



Models of Franchising for Social Enterprise

Speaker: Elizabeth Spencer, James Cook University

Date: 3rd March 2020

0:00

The story really begins with why study law or be involved with law. Lots of idealistic people go into law thinking that they're going to change the world and they focus on human rights law and criminal law and international law and those sorts of areas. And they're great and offer interesting pathways. But I also think that commercial law can be a an interesting Avenue from a rights perspective. So when I was presented with an opportunity to get involved in researching about franchising, mostly because no one else wanted to do it, I ended up being fascinated by by franchising is a business model. And it isn't really an area that's it's considered to be very elevated. You know, I think everyone thinks that they understand hamburgers and know what needs to study them. Although as you probably are aware, there is a hamburger University in Ohio run by McDonald's. Anyway, I wanted to have a bit of fun with my research. And loitering is a pretty sober Business generally. So, so when I was teaching or was asked to teach about partnerships and corporations and joint ventures and distributorships and licencing and how people arrange themselves in business, I ended up becoming more and more interested in in franchising and it is a very interesting model. It's a form of licencing a system of doing business. franchising is a revenue stream for both franchisor and franchisee. It's a marketing channel, a distribution channel and it's a form of ownership and governance among other things. And that led to social franchising, social franchising is a bit different. And there's a need to treat it differently. And I first became interested because of the magnitude decision in the States at that partner pined on and it had to do with the not for profit status of the Boy Scouts and I wanted to know you know, what the what the implications were of this social enterprise structure franchising structure. And so I started to look at that. And I think it is interesting in the context of legal interpretation as well as legislating, regulation, on dispute resolution and so on. There's a huge variation in something that was all falling under the one rubric of social franchising, so we wanted to sort that out a bit. And we wanted to classify social franchising according to the main purpose of the participants, particularly the franchisor and the franchisee, and also to some extent, the employers and the end users. Because it's such a diverse business model. I mean, I Kenya is actually considered to be a social

2:44

franchise and it calls itself a franchise,

2:48

but it obviously makes a lot of money and, and it's, it's, it's a for profit business really. But it's set up as a charity and as a franchise. And then there are things like any pizza, which we tranche



sizes to the Boy Scouts or YMCA and they operate for profit franchises and then their franchises like the health store where both the franchisor and the franchisee are not for profits, and they're trying to accomplish some sort of social social goods. So we talked about in our work for indicators, and that was based fundamentally on or inspired by and following a simplified adaptation of the social enterprise hybrid spectrum model, which was DS, enterprising nonprofits in the Harvard Business Review in about 1998. And, and we following that model and sort of adapting it, we looked at four indicators of social enterprise in franchising, so we took the main factors that would characterise franchising in any context, commercial or not. And we said well What would make it social franchising, and the four indicators were the social purpose prevails over the aim of delivering profit to shareholders. Others were around organisational culture and structure and management processes, the imperative to collaborate and the complexity of the involvement of stakeholders and customers. And with respect to social purpose, I suppose that was really the driver of the research. And and so we reclassified social franchising according principally to social purpose. What we did first was some desk research and we looked at what was happening in the sector, just from the materials that we could glean from the internet about these organisations and what they were doing. We looked globally, at what different

4:51

types of enterprises were that were calling themselves.

4:54

Social franchising is a catalogue of them.

4:57

And we tried to parse out what they were doing and what was different. out the different types of social franchising we were encountering. And then we did some content analysis, we looked at contractual agreements and, and some of the other

5:10

collateral in forming these arrangements

5:14

don't so much find operations manuals and social franchising, but you can find policies and procedures and that sort of thing. We looked at that. And then we did a case study of what we call the micro franchise, here in Australia. We looked at, particularly in the context of micro franchising, and then we followed that up with a qualitative survey that involved in depth interviews with people who were managing social enterprises or social franchises to ask them, you know, what they were, how they were managing their purpose in there and and also then we were asking them beyond that, how they manage the enterprise and and in particular, at that point in the research, we were looking at how they were managing their intellectual capital, as far as the main conclusions of this Study so far, what we found is, is what we expected to find the



forms of social franchising are quite varied. And this is to be expected due to the versatility and the adaptability of this business model as organisations are increasingly turning to hybrid forms of enterprise to serve diverse needs and objectives, that maybe aren't served by the standard partnership and corporate forms of business organisation that has been around for you know, over 100 years, a couple of hundred years and, and we need we need to be looking to models of organising business and enterprise generally, that fits more modern purposes. So, we wanted to have a closer look then that was what was happening under the broad rubric of social franchises. What it means to be a social franchise and then we explored models of social franchising according to that one Particular criterion which was the social purpose. And fundamentally, we came up with what we thought we could parse out into three different variations, again, adaptations of these model,

7:11

three variations of social franchising

7:13

three types. And those were, we call them traditional, not for profit, franchising or traditional nonprofit franchising was the first micro franchising is the second and social investment franchising this third, to just give you a brief overview of what those different types are those three different models that franchising, social franchising are the first one traditional nonprofit franchising is probably the most common and has been studied and commented upon

7:52

The purpose is principally about achieving a social purpose as the name implies, that the social purpose then resides With the franchise owner who sets up

8:01

the franchise system for that reason,

8:05

the franchisor is typically not for profit. Examples of this model include the United Way the YMCA, the American Red Cross Goodwill Industries, the Girl Scouts of America, on and on American Cancer Society Planned Parenthood Heart Association, so on in this one while the franchise or is a is a not for profit the franchisees objective is also typically not for profit the franchisees objective may be mixed and often is mixed and it may be social welfare for employees. It may be making some sort of profits for social purpose or multi purpose, but the target of the traditional nonprofit franchise needs a higher purpose than either the franchisor or the franchisee or benefit to the franchise or the franchisee. So, what's the purpose of That's additional non profit franchise models. He is a isn't a social benefits that target something outside the franchisor or the franchisees. But that isn't the only type of social franchising. So the second model



9:18

is what we call micro franchises.

9:21

And in that situation what you have is a non profit franchise door and system. But unlike the traditional nonprofit franchise, where the mission and purpose is more about benefiting a third party or a broader social purpose in micro franchising, the social welfare target is the franchisee. So, in most cases, the franchisees are going to be for profit, but it could also be to benefit the franchisees in other ways to develop skills in them for example,

9:55

to to to address

9:57

a disability for example, but typically What you have in the micro franchising model is a not for profit franchisor that sets up with a social purpose to benefit its franchisees to empower them and hopefully create profits in many instances for the franchisee. So we did a case study on this model that I'd be happy to tell you more about. It was the bust

10:18

shine

10:22

franchise chain and that operates in Australia and it's got some interesting dimensions to it, how that micro franchising works, but before I get to that, I've mentioned the last of the three models that we looked at identifying the social franchising investment model. And here, while both the nonprofit franchising and micro franchising, typically involved in nonprofit franchise or in a social franchise investment model, your franchise ORS typically for profit and it's a for profit franchise system, in which a not for profit invests participate as franchisee, and they may participate as franchisees side by side with for profit franchisees, but they're doing it for, again, a social purpose. And it's usually a social purpose to benefit the employees or to create profit for that not for her to create a revenue stream for that not for profit franchisees. So it involves then a for profit franchise owner and a not for profit entity or organisation that identifies this for profit franchise and wants to participate in it, because it either going to create employment and training and so on and skilling up for, for employees or because it's going to deliver a revenue stream for itself or for its employees. So that's the, that's the last model. And they're more examples of that in the States. Very few examples that I could find in Australia or the UK There's an interesting one in the Netherlands called feature points. And it's social franchising by bike, which employs disadvantaged people in bicycle shop franchises in the Netherlands. And I think, here, it's an interesting model. I I'm not sure that for profit status of the franchise or in this case, or whether there's government investment in this, but it's definitely operates for social purpose which which is to support and engender people travelling by bicycle, but it also has the benefit of



training and employing, I think people who are able to work within the franchise, who may be experiencing some disadvantage in terms of access to employment. The reason that there's all of these routers, it impacts how we structure and review and regulate and legislate

12:48

and educate with respect to the relationships

12:50

among franchise owners franchisees, their clients, users, providers of finance and other stakeholders. Their implications for contracting offices and tax status and, and lots lots more. And we expect to see more variation and greater complexity in social franchising

13:08

as the form develops and pressure on nonprofit

13:11

enterprise increases to adapt new structures to the exigencies of resource acquisition, and accountability to stakeholders are in different ways that I don't think we've seen so much in the traditional corporate structure and also a lot flatter kinds of organisations information networks and alliances. I think we make this an interesting area moving forward. So we see the need for more research to understand better what prompted social franchising are suited and successful in different contexts and purposes and understand the risks and benefits

13:44

of the different models.

13:48

across across a range of applications.