



The BC-Alberta Social Economy Research Alliance

**Best Practices in Social and  
Private Enterprise Franchising**

***Literature Review 3 for the  
BALTA Golden Mussel Project***

by

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## **Executive Summary**

Some of the available literature on best practices in franchising and on experiences with social enterprise franchising is explored in this review. It is part of a series of three literature reviews commissioned in support of the BC-Alberta Alliance for Research on the Social Economy's (BALTA's) Golden Mussel Project.

Franchising is a business form where an organization, or franchisor, with a market-tested business model enters into a contractual relationship with franchisees, independent firms which operate under the franchisor's trade name using this proven business model. Different types of franchises include service franchises, product franchises, and distribution franchises. Franchising is a replication strategy that allows the franchisor to grow and penetrate new markets with less investment of its own capital than would be required for other forms of expansion. It also reduces some of the risk associated with starting a business for the franchisee as it builds on a model that has already been tested.

Experience with franchising of private enterprises has led to the identification of various best practices. A strong business model that has been tested and proven successful is an important prerequisite for a franchise. The franchisor must be able to identify and articulate the knowledge and experience inherent in this model so that it can be passed on to the franchisees. He or she must also be able to provide effective training and technical assistance to the franchisees. The initial franchise fee and the royalties specified in the franchise agreement should be structured so that they do not hinder the success of individual franchisees. Within a franchise network, the franchisor must balance large-scale economies derived from standardization throughout the network with small-scale economies from franchisee adaptation to the local market. By distinguishing core and peripheral elements of each component of the franchise format, a franchisor can determine where enforcement of standardization is necessary and where more local adaptation can be allowed. Establishing effective communication systems between franchisees can ensure that everyone benefits from local experimentation and innovation. As the interests of franchisees and franchisors are not always perfectly aligned, franchising can create incentives for franchisees to free ride, which increases the importance of monitoring and quality control activities carried out by the franchisor.

Franchising has been applied to social enterprises as well as private enterprises. Franchising can enhance social enterprises by helping them achieve economies of scale that contribute to their viability and profit and by enabling replication that increases their scale and social impact. In order for a social enterprise franchise to be successful, it is important that it have a proven enterprise model that can be clearly defined in terms of both economic and social parameters. Within a social enterprise franchise network, various operational models such as a cooperative can be linked to a franchisor in a franchise relationship. It is important to remember and balance the dual mission of social enterprises in the development of a franchise network. Selecting the right people to fill new positions at franchise locations and providing the required training are two critical elements in ensuring the success of a newly-franchised social enterprise. Three responsibilities that the franchisor must assume in a franchised social enterprise are ensuring quality and protecting the brand, facilitating learning throughout the franchisee

network, and providing centralized services such as marketing, research and development.

Three examples of franchised social enterprises are described. Aspire is a failed social enterprise that pursued franchising without having a strong enterprise model in place and that failed to develop a shared understanding of its social and economic goals between the franchisees and franchisor. Centro ACCION used a franchise model to successfully replicate its micro-enterprise training program across fourteen countries, using practical and demand-driven training products adapted to targeted markets to ensure its success. Fifteen Restaurants and Foundation include a training program for disadvantaged young people in the kitchen of a high-end restaurant. Their experiences to date highlight the need to strike a balance between the social and commercial objectives of a social enterprise franchise and the importance of being selective in choosing appropriate locations for new franchises.

The results of this review suggest that the social enterprise franchise model could be an appropriate structure for the development of the Golden Mussel social enterprises, especially as it already has a successful business model in place. Considerable effort should go into articulating the institutional design for the franchise based on the original enterprise, with particular attention paid to incorporating social goals into the franchise network. Careful selection of franchisees will be necessary. A clear understanding of the strengths and abilities of communities who wish to participate in the project should be developed so that appropriate training can be provided to complement existing capacity. It will be important to identify essential skills and capacity that a community or group must have in order to succeed as a franchisee during the design phase of the franchise process in order to structure this training. Core and peripheral elements of the GM enterprise must be identified during the design process so that an appropriate balance between standardization and adaptation within the franchise network can be maintained.

Social goals for the GM enterprises should be explicitly identified and incorporated into their institutional design since a private enterprise is the starting point for franchise development. New franchisees should be trained so that they share the understanding of the franchise's social and commercial goals and monitoring and evaluation systems should measure progress in terms of both sets of objectives. A sense of cohesion among the franchise network should be promoted and franchisees should feel that they and the franchisor are all working towards the same goals. Regular forums and opportunities for communication between the franchisees and the franchisor should be established in order to cultivate good relationships and facilitate effective communication. The role of the GM franchisor should include responsibility for quality assurance and monitoring and for facilitating learning between franchisees.

## **Best Practices in Social and Private Enterprise Franchising**

### ***BALTA Golden Mussel Project – Literature Review 3***

#### **1.0 INTRODUCTION**

Franchising has become a very successful organizational form today, accounting for approximately 50 percent of all U.S. retail sales (Bradach, 2003). It has even spread to the social enterprise sector, where franchising is used as a means for growing existing social enterprises. Franchising of both private and social enterprises has been the subject of considerable study over the past thirty years. This review explores some of the available literature on best practices in franchising and on experiences with social enterprise franchising.

#### ***1.1 Review Context***

This review is part of a series of three literature reviews commissioned in support of the BC-Alberta Alliance for Research on the Social Economy's (BALTA's) Golden Mussel (GM) Project. The eventual goal of this project is to develop and implement an institutional design for a series of mussel aquaculture social enterprises in coastal First Nations communities in British Columbia (BC). A proven business model for producing Golden Mussels would form the basis for these enterprises, with marketing and distribution of the mussels occurring through a centralized body. Franchising is a potential model that could be used to structure the relationships between the community-level social enterprises and the centralized headquarters for the Golden Mussel industry, hence the need for this review.

#### ***1.2 Review Purpose***

The overall purpose of this review was to explore best practices in the franchising of private and social enterprises and to assess the social enterprise franchise model as a potential structure for the development of the Golden Mussel social enterprises. With this purpose in mind, the review is organized into several sections. The first includes a brief definition and overview of franchising as a business model, followed by the second section which summarizes best practices in franchising relevant to the Golden Mussel enterprises. The third section of the paper focuses on the franchising of social enterprising, including information on issues, best practices and experiences with the use of this model within the sector. Finally, the paper concludes with a summary of lessons learned and recommendations for the GM project arising from the literature that was reviewed.

### **1.3 Review Scope**

The literature related to ‘franchising’ is substantial to say the least. The amount of time and resources available for completing this review limited the amount of material that could be considered. Thus, the sections on franchising private enterprises focus on best practices in franchising and were mostly drawn from North American business literature. In the sections on franchising social enterprises, the decision was made to focus on three examples of franchised social enterprises that were found through a scan of the literature, and to describe and assess them in some detail. That section of the review therefore focuses on the elements of these cases leading to success or failure, and the potential applicability of these lessons to the Golden Mussel initiative.

## **2.0 THE BASICS – FINANCING 101**

To set the context for this report, the following sections provide a brief overview of the concept of franchising.

### **2.1 Definition**

Various definitions of franchises and franchising have been suggested by different scholars. Essentially, franchising is a business form where an organization, or franchisor, with a market-tested business package revolving around a product or service starts a contractual relationship with franchisees. These franchisees are independent firms which operate under the franchisor’s trade name to produce and market goods and services as specified by the franchisor (Curran & Stanworth, 1983). The agreement between the franchisor and franchisees generally specifies that the product or service must be sold in a specific way, from a specific location and during a specific period. In return for these rights, the franchisor receives an initial fee and an ongoing sales-based payment (Tracey & Jarvis, 2007).

### **2.2 Types of Franchises**

There are several different types of franchises. A service franchise is built around a service that the franchisee offers to the public under the franchisor’s trademark and according to the franchisor’s specifications (Côté, Leclerc, & Maheu, 2006). A product franchise refers to the situation where the franchisee is responsible for making products that are then sold under the franchisor’s brand. A distribution franchise occurs when the franchisee sells certain products in a store or restaurant that bears the franchisor’s brand. Of these three types of franchise, the product franchise is most relevant to the Golden Mussel project. If a franchising model is used for the final institutional design, communities or franchisees would be responsible for growing mussels that would then be sold under the Golden Mussel brand (*Pacific Golden Mussels*<sup>TM</sup>).



### **2.3 Why Franchise?**

It is important to consider why businesses choose to pursue franchising and what benefits they expect to achieve through franchising. One important aspect of franchising is that it is a marketing or replication strategy that allows the franchisor to grow and penetrate new markets with less investment of its own capital than would be required for other forms of expansion (Curran & Stanworth, 1983; Tracey & Jarvis, 2007). Even in the case of social enterprises, where franchisees may not be investing their own capital, franchising has been identified as a potential strategy for replicating a successful program or enterprise (Bradach, 2003).

Resource constraints are thus an important factor that can prompt firms and social enterprises to franchise (Tracey & Jarvis, 2007). Another factor that may influence a company's decision to franchise rather than simply expanding by opening up regional branches is the need to find competent managers who do not require extensive and costly oversight from the company headquarters. Franchising can allow the company or franchisor to access more effective and motivated "owner-managers" for franchise units than they might find if they relied only on salaried managers. As owners of the franchise outlets, these managers will have a personal stake in the success of the franchise and thus should be more motivated (Curran & Stanworth, 1983). This reduces the amount of effort the parent company must expend on monitoring branch performance, saving them money and time (Tracey & Jarvis, 2007). Thus franchising can offer a way for a company to expand and grow without expending too many resources.

The franchise structure also offers several benefits to franchisees. It reduces the some of the risk associated with starting a business as it builds on a model that has already been tested (Curran & Stanworth, 1983). Estimates by the Small Business Administration in the United States that suggest that the failure rate for new franchise units is less than half of what it is for small business start-ups (Bradach, 2003).

As franchisors generally provide full training to franchisees, the franchise model also allows potential franchisees to overcome informational barriers to their entry into small business ownership (Curran & Stanworth, 1983). Potential franchisees may also have less difficulty raising the capital they need than they would if they were starting an independent business themselves as they may be able to get financial assistance from the franchisor or more receptive treatment from banks (Curran & Stanworth, 1983). Franchising may allow people who would not otherwise be able to start their own business become owners of a franchise. This aspect of franchising is particularly relevant to the Golden Mussel enterprises as the franchising model could make business ownership and operation available to some First Nations communities who would otherwise face capacity gaps that could compromise their ability to begin their own business.

### **3.0 BEST PRACTICES IN FRANCHISING**

Franchises have had remarkable success over the past few decades. Studies from the United States Department of Commerce have found that the initial success rate for franchises is higher than 95% while the failure rate for non-franchise business start-ups is above 90% (Franchising Profiles International, 2006). However, obviously not all businesses successfully make the transition into franchises. The following sections identify some elements of best practices in franchising that are relevant to the Golden Mussel Project.

#### ***3.1 Proven Business Model***

One of the most important requirements for setting up a franchise system is a strong business model that has been tested and proved successful. This is the heart of a franchise; it is access to this model that potential franchisees are willing to pay for. Weak business models are one of the major reasons for franchise failure in the for-profit sector (Tracey & Jarvis, 2007). Not surprisingly, if a particular model has not been successful as a stand-alone business, it is not likely to become successful as a franchise. A strong brand and products and services that have been shown to be competitive in relevant markets are an important part of an effective business model (Sherman, 2004).

#### ***3.2 Developing a Standardized System***

Simply having a tested business model is not sufficient to make the transition to a franchise system. The franchisor must be able to identify and articulate the knowledge and experience inherent in the existing business model so that it can be passed on to the franchisees. If some of this knowledge, in the form of business practices, cannot be replicated, then it obviously will not be of benefit to the franchisee. A critical factor influencing the success of franchise units in a newly-franchised business is the ability to standardize key activities that are part of the franchisor's business model (Bradach, 2003). The ability to articulate and standardize the knowledge inherent within the operating model of the original business or social enterprise is crucial to the successful transition to a franchise.

#### ***3.3 Training and Technical Assistance***

Another important factor in franchise success is the training and technical assistance provided by the franchisor. Essentially, the franchisor is responsible for managing two different businesses: the original business and the franchise system. The franchisee is therefore interested not only in whether or not the original business was successful, but also in how effectively the franchisor supports franchisees in the development of new franchise outlets (Queen, 1991). A successful franchisor will have the ability to give ongoing and effective assistance to franchisees (Sherman, 2004). NatWest Bank recommends that

prospective franchisees ensure that the franchisee training program is relatively sophisticated before purchasing a franchise (Markus Cohen Law Office, 1996).

### ***3.4 Franchise Agreements***

Various resources address the question of the franchise agreement between the franchisor and franchisee in great detail (Queen, 1991; Addison, 1996 among others). Two important elements of this agreement relevant to the Golden Mussel Project are the Initial Franchise Fee and the royalties that represent the franchisor's major revenue stream to support franchising activities.

#### **3.4.1 Initial Franchise Fee**

Not surprisingly, most sources suggest that the Initial Franchise Fee (IFF) paid by the franchisee should bear a close relationship to the value received by the franchisee (Markus Cohen Law Office, 1996). This value includes factors such as the use of the company trademarks and the associated goodwill, the initial training provided to the franchisee, and any specialized accounting or management systems.

The NatWest Bank suggests that ensuring that the IFF just covers start-up, development and training costs is a key factor in a franchisee's success; this means that the franchisor does not make a profit until the franchisee does, increasing the motivation for the franchisor to ensure the franchisee's success (Markus Cohen Law Office, 1996).

#### **3.4.2 Royalties**

A royalty which is a percentage of gross sales or production is an appropriate means of compensation for the franchisor's ongoing support of the franchisee (Markus Cohen Law Office, 1996). This can be fixed or based on a sliding scale that changes according to pre-set mileposts. The NatWest Bank suggests that royalties, however calculated, should not represent more than 25% of the franchisee's net profit before management drawings, taxes and depreciation in order to ensure franchisee success (Markus Cohen Law Office, 1996).

### ***3.5 Standardization vs. Adaptation***

One of the important ongoing questions for a franchisor is the level of variation that should be allowed within a franchise. Much attention has been given to the question of the benefits of standardization as opposed to local adaptation within a franchise system.

Winter, Szulanski, Ringov and Jensen (2007) have found empirical evidence to show that standardization can be important when a franchise or new franchise outlet is being developed, demonstrating that precise replication of the proven template for doing business increases a franchise outlet's success.

However, once a franchise has been established, the tension between standardization and adaptation becomes apparent.

Kaufmann and Eroglu (1999) suggest that the issue is balancing the large-scale economies derived from standardization with small-scale economies from adaptation to the local market. By distinguishing core and peripheral elements of each component of the franchise format, a franchisor can determine where enforcement of standardization is necessary and where more local adaptation can be allowed (Kaufmann & Eroglu, 1999). Core elements are those which are essential for the business system's survival and which thus must be standardized across all franchisees in order to ensure their success. Cox and Mason (2007) studied standardization and adaptation in various UK-based franchises, determining that most franchisees were given the freedom to adapt peripheral elements of the franchise's format to better suit local markets.

Cost savings are one of the major incentives for standardization within franchises. Standardizing allows the franchisor and franchisees to save money on quality control, monitoring, input costs, and information transfer (Kaufmann & Eroglu, 1999). Image and brand consistency is another factor driving standardization. Standardization can also make it easier for the franchisor to assess and improve the performance of the system and to implement new innovations developed through R&D throughout the franchise (Kaufmann & Eroglu, 1999).

As franchises grow, there may be a strong tendency for the franchisor to increase limits on deviations from standardized characteristics in franchisees as variable monitoring costs and the potential for brand diffusion increase (Kaufmann & Eroglu, 1999; Montagu, 2002). However, it is important to acknowledge that other forces may also be encouraging local adaptation by franchisees, which can also be valuable to the franchise as a whole under the right circumstances. Where franchisees are involved in marketing to local markets and environments, some degree of adaptation may allow them to capture a greater share of these markets (Kaufmann & Eroglu, 1999). As the franchise matures, franchisees become more knowledgeable and aware of such opportunities, prompting them to call for increased flexibility so that they can act on their knowledge. Customers may also have become more familiar with the franchise brand by this point so the risk of brand diffusion may not be high enough to outweigh the benefit of capturing more local sales and promotion opportunities (Kaufmann & Eroglu, 1999).

Finally, it is important to remember that local adaptation can also be a source of creativity and new innovations that may eventually benefit the whole franchise network (Lord, 2007). Cox and Mason (2007) found that most of the franchisors they studied recognized that franchisees were a source of innovative ideas and allowed them the freedom to develop and try new ideas that did not affect the core elements of the franchise. Establishing effective communication systems between franchisees such as a learning network can ensure that

everyone benefits from local experimentation and innovation (Delgleish, 2005). One approach to managing this variation is to ensure that the relationship between the franchisor and franchisee is one of mutual trust, identify the core values of the franchise, and set in place systems to ensure local variations are properly understood and communicated (Lord, 2007). In practice, franchisees often have a considerable degree of operational autonomy, suggesting that some local adaptation will always occur so the franchisor should plan to accommodate this (Cox & Mason, 2007).

### **3.6 Monitoring Franchisees**

As the interests of franchisees and franchisors are not always perfectly aligned, franchising can create incentives for franchisees to free ride (Castrogiovanni, Combs, & Justis, 2006; Montagu, 2002). Franchisees can seek to maximize their individual profits at the expense of the franchise as a whole; for example, they may choose to hire fewer staff at the expense of overall service quality, which would threaten the brand reputation (Tracey & Jarvis, 2007). The franchisor can use contractual obligations, sanctions and franchisee incentives to limit such free riding. The possibility of free riding by franchisees also increases the importance of monitoring and quality control activities carried out by the franchisor (Montagu, 2002). The need to monitor franchisees can increase the incentive for standardization within the franchise as this will increase the ease of monitoring (Kaufmann & Eroglu, 1999).

An example of a process monitoring program within a franchise is the Planned Parenthood Federation of America (PPFA). They conduct extensive evaluations and re-certifications of local affiliates every four years (Montagu, 2002).

As much as possible should be done to promote an atmosphere of mutual trust and respect between the franchisees and franchisor. Although it is necessary for the franchisor to play an oversight role in monitoring quality assurance and standardization on the part of the franchisees in order to address potential free riding, franchisees' understanding of the value of these functions to the franchise as a whole should be fostered. One way to deal with conflict that may arise as a result of franchisor enforcement of standards is to create a Franchisee Advisory Committee which represents the interests of all franchisees (Kaufmann & Eroglu, 1999). This can be a way to prevent a single obstreperous franchisee from damaging the franchisee-franchisor relationship.

### **4.0 Franchising Social Enterprises**

As franchising has grown in popularity as an organizational model for private enterprises, it has also been applied to social enterprising. Here it is sometimes called social franchising. This review focuses on franchising as a replication strategy or a model for existing social enterprises. Social enterprises use commercial business operations to pursue social goals.

Another phenomenon that is sometimes labeled social franchising involves the purchase and operation of an established for-profit franchise business (for example, A&W or Wendy's) by a non-profit organization as a means of diversifying their income (Community Wealth Ventures, Inc. & IFA Educational Foundation, 2004). This type of social franchising is not addressed in detail in this review as it was not considered relevant to the development of the Golden Mussel social enterprises.

#### ***4.1 A Means for Scaling Up***

Just as franchising can be part of a growth strategy for a private enterprise, it is also a way for social enterprises to grow and expand. In some cases, the original social enterprise may see franchising as a growth strategy that addresses resource scarcity issues which would otherwise limit their ability to grow and replicate (Tracey & Jarvis, 2007). Franchising can enhance social enterprises by helping them achieve economies of scale that contribute to their viability and profit and enabling replication that increases their breadth or depth of scale and social impact (Alter, 2007). Ultimately, franchising may allow a social enterprise that could not otherwise be scaled up to replicate its model and impact; for example, a café employing homeless people that may only be profitable when operated on a small scale can be franchised and replicated in different locations to increase its impact.

Ellerman (2006) suggests that social enterprises such as cooperatives may actually be more receptive to the creation of spin-offs, break-aways and independent franchises than private enterprises are as their bottom-up power structure can eliminate some private enterprise concerns over the loss of control such growth can represent. He uses the example of Mondragon, Spain, where new spin-offs or break-aways were actually encouraged by the existing cooperatives as these new cooperatives could contribute the overall social goal of developing good jobs in the area (Ellerman, 2006). Given their existing bottom-up power structure, the original cooperatives were also not that concerned about losing power through the creation of spin-off cooperatives. Thus social enterprises may be even more receptive to the idea of franchising than private enterprises might be.

#### ***4.2 Social Franchise Models***

In order to gain a better understanding of how social enterprise franchising might work, it is important to consider how different social enterprise models might function within a franchise system.

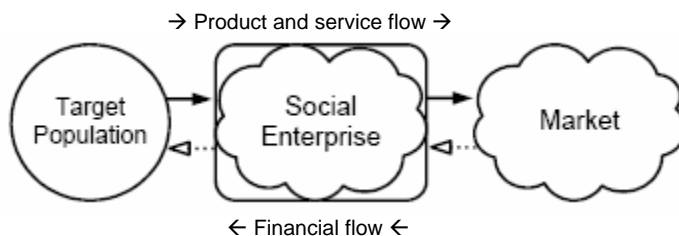
##### **4.2.1 Embedded Social Enterprises**

Any of the wide range of existing social enterprise models that can be replicated can be franchised (Alter, 2007). However, in order for franchising to be successful, it is important that the social enterprise have a proven model that can

be clearly defined in terms of both business and social parameters. As such, embedded social enterprises, where social programs and business activities are fully integrated in the enterprise, often work best with a franchise model (Alter, 2007). These embedded social enterprises can be found in operational models where social and economic activities are unified, social mission is the central purpose of the business and the target population is integral to the model as recipients of social services and the market, employees or owners of the enterprise (Alter, 2007). The proposed Golden Mussel social enterprises fit this description and can be considered embedded social enterprises as their social objectives of providing economic development opportunities within First Nations communities are directly tied to the production and sale of Golden Mussels.

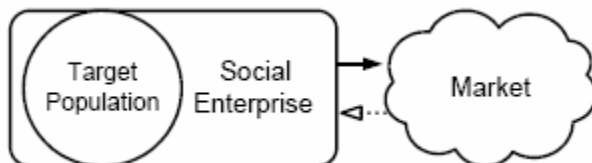
#### **4.2.2 Relevant Operational Models**

Alter (2007) describes various operational models can take the form of an embedded social enterprise, including a cooperative model, a market intermediary model and an employment model. These three models were deemed the most relevant to the Golden Mussel project and are described below. In the market intermediary model, which is described in Figure 1 below, the social enterprise provides services to the individuals, firms or cooperatives who are its clients and who are small producers to help them access markets (Alter, 2007). An example of this type of model would be a marketing supply cooperative.



**Figure 1 - Market Intermediary Model (Alter, 2007, p. 33)**

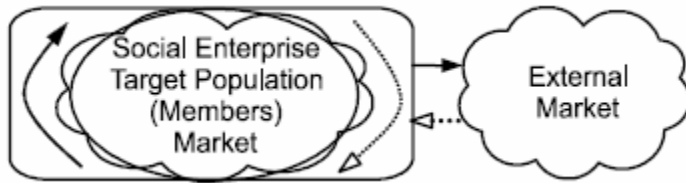
Under the employment model, the social enterprise operates a business that employs its clients, selling its products or services on the open market (Alter, 2007). It provides employment opportunities and job training to its target populations.



**Figure 2 - Employment Model (Alter, 2007, p. 35)**

The cooperative model involves a social enterprise that provides direct value to the cooperative members who are its target population through member services

such as market information, technical assistance, access to products and services and access to external markets (Alter, 2007).

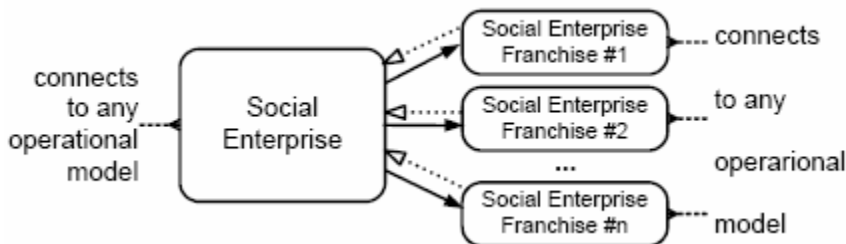


**Figure 3 - Cooperative Model (Alter, 2007, p. 40)**

All three models have characteristics similar to the proposed Golden Mussel social enterprises, and as such, provide a useful basis for beginning to think about the structure of those social enterprises.

#### **4.2.3 Franchise Model**

Any of the operational models described above or elsewhere could be replicated and linked to a franchisor social enterprise in a franchise relationship. Figure 4 below illustrates a typical structure for a social franchise or franchised social enterprise.



**Figure 4 - Franchise Model (Alter, 2007, p. 49)**

Various ownership structures, including non-profit and for-profit cooperatives, can be applied at the different levels of the franchise model (Alter, 2007).

#### ***4.3 Considering Franchising***

Franchising is a growth strategy that may not be appropriate for all social enterprises. Just as not all private firms will be successful as franchises, not all social enterprises can be successfully franchised. The Community Action Network (CAN) and Business Link Heartfordshire in the United Kingdom (UK) have developed the Social Franchise Suitability Matrix tool to help assess the franchise potential of a social enterprise business (CAN & Business Link Heartfordshire, 2006). It is a self-assessment tool to help social enterprises consider their strengths and weaknesses in the following areas: their business/social environment, products or services, branding, sales and marketing, finance and administration. In order to become a successful franchise,



a social enterprise should have many of the same qualities that a private enterprise does, including a proven business model.

#### **4.4 Defining the “Business” Mode**

In order for a social enterprise to successfully pursue franchising, it must have a viable “proven social enterprise model” with clear economic and social parameters that are applicable in different markets and different geographic regions (Alter, 2007; Côté et al., 2006). It should have substantive evidence of success as access to a tried and tested model is part of what new franchisees will expect to acquire (Bradach, 2003).

As a social enterprise moves towards franchising, it will need to clearly define its social enterprise model. Bradach (2003) considers that this process includes articulating the enterprise’s theory of change, or views of why the program works and what activities are required to produce successful outcomes. He suggests that the “minimum critical specification” principle should be used to define the theory of change, defining the fewest elements possible in order to produce the desired value (Bradach, 2003). A strong theory of change is one that uses systems thinking to show causes and effects among different parts of the model, that articulates both the theory and activities necessary to produce results, and that is as simple as possible (Bradach, 2003). Articulating an organization’s theory of change is part of the process of standardization required in order to pass the knowledge inherent in original social enterprise on to the new franchisees.

#### **4.5 Dual Mission**

One factor that is important to remember when franchising a social enterprise is their dual mission. In social enterprises, the social value mission that they are pursuing may mean that the commercial and social dimensions of the enterprise are sometimes in tension with one another (Austin, Stevenson, & Wei-Skillern, 2006). This tension can translate to the franchise system, meaning that it is important that franchisor and franchisees have a good shared understanding of how the two missions relate to one another.

The social purpose of a social enterprise may also make it more difficult to measure enterprise success than it would be for a commercial enterprise (Austin et al., 2006). This means that it is important that the franchisor think carefully about how to monitor and assess success in franchise operations.

#### **4.6 The Role of Context**

The role that context has played in the success of the original social enterprise is also important to consider. The original operating model may not be as effective in a different context, which may mean that some aspects of context may need to be kept constant in new franchises (Bradach, 2003). For example, a training program that has been successful in an urban, inner-city context may not

work so well in a small town though the model could be successfully applied in another city. Thus, the model chosen for the GM enterprises needs to be appropriate for First Nation communities in remote coastal areas.

#### ***4.7 The Right People***

Selecting the right people to fill new positions at franchise locations and providing the required training are two critical elements in ensuring the success of a new franchise social enterprise (Bradach, 2003). Finding local champions for a newly franchised social enterprise can be extremely important for its success.

Personnel selection also requires that the skills that local site managers will need have been articulated based on the experience of the original social enterprise. An appropriate training program can then be developed to address any capacity gaps and to introduce new site managers to the culture of the organization. Bradach (2003) notes that this acculturation process is an important part of training; non-profit organizations often insist on promoting only from within their organization as the tacit knowledge inherent in the organization's operating model has not been made explicit and therefore is not recognized as something that could be transferred to new employees. Part of the franchising process should be to recognize this knowledge and explicitly include it in training for the new franchisees.

#### ***4.8 Franchisor Functions***

Three issues that the central body of a franchised social enterprise needs to consider are its roles in ensuring quality and protecting the brand, facilitating learning through the network of franchisees, and providing centralized services including research and development (Bradach, 2003). This is similar to the roles played by franchisors in privately-owned franchise systems.

#### ***4.9 Network Qualities***

One question facing a social enterprise that adopts a franchise model is how tight or loose the relationship between the new franchise enterprises and the central office should be. Bradach (2003) suggests that the main dimension driving the shape of this network is the degree to which the operating model can be standardized. The greater the standardization, the looser the network may be as it will be easy for local site managers to understand and adopt the operating model with little central support and for the central office to identify and respond to deviations from the model. This contrasts with situations where culture is an important part of the model as a tighter network and more interactions between the central office and franchisees will likely be required (Bradach, 2003). The challenge is "to design a network that is as loose as possible yet maintains fidelity to the concept and produces results (Bradach, 2003 p. 24)." This echoes ideas from experiences with franchising private enterprises, where balancing standardization and local adaptation is a major challenge.

## **5.0 EXAMPLES OF SOCIAL ENTERPRISE FRANCHISING**

Franchising of social enterprises is a fairly recent phenomenon, inspired by the success of the franchise model in the private sector. This section describes a few examples of social enterprises that have grown through franchising. Other examples of social enterprise franchising include the use of franchises to provide health services in developing countries (Montagu, 2002).

### ***5.1 Aspire – A Failed Social Enterprise Franchise***

Tracey and Jarvis (2007) describe the growth, franchising and eventual failure of Aspire, a social enterprise in the United Kingdom.

#### **5.1.1 Social Enterprise History**

Started in Bristol in 1998, the enterprise employed homeless people to deliver catalogues for fair trade gift items and to pick up resulting orders (Tracey & Jarvis, 2007). Literacy and numeracy classes were also provided for the enterprise's employees. After two years in operation, the management team decided that economies of scale were required in order to make the enterprise commercially viable, which it had not been up until that point. They chose franchising as a cost-effective and rapid method for expansion, targeting existing non-profit organizations with experience working with the homeless as franchisees (Tracey & Jarvis, 2007). After attracting a social investor who provided the funds for the franchise program, nine new franchises embedded within existing homeless organizations or housing associations were established. All of the organizations had experience working with the homeless, though only four had experience with business and social enterprise (Tracey & Jarvis, 2007). Functions were distributed between the regional outlets and the central administrative headquarters, which was set up in London; the outlets were responsible for distributing catalogues and training and supervising homeless employees while headquarters designed the catalogue, sourced the goods, and managed the catalogue company (Tracey & Jarvis, 2007).

Issues with the original business model became apparent soon after the franchise outlets began operating. Sales were lower than expected, presumably because of limited appeal of the narrow product range to customers, and all of the franchises were losing money (Tracey & Jarvis, 2007). Furthermore, the model involved long hours for the franchise managers, who had to supervise employees during the day and deliver goods in the evening. Several franchise outlets closed within a year, prompting restructuring of the business model to operate for only eight months of the year around Easter and Christmas (Tracey & Jarvis, 2007). Despite this change, the franchise outlets continued to lose faith in the viability of the business model while the franchisor was losing faith in the franchisees' ability to successfully operate the outlets (Tracey & Jarvis, 2007). By 2004, the catalogue company was essentially bankrupt and an insolvency specialist had been called in.

### **5.1.2 Lessons Learned**

One of the important lessons learned highlighted by this case is the need for a proven business model as the basis of the franchise. Issues with the business model need to be worked out before it is replicated through a franchise; otherwise, the franchisor risks losing the faith of the franchisees in the model and in the franchisor itself. Without a model that has been previously successful, the franchise structure cannot reduce the franchisees' risk of failure, eliminating one of the major attractions of the franchise model. Aspire became a franchise too soon, before its business model had been proven (Tracey & Jarvis, 2006).

Another lesson learned from the Aspire case is the need for careful selection of franchisees. Tracey and Jarvis (2007) note that social enterprise franchisors face some unique challenges compared to traditional franchisors in this regard. First, potential franchisees are generally organizations rather than people, which can make assessing their competencies and capacity more difficult and complicated. Secondly, social enterprise franchisors must assess possible franchisees on their ability to achieve social objectives and to operate a successful business (Tracey & Jarvis, 2007). Balancing between these areas of expertise may be difficult as it is likely that few potential franchisees will have skills in both areas. In the Aspire case, the emphasis in franchisee selection was clearly placed on experience working with the homeless and achieving social objectives rather than on business experience. This may have contributed to the failure of the franchise outlets. This case suggests that in cases where franchisees do not possess business management experience and skills, it is extremely important that the franchisor provide training to build the franchisees' capacity in this area.

A further insight from the Aspire case is that social venture franchising can be prone to asymmetry in the goals of the franchisees and the franchisor. As the entire franchise began to fall apart, there was considerable tension between the franchisor's focus on the financial and commercial objectives of the venture, as they struggled to cut costs and find financing for the ventures, and the franchisees' focus on the social objectives, as they were out in the community dealing directly with the social issues. The decision to limit operations to eight months of the year exemplifies this conflict as it undermined the social goals of the ventures by limiting their ability to offer year-round employment to the homeless while satisfying the need to cut costs, which was a priority for the franchisor at that point (Tracey & Jarvis, 2007). This experience highlights the need to develop incentive structures that align the social and commercial interests of the franchisor and franchisees. Tracey and Jarvis (2007) consider that contractual mechanisms are not likely to be sufficient for this purpose, suggesting that the franchisor should foster support for strategic decisions so that they are seen as legitimate in terms of the both the commercial and social aspects of the enterprise. This may rely on the establishment of systems of shared meaning and a sense of cohesion among franchise members. Regular forums and opportunities for communication between franchisees and the

franchisor can help franchisees develop the sense that everyone is working together towards common goals. Furthermore, social franchising may be more effective when franchisees are given some autonomy as to how they implement the franchise model as this can help develop an atmosphere of trust between the franchisor and franchisees (Tracey & Jarvis, 2006; Tracey & Jarvis, 2007).

Finally, the Aspire case suggests that social enterprises undertaking franchising should clearly understand their “double bottom line” (Tracey & Jarvis, 2007). Aspire tried to combine a weak business model with ambitious social objectives, with disastrous consequences (Tracey & Jarvis, 2006). Their experience shows the need for social franchises to balance their social and commercial goals. In some cases, the tension between these goals may mean that the social enterprise must reduce their ambitions in either or both areas in order to ensure that they adequately address objectives in both areas.

## ***5.2 Centro ACCION (Diálogo de Gestiones) – a Social Franchise Success***

Centro ACCION, of Bogotá, Colombia, is an example of a social enterprise that has used a franchise model to successfully replicate its micro-enterprise training program across fourteen countries through 41 franchise partner institutions (Alter, 2007; Côté et al., 2006).

### **5.2.1 Social Enterprise History**

In 1999, ACCION set up an innovative franchise called Diálogo de Gestiones (DdG) that licenses its training program to microfinance and other institutions. Figure 5 below outlines the structure of Centro ACCION and DdG. In return for a franchise fee, DdG provides a microfinance institution with the rights to use the training program, the training curriculum and support materials, training for facilitators, a detailed business plan, a monitoring and evaluation system, technical assistance, and access to a franchisees’ online community (Alter, 2007). DdG also receives royalties from the sale of program materials to franchisees or to franchisees’ customers. The income DdG receives from the franchises supports the services it provides to the franchisees as well as ongoing research and development and marketing activities (Alter, 2007). As of 2002, DdG had achieved 52% self-sufficiency including R&D and production expenses (Alter, 2007).



**Figure 5 - Organizational structure of ACCION and DdG (Adapted from Alter, 2007, p. 112)**

### **5.2.2 Lessons Learned**

Alter (2007) identifies several lessons learned from the experiences of ACCION International. Franchising allowed DdG and ACCION to achieve high operating efficiencies and large-scale social impact. Their experience also demonstrates that it is possible for social enterprise franchises to be successfully applied internationally, in several different countries. An important part of their success to date is due to the fact that the training products are practical, demand-driven and adapted to the needs of the targeted customer markets where they are sold (i.e. microentrepreneurs) (Alter, 2007).

### ***5.3 Fifteen Foundation and Restaurants***

Another successful example of a social enterprise franchise is the Fifteen Restaurants and Foundations begun by celebrity chef Jamie Oliver in 2002. The model here is a training program for disadvantaged young people in the kitchen of a high-end restaurant (Fifteen Foundation, 2008a). The Fifteen Foundation, a registered charity, owns the restaurant, Fifteen London, as well as three other trading subsidiaries, Fifteen Events (a catering business), Fifteen Ventures (a company that invests in program graduates' business ideas) and Fifteen Trading (Fifteen Foundation, 2008a). The restaurant is self-financing through sales, with profits passed on to the Foundation. The Foundation relies on various sources including franchise fees, royalties, fundraising events, and donations to raise £500 000 per year to support the training program expenses.

### **5.3.1 Social Enterprise History**

Building on the success of Fifteen London, the Fifteen Foundation has opened three franchise locations in Cornwall, Melbourne and Amsterdam over the past few years (Fifteen Foundation, 2008a). Once a location is established, an associated charitable foundation is set up to ensure that profits are funneled back into the local community (Fifteen Foundation, 2008b). According to the Foundation's website, great care is used in selecting a new location in order to ensure that there is local need for such a training program, sustainability and growth potential for such a restaurant and a strong local food culture for sourcing produce (Fifteen Foundation, 2008b).

### **5.3.2 Lessons Learned**

To date, the restaurant and food side of the Fifteen Restaurants are definitely thriving while the training program has not always been as successful as anticipated (Butler, 2008). A recent report evaluating Fifteen's progress thus far identified a major lesson to be learned from their experience thus far. The unexpected success of the restaurant distracted attention away from the support, training and counseling services for the trainees, leaving them under-resourced and erratic (Butler, 2008). This resulted in a graduation rate of just over 50% as of 2007, well under expectations (Butler, 2008). The report's release has prompted greater emphasis on the training program and a restructuring of it and the support services for trainees. This provides further evidence of the need to strike a balance between the social and commercial objectives of a social enterprise franchise.

The other valuable insight from the Fifteen experience is the importance of being selective in choosing an appropriate location for a new franchise. By doing a considerable amount of research into commercial and social aspects of possible locations for new franchises, Fifteen increases the likelihood that each new location will be successful in meeting their commercial and social goals.

## **6.0 GOLDEN MUSSEL ENTERPRISES AND THE FRANCHISE MODEL**

The final section of this paper examines the relevance of the results of this literature review to plans for the development of social enterprises for the production and cultivation of Golden Mussels in First Nations communities. It includes discussion of the applicability of the franchise model to Golden Mussel industry development, key lessons from the review relevant to the potential GM social franchise and recommendations arising from these lessons learned.

### ***6.1 Golden Mussels and the Social Enterprise Franchise Model***

Based on the results of this literature review, the social enterprise franchise model could be an appropriate structure for the Golden Mussel social enterprises. Several characteristics of the franchise model described earlier in

this paper make it particularly applicable for the Golden Mussel project. The franchise structure allows potential franchisees with limited capital and knowledge to access a proven enterprise model; as such, it will allow interested First Nations communities to pursue a proven business opportunity even if there are gaps in their capacity or available capital.

The franchise model also provides a balance between local autonomy and centralization that fits well with the need to maintain centralized marketing of Golden Mussels and to adapt the GM production enterprises to fit the local community context in which they will operate. As the social enterprise franchise model outlined earlier in this paper shows, the franchise structure allows for variation in the operational model used by each of the franchisee social enterprises, so that one can operate as a cooperative while another might operate as a community-owned enterprise. This degree of flexibility is important for the GM social enterprises as it allows for variation in the local context of each franchise. Finally, the franchise model facilitates the growth and scaling up of an enterprise. The ultimate vision for the GM enterprises is the development of a First Nations-owned coast wide industry, and the franchise model lays out a path for achieving this vision and multiplying the social impacts of the GM enterprises.

## ***6.2 Franchising Golden Mussels***

It is important to recognize certain unique aspects of the Golden Mussel Project that will affect how the franchise model is applied to enterprise development. As it currently stands, Blue Frontier Adventures Inc. (BFI) has developed a successful private enterprise that includes a proven business model, established brand and trademarks and proprietary production technology and techniques. In developing the GM social franchise, the structure of this private enterprise will be modified to incorporate social goals around First Nations ownership and economic development. At the same time, it is anticipated that a franchise structure will be developed so that individual First Nations communities can become franchisees, cultivating Golden Mussels that will be marketed and distributed through a centralized body. Because the development of the GM franchise involves the transformation of a private enterprise into a social enterprise, it becomes especially important that the social goals of the overall franchise are explicitly identified and reflected in the institutional design of the operations.

## ***6.3 Best Practices for Golden Mussel Franchise Development***

This literature review identified a number of lessons learned and best practices that are relevant to the development of a Golden Mussel social enterprise franchise. They are summarized below, along with specific recommendations for their application to the Golden Mussel situation.



### **6.3.1 Need for a Successful Business Model**

The first major lesson learned from the franchise experiences detailed above is the need for a successful business or social enterprise model as the basis for a franchise. This model should include a strong brand and competitive products. Wherever possible, these products should be demand-driven and adapted to specific market needs. This prerequisite for successful franchise development leads to the recommendation that franchising not be pursued unless it is clear that the original business model has these characteristics.

In the case of the Golden Mussels, the current enterprise does possess these characteristics. There is a proven market for Golden Mussels and the demand is much higher than current production levels (K. Renaud, personal communication, May 20, 2008). Thus this enterprise is a viable candidate for franchising.

*Recommendation #1 – The Golden Mussel enterprise currently has a successful business model in place and thus franchising could be an appropriate development strategy.*

### **6.3.2 Identifying Key Elements of Model**

Another best practice is the need to articulate all aspects of the original enterprise model so that they can be standardized and so that this knowledge can be passed on to the franchisees. For social enterprises, it is especially important that both social and economic aspects of the enterprise be articulated.

*Recommendation #2 - Considerable attention and effort should go into articulating and delineating all aspects of the institutional design for the GM franchise. Particular attention should be paid to incorporating social goals into the original private enterprise that will be the basis for the GM franchise.*

### **6.3.3 Franchisee Selection**

Another key insight provided by the literature review is the need for careful selection of franchisees complemented by the provision of effective training and technical assistance by the franchisor. The franchisor must be able to articulate the skills that a franchisee needs to have in order to be successful. In the case of social franchises, a franchisee may need a combination of business skills and the ability to achieve social objectives. In most cases, potential franchisees will not have all of the skills that are needed. This is where the franchisor needs to provide training and technical assistance to fill these gaps. In the case of a social franchise, it may be especially important to provide business training to organizations or groups that already have experience with reaching social objectives or vice versa.

*Recommendation #3 - For the Golden Mussel project, these insights highlight the need to develop a clear understanding of the strengths and abilities of*

*communities who wish to participate in the project so that the appropriate training can be provided to complement existing capacity.*

*Recommendation #4 - During the design phase of GM franchise development, it will be important to identify the essential skills and capacity that a community or group must have in order to succeed as a franchisee in order to incorporate appropriate training into the franchise structure.*

#### **6.3.4 Balancing Standardization and Adaptation**

The need to balance standardization and adaptation within the franchise structure is another best practice identified in this literature review. Standardization can be important during the establishment of a new franchise outlet, when it is important that the elements that made the original enterprise successful be replicated. In some cases, this may include elements of the context of the enterprise, so that the choice of franchise location can be an important factor in its success. However, once an outlet is established, franchisees may wish to adapt aspects of its operation to fit the local context. As this adaptation can be a source of creative new ideas and can increase the success of the outlet, it can be beneficial to the franchise as a whole. An important technique to help the franchisor balance between standardization and adaptation within the franchise network is the identification of the core elements that are important to the success of the original business model and peripheral elements that may be adapted without compromising the operation of the enterprise. In the case of social enterprise franchises, one element that can be adapted to fit the local circumstances may be the operating model used for the social enterprise at the franchisee level.

*Recommendation #5 - Core and peripheral elements of the enterprise must be identified during the design stage in order to ensure that appropriate levels of standardization are applied as new franchises are developed.*

*Recommendation #6 - Some flexibility should be built in to the GM social enterprise franchise design in order to allow the use of different social enterprise models at the franchisee level.*

#### **6.3.5 Balancing Social and Commercial Goals**

Another important lesson learned is the need to balance social and commercial aspects of the mission of social enterprise franchises. There may be tension between these two sets of goals, and in some case, they may even be in direct conflict. Thus, it is important that the franchisor and franchisees develop a clear shared understanding of the “double bottom line” regime within which they operate. Throughout the development and operation of the franchise network, it will be important to ensure that success in one area does not detract from the attention that is paid to the other area. This means that systems should be developed for measuring franchisee and overall franchise progress in both areas.

*Recommendation #7 - Social goals should be explicitly identified and incorporated into the institutional design for the GM social enterprises.*

*Recommendation #8 - New franchisees should be trained so that they share a clear understanding of the dual vision for the franchise.*

*Recommendation #9 - Monitoring and evaluation systems for the Golden Mussel enterprises should be designed so that they demonstrate progress in terms of both social and commercial goals.*

### **6.3.6 Balancing Franchisor and Franchisee Needs and Goals**

A related lesson learned is the need to ensure that the goals of franchisees and the franchisor do not diverge. Incentive structures should be created that align the social and commercial interests of both parties. For example, the initial franchise fee paid by franchisees should not be so high that the franchisor has an incentive to add as many franchisees to the system as possible; instead, it should be structured so that the franchisor makes a profit when the franchisee does so that the goal of both is to see the franchisee become economically successful. In the same way, within a social franchise, it is important to ensure that the franchisees do not become solely interested in the social goals of the enterprise while the franchisor is focused on the commercial goals.

*Recommendation #10 - A sense of cohesion among the GM franchise network that is based on systems of shared meaning should be established. Franchisees should feel that they and the franchisor are all working towards the same goals.*

*Recommendation #11 - Regular forums and opportunities for communication between the franchisees and the franchisor should be established as part of the design of the franchise network.*

### **6.3.7 Franchisee-Franchisor Relationships**

At the heart of the issue of goal asymmetry is the need for cultivating a good relationship between the franchisor and franchisees and among the franchisees. As this review has demonstrated, it is important that these relationships be based on trust as much as possible. This requires that effective communication systems between these parties be developed and implemented. It also requires that conflict resolution mechanisms be put into place. For example, a Franchisee Advisory Committee might help address conflicts between individual franchisees and the franchisor.

*Recommendation #12 – An effective system for facilitating two-way communication between franchisees and franchisor must be designed as an integral part of the GM franchise network. This system should include a conflict resolution mechanism and a means for periodically checking for breakdowns in communication.*

### **6.3.8 Franchisor Roles**

A final lesson learned from the experiences detailed earlier in this paper is the identification of two key roles for the social enterprise franchisor. They ultimately must be responsible for ensuring quality and protecting the brand. As such, they must periodically monitor franchisee performance, albeit in such a way that it does not undermine the franchisee-franchisor relationship. They are also in a position to facilitate learning within the franchise network, and must be aware of opportunities to ensure that franchisees learn from each other as much as possible.

*Recommendation #14 – Monitoring franchisee performance and doing quality control need to be built into GM franchisor operations.*

*Recommendation #15 – The GM franchisor should be responsible for facilitating learning between franchisees. Possible mechanisms for this include providing forums for sharing lessons learned and facilitating meetings between different franchisees.*

## **7.0 SUMMARY OF BEST PRACTICES AND RECOMMENDATIONS**

### ***7.1 Lessons Learned Summary***

This literature review identified a number of best practices and lessons learned for the franchising of private and social enterprises. These are summarized below:

1. Franchising should not be pursued unless it is clear that the original business model is successful;
2. All aspects of the original enterprise model, both economic and social, need to be articulated so that they can be standardized and this knowledge can be passed on to the franchisees;
3. Franchisees should be carefully selected. Their existing skills and capacity should be complemented by the provision of effective training and technical assistance by the franchisor;
4. Standardization and adaptation need to be balanced within the franchise structure;
5. Social enterprise franchise operations should balance the enterprise's social and commercial goals;
6. The design of a franchise should ensure that franchisees and the franchisor do not have conflicting goals but share similar visions for the operation of the franchise;
7. Effective communication is key to cultivating a good relationship between the franchisor and franchisees and among the franchisees;

8. The franchise design should explicitly reflect the role of the franchisor in carrying out quality control and protecting the brand; and
9. The franchisor should facilitate and create opportunities for learning within the franchise network as much as possible.

## **7.2 Summary of Recommendations**

The best practices and lessons learned detailed above give rise to a number of specific recommendations for the development and design of the GM social enterprise franchise. These are summarized below:

1. The Golden Mussel enterprise currently has a successful business model in place and thus franchising could be an appropriate development strategy;
2. Considerable attention and effort should go into articulating and delineating all aspects of the institutional design for the GM franchise. Particular attention should be paid to incorporating social goals into the original private enterprise that will be the basis for the GM franchise;
3. For the Golden Mussel project, these insights highlight the need to develop a clear understanding of the strengths and abilities of communities who wish to participate in the project so that the appropriate training can be provided to complement existing capacity;
4. During the design phase of GM franchise development, it will be important to identify the essential skills and capacity that a community or group must have in order to succeed as a franchisee in order to incorporate appropriate training into the franchise structure;
5. Core and peripheral elements of the enterprise must be identified during the design stage in order to ensure that appropriate levels of standardization are applied as new franchises are developed;
6. Some flexibility should be built in to the GM social enterprise franchise design in order to allow the use of different social enterprise models at the franchisee level;
7. Social goals should be explicitly identified and incorporated into the institutional design for the GM social enterprises;
8. New franchisees should be trained so that they share a clear understanding of the dual vision for the franchise;
9. Monitoring and evaluation systems for the Golden Mussel enterprises should be designed so that they demonstrate progress in terms of both social and commercial goals;
10. A sense of cohesion among the GM franchise network that is based on systems of shared meaning should be established. Franchisees should feel that they and the franchisor are all working towards the same goals;

11. Regular forums and opportunities for communication between the franchisees and the franchisor should be established as part of the design of the franchise network;
12. An effective system for facilitating two-way communication between franchisees and franchisor must be designed as an integral part of the GM franchise network. This system should include a conflict resolution mechanism and a means for periodically checking for breakdowns in communication;
13. Monitoring franchisee performance and doing quality control need to be built into GM franchisor operations; and
14. The GM franchisor should be responsible for facilitating learning between franchisees. Possible mechanisms for this include providing forums for sharing lessons learned and facilitating meetings between different franchisees.

## **8.0 CONCLUSION**

This literature review has examined experiences with the franchise model in private and social enterprises, determining that it would be an appropriate model to use in developing the Golden Mussel social enterprises. The lessons learned and recommendations detailed above can be used to guide the application of this model to the design and development of a successful Golden Mussel social enterprise franchise network.

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