ALICE MARIA SALERNO

CHALLENGES OF THE GROWTH PHASE FOR A BRAZILIAN SOCIAL ENTERPRISE: THE CASE OF 4YOU2
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Thesis presented to Escola de Administração de Empresas de São Paulo of Fundação Getulio Vargas, as a requirement to obtain the title of Master in International Management (MPGI).

Knowledge Field: Social Entrepreneurship

Adviser: Prof. Edgard Barki

SÃO PAULO
2016
Salerno, Alice Maria.
Challenges of the growth phase for a Brazilian social enterprise: the case of 4you2 / Alice Maria Salerno. - 2016.
82 f.

Orientador: Edgard Elie Roger
Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.


CDU 658.011.49
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Approval Date
11/11/2016

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ACKNOWLEDGMENTS

This paper is not just a step in my academic career, it is the end of a huge part of my life, and many acknowledgments need to be made.

Thank to the institutions, Bocconi University and Fundação Getulio Vargas, which gave me the possibility to live my student life in two amazing countries, Italy and Brazil.

Thank to Professor Clodia Vurro, for the long distance support.

Thank to Professor Edgard Barki, for the support throughout my work and for canalizing my enthusiasm toward a fruitful direction.

Thank to Gustavo, for all the time he dedicated me and, most of all, for inspiring me with his amazing work and personality.

Thank to 4YOU2 and to all the incredible people I met there, people that taught me a lot and made me feel once again welcomed to Brazil.

Thank to all my friends, the old ones and the new ones, for making the last five years the best I could ever ask for.

Thank to Marco, for the trust and the patience, for the love and the memories.

The last thank is by far the biggest one: thank to mamma Patrizia and papà Giuseppe, the best parents in the world. Thank for being such a huge support and guidance to me, thank for making all this possible, and thank for all the patience you have with the crazy young lady I am.
ABSTRACT

This thesis is a case study on 4YOU2, a Brazilian social enterprise whose value proposition is bringing high-quality English language instruction to underprivileged Brazilians. 4YOU2 was founded in 2012 and, in 2016, the company is in the phase of growth and it is facing challenges in sustaining significant growth and impact while maintaining quality and low costs.

The collection of data took place in the period between beginning of April 2016 and end of June 2016. The main sources of data used were personal interviews with main stakeholders and direct observations.

The objective of the project was to analyze, through a qualitative approach, the nature of the challenges that 4YOU2 was facing. The findings emerged indicated that 4YOU2’s growth is driven by many competitive advantages, especially regarding the innovativeness and attractiveness of the offer, the price component of the value proposition, the personal characteristics of the founder, and the strategic network of partners and supporters around the organization. On the other hand, the challenges that 4YOU2 was facing were overall comparable to those of any enterprise -being it social or traditional- in the same phase of the lifecycle.

KEY WORDS: Social Enterprise, Brazil, Growth, Challenges, Case Study
RESUMO

A dissertação é um estudo de caso sobre a 4YOU2, uma empresa social brasileira: a proposta de valor dela é oferecer ensino de inglês de alta qualidade para pessoas menos favorecidas. A 4YOU2 foi fundada em 2012 e, em 2016, a companhia está na fase de crescimento e está enfrentando desafios para sustentar seu crescimento e impacto significativo, mantendo a oferta de alta qualidade e custo baixo.

A coleta dos dados aconteceu no período entre o começo de Abril 2016 e o final de Junho 2016. As principais fontes de dados usadas foram entrevistas com os principais stakeholders e observações diretas.

O objetivo do projeto é analisar, com uma perspectiva qualitativa, a natureza dos desafios que a 4YOU2 está enfrentando. Os resultados provam que o crescimento da 4YOU2 é apoiado por muitas vantagens competitivas, como a inovação e atratividade da oferta, o preço, as características pessoais do fundador e as parcerias. Por outro lado, os desafios que a 4YOU2 está enfrentando são, no geral, comparáveis com aqueles de qualquer empresa –seja ela social ou tradicional– na mesma fase do ciclo de vida.

PALAVRAS CHAVE: Negócio de Impacto, Brasil, Crescimento, Desafios, Estudo de Caso
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1. INTRODUCTION

For over a century, entrepreneurs have caught the attention of many diverse fields of study and the entrepreneurial function has long been recognized as a fundamental component in the economic growth process (Baumol, 1968). Nevertheless, in recent times, the socio-political and economic models adopted across the world have been questioned by several events, the worldwide financial crisis in primis. The viability of market-based solutions, the role of governments and charities in support of the weakest individuals in society, and the capitalism system itself have been fiercely contested.

In such a picture, new concepts have emerged. Among them, “Social Entrepreneurship” has significantly been gaining traction in the last decades. According to Dees (1998), a social entrepreneur is an individual engaging in entrepreneurial activity in order to create social value. Social entrepreneurship, blurring the traditional boundaries between public, private, and non-profit sector (Johnson, 2000), rows in the direction of driving social change (Martin and Osberg, 2007).

Many are the signals that shape Social Entrepreneurship as a gradual paradigm shift, able to have a sustained impact in the way business and society interact with each other. As the world is becoming more and more interconnected, problems as threats to the environment and billions of people in poverty and desperation become more than a topic of conversation in developed countries. The reason is not a compassionate feeling of empathy among human beings. It is a realistic acceptance of hard truths: businesses are constrained under the burden of resource scarcity. Besides, the billions of poor individuals represent a huge untapped market. Governments and charities are failing in their purpose to serve a social mission. Here comes the role of social enterprises: besides solving social problems, they serve market purposes, releasing many people from their deprived condition, ultimately introducing them in the marketplace and increasing the pie of consumers available to every business.

Dorado (2006) recognizes that the attention to social enterprises has been coming more from the press than from academics. But it is also true that academics have gradually increased their effort in studying this phenomenon. The literature puts a disproportionate attention in giving a clear-cut definition of what a social enterprise is (Perrini et al, 2010). Studies have also been focused on the motivations and outcomes that make social entrepreneurship peculiar. Being the concept relatively new, the theoretical paths to be explored are still many and there is lack of consensus among scholars on many aspects of social entrepreneurship. For example, there is a nourished literature on the growth process of
an enterprise as well as on the challenges related with this phase, but scholars do not completely agree on whether the challenges faced by social and traditional entrepreneurs differ or are equivalent.

Interest in the field of social entrepreneurship is increasingly coming also from the side of investors. A report developed in 2015 by JP Morgan and the Global Impact Investing Network builds on this point, presenting the results from a study conducted on a sample of 146 impact investors from North America and Europe. According to the Global Impact Investing Network, impact investing refers to “investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.” The numbers in JP Morgan’s study show the relevance of the phenomenon: comprehensively, the group surveyed reported having committed to impact investing USD 10.6bn in 2014, and intended to invest 16% more – USD 12.2bn – in 2015. The “lack of appropriate capital across the risk\return spectrum” and a “shortage of high quality investment opportunities with track record” emerged as the most limiting characteristics of the market, consistently with the results from the same study conducted in 2014. Investors are having troubles understanding characteristics and challenges of social enterprises, and investment choices are hard to make.

From JP Morgan the study, clearly emerges a gap in the field of social entrepreneurship: this makes interesting to better explore challenges of social enterprises that can influence their likelihood to be chosen by impact investors. This paper aims to build on this gap as well as on the previously mentioned lack of consensus about the challenges faced by social and traditional entrepreneurs among scholar. It therefore tackles the following research question:

“*What are the main challenges faced by social enterprises in the growth phase?”*

The methodology adopted is a qualitative research based on an in-depth single case study. The methodological choice was driven by the recognition of the poorness of the literature in terms of real cases in the field of social entrepreneurship. The object of the study is the Brazilian social enterprise 4YOU2. Founded in São Paulo in 2012 by the Carioca Gustavo Fuga, the enterprise is committed to provide high quality English education for a cheap price to underprivileged individuals. As will be explained later in the thesis, 4YOU2 in 2016 was in the growth phase. It emerged as a perfect object for the purpose of this study, due to its stage in the lifecycle and its peculiarities as a renowned Brazilian social enterprise.
4YOU2 is very much present in the media and it is raising attention all over the world. Gustavo is often busy in international trips to present its company during conferences and to receive prestigious awards. 4YOU2 can therefore serve as an extreme case (Pettigrew 1990), enlightening dynamics that might be obscure in other contexts of the growing field of social entrepreneurship. Besides, Brazil is an interesting case as the sector of social business in this Latin American country is still in the first stages of development and there is uncertainty in terms of legal forms and industry structure (Barki et al, 2013).

The thesis is structured as follows: the first section will go through a deep analysis of the literature regarding the topics included in the research question, namely, entrepreneurship, social entrepreneurship, growth framework of a firm, and challenges of the growth phase. Later on, the methodology adopted will be described, together with the reasons at the base of the methodological choice. The very center of the thesis will be the two sections dedicated, respectively, to the presentation of the findings and to the analysis of the case of 4YOU2. Final considerations, including limitations of the study and room for future research, will close the thesis.
2. LITERATURE REVIEW

The aim of this chapter is to prepare the ground for the analysis of the case of 4YOU2. The review of the literature will frame the study by clarifying the most important theoretical concepts.

First, the concept of Entrepreneurship will be examined, summarizing the contributions on the topic by different scholars. A careful analysis will be then dedicated to the notion of Social Entrepreneurship, with a focus on the B Corps System which 4YOU2 is part of.

As the research question considers ventures in the growth phase, a logical step will be defining a framework to properly delineate the growth stage itself. Finally, the literature will be screened in order to identify and code the challenges that social and traditional ventures face while growing.

2.1 Entrepreneurship

Before digging into social entrepreneurship, it is necessary to first examine the concept of entrepreneurship itself. As Dees (1998) points out, “social entrepreneurs are one species in the genus entrepreneur”, thus considering what constitutes the “genus” is a necessary step in the path of analyzing social entrepreneurship.

The concept of entrepreneurship goes hand in hand with that of entrepreneur (Peredo, 2006); particularly, entrepreneurship is the process of being entrepreneurs (Tan, Williams, and Tan, 2005). The literature presents a wide range of interpretations of “entrepreneur” and the entrepreneurial role (Peredo, 2006), as well as various approaches in studying the topic. The interdisciplinary nature of the topic is one explanation for the bewildering variety of concepts (Tan, Williams, and Tan, 2005). Studies have been conducted by scholars from the field of business and management, to that sociology and psychology. Nevertheless, the topic has been primarily the focus of business schools.

Entrepreneurship is a multidimensional concept (Bula, 2012) and, despite the lack of consensus on the definition, the significance of the entrepreneurial function has long been recognized as a “vital component in the process of economic growth” (Buamol, 1968). On entrepreneurs falls the responsibility of moving the economic system closer and farther from equilibrium.

What is fairly univocal is the origin of the term “entrepreneur”. It derives from the French word “entreprendre”, coined by Richard Cantillon in his Essai sur la Nature du Commerce en General (1755). “Entreprendre” comes from the German “unternehmen”, and
both terms means “to undertake” (Cunningham, 1996; Tan, Williams, and Tan, 2005). The
term originally referred to agents who contracted suppliers at a certain cost with the aim to
produce goods to ultimately be sold at a price (Pender, 2009). Cantillon underlines the role of
the entrepreneur of equilibrating supply and demand (Hébert and Link, 1982). Risk was
inherent to such a job. The risk and uncertainty bearing function is the main one embedded in
the concept of entrepreneur, together with the quality of rationality (Fracasso et al, 2009).

Together with Cantillon, another scholar to praise for developments in the definition
of entrepreneur is Jean Baptiste Say, who stated in the 19th century: “the entrepreneur shifts
economic resources out of an area of lower into an area of higher productivity and greater
yield” (Say, 2001, p. 44). Creating value is therefore another building block of the concept of
entrepreneur.

A further element of the concept comes from the behavioral explanation, namely, the
opportunity seeking nature (Pender, 2009). Many scholars (Sahlman et al, 1999;
Venkataraman, 1997) highlight the pursuit of opportunity, but the first one to delineate the
picture of entrepreneur as someone continuously seeking for opportunities was the early
neoclassical economist Alfred Marshall (Schwedberg, 2007).

The Oxford English Dictionary illustrates the entrepreneur as “the owner or manager
of a business enterprise who, by risk or initiative, attempts to make profits”. Risk taking is the
focus of this definition, but it is not a sufficient condition to be an entrepreneur, as Frank
Knight notices back in 1921, when explaining that entrepreneurs, being confident about their
ability to make decisions under uncertain situations, develop themselves in risk-bearing.

Three elements have already been mentioned: rationality, creation of value, and
opportunity seeking nature. A further element captured by the concept of entrepreneur is
innovation. It is Schumpeter (1934) to clearly state that an entrepreneur is an innovator, for
instance through the introduction of new goods, methods of production, organizations of
industry and supplies of materials. For Schumpeter (1912 and 1934), “the function of the
entrepreneur is to reform or revolutionize the pattern of production”. Schumpeter regards
entrepreneurs as change agents who move economy forward (Dees, 1998).

The Austrian school, led by Israel Kirzner, adds another building block, highlighting
the function of entrepreneurs as resource-mobilizers (Kirzner, 1963): they identify better and
more effective uses of resources, addressing imperfections in the market. Mark Casson (1982)
builds on the concept of resource mobilization and defines the entrepreneurs as “someone
who specializes in taking judgmental decisions about the coordination of scares resources.”
After addressing the building elements of the concepts of entrepreneur and entrepreneurship, it is important to remark the discussion undertaken by Tan, Williams, and Tan (2005). They argue, “The term ‘entrepreneur’ should be devoid of moral, social or contextual implications”. The essence of entrepreneurship should be distinguished from context or general qualities regarding legal or ethical valuation. Moreover, as Peredo (2006) notices, the definition of entrepreneurship should also avoid including the notions of success, allowing for entrepreneurs who might be unsuccessful.

The given overview of the approaches on entrepreneurship is just a vague hint to the vast literature on the topic, but it is sufficient enough to converge to a definition useful to go on with the discussion on “social entrepreneurship”. The following definition of entrepreneurship developed by Shane and Venkataraman (2000, p. 218) can be adopted: entrepreneurship is the “examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited”.

2.2 Social Entrepreneurship

In recent years, the concept of social entrepreneurship has raised the interest of the business environment. Despite the attention the matter is gaining, academic institutions, associations, journals and scholars do not agree on what social entrepreneurship really is (Dees, 1998; Peredo and Mc Lean, 2006; Martin and Osberg, 2007). A nourished literature is trying to give a clear-cut definition of the concept, as well as clarifying boundaries and goals (Austin, Stevenson, and Wei-Skillern, 2006).

Nevertheless, what matters the most is not terminology. The power of Social Entrepreneurship arise from the very cornerstone of social enterprises themselves, which is the dialogue between two goals previously seen as incompatible, i.e. creating social value and being financially sustainable (Comini, Barki, Aguiar, 2012). Such organizations are not a new phenomenon; the increased interest is given by the fact that they are mushrooming while also tackling non-traditional areas, from financial intermediation to software development (Dorado, 2006).

When defining the concept of social entrepreneurship, the matter is complicated by the need to first consider individually the “social” element and the of “entrepreneurship” element of the concept itself (Peredo and McLean, 2006). The latter term has already been analyzed in the previous section of this paper. This section aims at tackling the “social” part as well as the dialogue between the two element of the concept – “social” and “entrepreneurship” – in order to reach a single accepted definition to be adopted in the case study.
It is broadly accepted among scholars that meeting a social need is a pillar in the concept as well as business model of a social enterprise. (Peredo, 2006) Nevertheless, the relevance of the social purpose differs and this identifies alternative “categories” of social business that vary along a continuum. “Social business are manifold and have many concept and characterizations” (Comini and al, 2012, p. 392), from market solution developed by non-profit organizations to social initiatives aimed at the BoP market created by MNCs.

At one extreme of the spectrum lie ventures strictly related with the category of non-profit organizations, for which having a form of “earned income” in the business model is not condition sine qua non (Anderson and Dees, 2002). The sole goal is the social one, and surplus revenues – if there are any – are integrally used for the accomplishment of the organization’s objectives (The Non-profit Resource Center, 2012) and not distributed to shareholders as dividends.

Further in the spectrum comes entities close to the “no-loss, no-dividend, self-sustaining company that sells goods or services and repays investments to its owners, but whose primary purpose is to serve society and improve the lot of the poor”, to use the words of Muhammad Yunus (2010), founder of the Grameen Bank. The Grameen Bank is an organization active in Bangladesh, which provides credits to the local poor population without asking for collaterals, therefore providing the access to credit to individuals otherwise not qualified for lending. Through its activity, Grameen Bank improves the living conditions of its customers, by giving trust to their untapped entrepreneurial potential. Yunus is really clear in defining the modus operandi of Grameen Bank and of an organization in general that deserves the title of social business. It is fully a business, not a charity or a non-profit organization: owners are “allowed” to get back their invested amount. The “primary purpose” is a social one: to alleviate poverty. Nevertheless, a social business needs to be financially self-sustainable and to recover the costs (“no loss” concept). The difference with a traditional business is that any surplus is reinvested in the business and not divided among owners (“no dividends” concept).

Enterprises belonging to the same category as the Yunus’ Grameen Bank are “hybrid” social businesses which use “earned income strategies for non-profit purposes” (Northland Institute, 2001). They incorporate the concept of “double bottom line”, i.e. the commitment to achieve a measurable social and financial outcome (Clark, Rosenzweig, Long and Olsen, 2004). These organizations combine commercial logic with social welfare logic (Lee and Battilana 2013). The attention to this organization has so far been coming more from the press
than from academics, these last ones focusing more on the founders’ entrepreneurial qualities (Dorado 2006).

When it comes to for-profit businesses, for them to be considered social enterprises they need to keep the social goal as main driver of their action, even though dividends and profits are distributed among shareholders. A controversial category is the one of ventures for which social purpose and profitability are at the same level and they actually complement each other.

At the end of the spectrum there is an even more controverted category: that of companies who primarily serve a financial purpose, but incorporate as well a social purpose - less relevant- in their mission. Scholars are reluctant to include this category when talking about social ventures (Peredo and McLean, 2006). Dorado (2006) clearly states that using the term “social entrepreneurship” to define a “socially responsible corporate behavior” is a mistake. Companies engaging in corporate social responsibility practices still consider as their primary goal profit, and social responsibility is just a mean to improve the bottom line. Instead, to be classified as social enterprise, a company needs to consider social value and economic value creation as fundamental for financial viability (Mair and Marti, 2006; Dorado, 2006).

On the other side, some authors (Prahalad and Hart, 2002; London and Hart, 2011) are advocates of the role of MNCs as key players in the struggle to diminish poverty. Perspectives vary also according to the regions. The North American perspective gives space in the concept of social enterprise/ social business to any market entrepreneurial activity that embrace social impact in the fulfillment of its business activity (Comini, Barki, Aguiar, 2012).

It is clear that, when it comes to defining the concept of social enterprise, the boundaries between for-profit and non-profit sector are really blurred. Academic research on social entrepreneurship is more and more emphasizing the entrepreneurial dimension of the construct (Perrini et al, 2010).

After going through the spectrum arising from the different relevance of the “social” element in the concept of social entrepreneurship, it is important to give some attention to the idea of social entrepreneur. The focus has widely been put on the motivation of this peculiar category of entrepreneur, i.e. social value creation. So, in the words of Dees (1998, p.1), social entrepreneurs are the ones that “look for the most effective methods of serving their social mission”. But reducing the difference between social and traditional entrepreneurs to the driver of their entrepreneurial activity means oversimplifying the matter (Martin and
Osberg, 2007). Peredo and McLean (2006) propose a definition of social entrepreneur that starts from the social aim, “a person who aims at creating social value, either exclusively or at least in a prominent way”, but continues mentioning the capacity to recognize an opportunity, the employment of innovation, the willingness to accept an above-average level of risk, and the resourceful in coping with scarce assets. Despite the limitations, the definition from Peredo and McLean is a fairly precise criterion to identify social entrepreneurs. A strength of this definition is that it underlines the extra effort that a social entrepreneur makes given the challenges the hybrid nature of social enterprises pose. In this regard, a study from Costanzo, Vurro, Foster, Servato, and Perrini (2014) explores the approaches to “dual-mission management”, i.e. the dynamics of balancing the social component with the economic component of the mission.

The definition of “social entrepreneurs” from Peredo and McLean (2006) stresses the employment of innovation. The strength of Social Entrepreneurship relies in its potential to innovate. Nowadays, the most successful products/services are mainly based on the dialogue between business and community. Not being locked in traditional business frameworks, social entrepreneurs are particularly good at spurring innovation. Social entrepreneurship and social enterprises are broadly viewed as able to drive social and economic growth by providing goods and services which neither the public sector or the market is able to offer (Costanzo et al. 2014). No matter the actual definition adopted, innovation is an essential part in the business model and concept of a social enterprise, given the idiosyncratic combination of motivation, objective, and constraints that a social entrepreneur face (Comini, Barki, Aguiar, 2012).

Summing up, despite the popularity that social entrepreneurship enjoys in the business environment, there is still no agreement on the definition of the term. The important takeaway from the nourished debate on the matter is that “social entrepreneurship signals the intent to drive social change” (Martin and Osberg, 2007) and “socially entrepreneurial activities blur the traditional boundaries between public, private, and non-profit sector and emphasize hybrid models of for-profit and non-profit activities” (Johnson, 2000, p16): on this takeaway, we can actually observe in the literature a sort of agreement.

2.3 Focus on B Corp System

In the sphere of social entrepreneurship gravitate many other concepts and initiatives, one of which is the B Corp System.

The B System is a global movement ideated in the US in 2006 by Jay Cohen Gilbert and Bart Houlahan. The aim was to support and certificate those ventures devoted to solve
socio-environmental problems through their business model. “B Corps use market tools to create public goods”, states the B System website\(^1\). B Corps need to comply with rigorous standards of performance. Such rigorousness gives credibility to the member of the system. The purpose of the initiative is to connect the main actors in the process of generating systemic change in the economy and society, and to back these actors through managerial support and incentivizing the sharing of best practices.

B Corps certification rest on three pillars: verified performance, public transparency, and legal accountability. Before assigning the certification, the system makes an assessment of the company and assigns it a score that goes from 0 to 200, where 80 is the minimum for an organization to be eligible as a B corporation. The score is composed by 5 elements:

- Environment: evaluates the company’s environmental performance along its supply chain. The section also measures whether the company’s product or service is designed to solve an environmental issue.
- Workers: assesses the company’s relationship with its workforce, as well as the overall work environment and culture.
- Customers: focuses on whether the company’s offer is aimed at promoting public benefit and it is targeting underprivileged individuals.
- Community: evaluates the company’s involvement with the local community and its practices and policies around community serving and charitable giving.
- Governance: focuses on stakeholder engagement, company’s mission, and policies’ transparency.

B Corps represent a wide variety in terms of sectors, size, geography, and innovating business models. In 2016, the network included over 1800 certified B Corps in 50 countries all over the world. The system expanded in Brazil at the end of 2013, and so far there are around 30 B Corps in the Latin American countries, one of which is 4YOU2, which has a remarkable score of 120 in the B Corps certification (highest band scores are in the customers and community sections). The majority of Brazilian B Corps are established in São Paulo.

### 2.4 Growth frameworks of firms

As the object of the research questions are “entrepreneurial ventures in the growth phase”, it is necessary to define what is meant by “growth phase”.

\(^1\) [http://www.sistemab.org/ingles/home](http://www.sistemab.org/ingles/home)
Literature on entrepreneurship and firms has identified a wide set of frameworks depicting the different stages of entrepreneurial growth in which predictable patterns are expected to exist (Gabrielsson and Gabrielsson, 2013). Large businesses or businesses that started in similar time and context show similar patterns in terms of size and growth (Jovanovich, 1982). Instead, small ventures vary widely in size, characteristics and capacity for growth, and categorizing their growth patterns seems a hopeless task. Nevertheless, it becomes clear at a closer examination that they experience common problems at similar stages of their development (Churchill and Lewis, 1983).

In the work of Steinmetz (1969) small businesses are depicted as moving through four stages of growth. Steinmetz theorized that each stage ends with a critical phase that the company must deal with before moving to the next phase. The stages are the following:

1. Direct supervision: it is the simplest stage. If a venture is successful it experiences a low and steady increase in sales and profitability.
2. Supervised supervision: complexity in terms of overhead, finances, and personnel increase. The owner is now switching to the role of administrator and must pay attention to growth.
3. Indirect control: the owner truly becomes a manager that needs to delegate and have in mind standards of performance. Pending problems in this phase are overstaffing at the middle levels and diminishing absolute rate of return.
4. Divisional organization: the company has now organizational structure and resources to remain viable.

Greiner (1972) theorized the existence of five distinguishable phases of development. In each phase it can be observed an evolutionary period (prolonged period of growth with no major upheaval in organization practices) followed by a revolutionary period (period of substantial turmoil in organization life). Appropriate managerial styles during the phase of evolution and managerial problems in the revolutions are clearly portrayed. According to the author, organization’s history is crucial in determining the future of a business.

Other scholars attempted to systematically categorize small firms’ growth, but not without shortcomings. For instance, Patel (1995) present a model in which dominant crisis types help to classify the stages of development of a venture. The four stages, depending on the crisis faced, are the following:

1. Start-up crisis and cash crisis (usually in the first three years);
2. Delegation and leadership crises (usually between the third and seventh year);
3. Finance and prosperity crises (between seventh and tenth years);
4. Management succession crises (ten years and onwards).

This model’s main limitation is the implied linearity (Mitra and Pingali 1999). Every crisis appears in a sequential fashion and not even external factors can reopen them.

The research from Churchill and Lewis (1983) builds on the works of Steinmetz (1969) and Greiner (1972), but also of other scholar as Rostow (1960) and McGuire (1963), on economic development stages of companies, and Christensen and Scott (1964), on product line and market coverage growth and venture evolution. According to Mitra and Pingali (1999), the strength of the framework developed by Churchill and Lewis (1983) is mainly that it allows for companies to experience different growth paths.

The framework, following the literature and empirical research, depicts five stages of development. Each stage is marked by “an index of size, diversity and complexity and described by five management factors: managerial style, organizational structure, extent of formal systems, major strategic goals, and the owner’s involvement in the business” (Churchill and Lewis, 1983). The following table gives a comprehensive understanding of the framework, whose stages are further explained.

Table 1 Stages of small business growth from Churchill and Lewis (1983)

<table>
<thead>
<tr>
<th>Management Style</th>
<th>Organization</th>
<th>Extent of Formal Systems</th>
<th>Major Strategy</th>
<th>Business and Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Supervision</td>
<td>One layer</td>
<td>Minimal to Nonexistent</td>
<td>Existence</td>
<td>Complete overlap with Business&gt;&gt;Owner</td>
</tr>
<tr>
<td>Supervised Supervision</td>
<td>Two layers</td>
<td>Minimal</td>
<td>Survival</td>
<td>Complete overlap with Business=Owner</td>
</tr>
<tr>
<td>Functional</td>
<td>Two layers</td>
<td>Basic</td>
<td>Maintaining profitable status quo</td>
<td>Partial overlap with Business=Owner</td>
</tr>
<tr>
<td>Functional</td>
<td>Two layers</td>
<td>Developing</td>
<td>Get resources for growth</td>
<td>Partial overlap with Business&gt;&gt;Owner</td>
</tr>
<tr>
<td>Divisional</td>
<td>Two layers</td>
<td>Maturing</td>
<td>Growth</td>
<td>Partial overlap with Business&gt;&gt;Owner</td>
</tr>
<tr>
<td>Line and Staff</td>
<td>Three or more layers</td>
<td>Extensive</td>
<td>Return on investment</td>
<td>Partial overlap with Business&gt;&gt;Owner</td>
</tr>
</tbody>
</table>

Source: Churchill and Lewis (1983)

- **Existence**: in this first stage the main problem is building a customer base and delivering the product/service contracted for. In other words, the business needs to become viable and the strategy is focused on this task.
• **Survival**: as the business has proved its viability, the focus now shifts to the relationships between revenues and expenses. The objective is to finance growth and work on the size of the business.

• **Success-Disengagement**: a company has secured economic health and can remain at this stage forever. Cash is plentiful. Financial, marketing, and production systems are basic and the first professional staff members enter the organization.

• **Success-Growth**: the owner wants to expand the company and mobilize resources to finance growth. He is deeply involved into strategic planning.

• **Take-off**: it is a pivotal period in which problems are mainly related to financing the growth of the organization. The organization is decentralized and responsibilities are to be delegated in order to improve managerial effectiveness. Success at stage III-G does not imply success at stage IV. The company risks to run out of cash or to fail in delegating tasks effectively. If the company does not succeed at this stage it may be able to retrench and endure at state of equilibrium, drop back to stage III or even fail.

• **Resource maturity**: rapid growth came with financial gains and the primary concern is to consolidate them while maintaining the advantages of small size, *i.e.* flexibility and entrepreneurial spirit. The company needs to be professionalized with a budget, strategic planning, and costs systems. The risk is ossification: lack of innovative decision-making and risk avoidance.

In each stage, the importance of 8 critical factors changes. These factors are:

- 4 related to the company:
  1. Financial resources;
  2. Personnel resources;
  3. Systems resources (planning and control systems);
  4. Business resources (customers and suppliers relations, market share, reputation, position in the market);
- 4 related to the owner:
  5. Owner’s goals;
  6. Owner’s operational abilities;
  7. Owner’s managerial ability and willingness to delegate responsibility;
  8. Owner’s strategic abilities for looking beyond the present and matching the strengths and weaknesses of the company with his goals.

The owner needs to be flexible and adapt his managerial style to the evolving importance of the factors. As the company grows, the importance of cash changes, and the issues of people
and systems increase and the owner’s role becomes more managerial and strategic than operative.

The framework delineated by Churchill and Lewis (1983) can be used to evaluate virtually every sort of small business situation. It fits the purpose of this paper, appropriately giving the idea of what is meant by “growth phase” of an entrepreneurial venture. It will therefore be adopted it in the “Discussion” section to analyze the case of 4YOU2.

2.4 Challenges of the Growth Phase

Together with each piece of literature analyzed above - namely entrepreneurship, social entrepreneurship, and growth frameworks - come the studies on the challenges faced by entrepreneurs in the life cycle of their companies. Particularly, here the focus is on challenges peculiar to the growth phase - as defined in the previous section. Many scholars tackled this topic: some of them pointed out differences in the case of traditional vs. social entrepreneurship, while others focused on commonalities.

The three-macro areas that emerge as appropriate to incorporate the challenges are:

1. Challenges related to the management of internal processes;
2. Challenges related to the offer;
3. Challenges related to the external context.

The first area includes those threats associated with managing a fast evolving organization whose number and nature of functions, stakeholders, and operation is increasing and changing at a significant pace. These include establishing and maintaining good relationships with internal stakeholders during the growth process (Lumpkin et al, 2011), building and implementing a scalable business model (Perrini et al, 2010; Barki et al, 2013; McMullen, 2011), reaching the breakeven point (Lumpkin et al, 2011), implementing efficient internal systems (Churchill and Lewis, 1983), creating a network spurring the growth of the venture (Perrini et al, 2010), finding and retaining qualified personnel (Dorado, 2006; Austin et al, 2006; McMullen 2011). Some challenges associated with managing the internal organization are strongly connected with the abilities of the entrepreneur himself: taking and managing risks necessary for growth (Lumpkin et al, 2011), delegating and maintaining a long term focus (Churchill and Lewis, 1983).

Regarding the challenges mentioned so far, some scholars state they are common for traditional and social entrepreneurs while some others point out the differences, but then disagree on how they actually differ. A challenge there is consensus on is measuring the impact of an organization: while measuring the economic impact constitutes a challenge for
virtually every growing venture (Austin et al, 2006), measuring social value creation (Dees, 1998) is an additional challenge whose relevance is unanimously recognized by scholars to be stronger for social entrepreneurs.

A second group of challenges is related to the offer, *i.e.* to the product, service or bundle of products and services that the company presents to its potential customers. These are: difficulties in finding the correct positioning (Churchill and Lewis, 1983), understanding market trends and demands (Lumpkin et al, 2011), communicating with customers and building relationships with them (Austin et al, 2006; Barki et al, 2013).

Finally come the challenges related to the external context. These include: moves from competitors (Churchill and Lewis, 1983) and intensity of competitions (Lumpkin et al, 2011), difficulty of obtaining funding (Lumpkin et al, 2011; Austin et al, 2006), managing multiple external stakeholders (Lumpkin et al, 2011; Austin et al, 2006), dealing with institutions, including government, bureaucracy, and tax system (Perrini et al, 2010; Austin et al, 2006).

This classification does not aim to be exhaustive, but to serve as useful framework to analyze the case of 4YOU2 and observe to what extent the challenges faced by this Brazilian social enterprise in the growth face are peculiar to its situation or are a natural consequence of its phase of development.

The section on the review of the literature has given a theoretical background on the topic and the findings will be used when discussing the case of 4YOU2, to better frame the empirical analysis. First, a review of the concept of entrepreneurship has been carried out. This analysis has been followed by a focus on the concept of social entrepreneurship and on agreements and controversies regarding it. The last two subchapters have been dedicated to the idea of “growth phase” and to the related challenges. The following section will be dedicated to depicting the exact methodology adopted for the study.
3. METHODOLOGY

This section presents the methodology adopted to answer the research question

“What are the main challenges faced by social enterprises in the growth phase?”

It will first present the methodology and the reasons why it was adopted. The unit of analysis and the data collection sources will be further described. Finally, the strategies adopted to validate the findings will be described.

3.1 Method

The general methodology adopted is the qualitative research. Qualitative research is particularly useful when the intent is to extract ideas from accessible data and connect them with theoretical perspectives (Langley, 1999).

The specific approach adopted is the single case study. The choice was driven by the acknowledgement that, being the field of social entrepreneurship still under exploration, literature related to the research question in analysis is rich in theoretical frameworks but lacks exemplar cases. Scholars (Greene and Caracelli, 1997, Creswell, 2007) recognize that qualitative research stands out for particularity rather than generalizability; and such characteristic makes this method appropriate for the purpose of the study. Moreover, the qualitative method is flexible and adaptable.

3.2 Bounding the case study

The object of the case study is the Brazilian social enterprise 4YOU2.

4YOU2 is a certified Brazilian B-Corp committed to provide unprivileged individuals high-quality English instruction. At the time of the research, 2016, 4YOU2 was at the fourth year of its life, with over 1600 students in 4 units (Heliopolis, Jardim Angela, Capão Redondo and Campo Limpo) of the South area of São Paulo city. Gustavo, the founder, had the idea in 2011, during its first year of university. He came to São Paulo from Rio de Janeiro, were he was born, to study business administration at USP (Universidade de São Paulo). He realized that he had to deal with a lot of books and papers in English, but he had no knowledge at all about the language. He thus started relating with foreigners coming to Brazil through the organization AIESEC. Through the contact with foreigners, he was able to learn English. This experience was deeply inspiring for Gustavo. It made him realize that English knowledge in Brazil is extremely weak and English school are expensive and of bad quality. Envisioning that the way he learned English could have worked for others, he came up with 4YOU2,
whose value proposition is exactly affordable high quality English instruction. 4YOU2 brings foreigners to Brazil to do an internship as English teacher while having a cultural experience (they call it “Change” program). Professors are highly motivated and accept a salary way lower than the market average, thus allowing 4YOU2 to save costs and commit a very low price to its students: unprivileged individuals from São Paulo’s communities. 4YOU2 accepts two other categories of professors. It gives jobs to refugees coming to Brazil and accepts exchange students that decide to enrich their experience by volunteering at 4YOU2. This last category is definitely marginal in 4YOU2’s business model: volunteers give a maximum of 2 classes per week and they are not accepted every semester. Paying professors is instead a distinctive element to determine the nature of 4YOU2 as an enterprise. The organization is a for profit social enterprise, complying with market rules and pursuing financial sustainability while fulfilling the social mission.

4YOU2, at its fourth year of life, was going through several changes and was struggling to maintain significant growth while preserving the business model of high quality at low cost and pursuing the social mission. Using the framework developed by Churchill and Lewis (1983), we can observe that 4YOU2 in 2016 fitted, with some necessary adjustments, the Stage III – Success-Growth, as it will be better explain in the section dedicated to the analysis of the findings. The company therefore emerged as an illuminative case, well suited for the purpose of my study. It can serve as an extreme case (Pettigrew 1990), enlightening dynamics that might be obscure in other context of the growing field of social entrepreneurship.

When discussing the object of the analysis, it is useful to refer to the study conducted by Miles and Huberman (1994). The two scholars identified four aspects included in the discussion about the participants and sites selected for the analysis: the setting –where the research is conducted–, the actors –the subjects of observations and interviews–, the events –what the actors are interviewed or observed doing–, and the process –“the evolving nature of events undertaken by the actors within the setting”–. In this specific study, the participant is 4YOU2 and the setting consists of the four units the company owns at the time of the research, as well as the central office. The actors are all the main stakeholders of the organizations, as will be better explained in the next section: as much as the founder and a few “senior figures” inside 4YOU2 have a deeper knowledge of the company, every stakeholder can contribute in giving a useful perspective of the dynamics the enterprise is experiencing. The events in analysis are the everyday activities and operations. Particular
attention is given to some processes: the development of the classes, the interactions among the actors as well as the reaction to unexpected events.

3.3 Data collection and analysis

I have gone through the data collection phase of my study in the period from March and June 2016.

As Creswell (2007) explains, “qualitative researchers typically gather multiple forms of data […]. Then the researchers review all of the data, make sense of it and organize it into categories or themes that cut across all of the data sources.” This is in short the process I have gone through.

I collected data from three categories of sources. I present them here in order of relevance.

1. Interviews

I conducted a total of 44 one-to-one in person interviews: 1 to the founder, 10 to professors (including 3 former ones), 6 with employees in the central office, 10 to employees in the various units, 2 to representative of partner NGOs, and 15 to students in various units. With the founder Gustavo I also had further conversations and, at the very beginning of my study, I attended a lecture he gave to a class of bachelor students at FGV (Fundação Getulio Vargas) in São Paulo.

The length of the interviews varied, from less than 10 to almost 90 minutes. The longest one was the first one with Gustavo, 1 and a half hour long. The shortest were the interviews with the students, especially the younger ones.

The interviews included semi structured, open ended questions, few in number in order to bring out perspectives and opinions from the participants. The questions were different according to the role of the interlocutor.

Given the emergent nature of the research process for qualitative research (Creswell), the interviews’ script has been partly readapted several times according to the responses I was getting and the development of the study.

I was starting presenting myself and my study as a sort of ice breaking. Making the interviewee comfortable was crucial to gather useful information and sincere answers, especially when asking about weaknesses and negative aspects of 4YOU2.

Interviews were conducted in Portuguese, except for the one with foreign professors, conducted in English. During the interviews I have been taking only marginal notes, relying instead on recording them to make it more a “guided conversation rather than structure queries” (Yin, 2003). Recorded interviews were translated soon after and
transcribed. In order to clarify unclear texts and vague points I adopted the rule of summarization.

The whole process proved to be extremely insightful as everyone was eager to help me and give me information. Marginal drawbacks of this data collection method are personal biases in the answers and the fact that not all people are equally “articulate and perceptive” (Creswell, 2007).

2. Observations

I adopted two types of observation: direct observation and, to put it with Yin (2003), “participant observation”.

The case study creates the opportunity for direct observation, as it should take place in the natural environment of the case (Yin, 2003). I conducted field visits to the four units: from 2 to 5 visits per units, and a total of three to the central office. Some visits were specifically scheduled to make observations and to assist some classes. Moreover, for less formal direct observation I was generally taking advantage of those occasions during which I was conducting the interviews. During the observations I have been taking reflective notes with impressions and personal thoughts (Bogdan & Biklen 1992).

In conducting participant-observations I was not merely a passive observer. I have actually assumed the role of professor and hold a total of three classes with seven years old kids. This approach allowed me to get first hand experience, notice unusual aspects and personally confirm some responses I was getting from the ongoing analysis. Creswell (2007) noticed that a drawback of the participant-observation is its intrusive nature as well as its potential to threaten the credibility of the study by exaggerating biases in the researcher/participant.

3. Secondary Data

4YOU2 is raising the attention of local media as well as of some international organizations. I was therefore able go through several articles and video online about the company, whose link are for the majority available in the “media” section of the company website\(^2\). Documentary evidences were completed by the review of the most recent “B Impact report” published by Sistema B\(^3\) and a project developed in 2015 by a group of Yale MBA students together with an FGV student. This last project\(^4\) consists in a pro-

\(^2\) [http://www.4y2.org/media](http://www.4y2.org/media)
\(^3\) [http://www.bcorporation.net](http://www.bcorporation.net)
bono consulting service to 4YOU2 aimed at analyzing the viability of different expansion models.

The review of secondary data was a minor component of the data collection processes, yet useful to triangulate the data gathered through primary sources. During the whole data collection phase, I have already started to shape a draft analysis through an inductive method: organizing the data in abstract themes emerging from the bottom up (Creswell, 2007).

While the interviews were going on, I was keeping on hand the past interviews and notes, writing memos that I ultimately organized and included as a narrative in the final report (Rossman and Rallis, 1998). The qualitative analysis works at multiple levels, from getting raw data (transcripts, field notes, documents) to organizing and coding them: it is an interactive practice and not a linear approach (Yin, 2003). The interactivity and the continual reflection about the data proved to be the key to keep the analysis meaningful and not waste time in collecting irrelevant information.

Once I had enough data and the answers from the interviews were starting to repeat themselves, I developed a coding based on the emerging information collected (“emerging codes”), apportioning text segments within the key themes. Further, in the discussion, I fitted the themes from the findings into the code arisen from the literature review. The discussion was developed through a theoretical lens, i.e. I used the previously reviewed theory as a template with which to compare the empirical results from the study (Creswell, 2007).

3.4 Validation of the Findings

In order to validate my findings and build on the credibility of my study, I adopted several strategies:

- I spent prolonged time in the field to develop an in-depth understanding of the contest.
- Information was collected from multiple sources to strengthen the reliability and internal validity of the analysis (Merriam, 1998) and minimize potential biases (Lincoln and Guba, 1985; Yin, 2003) through data triangulation.
- I used rich, detailed, and thick description to convey the findings (Creswell, 2007) so that anyone interested in transferability can have a strong framework for comparison (Merriam, 1988).
- I presented discrepant information running counter to the themes outlined.
- I had several conversations with the founder of 4YOU2 to gather his point of view and further elaborate on the results I was getting.
4. FINDINGS

This section will present the findings emerged from the deep study of the company. Findings have been divided into two categories: “drivers of growth” and “challenges”.

4.1 Drivers of the growth

Under the umbrella of “drivers of growth” follow all the elements that contribute in building the potential of 4YOU2 as a successful and impactful social enterprise.

4.1.1 Human Capital

In June 2016, the staff of 4YOU2 included:

- 6 people in the back office: the founder and CEO Gustavo, the operation manager, the finance manager, the HR manager, the International Talents Analyst, the commercial manage, and the general pedagogic coordinator.
- 2 people working at Jardim Angela: unit coordinator and pedagogical coordinator.
- 4 people working at Capão Redondo: unit coordinator, 2 pedagogical coordinator, sales assistant and receptionist.
- 2 people working at Campo Limpo: unit and pedagogical coordinator, and sales assistant and receptionist.
- 2 people working at Heliópolis: unit coordinator and pedagogical coordinator.

The first observation one can make after spending a few hours at 4YOU2’s units is that the atmosphere is genuinely positive. People working in the organization are open and outgoing, to the point of looking more like a group of friends than coworkers.

“The main strength is the team, really nice people.” [Pedagogic Coordinator at Jardim Angela]

“I am here just because I like to be around the people here, which are very cool.” [Sirian professor at Heliópolis]

“The main strength I think is the companionship.” [Pedagogic Coordinator at Heliópolis]

The group of people working at 4YOU2 is really diverse in terms of background and age, even though the majority is young, between 20 and 35 years old. Such diversity is fruitful for 4YOU2, as it contributes to the flow of new ideas.

Another strength point is that 4YOU2 primarily hires local community members, especially for roles within the units. As pointed out in the report produced last year by the
Yale Global Social Enterprise team “whether it is the Branch Director, Pedagogical Coordinator, or Receptionist, these employees are chosen from the community in which the branch is based, allowing 4YOU2 to gain valuable local knowledge as to what the dynamics and needs are in each community. Additionally, hiring locally provides 4YOU2 with legitimacy: prospective students are far more likely to trust the 4YOU2 brand if they learn about it from a local community member”.

Table 2 Drivers of growth: Human capital

<table>
<thead>
<tr>
<th>HUMAN CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive and collaborative environment.</td>
</tr>
<tr>
<td>Diverse backgrounds contribute to innovativeness.</td>
</tr>
<tr>
<td>Employees hired locally give credibility inside the community to the organization.</td>
</tr>
</tbody>
</table>

4.1.2 Strong Mission

“Transform education through language learning and transcultural experiences that are accessible and of quality for the base of the pyramid in a global environment.”

[Company’s mission statement]

The above mission, clearly stated in the homepage of the company’ website, depicts the very reason why 4YOU2 was born: offering high quality language education and a real cultural exchange to the Base of the Pyramid. For 4YOU2 the mission works as a competitive advantage and it is both a reason as well as a driver of growth.

First of all, it is the primary motivator of everyone’s hard work to contribute to the organization’s life. Responses in this regard were unanimous:

“What I liked the most about 4YOU2 was the mission. Teaching English but also having a cultural impact for unprivileged individuals.” [HR manager]

“I was not identifying myself with what I was doing at [famous investment bank]. Here the purpose is noble.” [Finance manager]

“I like the idea. I identify myself with the values.” [Pedagogical coordinator at Heliópolis]

Not just the employees but also the foreign professors find their motivation in the mission: some of them are so inspired by the idea of having such a strong impact that they
would be available to work for free, as a former German professor – who actually volunteered for 4YOU2 – told me:

“I was motivated to volunteer after learning about social businesses at FGV. I wanted to find out what this means for myself. I was spurred by the huge impact you can have by engaging with small initiatives. [...] I was really moved when one student read out a personal letter after the classes had ended; it was completely in English! When I asked ‘How did you do that?’ he answered ‘You taught me!’ Overall, it was an amazing experience! [...] The students were so great and the interaction with them was really nice. It was great to meet them!” [German exchange student at FGV, former professor at 4YOU2]

People inside 4YOU2 really feel they are making the difference in the world, and this awareness keeps them motivated despite the many challenges of the growth phase. “We care about 4YOU2 as if it was our home” – told me the Unit Coordinator at Heliopolis – “our work is done with excellence”. Such a strong motivation proved to drive growth and continuous improvement.

Besides being a driver, the mission is also a reason to grow: the bigger 4YOU2 becomes the wider will be its social impact. The high dynamism of environment and the quick changes the company is going through in its first year might jeopardize the strategy of the organization. But this effect is counterbalanced by the alignment created by the mission: 4YOU2’s folks, to use the words of the financial manager, is “contributing to the change”, both internally, to make the company evolve and grow, and externally, to positively impact society.

Finally, the mission serves as a powerful branding advantage, and it is catching the interest of media. The social enterprise is gaining recognition and awards inside and outside Brazil. For instance, the BBC, in an article from June 2014, talks about 4YOU2 as one of the Brazilian social firms aiming “to craft a brighter future”\(^5\). The mission, and the business model designed to serve it, show that “the way they are doing things is different, and a lot of people like things that are different” [Honduran professor at Campo Limpo].

From the extensive talks I had with the founder, I could observe that being a social enterprise is in the very DNA of the company. The mission is not to be jeopardized; it is the priority, money is a secondary matter. During our first talk, the founder told me that he is receiving calls from rich Brazilians that would like to study at 4YOU2, but he is rejecting them –even if they would pay him good money- because accepting them would spoil the

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\(^5\) Idoeta P. (June 2014), Brazil's social firms aim to craft a brighter future, BBC News
mission, which is giving something cheap and good to unprivileged individuals. And by spoiling the mission also the professors’ motivation would be affected, having they come to Brazil to have a life changing experience and make an impact, not to be teacher of rich Brazilians. The whole business model would ultimately collapse.

**Table 3 Drivers of growth: Strong mission**

<table>
<thead>
<tr>
<th>STRONG MISSION</th>
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</thead>
<tbody>
<tr>
<td>Motivation for everyone in the organization.</td>
</tr>
<tr>
<td>Keeps the strategic alignment within the organization.</td>
</tr>
<tr>
<td>Strong branding advantage.</td>
</tr>
<tr>
<td>Feeds a powerful word of mouth.</td>
</tr>
</tbody>
</table>

### 4.1.3 Pricing

A major competitive advantage for 4YOU2 is the pricing: a 4YOU2’s monthly plan is priced at a way lower rate than an average English course in Brazil. In 2016, the price was a flat monthly rate of R$79. Other English schools in São Paulo commit up to R$350 (e.g. the school Wizard commits a monthly fee of R$360) or more if you consider the teaching materials, that 4YOU2 already includes in the R$79 fee.

Such a price allows the company to serve its mission by targeting lower social classes, especially class D. “Here the price is more accessible for my social class”, told me the very first student I interviewed, a nineteen years girl from Jardim Angela. And responses from other students were no different in this regard; everyone was praising the affordable price.

The founder, when talking about the comparison with other English school, told:

> “Today learning English is still very elitist, it is not democratized. And to me language leaning is really important. [...] I was looking at the panorama of English school here and thinking ‘this is not possible, why does it need to be so expensive?’”

The whole 4YOU2 model was born to provide something really cheap and, at the same time, better than the existing offer. The founder, at one of the very first talks we had, told that, at the very beginning, they wanted to offer a few classes for free, just to test the model. But this trial failed as they weren’t able to put together a class: people were making the association “for free equal bad”, and no one, not even in the lower social classes, wants
something bad. When they actually put a price to the classes, they started catching public’s attention: the price they chose was a good balance of affordability and guarantee of an adequate quality service. Therefore, as a former professor from Germany pointed out, “from the pricing perspective it is a good deal”.

Besides being low, the price is also transparent: in the home page of the company’s website is brightly depicted the R$79 monthly fee, which does not hide any additional costs as that of materials and so on. On the contrary, looking at other English schools’ website it is almost impossible to find the price, which often is discussed with prospective students only during an ad hoc introductory meeting with the sales department.

Table 4 Drivers of growth: Pricing

<table>
<thead>
<tr>
<th>PRICING</th>
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</thead>
<tbody>
<tr>
<td>Makes the course affordable for low-income population.</td>
</tr>
<tr>
<td>Strikes a good balance between “for free = not reliable” and “too expensive”.</td>
</tr>
<tr>
<td>Transparency is emphasized.</td>
</tr>
</tbody>
</table>

4.1.4 Cross-Cultural Experience

If the affordable price is the reason why prospective students are attracted by 4YOU2 in the first place, foreign professors are what make students fell in love with the course. What 4YOU2 unquestionably achieves is providing its students an exchange experience without leaving their hometown. Foreign professors are the cornerstone of 4YOU2’s business model: they come to Brazil with the idea of having life changing and impactful experience, and therefore are highly motivated and willing to accept a salary lower than the market average.

“We decided: let’s cover a price that people from favelas can pay. They cannot pay that huge price. So our challenge was: ‘how do we offer classes 10 times cheaper, still managing to make profit?’ Paying less the professors and having better professors, having professors more motivated. [...] And foreigners solve this dilemma. Despite not being professional professors (actually most of English professors in Brazil are not even graduated), they come with a huge level of motivation, as they look for an exchange experience, and they come with the experience of someone that actually speaks English.” [Founder]
But when it comes to foreign professors they do not just contribute to a low cost structure for the enterprise: they motivate students to come to class to satisfy their curiosity on how the world works outside their own country.

I personally observed that during classes students like a lot to ask questions to professors regarding their own origins and culture: “what do you eat for breakfast in Ghana?” asked a teenager from Capão Redondo to his African teacher. Every student I interviewed mentioned the foreign professors and the cultural exchange among the things they liked the most about 4YOU2.

“My old school was traditional, here we have foreign professors: that is what caught my attention.” [Student at Heliópolis]

“I decided to study here because of the price and because of the foreign professors. Here we get an idea of how English is really spoken.” [Student at Capão Redondo]

“I really like foreign professors. With foreign professors I like to get to know about new cultures.” [Student at Jardim Angela]

Being from different nationalities, professors have their own accent: this contributes to provide the students with a “valuable everyday English”, to use the words of a former 4YOU2’s professor from Germany.

“Each professor has a different life experience and the cultural exchange is part of our offer. Moreover, professors have a different English, pronunciations and accent. Students go through different slangs and pronunciations. [...] A lot of students are reluctant to change professor, but at the end they like the new one even more.” [Pedagogic Coordinator at Capão Redondo]

<table>
<thead>
<tr>
<th>CROSS-CULTURAL EXPERIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attracts the attention of potential students.</td>
</tr>
<tr>
<td>Different nationalities of professors contribute to provide the students with a “valuable everyday English”.</td>
</tr>
<tr>
<td>Strong differentiations from average English school.</td>
</tr>
</tbody>
</table>
4.1.5 Attraction of Foreign Professors

The cultural experience is strongly connected with another competitive advantage of 4YOU2: the ability to attract foreign professors. It is not to take for granted the high number of applications that 4YOU2 receives from prospective professors: the founder was telling me that it is common to have from 10 to 15 applicants for each position available as professor.

The cultural experience would not happen without foreign professors, but, at the same time, it represents the main part of the offer from 4YOU2 to the foreigners themselves. These crucial stakeholders for 4YOU2 come to Brazil with the idea of diving into a completely new culture. They are eager to make an experience with a strong impact, for their prospective students as well as for themselves. They accept the challenge of living in a favela with a local family and to get to know the Brazilian culture from a perspective that a Lonely Planet will never explain.

“I am from Russia. I was interested in Brazilian culture; I wanted to know more about the country. I was eager to really join the environment, Brazilian reality. I didn’t want just to be a tourist, visit Rio de Janeiro and enjoy things that tourists like. [...] By living with a family in the community I also learned Portuguese.” [Former Russian professor at Heliópolis]

“What I think is interesting about 4YOU2 is that they do not just want to be an English school, they want to connect people from outside Brazil with Brazilian communities to have this exchange of experiences. I believe this is going to open the minds of both, professors and inhabitants of the communities. This is great to me.”

[Former Finnish professor at Capão Redondo]

From my interviews, I could observe that there is a small portion of professors complaining about the very low salary. Those last are mainly refugees, who just see in 4YOU2 an opportunity to make a living. Nevertheless, even the minority that complains about money admits that 4YOU2 is giving them the chance to gradually learn Portuguese and understand the local culture, essential condition to ultimately get a well-paid job. Moreover, the organization’s main target as potential professors is a well-educated foreigner eager to make an experience with a strong impact and not in stringent need of money.

Overall, the level of satisfaction emerging from interviews with professors was impressive. The ability that 4YOU2 is proving in attracting foreigners is a strong driver supporting the growth of the company.
Table 6 Drivers of growth: Attraction of foreign professors

<table>
<thead>
<tr>
<th>ATTRACTION OF FOREIGN PROFESSORS</th>
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<tbody>
<tr>
<td>Foreign professors make the cultural experience possible for students.</td>
</tr>
<tr>
<td>The cultural exchange is an attraction for professors themselves.</td>
</tr>
<tr>
<td>4YOU2 is receiving lot of applications for the opening positions and the level of satisfaction among professors is really high.</td>
</tr>
</tbody>
</table>

4.1.6 Relationships with NGOs and Various Organizations

A crucial advantage for 4YOU2 are the connections and partnerships that the company has with various organizations, NGOs, and universities. The first one to mention is Instituto Quintessa, an accelerator that supports businesses with environmental or social impact. The organization provided 4YOU2 with managerial support from the very beginning of the company’s life. “For me it was the best thing”, told me the founder talking about his experience with Quintessa, “It has been a very side-by-side process: weekly meeting with incredible mentors and people with a strong market knowledge. They basically formed me as an entrepreneur and formed 4YOU2 as an enterprise.”

Besides their role in providing managerial support, partnerships also work as a marketing tool for 4YOU2. The network around the company feed a beneficial word of mouth. Here is what the operations manager told me about the marketing of the Change program:

“We do have partnerships with individual universities, international organizations, online partnerships that focus on the profile we have seen that has worked the best. So it is mainly through those partnerships and online channels that we achieve the spreading of the word about this opportunity, and also this network that we are growing each semester of supporters of 4YOU2, Brazilian supporters, foreign supporters, former teachers, and those that have connection abroad. It does facilitate in terms of sharing the opportunity. As we move on in the future we have to shrink into those partnerships, expand them to be able to create the supply of participants that are interest in 4YOU2’s value proposition, and that come to Brazil to spend some time with us.”

Word of mouth works not just for professors but also for every stakeholder inside 4YOU2. A standard question I was asking everyone during interviews was: “How did you get
to know about 4YOU2 and this opportunity?” All professors told me about some friend or acquaintance that introduced them the opportunity, maybe after having tried it in the first place. Among employees, half answered me that they were told about vacancy in 4YOU2 by some friend; a few mentioned getting to know about 4YOU2 through their former university; while the remaining referred to various means as job sites or adds on a newspaper. Finally, also some students mentioned friends telling them about 4YOU2 opportunity while some other talked about lectures hold in their school or church, announcement on posters around the community, newspaper adds.

“I was looking for a job and I got to know about it through a connection, thanks to a friend.” [Kenyan professor at Campo Limpo]

“I got to know about 4YOU2 in a lecture they made at my church. They presented themselves in a really nice and dynamic way.” [Student at Jardim Angela]

“At FGV I got in contact with an organization called ‘Social entrepreneurship’ and through it I got to know about 4YOU2.” [Finance Manager]

“There is a job site I got in contact with 4YOU2 that was in need of people in the HR area.” [HR Manager]

Important partnerships to be mentioned are those of Capão Redondo and Heliópolis units, which rent the physical spaces of two NGOs, respectively, Fabrica de Criatividade and UNAS. Such partnerships are helpful as the NGOs are already established in the respective communities and attract a lot of people, people that ultimately get to know about 4YOU2. The partnership between Capão Redondo unit and Fabrica de Criatividade was especially crucial. At the very beginning of 4YOU2’s life, Gustavo made an agreement with the NGO to rent its space for a very cheap price. A representative of this NGO told me: “When Gustavo had the idea about 4YOU2, Denilson [from the NGO] helped him to structure it here in the Fabrica. The very first 4YOU2 class was in this building. [...] Here at Fabrica there are a lot of youngsters, also from the community. And by coming here they got to know about 4YOU2.”

Being associated with a well known and appreciated NGO, helps 4YOU2 to gain credibility, as the Unit Coordinator of Heliópolis told me: “The problem is building credibility without having a famous brand. Plus, an English course so cheap seems impossible, so people are unfaithful. The idea of making a partnership with UNAS, a strong NGO here with more than 30 years or experience, is meant to give credibility to our product.”

4YOU2 has also several partnership with universities around the world, partnerships that are particularly useful in attracting foreign professors and, once again, give 4YOU2 visibility. A connection that inspired the company’s business model itself is the one with the student
organization AIESEC⁶, an independent non-profit organization aimed at helping the young generations at developing their leadership potential. The organization offers its members the opportunity to do working and studying experiences abroad: when 4YOU2 first started, the unit of AIESEC at USP supported Gustavo in implementing the Change program.

Finally, an important connection for 4YOU2, even if not as relevant as the already mentioned partnerships, is that with the world of B Corps in Brazil. Being a certified B Corporation, 4YOU2 has credibility inside the business community. According to the New York Times “B Corp provides what is lacking elsewhere: proof”⁷: this certificate is the guarantee of social responsibility, thus being also a strong brand advantage. It does not really work in attracting 4YOU2 students, as the majority of them does not have any notion of what social enterprises and the B system are. The branding advantage works mainly to gather the interest potential investors and the business community as a whole. “Entrepreneurs want to command higher valuations, achieve greater impact, and build companies to last at scale with integrity. The B Corp legal and performance standards help ensure that B Corps and their investors meet all three of these objectives”, explain the B Corps website. 4YOU2 is attracting the interests of media inside and outside Brazil, and being a B Corp helps in this regard. Many are the newspaper articles and the video included in the “media” section of 4YOU2 website. They all contribute to provide 4YOU2 with free marketing, ultimately attracting the interest of perspective students and professors.

4YOU2 is working intensively also to spread the word about social businesses in Brazil, where the sector is still in the first stages of development (Barki et al, 2013). The wider will be the knowledge about social businesses, the easier will be the life for a company as 4YOU2. The founder was telling me that it is currently a bit of a challenge explaining their business to stakeholders, but they work hard to get only the best out of being a social enterprise:

“A lot of people do not understand. It is a challenge to communicate to students -the clients of the case- that you are a social enterprise, and because of that you have a lower price compared to other schools. It is a challenge communicating it to professors. There is lack of cases, and usually human mind understands through association. […] A person might have an idea about what an NGO (Non Governmental Organization) is, and when we do something that is not typical from an NGO, that person thinks it is wrong. And the contrary holds as well. People’s mind works on extremes: either it is an NGO or a business. […] For me it is a difficulty but

⁶http://aiesec.org
⁷Rosenberg. April 14, 2011. Ethical businesses with a better bottom line. The New York Times
I look at that as a positive thing. I deal with it with the jeitinho brasileiro –the Brazilian way-. So we change our profile according to what is, time-by-time, strategically more convenient for us. At the beginning, for the professors we were an NGO with no money, we were asking for help and stressing the “social” aspect. For our students we were a normal school, just cheaper. Of course the information is there, we are not lying, it is just a matter of changing the selling speech. So if I am talking to an investor: business. If I am talking with a community leader in the favela: social. I am talking to someone who understands the sector: social business. That gives us flexibility. It is difficult but it has been an advantage so far. [...] As we do something social, people in general like us a lot.”

Table 7 Drivers of growth: Relationships with NGOs and various organizations

<table>
<thead>
<tr>
<th>RELATIONSHIPS WITH NGOs AND VARIOUS ORGANIZATIONS</th>
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<tbody>
<tr>
<td>Partnerships provided the company with managerial support.</td>
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<tr>
<td>Having connection with established organizations gives 4YOU2 credibility.</td>
</tr>
<tr>
<td>The network of partnerships feeds a powerful word of mouth.</td>
</tr>
<tr>
<td>4YOU2 is contributing on spreading the word about social entrepreneurship.</td>
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</tbody>
</table>

4.1.7 Community Embeddedness

When 4YOU2 opens a new unit in a community, it tries from the very beginning to be perceived from locals as an integral part of the community itself; for what I could perceive, it is very successful in doing so. As already explained, the company tends to hire locally its employees, creating a strong connection with the local society and increasing its own credibility and likelihood to be accepted. It intensively participates and contributes to the life of the community, for example organizing events open also for non-students, from small parties to celebrate public festivities to cultural events. People from 4YOU2 regularly go around the community to talk about the school. Also the partnerships with recognized NGO’s, as already pointed out, help in building the credibility and popularity of 4YOU2.

The majority of the students of a unit comes directly from the community where the unit is based, spreading the impression that the company is really working for the benefit of the local population. Besides, the word of mouth again emerges as a powerful tool to feed the
business and attracting new students, many of which come to 4YOU2 on the base of friend’s recommendations.

“A friend of mine told me about 4YOU2. I decided to give it a try and I liked it. I already invited to come my sister and a friend of mine: they liked it as well!” [Student at Heliòpolis]

Ultimately, every community where there is a 4YOU2 unit benefits, as a whole, from the cultural exchange. Foreigners coming to be professors live in the community, and, in their everyday life, they share part of their culture with the inhabitants.

“For us, more than the language, there is a very strong cultural matter. Often our students have little references of life outside Brazil, and when we have people coming here from the all over the world, they [the students] start living in an international environment and expand their vision. This is our impact for real.” [Founder]

**Table 8 Drivers of growth: Embeddedness with the community**

<table>
<thead>
<tr>
<th>EMBEDDEDNESS WITH THE COMMUNITY</th>
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<tbody>
<tr>
<td>4YOU2 organizes events opened to the whole community.</td>
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<tr>
<td>Students come mostly from the community and they recommend the school to their friends.</td>
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<tr>
<td>The whole community is part of the cultural exchange experience as foreign professors are hosted by local families.</td>
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</tbody>
</table>

4.1.8 The Founder

Even though an enterprise needs to be independent from its founder to ultimately be able to scale, this last one is still a crucial element in determining the growth perspective for the company at the very beginning of its life. This is particularly true for 4YOU2, whose founder and CEO Gustavo is the very soul and inspiration for everyone.

“At our university, the founder held a talk, which I found very inspiring. This guy was so young and had achieved so much! Hearing his stories, the 4YOU2 method, and finding out about the progress he had made himself (amazing English in such a short time!) made me eager to be a part of this.” [Former German professor, volunteer]
The founder is personally attracting the international attention and he is always busy not just managing his company but also going around the world for joining conventions and receiving awards. His international presence works as a marketing tool to attract talents. The Commercial Manager told me that she got to know 4YOU2 through a speech held by Gustavo during a workshop organized by the organization TEDx in Serbia: “I was working in Belgrado, for a technology start-up. [...] I found 4YOU2 through a series of workshop from TEDx. And Gustavo did one in Serbia. I felt in love with the project and I started some research. When I came back I got in contact with Gustavo and, by chance, they had this opening in the commercial area so I have started working here.”

I could observe while talking with the founder that his attitude really works well for the company: he cares about 4YOU2 as his own child but he is also willing to delegate and ask help when he recognizes he needs it. His relationship with important universities in São Paolo, namely USP and FGV, provided him with mentors and support to deal with the managerial challenge of growing 4YOU2. When selecting new members in the team, he admitted to look for people that are complementary to him: “I am prone to have a holistic vision, so I need someone to help me with details. I need someone good at what I am bad at. [...] I love conflicts with people different from me, as long as they are perfect for what they do. So my style is more about giving a vision, a strategy, structuring something and watching it happening.”

Talking with the employees, they all confirmed me the founder’s version on its managerial still.

Overall, Gustavo is a social entrepreneur at 360 degrees. He perfectly embodies all the characteristics described earlier in the section of the literature review dedicated to the concept of entrepreneurships. He is not scared by the everyday risks involved with managing his organization and he is aware of the uncertainty bearing function that stands on his shoulders. The whole story behind the creation of 4YOU2 proves Gustavo’s opportunity seeking attitude and, I must say, braveness: he dedicated himself at a very young age (he was born in 1992) to pursuing such an ambitious project, building from scratch the whole organization as well as the network of supporters. The innovativeness and the creation of value are at the very heart of Gustavo’s work at 4YOU2: the driver of all his efforts and of the passion for what he does is the desire to -and here I quote him- “make the difference in the world”. It is exactly the intention to create value not just for himself but for the society as a whole that places Gustavo in the sphere of social entrepreneurs. In implementing his entrepreneurial function of resource mobilization, he keeps in mind the social mission and looks for the better way to serve it, just as Dees (1998) explains when describing social entrepreneurs. Resources involved in the case
of 4YOU2 are many: foreign professors, NGOs, universities, employees, and the whole network of external supporters that Gustavo’s charisma and hard work is mobilizing.

Finally, despite being a social entrepreneur, the founder Gustavo recognizes the importance of accepting the market rules. So far, he proved to be good at balancing his personal dream of changing education in the whole Brazil with strengths and weaknesses of his company and the market requirements.

“We do understand the rules of the market. And that is really important as social entrepreneurs. […] Even though you do not want to join the market game, even if you create an NGO, you are still going to depend on funding; if there is a crisis you are still going to end up without money. This is business; you cannot be scared of bad things. You will still have competition, it is a market, and you cannot be crying over it. Some social entrepreneurs miss this point. […] Lot of people enter the world of social enterprises with a very naïve footprint, thinking that “social” makes everything a bed of roses. You are going to fail unless you are perfect and rapid in your execution process.”

**Table 9** Drivers of growth: The founder

<table>
<thead>
<tr>
<th>THE FOUNDER</th>
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<tbody>
<tr>
<td>Brings inspiration for everyone inside 4YOU2.</td>
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<tr>
<td>Gains the attention of the international community and spreads the word about 4YOU2.</td>
</tr>
<tr>
<td>Is prone to delegate and accept external help.</td>
</tr>
<tr>
<td>Recognizes the importance of accepting the market rules.</td>
</tr>
<tr>
<td>Gustavo embodies all the characteristics of a (social) entrepreneur.</td>
</tr>
</tbody>
</table>

**4.2 Challenges**

The growth phase is providing 4YOU2 with challenges both internal and external to the organization. Here are presented the challenges as they emerged during the study. Later in the thesis, the findings will be analyzed with an eye on the review of the literature on the topic.
4.2.1 Human Capital: High Turnover Rate

In the period between April and the first weeks of June 2016, I interviewed everyone in the staff, and it is interesting to notice that a significant percentage (10 out of 17) had been working at 4YOU2 for less than 6 months, by the time I talked with them. For instance, I interviewed the HR manager and the International Talents Assistant the 6th of June 2016. By that time, they had been at 4YOU2 respectively for 3 and 2 weeks. Among the remaining ones, they all have been working at 4YOU2 for maximum 1 year and a half, except for the operation manager that has a 3 years seniority and, of course, the founder. Such a situation is the proof of one big challenge for 4YOU2, the high turnover rate among the staff members. The average life of an employee at 4YOU2 is four to five months.

High turnover rates are negatively affecting the organization. First of all, precious resources, namely time and money, need to be invested in constantly looking for new people, selecting them, and introducing them to the organization. The whole process is not efficient as 4YOU2 currently hires staff members on an ad hoc basis and job openings circulate mainly through word of mouth. Moreover, when I was asking about the selection process, there was not a consistent hiring process in place: the steps and the interview questions varied a lot. The following strings from the interviews prove this point:

“I had gone through a tough selection process, consistent of several interviews. First, I have done an interview with the former director of the unit, then another interview and the last one was with Gustavo.” [Unit Coordinator at Campo Limpo]

“I applied through Internet. The selection process had two steps: an initial interview and an assessment center.” [HR Manager]

“I have done a motivational interview on the phone and an interview with the coordinator of the unit” [Sales Responsible at Campo Limpo]

Talking with the newcomers, I understood that the main problems they are facing were related with the fact that they were not aware of how things work in the organization. They had everyone’s support, as the group of people inside 4YOU2 is really open and helpful; but there was not a systematic process to train and introduce new employees. The sales assistant at Capão Redondo, when she entered 4YOU2 in November 2015, had gone through a few days of training, together with the new sales assistant at Campo Limpo. But the two of them have received just general information on why 4YOU2 is different from other schools and how the business model works. The sales assistant at Capão Redondo told me that it was up to her to figure out day-by-day how things work. This also relates to the fact that processes at 4YOU2 are yet to be structured. But without a consolidated and committed team it is hard, if
not impossible, to make operations within the company flow smoothly and efficiently. As far as the newcomers are concerned, they have to struggle to learn their new duties. On the other hand, the existing workforce is overloaded by extra responsibilities and works both to give guidance to the newcomers and to take the burden of vacant positions.

Another drawback of the high turnover rate is that the company easily veers from its very mission and vision, as it is focused on making things work internally. With the mission of the company comes also the culture, which is a powerful mechanism within virtually every organization, and particularly for a young social enterprise as 4YOU2—as it has already been highlighted. The commercial manager, when talking about the high turnover in the staff, affirmed: “you do not manage to transmit the culture this way. [...] A major objective is create a solid team for the long term.” Culture is important both to keep the focus on the mission and to tie the employees to the organization.

The founder and CEO, in a lecture he gave in April 2016 to a bachelor class at FGV, stated: “we [as 4YOU2] have a lot of challenges, but the main one is building a team. I have 7 to 8 new openings, which are not a lot, but still it is difficult to find the right people, willing to change things”. This leads to the reasons behind the high turnover. Working for a young social enterprise requires significant level of commitment and willingness to serve the mission: you have to be ready to work in a very unstable environment, with really peculiar stakeholder (in primis the students, that mainly come from class C and D), and for low money in term of salary. This is what to “change things” implies.

When I asked the employees to list the factors that motivate them to work at 4YOU2, the noble mission was always at the top. “Working for such a noble objective is more motivating than just working for money”, told me an employee. But talking about money she also added: “I would say it is a delicate matter: the market offers you infinite opportunities. Good employees go for good companies that pay accordingly. If you pay a lower than average salary you lose your competitiveness.” So here it comes another reason for the high turnover: the salary, which is lower than the market average. Being a delicate matter, not everyone was inclined to mention it proactively, but, when I was asking directly about it, just one employee told me it was not a problem for him. According to one employee “the salary is a differential, people can get demotivated. It is not a coincidence that many people got here, they stayed for 3 to 4 months and then they went away.” And again, “the salary means professional recognition”, says another employee. Especially for older people with a strong career it takes a good deal of motivation to switch to a low paid job.
Some people leave 4YOU2 because they find better career opportunities not just in terms of money but also in terms of professional growth, which is the case of the former branch coordinator at Campo Limpo. She enjoyed working at 4YOU2, but she found a new opportunity in Norway, so she left.

A problem I was talking about with the founder is also the fact that people in their twenties (the main target employees at 4YOU2), that are attending college or are at the beginning of their career, like to always change to get as much experiences as possible; they are “adventurer” (to use the Gustavo’s words) rarely keen to make a long term commitment to an organization. The founder has been experiencing this with his two former partners, his own sister and a Russian girl: “They both stayed two years and then went away accepting another offer. We didn’t have the same vision about 4YOU2. [...] We were all fascinated about the idea of developing the social business field in Brazil, but I had a more entrepreneurial vision.”

Despite all the cons of the high turnover, it is partly natural to see changes in the team as 4YOU2 is still in the growth phase. One employee said: “I think that until now we did not have specialists. We had a few people taking care of everything, also thing they were not specialized in”. From the first contact I had with the company, in February 2016, I have seen new roles being introduced, as the one of the International Talents Analyst, and new people coming in. Such a process is positive if the company manages to acquire qualified individuals with a good fit, and, most of all, if it manages to retain them. Using the words of the operation manager, “as time goes on 4YOU2 is getting more qualified individuals, which can really take the organization to the next level.”

**Table 10** Challenges: High turnover in the staff

<table>
<thead>
<tr>
<th>HUMAN CAPITAL: High Turnover Rate</th>
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<tbody>
<tr>
<td>Working for a young social enterprise requires a significant level of commitment.</td>
</tr>
<tr>
<td>Salary is lower than the market average.</td>
</tr>
<tr>
<td>Easy to find more attracting career opportunities.</td>
</tr>
<tr>
<td>People in their twenties are rarely keen to make a long term commitment to an organization.</td>
</tr>
<tr>
<td>Need to invest precious resources –time and money- in looking for new people, selecting them and introducing them to the organization.</td>
</tr>
</tbody>
</table>
Newcomers take time to understand how things work in the organization.

The company easily veers from its mission and vision.

4.2.2 Lack of Financial Resources
A crucial aspect of 4YOU2’s business model is clearly the affordable price. As the price is low, so are the revenues for the company, who therefore strives to keep the cost structure as cheap as possible. The monthly fee for the English classes is the only revenue stream for 4YOU2: another big challenge that the social enterprise faces is the lack of financial resources.

“Just based on our cost structure and low fees we have to do with little resources what other schools can do with a fair amount” – told me the operation manager – “A normal school achieves the same level of resources with 1/7 of the students we have. This puts in perspective the financial challenge of providing high quality service with very little resources, due to our revenue model”. The lack of financial resources, looking at the big picture, negatively affects the growth perspectives for the company: no money to invest, no new units.

But the very problem is that, as one employee pointed out, the quality of the service offered can be undermined. I could observe myself that the physical spaces need to be renovated: painted, decorated, and equipped with new desks and blackboards. The basic material, as the chalk or the eraser for the blackboards, is often missing. As much as these elements can appear as “frills” not really affecting the English teaching, they actually disappoint some students, professors, and employees, as emerged from the interviews:

“So, here we have the blackboard but we have a lot of problems with materials, we do not have basic material. For example, it has been quite a long time that we do not have the eraser for the blackboard, so whenever the professor needs to delete something the students lend him a tissue. In another class is missing the chalk. It happens a lot that basic material is needed. I do believe that this needs to be improved.” [Student at Heliópolis]

“I think the main difficulty is growing. 4YOU2 is a young enterprise and we do not have investors. So it is difficult to get resources. The computer is not working: we do not have the money to get a new one straightaway. So one of our main problems is to get investors to have the resources for everything we need.” [Employee]

“What should be improved is the space. Classes are small and when students are a lot this is a problem.” [Student at Capão Redondo]
When you have to interrupt the class to look for something you need that distracts the students, especially if they are kids, as happened to me when I was teaching to a class of seven years old pupils. Every single piece in the offer counts to implement the value proposition of high quality.

The requirement of keeping a low cost structure, being stricter then for a company with solid financials, complicates the operations for 4YOU2 as, according to the operation manager, the outflow needs to be checked minimum every 15 days. “This is the big dilemma, we see money coming but it goes away rapidly. So this requires a professional ability to rapidly change scenarios. One day you have cash flow, the other one not. So you need to have a strategy to always generate cash flow and keep the business healthy”, says an employee.

On top of that, according to the financial manager, the revenue stream is highly variable and keeping a budget is difficult if not impossible and even of limited utility.

Why does 4YOU2 experience lack of financial resources? The variable and tiny revenue stream is not the only reason. A problem that emerged several times during my analysis is the high rate of default on payment, that I have been told being around 23%.

When I asked the financial manager to mention challenges for 4YOU2 he answered me: “Mainly it is the matter of non-payment. We work a lot with “boleto” [bank slip] as we have people from the communities, but that is not a warranty of payment as a credit card. So a challenge is reducing the non-payment rate, which ends up reducing our revenues.” And the operations manager: “Default on payment is a challenge that other English school obviously face as well, but working with our public makes it way higher. We are accustomed to “boleto” [bank slip] and it is rare to have enrollments signing up with other forms of payment. Boleto is payed monthly so you naturally have a higher rate of default on payment.”

The target customer of 4YOU2, coming from low social classes (C and D), is more prone to experience trouble with paying its bills. R$79 make a significanc difference in the life of low income populations in Brazil. Their financial education is completely missing and the concept of “saving” is not spread and understood. The method of payment “boleto” is the most used among these classes but it is not secure for the creditor: for 4YOU2 is therefore difficult to secure the payment. The financial manager, the operation manager, and the founder all told me that they are currently working on new forms of payment that can be equally accepted by their target customer being, at the same time, more secure for the company.

Finally, the lack of financial resources is the direct consequence of the lack of investors. I have discussed deeply the matter of investors with several people inside 4YOU2 and
particularly with the founder. One employee seemed open to the idea of getting external funding, “We talk a lot about the need of investors. Our objective is to impact the whole Brazil and maybe more. We cannot do that just with our own money. I believe an investment is necessary to go on with the next steps. It will help to complete the equip, elaborate our own teaching material that can be a differential for 4YOU2, and improve the relationship with professors.” On the other side, Gustavo is really skeptic on the benefits of having external funders as stakeholders. In his opinion, as much as money are needed, autonomy is more important: 4YOU2 needs to be free to make its own choices at the point of having – sometimes- to prioritize the social impact, even if it is not the best for finance. “We want to be self-dependent in every aspect. [...] We proved that our model works with our own money and now I do not need a partner to survive, as many businesses do. I need someone to scale, but to scale at my own terms. Of course we are going to change, adapt. But I need money to expand something I already proved works. [...] To innovate you need autonomy, and often capital does not give you this autonomy. If you need money to survive you accept every condition. If not, things are different. And luckily, sweating a lot, we do not need. I have a lot of people interested but I do not accept everyone, I have my own conditions.”

The need for autonomy is arguably irrefutable, but so is the need for money; and this tradeoff is a challenge for 4YOU2. In the words of an employee, at 4YOU2 “the big challenge is being able to balance the need for investment and making money with the focus of the social business, which is having an impact in the society”.

Table 11 Challenges: Lack of financial resources

<table>
<thead>
<tr>
<th>LACK OF FINANCIAL RESOURCES</th>
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<tbody>
<tr>
<td>Only one revenue stream, variable and very tiny.</td>
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<tr>
<td>High rate of default on payment.</td>
</tr>
<tr>
<td>No external funding: little money to open new units and expand.</td>
</tr>
<tr>
<td>The quality of the offer is undermined. Basic material is poor and often missing, spaces are inadequate.</td>
</tr>
<tr>
<td>Complicated operations: difficult to keep a budget, strict requirement of keeping the cost structure as low as possible.</td>
</tr>
</tbody>
</table>

4.2.3 Lack of Consistency in the Offer

Enthusiasm was the very attitude that everyone I interviewed inside 4YOU2 transmitted me. When it comes to the main stakeholders, namely students and professors, they showed
love for the idea and appreciation for the opportunity that the school gives them. Still, they were more or less directly pointing out some shortcomings in the offer, and I could infer other defects though my own experience spending time at 4YOU2’s units. Overall, the offer is not consistent: not every student is given the same experience.

The main reason behind this problem is the lack of a common methodology. Talking with the founder and the pedagogic coordinators I could observe that there are some guidelines for professors: focus on conversation and on making classes interactive. But this guidance is really general and too weak to be the basis of a customized “4YOU2’s teaching method”. It is such a standard method that would definitely improve the offer and finally implement the value proposition of high quality. Two recently hired employees, despite being a new entry of the organization, could clearly see this problem: “In the pedagogic area [4YOU2 faces challenges]: developing a pedagogic path. Today we do not use our own teaching material. I think that developing our own teaching material is a long-term objective. And that is a huge step for a school: we are going to have our own pedagogical proposal; we are going to support more the development of each student. Today we have a book that we have all chosen, but it is not ours, so it is not perfect.”

Other employees as well as professors share his same concern:

“Each student gets two hours of class per week. It is not enough. Then, the only teaching material we have is this book that is really poor, it does not have activities, it does not have anything to make students interested. Also grammar is incomplete. For example, I was explaining the present perfect, and the book did not even mention the “just and already rules”. So you have to figure out on your own what you have to teach by searching on Internet. We do not have a lot of exercises to give and sometimes the book makes mistakes.” [Professor]

“I think a huge challenge is in the pedagogical part. Sometimes we have complaints as students want classes to be more dynamic, or a higher amount of hours. But it is a difficulty [...]. There is room for improvement in this sense. Besides, we have an online portal for students, but it has many shortcomings and it needs improvement.” [Employee]

“I think that 4YOU2 needs to be more of a regular school. They need to develop quality. I have been teaching two months for another school, famous here in São Paulo. Here is different. Here we do not have audios to give to the students, we do not even have the CD player so we have to download audios from the Internet. The
teaching material needs improvement. In general what needs to be improved is the quality of the school.” [Professor]

“In some branches it was normal to let student pass even though they didn’t hit the benchmark because they are afraid that if they do not let them pass these students would quit. [...] There was no quality check before hiring professors, at least not much of it. Also no quality check while the teacher was working. There was lack of quality insurance and teacher could do whatever they wanted. If that continues than 4YOU2 will be as bad as other English school.” [Former professor]

When it comes to students, some complained directly about the teaching material while a minority (3 among the 15 I have interviewed) expressed appreciation for the book. A student at Heliopolis, making a comparison with the former English school where he has been studying, told: “The material [in the other school] was truly better, and this facilitated us [students] a lot. It was way more organized: one class was about conversation, the other about grammar and so on. Here you learn, at the end, but in the grossest way, as you are always making conversation. It is good, but we do need a little bit of grammar.”

Some other students were asking for more grammar, as a teenage girl in Jardim Angela unit that confessed me: “I like a lot the challenge of having to speak English. But something difficult to me is grammar, and what I do not like is that the professor does not explain grammar a lot. [...] Here they focus a lot on conversation, which is really important. But you need to learn everything.”

On the other side there were also a few students complaining about the lack of chances to make conversation. For example, a 75 years old lady studying at Heliópolis let me know that she had trouble with pronunciation, and the lack of conversation during classes did not help.

Such inconsistency in the answers I was getting, together with the personal experience I had assisting a few classes, led me to understand that there is a high degree of variability in the curriculum being taught and the teaching method is not uniform. It is up to each professor to decide whether to focus more on conversation or grammar, and, as many of them were not professors before, they often rely on their preferences or they try to replicate the method through which they themselves have learnt English. At the end, students do not get a consistent experience. As much as it is important that teachers have flexibility and autonomy, students would benefit from a more standardized curriculum. It is also true that, in accordance with 4YOU2 offer of having a cultural exchange and not just an English instruction, students change professors, but it just a matter of luck to get professors with complementary teaching methods.
When I gave myself a few classes to a group of seven years old kids, I was told the main topic to focus on in each class (alphabets, numbers…) and I was given some suggestions on songs to use and games to play. But when I first find myself in front of 8 children waiting for me to entertain them for the next hour, I felt like more guidance on what actually I was supposed to do would have been really helpful, both for me and my students. The conversations with the professors reinforced my impressions, as they were all telling me that they were just given some guidance on possible activities to conduct in class and a syllabus, but the very development of classes was up to them.

“They just give us the training week and some guidelines, but usually I do what I want. I like to focus on grammar, because that is the way I have learnt.” [Professor]

“I have been told the basic things I had to do. They first introduced me to the students. But as I already had [teaching] experience they just left the class for me. At the beginning they haven’t given me the plan. They gave it to me after the first classes.” [Professor]

“They just give you a training on what you should be doing, how you should do it. But actually it depends on you. About the topics, they gave me a book and a planning. You just follow the book adapting to your own way. You have the units, some exercises, and the mid term, but you can do it your way.” [Professor]

The lack of consistency in the teaching method and the shortcomings of the teaching materials affect the quality of the offer, undermining the impact that everyone inside 4YOU2 is striving to have.

I interviewed the mother of a former student at Capão Redondo and she told me: “It is a genial idea, but there are a lot of things to be structured. When my daughter was studying at 4YOU2, I perceived some failures in terms of managing the professors. It needs a better coordination in terms of professors, especially for the academic part. My daughter is a kid and 4YOU2 was not able to raise her interest for studying English. She stayed at 4YOU2 for 1 year, and it has been really tough for her to go through this year that was already paid. She was lacking interest. I see that a lot of students give up because they do not have motivation and there are some failures in the teaching method, which I am not actually able to explain.”

This person addresses two connected problems: the difficulties that 4YOU2 experiences in retaining students and the lack of motivation in these last ones. When I asked students about their motivation for studying English, they mainly mentioned the difficulties to get into the job market and the advantage that knowing English could give them. In the case of the kids, it was up to the parents deciding to invest in their education. But for low income population also
4YOU2’s small fee is a big investment and, as the operations manager pointed out, “4YOU2 must make the proposal attractive, let them [the students] know that they are actually learning at 4YOU2 so that they see it as a good investment.” Students leaving at the end of a semester are a problem, but if they give up in between the semester or show up irregularly it is even worst, as it makes hard to follow up with the syllabus and the timeline. This is exactly what I have been told by two master students in business administration that, during their exchange semester in Brazil, have volunteered as professors for 4YOU2. “I believe some kids didn’t really feel attached to the class. […] The attendance rate of the classes varied heavily. This made it tough to follow the program.” And again: “I experienced some difficulties due to the loss of a lot –more than half- of students without explanation.”

Ultimately, the high students’ churn rate leads to other problems addressed in this analysis, as the high variability in the revenue stream and the difficulties in matching demand of students and supply of professors.

Having professors coming from different countries is a powerful motivation for students to enter the school, but it is not sufficient to actually keep them inside: a strong and consistent teaching method is needed and developing it is a challenge for 4YOU2.

Table 12 Challenges: Lack of consistency in the offer

<table>
<thead>
<tr>
<th>LACK OF CONSISTENCY IN THE OFFER</th>
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<tbody>
<tr>
<td>Professors are given just a basic syllabus and some general guidance.</td>
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<tr>
<td>It is mainly up to each professor to decide what activities conduct and how to set up the classes.</td>
</tr>
<tr>
<td>The teaching material is not good enough.</td>
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<tr>
<td>Some professors experience difficulties in conducting the class.</td>
</tr>
<tr>
<td>Students’ motivation is sometimes weak.</td>
</tr>
<tr>
<td>High students’ churn rate.</td>
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</tbody>
</table>

4.2.4 Difficulties in Forecasting

As already pointed out, budgeting is not an easy task for 4YOU2, being a young enterprise with high variability in the revenue stream and not well-established processes. 4YOU2 is currently in the process of opening new units in other communities in São Paulo. The expansion is risky not just because the enterprise can end up spending way more than expected, but also because the actually demand can turn up to be lower than the forecast.
Talking with an employee about these risks, he told me that, when opening new units “there is always a sort of reduction in the demand from the planned to the actual”.

Difficulties in forecasting are a big challenge for 4YOU2.

“Demand is based on benchmarking. When we open a new branch –we have already opened a certain number so far- we benchmark the branches based on partnerships that we might have, what is the total population around, how effective can we be with our channels of sharing the opportunity. Trying to benchmark against other English schools I guess would be pretty useless. Our benchmarking is based on our own previous experience. To determine demand and growth rate from one semester to the next we use the experience: we already have a number of semesters in each branch so that gives us an idea of how much growth we are going to have, how many new groups [of students] and so on. [...] This is our way of doing things: we open up several classes and consolidate them into fewer classes as the semester starts.”

[Operations Manager]

Because of its peculiarities –being a social enterprise, young, and with a completely new business model– 4YOU2 cannot use other English schools as a benchmark. Talking with the founder I could understand that the process of opening the very first units, the first and the second year, was based merely on trial and error as well as on a strong commitment and entrepreneurial spirits from the founder himself and a few other people. Now, 4YOU2 is trying to be more structured and to implement an actual forecasting methods, but 4 years of previous experience are not a reliable benchmark. The operation manager told me that the variables in place are many: whether or not they will find valuable partnerships, how effective will be 4YOU2 marketing in the new community, and how the target in the community will react. Every community is different and so will be the response that 4YOU2 can get.

Difficulties in forecasting demand of students come hand in hand with the challenge of forecasting the right number of professors needed for each unit each semester.

When I interviewed one of the pedagogic coordinator, I asked him whether he (together with the other unit’s pedagogic coordinators) participates in the professors’ hiring process and he answered me: “The central office takes care of it. What happens is that they make the online selection with interested professors, and then they just spread the professors among the units. We do not tell them how many professors we need. We always have on average 10 professors.”

Clearly there is no process in place for matching demand of students and supply of foreign professors. This is actually understandable being the forecasting poor. Moreover,
Brazilian bureaucracy –as it will depicted later- comes to complicate the matter, making impossible to have a sort of lean model - hiring professors just after calculating the actual need.

The operation manager was explaining me that for other English schools, where professors are Brazilian, it is easier to hire the right number of professors. They can just start the selection process a couple of weeks before classes begin, once they already have the actual number of students for the semester. For 4YOU2, raising interest in foreigners is not difficult, thanks to the appealing idea and the diffusion through partnership with foreign schools and organizations. What is difficult is to actually have someone coming to Brazil despite the many barriers that, talking about this Latin American country, are often more legal than cultural: getting a visa for the professors is the number one problem.

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The process of getting a professor to Brazil is very time consuming: as the international talents analyst told me, “it is not easy when you have a lot of barriers that end up reducing the people available” –and she added- “For example, I recently had 4 people giving up. I was at the end of the selection process and I was ready to make the offer. It is a serious problem having them giving up at the end, as I have lost a huge amount of time for them.”

Sometimes the professors arrive late, when the semester has already started, and they have to find someone covering up last minute. That was actually my case, as I covered up for the first two classes assigned to a professor from France. Having professors that come and go also in between the semester –which happens not just for bureaucratic reasons but also for decreases in motivation- undermines the continuity of the teaching process. Changing teacher each semester is good and it is actually part of the business model. But when a student has three different teachers in the same semester s/he definitely gets confused. It is not common to have so many changes. Actually, professors tend to stay more than the planned semester. Still, a student at Heliópolis told me: “I love the professors. I had one from Angola: he was great, really patient. But I do not get why professors change so much. I get used to a professor and then it changes. I have already changed 4 professors.” And another from Capão Redondo: “I have already changed 3 professors in 6 months. The first two weeks we had a substitute, as our French professor was not here yet. Then there was the French professor for 3 months and now we have this one from Ghana.”

To conclude, the lack of consistency in matching supply and demand poses a major challenge for 4YOU2 especially with the rapid business expansion. Business operations and service delivery can be severely undermined.
Table 13 Challenges: Difficulties in forecasting

<table>
<thead>
<tr>
<th>DIFFICULTIES IN FORECASTING</th>
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<tbody>
<tr>
<td>No reliable benchmark to make estimations.</td>
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<tr>
<td>Communities are different among each other and the reaction of 4YOU2’s peculiar public is difficult to predict.</td>
</tr>
<tr>
<td>Difficult to plan the supply as the professors’ hiring process is long and complicated due to Brazilian bureaucracy.</td>
</tr>
<tr>
<td>Difficult to match demand of students with supply of professors.</td>
</tr>
<tr>
<td>Business operations and service delivery are undermined.</td>
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4.2.5 Shortcomings in the Organizational Structure
When it comes to a four years old enterprise, the organization structure is not something to be taken for granted. Roles are yet to be clarified and processes lack the basic standardization necessary to make the organization run smoothly. 4YOU2 is a clear example of this situation, and I could tell it through direct observation as well as through the answers I was getting to the questions “what are the main challenges 4YOU2 is currently facing” and “which difficulties are you personally having”. With regard to this, the answer of one employee was quite exemplar: “Here we are still going through an adaptation process, trying to understand the role of each employee, everything is still growing. [...] I think I have difficulties mainly in the organization part. I was used to know my role and responsibilities; I knew what I was supposed to do. Here everyone does a little bit of everything. It does not exist ‘I do not do this as it is not implied by my function’. When there is something to be done, usually it happens that the person theoretically in charge is not here or has no time so someone else comes to help. This sometimes creates problems. Let’s say something supposed to be done has not be actually done, who was responsible for that? No one knows. No one did it. So everyone is responsible for everything.”

Institutional roles, as pedagogical coordinator, function manager and so on, are assigned in theory, but this does not delimit in practice each employee’s field of action. So I had the finance manager telling me that he “mainly” works in the finance part, but “I also help in the HR: contract, demit, vacations and so on, all the legislative part is what I care about. [...] I
look for suppliers close to each unit for it to get what is needed.” Then an extreme case is from a unit coordinator that is also pedagogical coordinator for the unit; when I asked him about his institutional role he told me: “My first focus is the pedagogic side: leading the professors and the groups of students. [...] As unit manager I need to take care of what the school needs for functioning. [...] You know, it is a building that needs to function. I have just come back from grocery for example!”

Not having a clear span of control, employees have difficulties in focus their attention and maximize their efforts. They have a lot of autonomy and freedom in prioritize and conduct their actions, as also the span of accountability is missing.

“There is no formal evaluation. They haven’t given me any specific objectives to reach in a determined amount of time.”

“No one is on my side counting my results, but is actually this freedom that 4YOU2 gives that puts pressure on me. Such a freedom is really good, but it comes with a lot of pressure. [...] I would say we work in quite an amateur style”

I could observe that such an “amateur style” at 4YOU2 does not come with a decrease in motivation for employees. As said many times, people’s motivation inside 4YOU2 is a powerful engine for the enterprise, and the lack of structured role empower employees that try their best to contribute as much as they can to the life of the organization. On the weak side, the pressure and the level of stress coming from such a freedom is a lot, and this undermines everyone’s hard work. The disorganization creates stress also for professors: “What demotivates me is stress, as here we have a lot of disorganized things”, told me a professor.

Moreover, the risk is that a lot of care is given to some tasks while others are underestimated. Students, as main stakeholders and beneficiaries of the organization, are at the center of everyone’s attention, but the disorganization can lead to unpleasant situation –even though really rare – with students’ requests not being paid enough attention. I had only a student complaining about the lack of attention. This student told me: “What I like the less is the fact that they should give us more attention. For example, last week I missed a verbal test, I called the receptionist to reschedule it but my professor had just left Brazil. So they told me I could talk to the coordinator and make the verbal test with her. I came here today, which was the scheduled day to make the test, and until now I haven’t done it. I got here quite late so I entered the class straight away, but no one has come to look for me to make me take the test, and the coordinator didn’t show up today.”

Such a story is a una tantum case, as everyone’s commitment compensates for the shortcomings in the organization. But the case of the student might be a signal that, as the
enterprise grows, commitment will be necessary to make things work but not sufficient. The growth calls for a clear definition of responsibilities, and the very challenge for 4YOU2 is to strike a balance between too much freedom – that comes with the above mentioned risks – and too much formality – that undermines the enterprise flexibility to react to the fast changing environment and employees’ motivation.

Not only employees’ responsibilities are to be better defined, also units’ responsibilities need to be clarified. I could see that units are too much dependent on the central office, and this is not sustainable in the long term, especially as 4YOU2 expands. A challenge for the enterprise is to empower the units and give them the resources to work independently, facing their own peculiar reality. Each unit is different, and I could clearly understand that during the time I spent in each one. Capão Redondo is the biggest one; it is located in an area at the border of a community and it exploits the spaces of the NGO, Fábrica de Criatividade, having to deal with the challenges coming from the relationship with this third entity. Heliópolis deals as well with an NGO, UNAS, but it is the unit more immersed in the community, with all the consequences that come with such a peculiar environment, the noise in primis, as everyone was telling me and as I could personally experience. Saturday is a particularly tough day for the unit in Heliopolis, as the street parties start in the early afternoon making it impossible to keep on with the classes. The other two units, Campo Limpo and Jardim Angela, do not have any partnership with NGOs in place, but have their own problems as well. Overall, autonomy for the units is needed, to better deal with local specificity and ultimately better serve each community.

### Table 14 Challenges: Shortcomings in the organizational structure

<table>
<thead>
<tr>
<th>SHORTCOMINGS IN THE ORGANIZATIONAL STRUCTURE</th>
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<tbody>
<tr>
<td>No established span of control and span of accountability for each role.</td>
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<tr>
<td>Units have difficult times working autonomously.</td>
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<tr>
<td>High pressure for employees.</td>
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<tr>
<td>Some tasks are underestimated.</td>
</tr>
<tr>
<td>The central office is overloaded with work.</td>
</tr>
<tr>
<td>Differences in service level among the units</td>
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### 4.2.6 Shortcomings in the Internal Processes

Shortcomings in the organizational structure comes hand in hand with the lack of structure and standardization in the internal processes. In this regards, it emerged from my
analysis that two are the big areas presenting major challenges: expansion processes and communication.

In 2015, a group of students from Yale and FGV researched on possible scaling models for 4YOU2. As a result, the research group presented in a report four possible popular scaling models (franchise, partnership, branch, and hybrid) with tradeoffs between them. So far 4YOU2, when deciding to open in a new community, looks for potential partnership and makes some estimation on potential demand, but does not have a preferred method to expand. The founder and the operation manager told me that they are currently working on a new prototype of unit, which will require less physical spaces. But I could feel that, while there is a lot of pressure on expanding, there is less pressure on understanding the most effective method to do that.

Everyone inside the company pictured the possibility for 4YOU2 to exponentially increasing the reach and, consequently, the impact in a few years’ time span.

“In 2020 we are going to be in other states in Brazil, I do not know with how many units but I would say around 50. That is my crazy thought. Maybe 100 units, from 50 to 100. [...] Sometime in the future there will be 4YOU2 in Africa, in the US, in the whole world. And a student from here may be professor there. And a student there may be professor here. This is our big dream for the next 10 years.” [Founder]

“Considering this expansion pace that 4YOU2 is following, my objective is to get maybe five times bigger. We have big ambitions of opening up to fifteen units by the end of the year. So it is important to understand how the detachment from the Central is going to work. Because the more you grow the more is the detachment of the back office” [Commercial Manager]

“I think it is going to grow. We have a social aspect and because of that we do not consider other English schools as direct competition, the basis of comparison are different. Our value proposition is different. [...] 4YOU2 wants to dominate the world. I think that is the idea: to dominate the world. We have professors from every part of the world: that means dominating the world.” [Unit Coordinator at Heliópolis]

“I have a certainty, 4YOU2 is going a long way. The project Gustavo created is sensational; people like it. I am sure is going to jump. Not as easily as if we had investors, but ultimately it will succeed.” [Unit Coordinator at Jardim Angela]

The need to expand is a natural step to almost every start up; it is particularly important in the case of a social enterprise as 4YOU2 as it is driven by the desire to increase the social
impact. But expansion without clear method and realistic middle term planning undermines the sustainability of the company.

Regarding communication, everyone I talked to, from employees to professors, was happy with the openness and the freedom to talk to everyone. Still, many mentioned the communication as a challenge.

“A weakness is a delay in term of communication. At the end we get the info we need but it takes time and we lose important information in the path. Communication happens, but it could be more effective.” [Employee]

“Maybe it would be good to improve communication a bit; for example, at the beginning it was never really clear if I was hired or not. […] Classes were split and changed several times and we never completely knew what or why things were happening.” [Former professor, volunteer]

“In the last months we experienced significant changes. Some people left, other entered. Things were confusing, as we still have to work a lot on internal communication. Personal relationships are good. I know I do not suffer alone, if I have trouble I have someone to call. There is affinity; units help each other. But there is a lot of room for improvement in terms of internal communication.” [Employee]

The flat organization makes it difficult to establish clear lines of communication. Communication happens mainly through media as Whatsapp – the commercial manager talked to me a lot about the importance of this last tool in the contest of communities in São Paulo. People are encouraged to collaborate and share information. But they do not do it in a structured way, which makes impossible to separate crucial information from daily communication. Important info might get lost or, as the pedagogical coordinator pointed out, reach late the person who needs them. This results in confusion and overload for the central office. Employees have flexibility to share ideas and units try to help each other but there is no formal process in place to help the sharing of best practices.

**Table 15** Challenges: Shortcomings in the internal processes

<table>
<thead>
<tr>
<th>SHORTCOMINGS IN THE INTERNAL PROCESSES</th>
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<tbody>
<tr>
<td>No established expansion process.</td>
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<tr>
<td>No clear line of communication: confusion, information lost, delay in communication.</td>
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<tr>
<td>Central office overloaded.</td>
</tr>
<tr>
<td>Difficult to share best practices among units</td>
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<tr>
<td>Company’s sustainability at stake.</td>
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</table>
4.2.7 Low Brand Awareness

The first time I visited the unit of Capão Redondo, I got lost in the street and I asked a couple of pedestrians for indications. The answer I got was “I have never heard of an English school called 4YOU2”, and a few minutes later I finally found the place 200 meters from where I was. The people I talked to have just pass in front of 4YOU2 without even realizing it. It could have been a coincidence, but it more likely meant two things: 4YOU2 brand awareness is low even within the communities where it already has a unit; and the visual identity of 4YOU2’s units is pretty low. Thanks to my analysis, I came to the conclusion that the first statement is true for the company as a whole: a challenge for 4YOU2 is the low brand awareness. The second statement, the poor visual identity – meaning that the physical spaces are not clearly attributable to 4YOU2 – is unit specific, and it is true in the case of Capão Redondo and, especially, Heliópolis.

4YOU2, in order to build brand awareness, is strongly relying on word of mouth and partnerships –or simple connections– with already established NGOs and other organizations as schools. When asked about the marketing strategy, the founder answered: “Lot of word of mouth. We have a strong value proposition on two sides. We are a marketplace just as Uber. So it is word of mouth on both sides. [...] The best divulgator is who already experienced our product, especially in a community. Of course we have also commercials in public transportations, newspapers, radio and so on. Overall our communication is really cheap.”

As much as word of mouth around 4YOU2 is intense and powerful, it is not enough to fully build awareness around the brand: in this regard, 4YOU2 has still a long way to go, also inside the community where it is already present.

“I think it is quite unknown. I talk to people about it and rarely someone knows. So I have to explain. [...] What happens is that we invite our friends; they get to know about the school and when they come they like it.” [Student at Heliópolis]

These communities are far from being saturated. The talk I had one employee was quite exemplar in this regard:

“[4YOU2] needs to consolidate itself more in the communities where it currently is, develop more there. [...] Units like Jardim Angela and Heliópolis are small, but the neighborhoods are huge, with a lot of potential, especially in the commercial area. So I think what is missing is attracting more people in the existing units. Because this is the proposition: picking neighborhoods with a huge low income population and attracting as many people as possible. [...] Besides, I believe it needs to consolidate in São Paulo. São Paulo is huge and we are just in a few areas. [...] Schools here are
really old and famous, they have a consolidated name. So we need to compete at the same level. Of course not in term of dimensions but in terms of name.”

The partnerships mentioned as drivers of growth for 4YOU2, have also their drawbacks, one of which is the lack of visual identity mentioned above. “Talking about differences, Campo Limpo unit has a better visual identity. Here we do not have this identification as we are in someone else’s building. Campo Limpo reflects 4YOU2’s colors, here we are in a building with the wall painted with the colors of the NGO, nothing is visually related with 4YOU2”, told me the sales assistant at Capão Redondo.

Moreover, the NGOs have their own activities in place, and some activities hamper classes’ development. I spent a Saturday afternoon at Capão Redondo, making interviews and assisting classes, and the noisy party thrown by Fabrica was making trouble for professor to keep students’ attention up.

Table 16 Challenges: Low brand awareness

<table>
<thead>
<tr>
<th>LOW BRAND AWARENESS</th>
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<tbody>
<tr>
<td>Communication highly relying on word of mouth.</td>
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<tr>
<td>Low visual identity for some units.</td>
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<tr>
<td>The potential customer base in the communities is not fully exploited.</td>
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<tr>
<td>Difficult to compete with well-established school.</td>
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</table>

4.2.8 Brazilian Bureaucracy

When describing the difficulties that 4YOU2 encounters in forecasting the supply of professor I mentioned Brazilian bureaucracy as a reason. Bureaucracy is a big part of Brazil’s way of life and for a company that regularly deals with foreigners the picture gets even worst. The challenge of dealing with bureaucracy emerged several times during the interviews, especially in relation with the “Change” program.

“The contract [for foreign professors] is for an international internship that lasts a semester, so there is a specific visa. But the law is changing all the time. We are looking for a specific visa for 4YOU2, but that is going to take time. So far we adapt our classes calendar to professors.” [Founder]

“We have a lot of people interested in working here, but we face several impasses. We can only work with students, because of bureaucratic matters. The visa is a complicated issue, we can never know if it is going to be approved. There are all these barriers that
are quite out of our control. Sometimes you have to waste lot of time just because they have delivered a wrong paper.” [International Talents Analyst]

“Another challenge would be our stuffing model, I mean, our “Change” program that is dependent on Brazil’s bureaucratic legal structure in terms of visas and the long processing time. So we have to give the offers to Change’s participant before they arrive.” [Operation Manager]

Complex and time consuming procedures, paperwork, and never ending lines scan the days of Brazilians, whether they are individuals or companies. Heavy bureaucracy is one pillar -together with overregulation and poor infrastructure- of the so-called “Custo Brasil”: the high cost of doing business in Brazil.

According to the World Bank (2016), Brazil is one of the most difficult countries to start a business because of long procedures, high cost of credit, and tax burden. Firms in Brazil spend on average 2600 hours on filing their taxes\(^8\). This figure is especially high when compared with any country in the European Union, where the average time spent on such a task is fifteen times less. A survey made by Deloitte in 2014 presents evidence supporting the widespread perception that, besides the tax burden itself, companies have associated costs due to the entire tax calculation process, which needs to be done accurately as tax authorities are rigorous during their inspections. The cost of the tax compliance structure as a share of companies’ sales goes from 0,12% for large firms (that can leverage on scale) to up to 1,72% for small ones\(^9\), as it is the case of 4YOU2. These percentages are definitely absurd if we think that they represent money that a company spends just to understand how much taxes it has to pay.

Furthermore, the government has a tendency to overregulate. Rigid labor laws make it hard to use workers efficiently. Overall, firms spend more time in dealing with bureaucracy and overregulation than in improving their own businesses and striving for efficiency.

The famous “Custo Brasil” does not save anyone, and not even the social mission can get 4YOU2 a discount on paperwork and tedious procedures.

**Table 17 Challenges: Brazilian bureaucracy**

<table>
<thead>
<tr>
<th>BRAZILIAN BUREAUCRACY</th>
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<tbody>
<tr>
<td>Challenge of bureaucracy particularly strong for 4YOU2, when it comes to the “Change” program with foreign professors.</td>
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\(^8\) The World Bank (2016), Country Overview: Brazil

\(^9\) Deloitte (2014), Tax compliance in Brazil, Survey
The “Custo Brasil”, whose foundations are heavy bureaucracy, overregulation, and poor infrastructure, makes Brazil a complex country for doing business.

Also a small company as 4YOU2 needs to invest a lot of time and money in complying with paperwork and complex procedures.

4.2.9 Brazilian Crisis

Brazil is currently undergoing the longest recession in a century and no sector is immune. For 4YOU2 the crisis beats harder as its customer base, low income population, is the first to suffer. “We definitely have the challenge of keeping that longevity of our students within 4YOU2 while facing the economic crisis that is affecting all of Brazil” – told me the operations manager when talking about the average life cycle of a student inside 4YOU2, that has drastically decreased due to the current economic situation – “Brazilians generally do not see education as a good investment to open doors later on, and during the crisis in general education is the first thing to get cut. Whether it is university or studying English -although this can have a strong return of investment- studying is the first thing that gets cut”. It is a matter of priority, and English is not at the top of the list of Brazilians, especially for the one coming from low income classes.

The Operations Manager is not the only one mentioning the Brazilian crisis as a big challenge for 4YOU2:

“On the weak side, 4YOU2 is suffering the Brazilian crisis. A lot of people losing jobs, low purchasing power... Right now the main challenge is the financial crisis. We have many students giving up because of the financial situation.” [Employee].

“4YOU2 today is strongly impacted by the crisis in Brazil. The crisis has its first impact on communities like this one. The bottom of the pyramid that we serve is the part of the society that suffers the most from the crisis.” [Employee]

“If you look at the bottom of the pyramid, English is not a priority: for many of them seem more as an expense than as an investment. So because of the current crisis many are leaving. 4YOU2 needs to communicate the importance of studying English.” [Employee]

The founder gave a more optimistic picture explaining that the crisis has actually a double effect for 4YOU2: some people are giving up, but, on the flip side, there are newbies that decided to invest in their English inspired by the need to make themselves more competitive in the challenging economic scenario.
Nevertheless, the negative effect seems to be stronger. The crisis is theoretically a contingent situation, but perspectives for the Latin American country are not of a rapid renaissance any time soon. For 4YOU2, as for virtually every other business in Brazil, the economic crisis is a severe threat to its very existence.

**Table 18** Challenges: Brazilian crisis

<table>
<thead>
<tr>
<th>BRAZILIAN CRISIS</th>
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<tr>
<td>4YOU2’s customer base, low-income population, is the first to suffer for the crisis.</td>
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<tr>
<td>Education is among the first expenses to be cut due to the economic distress.</td>
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<tr>
<td>Many students are giving up paying for English teaching.</td>
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<tr>
<td>Need to increase the effort to communicate the importance of studying English and the value of 4YOU2 as a school.</td>
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</table>
5. DISCUSSION OF THE FINDINGS

5.1 Relevance of the Case Study: 4YOU2 as a remarkable example of growing social enterprise

This section is going to be dedicated to the discussion of the findings and the analysis of the case of 4YOU2 in the light of the existing literature.

The interest the company is raising internationally, the role in the B Corp community, and the growth rate -from 50 students the very first months in 2012 to over 1600 by February 2016-, contribute in placing 4YOU2 among the remarkable examples in the Brazilian Social Enterprises community. In the spectrum of social enterprises presented in the review of the existing literature, the company can be arranged in the second category, *i.e.* companies that use “earned income strategies for non-profit purposes” (Northland Institute, 2001). The objective of serving a social mission comes before profit maximization (Mair and Marti, 2006; Dorado, 2006).

The case study is relevant as it attests the challenge for a company in the growth phase to systematize internal processes and define a replicable mode of growth model.

If we use the framework presented by Churchill and Lewis (1983), we can see that 4YOU2 fits, with some necessary adjustments, the Stage III – Success-Growth. The organization has a functional structure and it presents two main layers: the managers working in the central office and the employees of the various units. The formal system is yet to be developed and the strategy is focused on growing the organization. Moreover, the founder is still highly present in the company, being the CEO, but the overlap between the two of them – owner and company – is only partial. Gustavo affirmed that his managerial style and role have changed a lot in the course of the four years, from 2012 to 2016. Now he is dedicating more time managing and delegating than “doing things”. Still, the role of the founder is crucial for 4YOU2, as it is the role of each social entrepreneur for his/her own young enterprise. Social entrepreneurs start from their personal sensitivity regarding what they consider a social problem (Casson, 2005; Perrini et al., 2010). It is this initial sensitivity that ties the social entrepreneur to the company and its mission, making really difficult to distinguish between the entrepreneur and the organization (Chell, 2007; Perrini et al., 2010). 4YOU2 would have not been the same without the founder. The whole idea at the base of the business model, learning English through the contact with foreigners, came from the founder personal experience in learning English by relating with exchange students. The example of 4YOU2 thus proves the role played by the founder’s background and sensitivity in shaping the social venture.
The detachment of the business from the figure of the founder will be a more stringent need as the enterprise grows (Churchill and Lewis, 1983). As Perrini et al. (2010, p. 529) state in their case study of the drug rehabilitation community San Patrignano, “personal commitment is a double-edged sword. It can hinder the long-term sustainability of the organization […]. If not correctly managed, personification may lead to the decline of the organization when, for some reason, the entrepreneur leaves the stage to others.”

4YOU2, in its very DNA, is also an example of innovation. In fact, social value creation requires “nontraditional outside the box thinking” (Lumpkin et al. 2013); innovation is an inherent part of the business model and concept of a social enterprise (Comini, Barki, Aguiar, 2012). 4YOU2’s value proposition consists of high quality English at a low price; and to achieve that, the company creates a sort of marketplace that connects foreigners eager to have a life changing experience in Brazil with low income Brazilians willing to learn English and improve their own life prospective.

An element contributing to a climate in which innovation is likely to succeed is the social mission (McDonald, 2007). For every enterprise – being it social or commercial – the mission guides resource allocation (Ireland and Hitt, 1992) and set the priorities of an organization relatively to its strategy and purpose (Pearce and David, 1987; Perrini and Vurro, 2014). But for a social enterprise the mission has even a stronger role in guiding the firm’s behavior than for the commercial counterpart (Lumpkin et al., 2013). The social mission reflects a great sense of urgency that spur proactiveness (Lumpkin et al., 2013), and this emerges clearly in the case of 4YOU2. As presented in the findings, everyone involved in the organization – employees and foreign professors in primis – is motivated by the noble mission and, in order to serve this mission, goes beyond the requirements of his/her own role and proactively contribute to sustain and develop the company.

The relevance of the social mission brings back to the importance of scaling the enterprise. The ultimate objective for 4YOU2 is to revolutionize the language education system in Brazil, and 1600 students are just the beginning. While for traditional entrepreneurs growth is meant to maximize profitability and spread the fix costs (Austin et al., 2006) for social entrepreneurs scalability is the key to maximize social value creation spreading as wildly as possible the social innovation (Drayton, 2002; Chell, 2007). As highlighted by Perrini et al. (2010, p. 525), “the more the opportunity is scaled up in different contexts, the higher the social impact associated with it”. Besides increasing the scale, a social enterprise needs to maximize the penetration and the social impact in the realities where it was born. In other words, the benefit to the already served communities needs to be maximized by the
activities it currently undertakes (Lyon and Fernandez 2012). This works in the case of 4YOU2, as the organization is missing to increase the penetration of each unit in the community it serves, while instead putting the biggest effort on increasing the number of units in new communities.

4YOU2 is on the path to become an outstanding successful case in the field of social entrepreneurship. The drivers of growth are there, in primis the competitive advantages of the business model, namely the pricing and the cultural exchange experience, the strong mission and the committed human capital. Talking about the human capital, 4YOU2 team includes very different backgrounds. It is common for social enterprises to have eclecticism in the team. For some scholars such diversity is a source of complexity (Dorado, 2006; Cooney, 2003; Kapur and Weisbrod, 2000), as it makes tougher to “develop a coherent organizational community of practices” (Dorado, 2006; Stasser et al., 1989). 4YOU2 experience presents a different perspective: the backgrounds diversity spurs innovation and it is therefore a driver of growth. The alignment among individuals is guaranteed by the common pursuit of the social mission. 4YOU2 is a case where success in dual-mission management, i.e. in serving both a social and an economic mission (Costanzo et al., 2014), is associated with the “hiring of a very diverse team characterized by complementary backgrounds and working experience, yet committed to building learning and an open-minded culture” (Costanzo et al. 2014, p. 668)

An important driver of growth is also the network that 4YOU2 is developing, both by being an active member of the B System, and by establishing strategic partnerships with NGOs and universities. Networking and partnerships are important antecedents of credibility and legitimacy, contributing also to resource mobilization (Leadbeater, 1997; Thompson; Alvvy and Lees, 2000; Dorado, 2006). The importance of 4YOU2’s partnerships has already been explained in the presentation of the findings, as well as the role of the B Corp system in providing managerial support to the organization. To use the words of Perrini and Vurro (2006, p. 74), “no single entity has all the inputs necessary to address effectively an identified social need”.

5.2 Analysis and classification of the challenges

Coming back to the research question, the original objective was to describe the main challenges faced by for social enterprises in the growth phase. The present analysis indicates that 4YOU2, in its fourth year of life, is mainly experiencing challenges that the existing literature mention as for both commercial and social entrepreneurship. Just a few exceptions emerged of challenges strictly related to 4YOU2 peculiarity of being a social enterprise.
The challenges that emerged from the analysis will be now discussed in the light of the reviewed literature. For a more comprehensive debate, the nine challenges identified in the presentation of the findings will be classified into three macro categories, as emerged from the literature review.

1. Challenges related to the management of internal processes:
   - Human capital: high turnover rate;
   - Difficulties in forecasting;
   - Shortcomings in the organizational structure;
   - Shortcomings in the internal processes.

2. Challenges related to the offer:
   - Lack of consistency in the offer;
   - Low brand awareness.

3. Challenges related to the external context:
   - Lack of financial resources;
   - Brazilian crisis;
   - Brazilian bureaucracy.

5.2.1 Challenges related to the management of internal processes
As Steinmetz (1969, p. 36) puts it, “there is no question that small businesses experience growing pains.” And these “pains” are widely related to the fact that, from being a one-man operation, where the owner can take care of everything, the business, month by month, becomes an organization with many players that need to be coordinated and guided in their work. And in order to do this, structured processes are needed.

In the case of 4YOU2, it clearly emerged the difficulties in hiring and, especially, retaining the most suitable human capital. All startups experience difficulties in hiring (Dorado, 2006) as they face the competition from well-established corporations that offer more stable career prospect to potential employees (Williamson et al., 2002). Potential hires may be captivated by the social mission (Dorado, 2006). But even though moral incentive can compensate for the lack of financial motive (McMullen, 2011; Zahra et al., 2008), 4YOU2’s founder himself admits that the inability to pay his employees a competitive salary contributes to the high turnover rate among employees. The inability of the majority of social enterprises to pay market rate to their hires was addressed by some scholars (McMullen, 2011; Austin, 2006) as a differential challenge for social enterprises compared to their commercial
counterparts. Nevertheless, the academic community still recognizes that having the financial resources to provide economic incentive to potential employees is uncommon for every start up. Overall, it is fair to notice that the challenges faced by 4YOU2 in regards with forming a team are foreseeable and inborn to its being an enterprise – no matter the social nature – in the growth phase.

Building a solid team is not just difficult in itself; it brings with it additional challenges related with managing a bigger organization. The owner needs to “spend less time doing and more managing” and he has to learn to delegate (Churchill and Lewis, 1983). To make sure that everything gets properly done, in alignment with the specific mission and goals, it is necessary to build an adequate organization (Perrini et al., 2011), and 4YOU2 is struggling in accomplishing this crucial task. As much as Gustavo shows propensity to delegate, the units still appear not able to work autonomously. The main problem emerged is that roles and related tasks within the organization are not clarified. The lack of a well defined span of control and span of accountability hinders the company effectiveness: while some assignments are overstaffed at the point of reaching diseconomies of scale, some other tasks are neglected. This problem is common to many enterprises; organizational building is a crucial step for newborn companies (Dorado 2006), and the “social” nature of 4YOU2 does not play any relevant role.

The lack of clear appointment of responsibility forms an alarming duo with the shortcomings in the implementation of internal systems. Churchill and Lewis (1983) drew the attention on this last challenge, without highlighting any difference in importance for traditional and social enterprises. When it comes to processes, for a growing enterprise a crucial one is the expansion method. The additional importance of scaling for a social enterprise has already been discussed. 4YOU2’s founder is perfectly aware of this urgent need to grow; but this urgency is overshadowing the demand for a sustainable and replicable model of growth in the first place. Many authors address the importance of having processes in place to support the scalability of the model, thus replicating the innovation and maximizing the social change (Perrini et al., 2010; Dees, Battle Anderson and Wei-Skillern, 2004). In the case of 4YOU2, the lack of a predefined model of growth works, the lack of some structured internal processes and the difficulties in forecasting both demand from students and supply of professors, adding risk’s layers to the already delicate scaling process. Every company with a disruptive business model experiences difficulties in finding an adequate benchmark. Previous experience, on which 4YOU2 is currently relying, is not a good enough benchmark. A good model needs to understand the “critical determinants of success and the extent to
which they are contingent on the context and difficult to replicate” (Perrini et al. 2010, p. 525).

### 5.2.2 Challenges related to the offer

4YOU2’s offer challenges the trade-off between quality and price. But such a trade-off is so deeply rooted in the mind of potential customers that an offer as the one from 4YOU2 raises suspects. Communication is therefore crucial in the case of 4YOU2. The company is facing a challenge in this sense: it is lacking brand awareness. Brand awareness is an important dimension of brand equity (Aaker 1991). First, it is a prerequisite for a brand to be even considered for purchase; moreover, it can drive brand loyalty (Aaker 1991). According to the founder an additional challenge is related with selling the concept itself of social enterprise, not being well established; but the company seems to handle it well.

Besides communicating the offer, 4YOU2 is having challenges in making it consistent. It is experiencing pitfalls in quality check. Dees et al. (2004) address the importance for the central organization to be responsible for setting standards, implementing quality control, training, providing technical assistance and program development. The challenge for 4YOU2 in assuring quality of the offer comes mainly from the lack of a consistent curriculum taught to students and the superficial check done on the work of foreign professors. Going even deeper at the roots of the problem, we get back to the lack of structured internal processes. If brand awareness is needed to attract potential customers – students, in the case of 4YOU2 –, consistency and quality contribute to customer loyalty. For 4YOU2 this means that a current challenge is fighting the significant churn rate among students by offering them a high quality experience, consistently with its offer.

The social nature might play just a minor role in this sense: looking at the category of professors at 4YOU2, refugees are those who in some sense benefit the most from working as professor there. Differently from foreigner looking for a cultural experience, they are looking for a job that pays for living. 4YOU2, in the intent of increase its social impact, seems to be lacking a bit of quality check when it comes to hire refugees as professors. The enterprise is more amenable when it comes to hiring refugees.

### 5.2.3 Challenges related to the external context

When Simanis and Hart (2009, p; 79) talk about the concept of *business intimacy* as a “kind of relationship in which the identity of a community is fused with that of a company”, they perfectly explain the situation of 4YOU2. The embeddedness of the company in the
communities in which it exists is an integral part of its business model, mainly as a source of competitive advantage but also as a potential challenge. It is a challenge because the company needs to take in consideration many external stakeholders – in addition to the internal ones. As Lumpkin (2013, p. 768) puts it, a “unique outcome of social enterprise is its requirement to satisfy an array of additional stakeholders that may not be salient to commercial venture”. Such a challenge emerges in the case of 4YOU2, whose success depends also on providing a better life to its communities.

The intimacy with the community means also that when the community suffers the company is affected in return. The recent Brazilian crisis bended strongly the social classes representing the target customer for 4YOU2, hindering their already low purchasing power and forcing them to cut spending; and for many of them English knowledge is a cost, not an investment.

From a broader perspective, the external context in which 4YOU2 operates are Brazilian institutions. “Context is defined as those elements outside the control of the entrepreneur that will influence success or failure”, explain Austin (2006, p. 5). Legal system, economic environment, taxation, and bureaucratic apparatus are all components of the “context” that provide opportunities and challenges to entrepreneurs (Austin, 2006; Sahlman, 1999). Austin (2006) notices how these contextual elements are equally challenging for social and traditional enterprises. As far as Brazil is concerned, taxation and bureaucracy are particularly relevant. Together with poor infrastructure, heavy bureaucracy and heavy regulation – especially regarding the tax regime – represents the pillars of the so called “Custo Brasil”, the “Brazil cost” obstructing the task of doing business in this Latin American country. 4YOU2’s noble purpose does not save the company from delays in daily operations due to paperwork, compliances, and intricate procedures especially regarding the Visa process for foreign professors, as the founder and other managers explained.

Finally, the difficulty in obtaining funding is another challenge pertaining to the field of action in which a company plays. Scholars noticed that the majority of ventures face resource constraints in the early years of their life (Lumpkin, 2013; Berger and Udell, 2003).

5.3 Risks related with failing in managing the challenges

The drivers of growth are there for 4YOU2. Nevertheless, the company is struggling with what Lumpkin (2013) define as “sustainability of solution”. The particular temporal phase of development – that of growth, at which 4YOU2 currently is – magnifies the call for efficiency while fulfilling the social value creation (Costanzo et al. 2014). The challenges
4YOU2 is facing, as much as they are innate to the growth phase, if not properly managed may erode the drivers of growth hindering the company sustainability. And this is an important takeaway from the case of 4YOU2.

If the turnover rate is not taken under control the risk is that the moral in the workplace will decrease: employees waste their time in managing the tasks of people leaving while also training newcomers. Employees’ motivation is further threatened by the weak organizational structure and the lack of clarity in responsibilities appointment.

From the analysis, the quality of the offer appeared to be at risk, and this translates directly into a threat for the social mission. Lack of internal control systems to assure quality, gaps in the teaching method, and inconsistent curriculum are severe problems that, if not timely solved, can only magnify their harmful effect as the company scales.

The challenge related with increasing brand awareness will aggravate as well. Word of mouth, the main component of 4YOU2’s marketing, is likely to increase. But the same does not hold for the media attention, which is not a reliable marketing tool: media might “get bored” and divert their attention. The risk coming with this challenge is to not get, in the near future, enough customers to guarantee economic sustainability and prove the fulfillment of the social mission. Dual-mission management is a peculiar demand for social entrepreneurs who has been deeply analyzed by Costanzo et al. in a multiple case study conducted in 2014. The study highlights that managing the dual mission is deemed to be particularly challenging in the phase of business growth.

Overall, if internal processes are not well structure and standardized the danger is that important stakeholders, the students in primis, will not be given proper attention and the risks inherent the scaling process will be magnified.
6. FINAL CONSIDERATIONS

The objective of this thesis was to explore the main challenges faced by social enterprises in the growth phase. A single case study – 4YOU2 – was chosen to serve as an enlightening example in the field of social entrepreneurship, for the benefit of other enterprises and of the investors’ community.

The findings emerged from the in-depth qualitative analysis of 4YOU2 proved that the company’s growth is driven by many competitive advantages, especially regarding the innovativeness and attractiveness of the offer – high quality English education together with a cultural exchange experience –, the price component of the value proposition, the personal characteristics of the founder, and the strategic network of partners and supporters around the organization. The analysis also presents the challenges that 4YOU2 is facing, challenges that are overall comparable to those of any enterprise -being it social or traditional- in the same phase of the lifecycle: that of growth.

The primary managerial implication for other growing companies is the following: if internal processes are not well structured and standardized the direct consequence might be to divert the attention from important stakeholders, which ends up in magnifying the risks inherent to the scaling process. Every company, in the first years of its life, goes from being a one-man operation, with the owner taking care of everything, to an organization with many players that need coordination and guidance in their work. Structured processes are necessary to effectively go through these changes. Challenges will continuously come not only from internal operations but also from the external context. The case of Brazil is extreme in this sense, as the regulatory and economic environment is more obstructing than facilitating the operations of business entities. But every country and every context poses challenges to its companies, especially new born ones; a good understanding of how to deal with these challenges allows a company to keep the focus on internal development and on pursuing the mission for which it was born. The importance of the mission is particularly strong in the case of a social enterprise: it is part of the very DNA of the company, a strong branding advantage and the main motivation of everyone inside the organization.

The research presents of course various limitations, related to the methodology and to the nature itself of the paper.

The qualitative data collection provides a flexible method to adapt to the dynamics of the research setting (Lee 1999) but it has some limitations. It is a time consuming method (Hodkinson and Hodkinson, 2001) whose findings are unique to the setting and participants included in the study: the knowledge produced is not easily generalizable. Moreover, the
researcher’s personal biases are more likely to influence the results than in quantitative researches.

An argument that can emerge in relation with the nature of the thesis is that, as 4YOU2 operates in Brazil, managerial implications resulting from the analysis can work only for other Brazilian companies. Actually this is true—as it has already been pointed out—regarding the discussion on challenges from the external context. Nevertheless, the fact that the case study was settled in Brazil is an opportunity for future research, more than a limitation. The same case study can be conducted on growing social enterprises in different national context as well as with different mission focus. Moreover, the methodology can be readapted with other techniques and data collection methods, such as a survey.

Overall, limitations of the case study conducted do not hinder its validity. The thesis reaches its objective of picturing an exemplar case of a growing social enterprise, depicting the challenges that it is facing and the elements to be protected in order to sustain the growth.
REFERENCES


