of sustainably multiplying business operations, franchising is increasingly seen as a choice method of scaling the impacts of social entrepreneurship. *Franchising* the best social initiatives would create and grow small and medium businesses and generate employment and wealth on a large scale. The application of the franchise model to social entrepreneurship has resulted in the emerging field of *social franchising*.

4 Social Franchising: Driving Social Initiatives to Large-Scale Development

As an emerging field, social franchising's theoretical foundations have yet to be developed. Extant franchise theories, including the dominant ones (agency theory and resource scarcity theory) and alternative ones (institutional theory, social capital theory, etc.), do not adequately explain this new approach (Spencer 2013; Litalien 2013; Volery and Hackl 2010; Tracey and Jarvis 2007). Though a number of definitions have been proposed, there is no one agreed-upon definition. A survey of these proposed definitions identifies three features as being key in social franchising: elements of commercial franchising, social purpose, and scale (Aliouche and Schlentrich 2015). Simply put, social franchising is *franchising with a social purpose* (Spencer 2013).

Elements of (commercial) franchising that are also in social franchising include a proven, scalable business model with defined systems and processes documented in an operating manual that covers the essential administrative, legal, and functional aspects of the franchise system; a trademark, owned by the franchisor and licensed to the franchisees for the term of the franchise relationship; the delivery of a standardized product and/or service; a set of support services provided by the franchisor to the franchisees that may include training, quality control, advertising, and marketing; and payment of fees by the franchisees to the franchisor, including one-time franchise fees, ongoing royalty fees, and advertising fees (Temple 2011).

A key aspect that differentiates social franchising from (commercial) franchising is its social mission. A (commercial) franchise business' primary objective is to maximize the financial returns of its owners—it has only one bottom line: profits.

However, social franchises have a "double bottom line"—social benefits for its beneficiaries (social bottom line, generally the primary objective)—and a financial bottom line (profits) for long-term sustainability. This key difference between social and commercial franchising has at least three important practical implications (Aliouche and Schlentrich 2015). First, the enforcement of quality standards and recruitment of franchisees and employees are more flexible in a social franchise as social impact is more important than brand promotion and repeat sales. Second, social franchisees generally do not contribute much capital to start their franchise business, apparently negating the agency problem-mitigating feature of the franchise model. However, in most cases, this potential problem is alleviated by the social franchisee's motivation to provide social impact. Third, payments of fees and royalties by the social franchisee can be expected to be much lower than those of a commercial franchisee as the financial motive is not of primary importance in a social franchise.

Social franchises have been started in both emerging countries and in more economically developed countries. In Europe and North America, the major motivation for social franchising is the scaling of social enterprises and the creation of employment for disadvantaged people (European Social Franchising Network 2015). In Europe, there were 56 social franchises and aspiring social franchises across 12 countries in 2011, with 30 in the United Kingdom and 6 in Germany. Some of the European social franchise systems have attained a significant size. The recycling and refurbishing shops and businesses of Belgian social franchisor Komosie's De Kringwinkel employed 3861 people, while German supermarket social franchisor CAP-Markt had 1200 employees by 2011. Most European social franchise systems are recent and growing, with 80% of them being less than 10 years old.

In emerging countries, social franchises provide basic services to the poor as well as employment. A successful example is the Hapinoy network in the Philippines. Hapinoy's mission is "sustainably uplifting the lives of those at the base of the pyramid by empowering Nanays [Filipino mothers] to become more effective micro-entrepreneurs with the goal of eventually harnessing the store network to provide communities access to high impact products" (Hapinoy 2015). Hapinoy's network of small neighborhood convenience stores (called sari-sari stores) provide sustainable incomes for Filipino mothers and families and supply socially needed products and services to poor communities. Their Hapinoy Sari-Sari Store Program supports the nanays with extensive business training, access to capital through microfinancing, and assistance with new business development. By 2015, the Hapinoy franchise system had trained more than 3000 nanays to own and operate their sari-sari stores.

As the above examples illustrate, social franchising has the potential to help alleviate tough social problems such as poverty and unemployment in emerging countries. A very serious problem in many emerging countries, especially those in North Africa and the Middle East, is youth unemployment which is endemic in these regions (World Bank 2007). In recent years, many countries in North Africa and the Middle East (Libya, Egypt, Syria, Yemen, etc.) have been plunged into chaos and vicious civil wars, and in most cases, a key factor has been youth unemployment with its corollaries of poverty, hopelessness, and violence. Social franchising can be a powerful model to help mitigate the tough problem of youth unemployment. In this study, we focus on Algeria as a case study for the development of social entrepreneurship and social franchising to address the tough social problem of youth unemployment in emerging countries.

5 An Emblematic Case Study, Algeria: A Rich Country with a Poor Population

Though a number of studies have analyzed the whole region of North Africa and the Middle East or particular countries of the region, very little has been written about the North African country of Algeria, especially in the franchising literature.

Algeria is interesting in many respects. It is the largest (by geographic size) country in Africa and the tenth in the world; it occupies a strategic geographical location as it is at the crossroads of Africa, the Middle East, and Europe; it is a sizable potential market for many franchisors, with a population of almost 40 million people. With a gross national income (GNI) per capita of $5480 in 2014, it is classified by the World Bank as an "upper middle-income country." Since independence in 1962, Algeria has made some significant progresses. GNI per capita more than doubled, the poverty rate has been reduced significantly, and access to education and to healthcare has become universally available (Nabni 2012). By 1996, enrollment at primary schools was 97% for boys and 91% for girls (State University.com 2015). Women play an important role in society, accounting for 70% of Algeria's lawyers and 60% of its university students (World Population Review 2015). By 2014, the average life expectancy in Algeria had reached 76.4 years, while the urbanization rate had climbed to 76.4% (CIA World Factbook 2015). By the early 2010s, Algeria was in a very comfortable financial situation with no external debt to speak of and about $200 billion of foreign exchange reserves.

However, along with these positive results are some significant shortcomings. Given its many resources, Algeria could have done better or at least as well as other emerging countries that were at about the same level of economic development in the 1960s, such as South Korea, Malaysia, and Turkey. Algeria remains deeply dependent on oil and gas revenues, which still represent two-thirds of the state budget and 98% of total exports; the private sector of the economy is still embryonic and not able to create many jobs; informal markets and informal employment are widespread; the investment climate is very uncertain; and unemployment, especially among the young, remains high (Bonet-Fernandez and Teulon 2014; Nabni 2012).

Though women have made significant strides in certain fields (education, law, medicine, etc.), they still represented only 19% of the total workforce in 2013.

Algeria is a very young country (out of a population of 38.4 million in 2014, 45.8% were under the age of 24 years), and it is struggling to provide adequate jobs to its youth. In 2014, its youth unemployment rate was stubbornly high at 28.4% (CIA World Factbook 2015).

This lack of opportunity for young Algerians pushes many of them to leave the country in search of more promising horizons. While in the past, it was mostly unskilled laborers who migrated, in more recent times, many highly skilled Algerians—including experienced managers, doctors, and researchers—have resettled in Europe and North America (Kendel 2008). Lack of opportunity for the young also is a factor pushing some of these young men to join extremist groups in Algeria and in other parts in the Middle East. This persistent unemployment problem does not bode well for the future stability of the country—unless it is meaningfully resolved.

As discussed earlier, Algeria had its *Arab Spring* many years before the rest of North Africa and the Middle East. This led to some political and economic reforms in the 1980s. However, continuing high unemployment and lack of opportunity among the young, as well as other social and political problems, culminated in a vicious civil war that lasted almost a decade—the *Black Decade* of the 1990s—and claimed the lives of almost 200,000 people. It is worth noting, though, that Algerian youth remained mostly quiet during the recent *Arab Spring*, while neighbors Tunisia and Libya underwent severe social and political turmoil. In fact, during those turbulent years of the *Arab Spring*, Algeria looked like a model of stability (Bonet Fernandez and Teulon 2014). Having defeated the extremist insurgency of the 1990s, the Algerian government was able to "buy civil peace" by enacting some political reforms and increasing public sector expenditures. The high oil prices over 2010–2014 allowed the government to accumulate vast foreign exchange reserves, which reached over $201 billion by 2013 (World Bank 2015a). The government had the financial wherewithal to launch a string of social programs, including programs that were designed to benefit the youth.

Since the mid-1990s, Algeria launched a number of programs designed to spur job creation. These included ESIL (Emplois Salariés d'Initiative Locale, local initiative for salaried employment), TUP-HIMO (Travaux d'Utilité Publique à Haute Intensité de Main-oeuvre, public works with high labor intensity), DAIP (Dispositifs d'Aide à l'Emploi, aid to employment mechanisms), ANSEJ (Agence Nationale de Soutien à l'Emploi des Jeunes, national agency to support youth employment), etc. (El Watan 2015). As its name indicates, ANSEJ is geared toward youth employment and entrepreneurship, focusing on the young unemployed aged 19–35 years. ANSEJ's main mission is to help unemployed youth start microenterprises, which are in fact social enterprises:

– It provides information, advice, and other technical support to start microenterprises.
– It grants financing to launch microenterprises. ANSEJ proposes two financing formulas: *financement triangulaire* (three-way partnership, prospective entrepreneur/ANSEJ/bank) or *financement mixte* (two-way partnership, prospective

entrepreneur/ANSEJ). In the *financement triangulaire*, the prospective entrepreneur personally contributes 1% of the total cost of the project if it is one million DA (Algerian Dinars) or less (about US$10,000) or 2% of total cost if the project is greater than five million DA (about US$50,000). In the *financement mixte* formula, the prospective entrepreneur contributes 71–72% of the total project cost. In both formulas, ANSEJ finances 28–29% of the total project cost at zero interest.

– It allows a number of fiscal benefits to the microenterprise when it reaches the operational stage, including exoneration from property taxes and income taxes.

ANSEJ's mission is also to promote a culture of entrepreneurship among the Algerian youth, particularly among the 1.3 million students. In partnership with Algerian universities and Grandes Ecoles, it has created *maisons de l'entrepreneuriat* (houses of entrepreneurship) where students are invited to learn about entrepreneurship and encouraged to initiate their own start-up businesses.

According to ANSEJ data, since its inception in 1997, it has financed 292,186 projects and helped create 710,788 jobs (through 2013) (ANSEJ website). The vast majority of the projects (74%) cost between 1 and 5 million DA (approximately between US$10,000 and US$50,000). Twelve percent of the projects cost 1 million DA or less, and 14% cost more than 5 million DA. Almost 62% of the projects were in the services sector (180,751 projects), followed by 12.3% in crafts (35,877), 11.6% in agriculture and fishing (33,787), 7.6% in construction (22,212), and 6.7% in industry and maintenance (19,559). Ten percent of the projects (29,329) were started by women, and 95.3% (278,465) of the projects were financed through the *financement triangulaire* formula, where the entrepreneur contributes only 1–2% of the total project cost (ANSEJ web site). According to the director of ANSEJ, it created a further 40,000 microenterprises in 2014, and 84% of these required 5 million AD (US$50,000) or less to start. Furthermore, ANSEJ now operates 53 *maisons d'entrepreneuriat* across Algerian campuses.

As impressive as these results appear to be, youth unemployment remains a serious problem in Algeria—stubbornly high at 28.4% in 2014. It seems clear that current policies and structures by themselves will not resolve meaningfully this problem. Franchising can be a powerful model to complement the current efforts and help resolve the tenacious problem of youth unemployment in Algeria.

Franchising creates a large number of small and medium businesses, generates large-scale employment, and adds significantly to national output and incomes (IFA 2011). Furthermore, for emerging countries such as Algeria being faced with a serious youth unemployment problem, franchising is a compelling model. By promoting the creation of small enterprises by franchisees, franchising promotes entrepreneurship and creates employment. Because the fledgling franchisee "is in business for him/herself, but not by him/herself," he/she does not need extensive entrepreneurial and managerial skills and experience—which are in short supply in Algeria and most emerging countries. Indeed, a major reason for the attractiveness of joining an established franchise system for a budding entrepreneur is the extensive support to be provided by the franchisor. A sensible policy for Algerian policy makers and agencies such as ANSEJ is to expand and adapt their current activities and policies to the promotion of franchised businesses in Algeria:

1. Promote the expansion of successful small enterprises into franchising systems by providing them financing and technical support; this would take advantage of the multiplicative effect of the franchise model.
2. Encourage would-be entrepreneurs to become franchisees and thus benefit from the support to be provided by a franchisor.

In an emerging country such as Algeria, for a young would-be entrepreneur, joining a franchise system is much more compelling than starting an independent business:

– The franchisee joins a proven business model with established systems and processes, documented in an operating manual that details the administrative, legal, and functional aspects of the franchise system. Given the lack of business experience of most Algerian youth, this support from the franchisor is vital and vastly improves the chances of success for the young would-be entrepreneur.
– A franchisor generally also provides to the franchisees a set of support services that may include training, quality control, advertising, and marketing. Again, these support services are vital for the young would-be entrepreneur with generally little business experience.
– The franchisor delivers to the franchisees a set of standardized products and/or services to sell to consumers. The franchisee therefore does not need to spend extensive time and other resources conducting R&D, market research, design, manufacturing, etc. to produce a new product or service, all the while earning no income—an unsustainable situation given the lack of venture capital in Algeria as in most emerging countries.
– As part of the franchise relationship, the franchisee is required to make a set of payments to the franchisor. ANSEJ and similar agencies can help create employment through franchising by providing financing assistance to the young would-be franchisees—financing that could be similar to what they provide now. Given that young unemployed people most likely lack personal capital, this financing could be critical for the expansion of franchising in Algeria. This financing could help would-be franchisees pay the initial franchise fees, as well as other business start-up expenses, including working capital.

It goes without saying that the creation of franchisee businesses cannot happen without the existence of franchisors that develop and grow franchise systems. Franchisors could be international franchise companies that expand into Algeria, as have the different brands of hotelier Accor, retailer Carrefour, and others done. However, in the franchising context, locally developed franchise systems may be more suited for the local conditions of emerging countries as they may be better able to provide products, pricing, and cost structures that are better suited to local needs and tastes (Dalberg 2009). A key to harnessing the power of franchising in employment creation and small business formation is to adopt regulations and provide financing support that helps the development and expansion of local franchise systems. Furthermore, the promotion of product distribution franchising may be a simpler way to quickly expand franchise systems in emerging countries like Algeria (Dalberg 2009). In this type of franchising, the relationship between franchisor and franchisee is much simpler and involves usually just the agreement of the franchisor to allow the franchisee to use its logo and to sell (distribute) its products. Less capital is needed and a favorable legal and regulatory environment is not critical. Brand protection is key because without legal brand protection, the concept can be copied anytime and anywhere. An adequate legal system will aim to reassure prospective franchisors and franchisees, especially foreign investors (Nguyen and Cliquet 2003). Successful emerging market product distribution franchise systems include SPOT Taxi (India), Fan Milk (Ghana), Kegg Farm (India), and Natura (Brazil). In Algeria, Kiki Taxi, a franchise system similar to India's SPOT Taxi, was launched recently in 2015.

Though product distribution franchising may be the quick and simple way to kick-start franchising in Algeria, business format franchising may provide more long-term benefits in the struggle to reduce youth unemployment and create entrepreneurial opportunities for young individuals. In addition to creating jobs, business format franchising also provides training for low-skilled youth; does not require extensive business experience to start a small business; provides extensive and continuous support for the franchisees, helping young entrepreneurs succeed and thus fostering an entrepreneurial culture; provides high-quality standardized products and services; and helps social mobility as employees may have the opportunity to become franchisees.

Algeria has many of the resources and factors necessary for the successful expansion of franchising: a relatively large market of almost 40 million people; substantial disposable income; growing economy; large financial resources; proximity to important markets in Europe, the Middle East, and Africa; largely educated population; high urbanization rate; etc. However, one key ingredient for the successful development of franchising is badly lacking in Algeria: a supportive legal and regulatory environment (Bonet Fernandez and Teulon 2014; Aliouche et al. 2015; Aliouche 2015). According to the *International Franchise Expansion Index*, Algeria was ranked 85 out of 125 countries as an attractive expansion market for US franchise companies in 2011 (Aliouche 2015). This unflattering ranking is due to a large extent to Algeria's dismal performance as a country conducive to starting and operating a business. According to the 2016 World Bank's *Doing Business* survey, Algeria ranked 163 out of the 189 countries included in the report. This survey assessed the ease of doing business in the countries it surveys according to a number of criteria, including starting a business (Algeria ranked 145 out of 189 countries), dealing with construction permits (#122), getting electricity (#130), registering property (#163), getting credit (#174), protecting minority investors (#174), paying taxes (#169), enforcing contracts (#106), trading across borders (#176), and resolving insolvency (#73).

It is clear that many necessary ingredients of economic competitiveness are woefully inadequate and have gotten worse. While Algeria ranked at #148 in the *Doing Business* rankings in 2012, it has now slipped to #163 in 2015, continuously losing market competitiveness, especially relative to its immediate neighbors

Tunisia and Morocco, which were ranked, respectively, #75 and #74 in 2015. It is no surprise that the franchising sector is much more developed in Morocco and Tunisia than in Algeria (Aliouche et al. 2015).

Innovation does not appear to be a significant feature of the Algerian economy, which is still mainly based on the capture of rents from natural resources and not from the creation of new wealth. Entrepreneurs and innovative projects have to overcome major bureaucratic hurdles that result in prohibitive costs of doing business (importation of processed goods, imports of skills and expertise, rigid procurement procedures, etc.) (Bonet Fernandez and Teulon 2014). High costs, long time delays, complicated procedures, and high minimum capital deposits, among other hurdles, put Algeria in a very unfavorable position vis-à-vis its immediate neighbors Morocco and Tunisia and many close-by OECD countries. Despite some efforts to promote entrepreneurship in the country (such as those by ANSEJ discussed earlier), these efforts are hampered by the serious impediments to starting and operating a business in Algeria as captured by the *Doing Business* rankings. It is therefore urgent for the authorities to seriously consider major legal and regulatory reforms that would make the Algerian economy much more competitive. The need for reforms has become even more urgent now as the price of oil has been more than halved recently, significantly reducing Algeria' financial resources. With abundant financial resources derived from oil and gas production and exports, Algerian policy makers did not feel the pressure to make the rest of the economy more competitive. This is no longer the case. It is encouraging that a *Doing Busines*s commission has been set up by the government in 2015 with the mandate to propose reforms to improve the business climate in the country. Such reforms would no doubt help promote the development of a dynamic franchise sector in Algeria.

SME life cycle should ideally be expanded to large-scale networks, provided that the business model is performant and most of all that a favorable business and legal environment exists.

6 Conclusions

Emerging countries are facing many fundamental problems such as access to work, education, healthcare, water, food, and a decent living. In this first part of an ongoing research program, we chose to study the emblematic case of unemployment in Algeria as a relevant case study for our investigations.

Social entrepreneurship helps address serious social problems by using *market-based principles*. We argue that franchising adds scale to the social entrepreneurship model by using its multiplicative properties. As interest for these models grows, more social enterprises and social franchises are being started all over the world and especially in emerging countries. Algeria is an emerging country, combining high potential and necessary political reforms that could greatly benefit from the development of franchising, both commercial and social. The government has started to mobilize financial resources and should promote social enterprises and franchises to help tackle one of the most destabilizing social challenges facing the country, namely, high and persistent youth unemployment. Franchising's proven ability to create and grow quickly large numbers of small- and medium-sized businesses, generate large-scale employment, and produce new wealth, combined with the government's significant financial resources—which can be used to finance young entrepreneurs to start franchised businesses and successful social enterprises to grow into franchise systems—can be marshaled to help resolve Algeria's youth unemployment challenge, thus diffusing a key source of social and political instability in the country. However, the promise of franchising (social and commercial) cannot be fulfilled in Algeria unless major legal, regulatory, and institutional reforms are enacted to spur innovation and business creation and expansion. It is an encouraging sign that Algerian policy makers have recently set up a *Doing Business* commission that will hopefully lead to reforms that will ultimately boost innovation, entrepreneurship, and franchising in the country.

For future research, our objective is to study and propose solutions to social problems in emerging countries. We promote the thesis according to which social entrepreneurship boosted by franchise principles can bring significant social benefits, through scale and sustainability.

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