

Social Franchising

*A Way of Systematic
Replication to Increase
Social Impact*

Imprint

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Preface

If somebody uses resources merely “to reinvent the wheel”, it is rightly considered as a waste. Yet, the systematic replication of projects in the non-profit sector still remains the exception to the rule. This is understandable - many players in the so-called third sector rightly see themselves as “social change agents” – as an outlet for innovation. They prefer to focus their energies on the development of new approaches. Imitating those of others is considered as “not sexy”. The result is one pilot project after the other. Many prototypes, but few replications.

The potential gains offered by the scaling up of successful prototypes into other places, have largely been neglected. There are, nevertheless, those exceptions to the rule that show the following: Systematic replication with local adaptation not only leads to greater efficiency and faster expansion. A well-organised replication process can lead to intelligent project networks with positive qualitative effects. I was able to experience this vividly and first-hand, when the foundation I previously headed implemented various franchise-like projects in development countries under difficult conditions.

Good enough reason to address and assess this method more closely as a potential means of improving the effectiveness of the work of foundations and other NGOs and subsequently to popularize the advantages associated with this replication strategy. After years of unsuccessful attempts to obtain funding for such a project, I am most grateful that, in 2007, six renowned European foundations provided the necessary funding for this exciting project. This has been made possible particularly due to the wonderful assistance of Professor Michael Göring, CEO of the ZEIT Foundation, as well as the courageous support from the heads of several other foundations including Dr. Fritz Brickwedde from the Deutsche Bundesstiftung Umwelt, Dr. Bernhard Lorentz from the Vodafone Foundation Germany, Jürgen Chr. Regge from the Thyssen Foundation, Erik Rudeng from the Instituttjonen Fritt Ord in Norway as well as Dr. Piero Gastaldo from the Italian Compagnia di San Paolo.

With such valuable support, the Association of German Foundations was able to organise the first International Social Franchise Summit in December 2007, which attracted experts and practitioners from all over of the world. The Summit demonstrated quite plainly the potential offered by the Social Franchise model for the effectiveness of the non-profit sector in a variety of areas. It has, however, equally revealed its limits.

A further element of this joint project has been the production of this manual on social franchising, which you now hold in your hands. In addition to the insights gained during the summit, useful findings from a comprehensive search of the relevant literature and several case studies, have been incorporated into this manual. We are grateful that we could benefit from the cooperation with the “godfather” of franchising, Professor Dieter Ahlert and his team at the International Centre for Franchise & Cooperation (F & C) at the University of Münster. Valuable input and experience came also from our advisory board, comprising, in addition to Prof. Ahlert and Dr. Martin Ahlert from the F & C, of Professor Ann-Kristin Achleitner, KfW-Endowed Chair in Entrepreneurial Finance at the Technische Universität in Munich, Andreas Heinecke of “Dialogue in the Dark” in Hamburg as well as Dr. Volker Then from the Centre for Social Investment (CSI) at the University of Heidelberg.

The project was managed with outstanding commitment by Lena Kilee and Julia Meuter. Special thanks go to Ms. Meuter for her comprehensive research on the topic and for overseeing the production of this manual.

We hope that this publication offers both experts and practitioners a useful overview of the subject and that it “sets the ball in motion” for a wide-scale breakthrough of social franchising similar to that of social marketing a couple of years ago.

We are convinced that the implications of a popularisation and development of the method of social franchising will lead to several important effects on the non-profit sector at the global level. These include:

- a more efficient use of financial and personnel resources in the non-profit sector
- improved quality in the non-profit sector and lower failure rates amongst non-profit programmes
- faster expansion (replication) of successful pilot projects with rapid coverage and decentralised entrepreneurial management, while simultaneously taking local peculiarities into account.

I wish you a stimulating read!

Berlin, Spring 2008

Dr. Hans Fleisch
Secretary General
Association of German Foundations

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Part 1

Social Franchising: A Strategy for Replicating Social Projects

I. The Challenge of Scaling up

Both in the public and the non-profit sectors, resources are generally scarce and global problems are escalating. In an age of environmental degradation, the spread of disease, poverty, chronic unemployment and homelessness, non-profit organisations and governmental agencies are struggling to address these challenges.

Most practitioners, policy-makers, researchers and donors would agree that there is sufficient knowledge and experience available to address many of these social challenges. A major barrier to solving a variety of problems in the non-profit sector is that many players succeed in implementing individual (pilot) projects at local and regional levels, without managing to scale them up successfully. In other words, they fail to increase the social impact. Funds, time and energy are poured into new programmes. At best, however, the wheel is constantly reinvented and proven initiatives remain underdeveloped. “Nearly every problem has been solved by someone, somewhere”, confirmed former US President Bill Clinton. “The challenge of the 21st century is to find out what works and scale it up”.

1. Why Scale up?

Scaling up refers to increasing the scope of an organisation or a project with the aim of reaching a larger number of beneficiaries or of increasing awareness of a specific issue.

There are a number of ways in which scaling up can be achieved. Amongst other things, an organisation can increase its effectiveness and efficiency by diversifying its funding activities, creating external links with other organisations or improving internal management capacity of staff.¹ This manual focuses on a method of quantitative scaling up, with the aim of providing practical guidelines and strategies for successful programmes to reach out to a larger number of individuals.

In this manual, we thus define scaling up as “spreading social sector innovations into new geographic locations in order to achieve greater impact”².

Considering that many people are still not reached by existing projects and that social needs remain high, it can be said that organisations have an “obligation” to scale up their successful approaches in order to increase the number of beneficiaries and improve the social impact. This sense of responsibility can come from within a particular organisation or from external actors. In other words, having successfully implemented a project, the organisation might feel that it should extend this “good deed” to other people or areas. Alternatively, someone external might have become aware of the social impact that the particular project had, and subsequently asked the organisation to extend the project.

However, the non-profit sector is still typically characterised by a reluctance to push particular projects further. Foundations and other non-profit organisations like to see themselves as “social change agents”. There is a tendency to invest time and funding in new and innovative projects. Often, these do not extend beyond the initial pilot phase.

Nonetheless, it makes sense to scale up what has already proven successful. Because the money, time and energy associated with implementing new projects are reduced, it is a cost-effective means of utilizing scarce resources, while simultaneously achieving greater impact.

As the scarcity of resources increasingly demand that organisations look beyond the pilot phase of a project, a number of donors already request the inclusion of a dissemination plan in return for providing funding for a specific programme. Therefore, many organisations consider scaling up in order to secure the necessary financial support.³

To sum it up, scaling up can increase social impact in a cost-effective and efficient way. Considering the challenge of addressing today's problems, "the assignment [should not be] so much to improve the state-of-the-art, but rather to lift up the state-of-practice"⁴.

Excursus 1 – Entrepreneurial Solutions for Social Problems

There seems to be an increased tendency to apply practical, innovative and sustainable approaches to addressing the currently most pressing problems, while simultaneously using the existing resources most effectively. A term that has become associated with this development is that of social entrepreneurship. Social entrepreneurs – in a similar manner to entrepreneurs in the business sector – act as change agents for society.⁵ Social entrepreneurship is, in fact, not a new phenomenon. Dr. Maria Montessori, Albert Schweitzer and Florence Nightingale are just a few examples of early social entrepreneurs.

Nevertheless, the majority of decision-makers from the so-called third sector were, for a long time, reluctant to use business tools. There was a clear distinction between the for-profit and non-profit sectors. The increased acceptance of the importance of social entrepreneurship can be interpreted as a paradigm shift. What sets social entrepreneurs apart from other well-meaning people or organisations is a pragmatic vision to achieve large scale, systemic and sustainable social change through new inventions. This entails a different approach, a more rigorous application of known technologies or strategies, or a combination of these.⁶ The process also includes the application of commercial tools to increase the impact of projects and to make them more lasting.

2. Replication

An organisation can use a number of strategies to extend a project to other locations:

- **Dissemination of information:** This involves actively sharing information about a particular approach. The originating organisation might, at best, provide technical assistance in the short-term to those interested. While dissemination presents a way of scaling up a project at low cost and low effort, the organisation disseminating the information has little control over who takes on the project and whether they do it effectively and efficiently.
- **Expanding geographic scope by setting up branches:** An organisation wishing to replicate a project sets up offices in other locations, which are controlled by a central unit. In contrast to the dissemination of information, the organisation remains in control of the programme. However, it often lacks local knowledge, which may make it harder to implement the project, because local peculiarities are not taken into account. Equally, there is the risk that the central unit will be too detached from the day-to-day business “on the ground”, thereby impeding the effective running of the programme.
- **Replication of the project through affiliates:** This strategy involves a contractual agreement by the originating organisation with one or more parties to cooperate on a permanent basis. The degree of control that an organisation has over its affiliates is determined by the type of agreement, and can vary considerably. Since local agencies are involved, this approach takes geographic peculiarities into account. Being bound by a contract, the affiliations benefit from network synergies.

Excursus 2 – The Effectiveness of Cooperation in the Third Sector

The non-profit sector is currently being faced with new challenges, which make it more difficult to implement and multiply effective projects. The rising number of players in the non-profit sector leads to increased competition over scarce financial resources. Organisations belonging to a particular network are able to share knowledge and learn from their experiences, thus using resources more effectively and reducing the risk of failure. Furthermore, networks can lead to coalitions which increase awareness of a particular issue within the public and political sector.⁷ Indeed, organisations working in isolation are often considered less successful than those that belong to a network.⁸ Therefore, organisations that cooperate will arguably have a greater social impact.

Cooperation in the third sector leads not only to an increase in the number of beneficiaries. Due to organisational learning and economies of scale, there is the potential to serve them better. Sharing best practice can improve a programme and reduces mistakes. Concerning economies of scale, it should be noted that this should not be overestimated in the non-profit sector. Indeed, a recent study by the Harvard Social Enterprise Initiative reveals that the benefits of scaling up lie primarily in increasing brand awareness and organisational learning.⁹

The optimum scaling up strategy must be determined for each individual case. It depends on a variety of factors, such as the desired level of control, the organisational capacity etc. It is also conceivable that an organisation uses a mixture of these forms.¹⁰

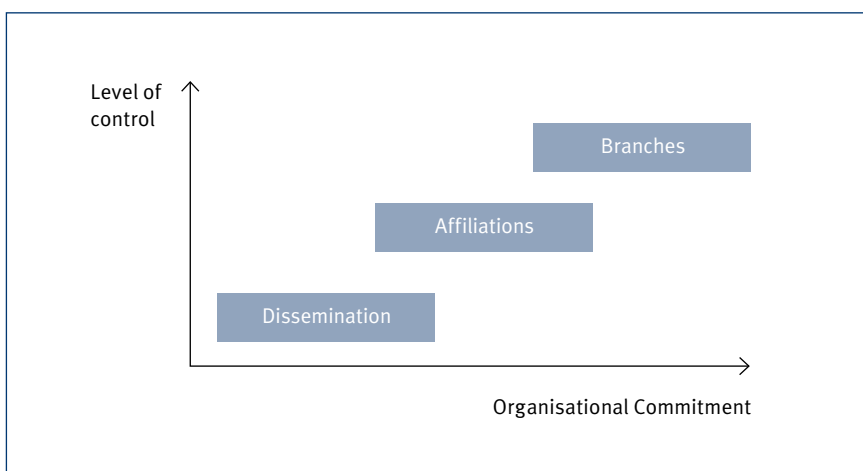


Figure 1: Scaling up strategies

As Figure 1 illustrates, replicating a programme by setting up affiliations offers great benefits to an organisation. While retaining considerable control, an organisation can implement a programme at different locations, taking local peculiarities into account.

Despite the aforementioned benefits, replication is not yet very common in the non-profit sector. Although, as mentioned before, many donors already demand more dissemination in future, there remains a prevailing bias among donors to support “breakthrough” concepts. A further reason is the perceived importance of autonomy in the sector. Many organisations are reluctant either to let others take over their project or to implement someone else’s.¹¹ What is more, there inevitably remains a degree of uncertainty or misconception as to what the replication of a project actually entails. For many, it means copying or duplicating a project; for others it is an expansion strategy.¹² In any event, it often conjures up images of complicated and difficult bureaucratic processes, as well as of inappropriate standardisation (“one size fits all”). There are dangers associated with relying too much on blueprints. It is thus important to take local peculiarities into consideration when replicating a project.

Keeping the above reservations in mind, we adopt the following definition in this manual:

Replication entails implementing successful projects elsewhere in order to increase social impact. The goal of replication is to achieve the same results as the original programme. This does not imply simply copying them, but rather replicating those ideas and approaches that are successful in an appropriate manner for a given context. Which components of the programme are to be replicated, differ from one case to another.

The desire to replicate successful strategies should not completely divert attention and funding from new and innovative approaches that might improve the overall effectiveness of the non-profit sector. Nonetheless, while serving as an outlet for differences and innovation, the non-profit sector must become more effective in solving problems and meeting global challenges. Replicating a project can help to do that and should therefore be considered as a viable option.

II. Definition/Introduction

1. Replication Strategies

As described in the previous section, replicating successful projects can increase the number of beneficiaries, reduce start-up costs and risks and thus improve social impact in the non-profit sector. It offers a number of benefits, such as taking local peculiarities into account, while retaining a degree of control.

a. Forms of Replication

Replication can be accomplished through different paths¹³:

Mandated replication: This approach is usually, though not necessarily, government-sponsored and occurs when a parent body wishes to implement a prototype programme through an organization under its jurisdiction. Mandated replication is always top-down and there is usually no element of choice involved.

Staged replication: This is the most structured form of replication and takes place in three stages. The first is the pilot stage, during which the viability of the programme concept is tested. This is followed by the demonstration stage in which the programme is implemented in a variety of locations. This stage is usually monitored closely and evaluated rigorously. A successful implementation is followed by replication. An analogy can be drawn between prototype testing and development in the private sector, and the need for an independent replication agency is generally stressed in the literature.

Concept replication: With this approach, the focus is not on the universal and specific elements of the prototype programme, but rather on general components and principles which can be transported to other locations. Unlike the approaches mentioned above, strict adherence to the strategies and model of the prototype are not required and success is measured in terms of adaptation and sensitivity to each unique local context. There is no accountability for how components are transferred and used at each specific location.

Franchise approach: This approach is the closest to the private sector in both policy and practice. It assumes that there is a programme which can be replicated. The components of this prototype programme and performance standards are largely fixed. There is a central agency which provides technical assistance, marketing, training and other services.

b. Franchising

Since replication leads to increased cooperation and more contracting in the non-profit sector, concerns with branding and quality standards are growing. The use of a common title for a certain project or programme and tighter control becomes more important. These factors may have contributed to the interest in franchising as a model of replication.¹⁴

While franchising has been an effective strategy for replicating successful concepts for over 80 years in the commercial world, it has so far not been greeted with much enthusiasm in the non-profit sector. As mentioned in the previous section, the idea of taking on somebody else's project or, conversely, letting someone else carry out their own initiative, remains problematic for many actors in the third sector. Furthermore, the term franchising often conjures up images of "McDonaldisation" – of a "one-size-fits-all" replication of a concept with standardised procedures and services, which is generally regarded as inappropriate in the social sector.

However, there are a number of strong arguments which suggest that the strategy is also applicable to the non-profit sector. We have already asserted that it is necessary for the non-profit sector to become more efficient and to use both its resources and know-how more effectively. The previous section has also shown that networks can contribute to the success of a project. The franchisor and franchisees can benefit from shared experiences and mutual learning.

Franchising thus offers several benefits and a number of non-profit projects have already been successfully replicated using franchising elements (see, for example, the case studies at the end of this manual). The UNESCO even recommends it as an organisational form for non-profit projects.¹⁵

Before assessing the benefits and challenges of franchising as a replication model in the non-profit sector, it is worth exploring its history – both in the commercial and social sectors. This facilitates a better understanding of the term, after which we will outline a framework for implementing a social franchise system.

2. Commercial Franchising

a. Introduction

In the 1950s, a piece of mincemeat between two halves of buns and a turnkey restaurant concept added up to the company which is considered as the first modern franchise system: McDonald's. To this day, McDonald's has experienced an unparalleled boom with more than 30.000 restaurants internationally so far. Hand in hand with McDonald's, franchising itself has become one of the most popular distribution and marketing systems – every three hours, a new franchise opens. First and foremost, franchising is developing in the service sector where around 50 % of the franchise systems are operated. "Studienkreis" (Study Circle) for example – a concept for private tutoring and remedial teaching in Germany – is a successful franchise system in this sector. Nationwide, "Studienkreis" covers over 1000 schools, offering its franchisees a successful teaching concept as well as extensive pedagogical and managerial know-how.

The European Franchise Federation defines franchising as a "contractual agreement between two independent business parties, the franchisor and the franchisee, in which the franchisor grants the franchisee, for the term of the contract, the right to buy and operate the franchisor's branded and formatted business system for a fee and according to the prescribed rules and procedures developed for the system by the franchisor."¹⁶

Franchising is thus a form of cooperation and entails a division of work between a franchisor and one or more franchisees. The experienced franchisor designs, enhances and controls a proven and successful turnkey business concept. The local franchisee requires a license to use the concept in return for paying the franchisor both initial and ongoing fees. He works on his own behalf and account. The result is a network of autonomous entities, which use one brand name and business concept, pursue similar goals and are in part, centrally coordinated by a franchisor.

b. Different Types of Franchises

There are various types of franchises which reflect its historical development. The first generation, developed in the 19th century, is called product distribution franchising. The franchisee typically holds a license for the franchisor's trademark and logo. They are granted a territory in which they can market and sell the franchisor's products/services exclusively and in turn, commit not to sell any other products/services. The franchisor does not have to deal with the distribution problem and can concentrate on its core competence of developing and enhancing its product/service.¹⁷

In the 1950s, the second generation of franchising developed: business format franchising. It has accounted for most of the growth of franchising. McDonald's, for example, belongs to this type of franchising. It is characterised by a strong relationship between franchisor and franchisee. The franchisor provides the franchisee with an entire system "from A-Z" for starting and running the business. The franchisee in turn runs the business according to the franchisor's guidelines, sells the products/services in stores bearing a common brand name, but works on its own behalf and account.¹⁸ We will explore this format in more detail later, since this is the most common form of franchising today.

Since the 1970s, a more cooperative approach has evolved. This third generation of franchising in partnership is characterised by more decentralised control and franchisee co-determination. Autocratic subordination agreements is shifting to a more participative and cooperative approach.¹⁹

Franchise systems can be classified further into stand-alone and fractional franchises. For the former, the system consists of independently established and operated businesses, and for the latter, franchises are added to a franchisee's existing business to create an additional income stream.²⁰

c. Different Types of Franchise Arrangements

Product distribution and business format franchising can be specified further according to the arrangement between franchisor and franchisee.²¹

In the simplest case, the franchisor grants a franchisee the right to operate one (single-unit franchise) or several franchises (multiple single-unit franchise).

With area development agreements, the franchisee acquires the right to expand exclusively within a specified territory and agrees up-front to open a certain number of locations during a certain period of time in the area.

Master franchising is a variation of area development agreements. The franchisor grants an entire territory to a master franchisee that runs one or several locations and in addition acts as franchisor in this territory – acquiring and supervising further sub-franchisees.

d. How Business Format Franchising Works

The partnership in franchising between franchisor and franchisee is detailed in a contractual franchise agreement and manual which precisely specifies all rights and duties of both parties (see Figure 2). The franchisor offers a turnkey business concept for starting and running the business. This concept is developed from the franchisor's experiences, accumulated through trial and error, and is detailed precisely in a manual, so that each franchisee can replicate the concept locally on site.²² Additionally, the franchisor provides a catalogue of services to support the franchisee's efforts. This includes services such as property rights, marketing, the provision of general agreements with suppliers, training, supervision and consulting, market information or quality management.²³ In turn, the franchisor receives an initial and ongoing franchise fee from its franchisees and has the authority to issue directives and introduce control mechanisms over franchisees to protect the franchise system and its reputation.

By entering the franchise system, the franchisee acquires the right and obligation to use the system's brand name, know-how and business concept. It commits to comply with the franchisor's principles, to attempt to foster the system's growth and image and to pay a franchise fee. The franchisee remains independent and has entrepreneurial scope within the franchise agreement.²⁴

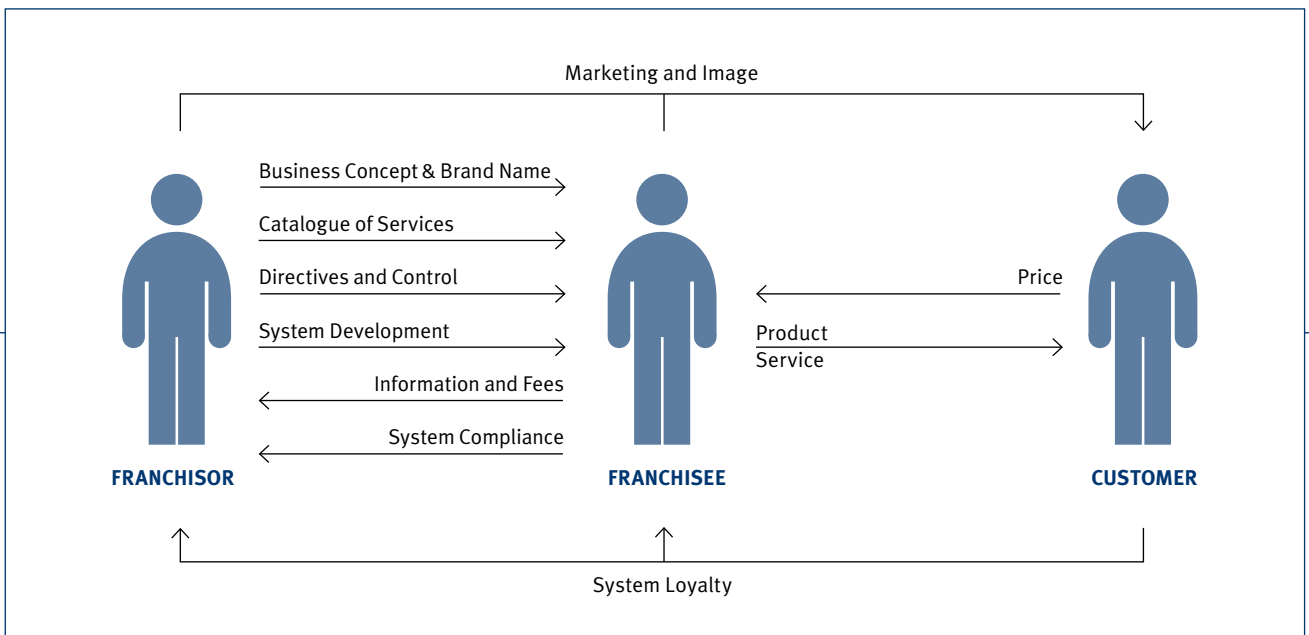


Figure 2: Relationship between franchisor, franchisee and customer

e. Why Franchising Works

Even in times of faltering economic growth, many franchise systems expand and compete successfully.²⁵ The National Westminster Bank/ British Franchise Association survey in 2007 reports that 93% of British franchisees are profitable, making franchising one of the safest ways to start one's own business.²⁶ This is due to the many economic advantages that franchise systems offer.

Franchising is a stable form of cooperation, as it provides a win-win situation for both parties. Both franchisor and franchisees have the common objective of maximising profit at minimum entrepreneurial risk. With franchising, the franchisor can expand its business concept rapidly and share the entrepreneurial risk and start-up capital with the franchisees. Franchisees can start their own business while bearing less entrepreneurial risk, due to a proven business concept and less required start-up capital. Both parties, in exchange, agree to harmonise their individual goals with those of the system. This leads to a high degree of trust between the partners and is the basis for sustainable cooperation.²⁷

Franchise systems are characterised by a consistent market appearance through the use of one brand, standardised processes, products and services, consistent marketing and central coordination by the franchisor. This consistency is the basis for the creation of a high awareness level, brand recognition and, because customers value well-known brands, customer goodwill. Franchise systems can thus credibly signal a certain standard of quality, which, in turn, is a prerequisite for customer satisfaction and loyalty.²⁸

Franchise systems create added value through a rapid expansion of the successful business format. Because the capital and on-site market development is supplied by the franchisee, franchising enables establishing a large number of business outlets in a relatively short period of time and speeds up the rate of development. On his own, a franchisor seldom has the asset base, capacity and time to expand so quickly.²⁹ Franchising thus rapidly increases the system awareness and leads to high market coverage.

Synergy is another success factor for franchising. The division of work between franchisor and franchisee allows each to take over the task it can do best. The franchisor assumes all functions that can be developed and provided more efficiently if done centrally, such as advertising or bulk purchasing (generation of economies of scale and scope). The franchisee takes over all operative functions on-site and can use its local knowledge to develop the local market according to the local characteristics.

Franchising thus combines the advantages of big businesses (market power) with those of small business (flexibility) as well as the advantages of direct sales channels (e.g. consistent market appearance) with those of indirect channels (motivation of independent distributors). Ultimately, both partners benefit more than through individual attempts.³⁰

Franchise systems further benefit from a faster learning process through an intense communication and exchange of experiences. The franchisor and all franchisees build up a network of executive units that accelerates learning and enables franchisees to afford extensive training. Franchisees can exchange experiences, know-how and best practices. By so doing, the business concept improves much faster than through developments based on individual experiences.³¹

f. When Franchising Works

Experience has shown that clear market potential is crucial for the success of a commercial franchise system. Sufficient market potential is important in order to ensure long-term demand for the product/service and thus the longevity of the franchise system. In addition, the potential markets must offer all “ingredients” that are essential for the system’s success. For example, in order to exploit the benefits of scale, the market should be able to bear enough new franchisees so that the franchise system can achieve an optimal size or scale.

Apart from these market issues, the business concept itself must be franchiseable. Firstly, this means that the project must be proven successful and have matured in order to justify replication. If a business plan is not profitable at one location, it is unlikely to be so at another. The success is also dependent on the franchise system's distinctiveness in terms of the product, service, appearance or image. This leads to a competitive advantage and binds customers and franchisees to the system, thus ensuring a long-term partnership.

The transferability of the business concept is another critical success factor. Franchise systems expand through replication. The elements of business success must therefore be standardisable, replicable and teachable to prospective franchisees. Standardisation implies the detailed description of the project and its implementation and the development of blueprint processes that can be replicated by any person in any location. Above all, success should not merely be attributed to the founder's unique entrepreneurial personality, a specific location or management.

Without adequate trainable franchisees, no franchise system can succeed and therefore there has to be a pool of such people. The number of potential franchisees thus depends on the profile of training and skills that the franchisor requires; the broader the requirements are, the more potential franchisees there will be.

Franchise systems can fail if they lack a substantial financial basis. Capital is required for financing the development and expansion of the business concept and to cover running expenses for acquiring franchisees, consulting and training, marketing and other services for the franchisee. Even if these expenses have to be covered by franchise fees in the long run, they are initially borne by the franchisor. In the long run, the business has to generate enough income to finance both franchisee and franchisor.

The franchisor must serve as a role model for the franchisee. He functions as a consultant who guides and assists its franchisees. The franchisor therefore needs substantial know-how and experience in all areas. The provision of competence and know-how by the franchisor are also important as a bonding force to keep the franchisees in the system.

3. Social Franchising

While, as a replication model, franchising has a long history in the commercial sector, its application in the social sector is still in its early stages. Although there are a number of successfully franchised non-profit projects, it is surely too early to talk of a “history”. Few decision-makers and practitioners in the non-profit sector are, in fact, familiar with social franchising.

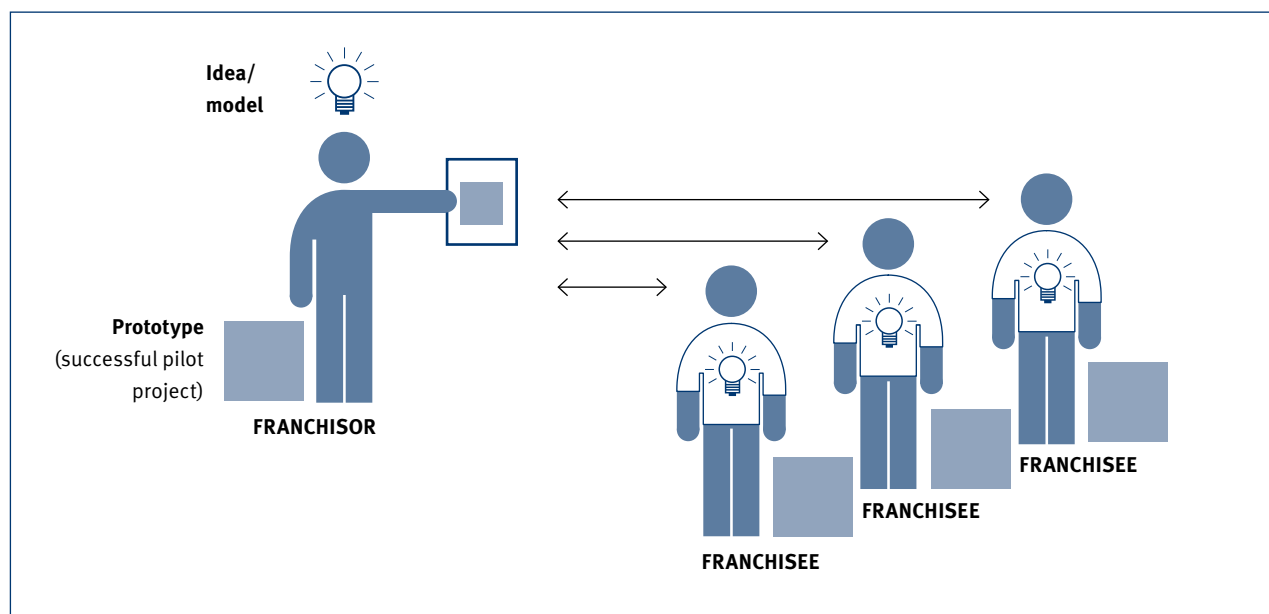
We learned in the previous section that franchising offers a number of benefits for businesses. The examples of social projects that have used franchising elements for scaling up, suggest that this is equally the case for the non-profit sector. Before assessing this in more detail, it is worth outlining its development and highlighting the differences between commercial and social franchising.

a. Introduction and Development

Generally, social franchising can be defined as the “adapted usage of techniques from commercial franchising for projects which benefit the social aims of the non-profit sector”³².

More specifically, social franchising can be understood as contract-based cooperation of decentralised entrepreneurial units with a central support unit, uniform quality standards and supported by a common philosophy.³³ A pilot project that is developed by the franchisor is replicated by a number of franchisees subject to defined guidelines. These are usually laid down in the form of a manual and communicated to the franchisees through training offered by the franchisor.

Figure 3: Social franchise model



Despite the generally low awareness of the subject, there are a number of examples of early social franchise systems that are actually quite familiar, such as the World Organisation of the Scout Movement/World Scout Foundation or the YMCA.³⁴ These initiatives can be found all over the world.

Social franchising has been applied especially in the field of Health Care in developing countries.³⁵ In fact, a great deal of literature and studies on social franchising focuses on this area.³⁶ The German Foundation for World Population (DSW) organised a small international workshop in 2000 in cooperation with the charitable Wellcome Trust, London, which focused on the question of whether social franchising could be used for programmes in developing countries to help young people prevent unwanted pregnancies and HIV/AIDS. Likewise, the World Bank has conducted a number of workshops on the subject.

More and more organisations have come to understand the potential of franchising methods in the non-profit sector. To name but a few, the International Youth Foundation, which was founded in the USA in 1990, actively encourages ‘social entrepreneurs’ to look for and validate successful approaches and replicate them.³⁷ Although they do not specifically use the term social franchising, their approach entails franchising elements. Youth Action Net, for example, is an initiative that encourages young people to “make a change” through various projects. This initiative has been expanded globally.³⁸

In a similar vein, the Community Action Network (CAN), a UK-based organisation supporting social entrepreneurship launched the ‘Beanstalk’ programme which aimed at providing help for social enterprises which want to maximize their impact through the growth and replication of their projects. To this end, they promoted social franchising as an optimal strategy. From 2004 until 2006, the programme supported a number of organisations such as the UK charity TimeBank in its national roll-out of the “Time Together” project. The project provides mentoring support to refugees in order to help them integrate into UK life easier and faster.³⁹

At the European level, “EQUAL”, financed by the European Social Fund, was set up in 2001 to develop and test initiatives for tackling discrimination and inequality. Successful projects are then implemented in the EU member states through partnerships and cooperation.⁴⁰ Social franchising is one method that they use. One example of this is the project “PEIRAN” which aims at improving the employability of young people currently without jobs, especially in Southern Europe.⁴¹

The International Social Franchise Summit which the Association of German Foundations in cooperation with six renowned European foundations hosted in Berlin in December 2007 further highlighted the interest in this topic. It attracted a large number of practitioners and experts as well as other representatives from the non-profit sector from all over the world.⁴²

The rise in the number of non-profit initiatives using franchising strategies, as well as the growing interest in the subject, can be ascribed to the increased openness of the third sector to using commercial tools and to acting more entrepreneurially in order to become more effective. The emergence of social entrepreneurs has already served as an important example of this.⁴³ Equally, social marketing has grown in popularity.

Social marketing indicates the systematic effort of a group (the change agent) to encourage others (the target group) to embrace, amend or give up certain conceptions, attitudes, habits or behaviour, through using commercial marketing tools.⁴⁴ The idea is that challenges, such as in health-care, relating, for instance, to family planning and so on, can be solved more efficiently by using marketing instruments.⁴⁵

Nonetheless, it is important to note that it is too early to talk of a “breakthrough” in social franchising. There remains a reluctance to replicate non-profit projects and the term *social franchise* is not always clear. Often, a different term is used for the same thing or projects are based on social franchise elements without being identified as such.

b. Social Franchise Formats

Potential social franchise formats range from commercial franchises with intended social effects to non-profit replication systems with franchising elements.

Three formats can be identified in principle:

- 1** A commercially organised franchise system for achieving social benefits. The sole difference from commercial franchising is the focus of the system as a whole on social benefits and the absence of the primary goal of generating a profit for private individuals.
- 2** A subsidized franchise system to make services available at lower cost than commercial solutions. This may include profit-making entrepreneurs at the franchisee level.
- 3** A non-profit replication system which includes core elements of franchising, but without the classical fee and profit elements. In the following sections, we will concentrate on this format.

In the previous section, we learned about different franchise arrangements in the commercial sector. In the social environment, there are two types in particular that we would like to highlight in order to demonstrate the broad range of social franchising.

Firstly, so-called network franchising entails multiplying or replicating complete solution networks, instead of individual outlets. A solution network means that each member of the network is part of a solution – each takes over a particular element of the work that amounts to one product or service. With network franchising, it is not a simple product or service that is franchised, but the management method as a whole and configuration of a network. In such cases, the franchisee coordinates this vertical network. Since non-profit projects often entail a number of complex elements in order to achieve the desired outcome, this form of franchising lends itself very well to the social sector.

Furthermore, master franchising is a potentially viable concept for the social sector. The franchise system is supplemented by an additional level. In addition to the franchisor, there is the master franchisee, who is responsible for coordinating the franchisees in a specific area. Especially international projects that are implemented in diverse or large geographic regions, can benefit from this type of franchising.

c. Differences between Commercial and Social Franchising

Although we have asserted that the concept of franchising can be adapted to the social sector, it remains necessary to assess to what extent the commercial sector can act as a model. There are considerable differences between the commercial and the social sector which suggest that it is necessary to differentiate the approach when adapting the system to social projects.

Similar to commercial franchise systems, a social franchise system consists of a number of core elements:

- A “prototype” and its replication in other locations
- A manual which sets out recurring activities
- A brand name for the entire programme
- A contract for governing the relationship and distribution of responsibilities between franchisor and franchisees
- Standardised training
- Systematic, standardised methods of appraisal and of quality control measures.⁴⁶

Nevertheless, there are some differences between the franchise systems in the commercial and in the non-profit sector:

Different objective

The main objective in the third sector is not to maximise profit, but rather to maximise social impact. This means that the franchisor might be less commercial and ‘hard-nosed’ in recruiting and managing its franchisees. Furthermore, franchising disciplines may be harder to implement and to control.⁴⁷

Different target group

In social franchising, the ‘client base’ is different. A non-profit organisation most likely serves beneficiaries rather than customers. This means, on the one hand, that it cannot always expect to receive payment from them, on the other hand, its approach will be different.

Additional player

Social franchise systems are usually dependent on financial support. This is the case during the start up phase, but also in order to remain sustainable. This adds a further player to the equation – the donor. The donor most likely has its own policies and programmes. This might lead to a conflict of interest for the franchisor and the franchisees who have to take the preferences of the donors into account.

No transfer of investment risk

While commercial franchising entails a transfer of investment risks from the franchisor to the franchisee, this is not always the case in social franchising.⁴⁸ Often, the franchisee must provide its own resources. The franchisor might at best provide support. Because the transfer of investment risk generally increases the motivation of a commercial franchisee, it could be argued that an important impetus is missing. However, since the social franchisee's work is driven by the aim of increasing social impact, the reduced risk of financial loss and failure will have little effect on its motivation.

Fees

Franchisees in a social franchise system might not be able to pay franchise fees, as they cannot always expect a return on investment. Therefore, the franchisor should be willing to accept the payment of reduced fees or alternatives to monetary compensation. The 'payment' could, for example, entail the allocation of important data or quality information that the franchisor can use for the development of its project.⁴⁹

We have seen that franchising offers considerable potential for extending successful concepts to other locations. Although this is true both for the for-profit as well as the non-profit sector, the above section has shown that there are a number of differentiations that lead to a somewhat altered approach.

The next sections deal with the benefits and weaknesses, and present a more detailed framework for the development of a social franchise system.

III. Opportunities and Challenges for Social Franchising

If a non-profit project has been successful, the next obvious step is often to increase its scale in order to reach even more beneficiaries. As mentioned in the previous sections, this can be achieved through the simple expansion of a project or the organisation. Alternatively, the initiative can be replicated through subsidiaries owned by the organisation, or through other autonomous institutions (for example in the form of licensing) or by means of hybrid cooperative forms, such as social franchising.

1. Potential Benefits of Social Franchising

In comparison to autonomous units and hierarchical organisations, social franchising offers a number of benefits. Table 1 illustrates them.

Benefits of franchising in comparison to:

Fully Autonomous Units	Dependent Hierarchical Units
<ul style="list-style-type: none"> ■ Faster and more uncomplicated expansion of projects, because of better coordination and more resources. ■ Consistent appearance of the system and of individual units facilitates the creation of reputation, trust and system awareness. ■ Network of individual units enables standardisation and consistency among units. ■ Network benefits, such as public support due to backup of large network, systematic know-how transfer among partners and benefits through economies of scale and scope. ■ Better control of agents and their quality. 	<ul style="list-style-type: none"> ■ As individual units, franchisees can more easily adapt to local peculiarities than subsidiaries of a large organisation. ■ Higher motivation of franchisees, since they act as independent “social entrepreneurs”. ■ Even if franchisees are partly linked to one another, they have more autonomy and flexibility to be creative and innovative than conventional employees. ■ It is easier for franchisees to acquire voluntary workers, as they offer a more flexible and autonomous environment than subsidiaries.

Table 1: Benefits of social franchising

Faster and more cost-effective replication of non-profit programmes

Research shows that non-profit projects organised by franchise systems grow twice as fast as other systems.⁵⁰ Through replicating proven concepts, franchising leverages existing resources, instead of creating a new service at high cost. Because the decentralised units are based on a tested prototype, the initial start-up risks are reduced. Furthermore, franchisors provide their franchisees with a turnkey concept of how to run the non-profit project. This allows franchisees to focus on their core competences, thereby implementing, rather than administering and developing the system.

Furthermore, as local organisations are involved, the concept can be adjusted more effectively to local peculiarities. The risk of a simple “cookie-cutter” approach is therefore reduced. As the franchisees are given considerable autonomy and managerial responsibility, they are more motivated to work hard to raise funds and minimise costs. The problem of a “civil servant attitude”, which can easily occur in a hierarchical system, is therefore less likely. At the same time, the contract clearly spells out the expectations, responsibilities and rights of the different parties which minimizes the risk of system abuse.

Improvement through the systematic transfer of know-how and ongoing learning

Social franchising offers an open know-how transfer and exchange of experiences, so as to improve the project on a systematic basis. The franchisor provides the franchisees with a turnkey concept (usually in form of a manual), as well as initial and ongoing training and support. At the same time, franchisees can also generate new ideas when implementing the project locally. They can then convey such ideas to the franchisor, who can try and test them before applying them to the whole system. Arguably, this increases innovation, because the project as a whole is less jeopardised in the event of the new idea failing. Franchising can thus tap the full innovative potential of the replicating units. The franchise network is therefore a self-learning system.

Quality management through standardisation

The standardisation of key components is an important element of a franchise system. Standardisation means defining and describing the core elements of the project procedures, so that it can be implemented and operated successfully by any trainable person. This ensures a certain level of quality in all units. Subsequently, franchise organisations can build up a reputation for quality, thereby increasing their market stability and potential.

As an additional benefit, standardisation enables efficient quality management, because service quality is easy to measure and monitor. This is important when expanding a non-profit project, as the question of a cost-efficient monitoring system inevitably arises when the number of units has exceeded a certain size.

Financial gains

Social franchising provides wider access to financial resources, because fundraising can be shared between the franchisor and franchisees. The franchisor represents a well-established system and has credibility – nationally or even internationally. Raising funds from national authorities and large corporate donors is therefore facilitated. The local units, on the other hand, often have established community relations and are considered easier to keep track of. They are therefore better able to tap local resources. In addition, it can generally be expected that the reputation and brand of a social franchise system is an assurance that donor funds are being used appropriately and will lead to the desired social impact. Thus, social franchising creates trust among donors and might boost support for the project.

Social franchising can also improve financial efficiency by generating economies of scale. However, it should be noted that this is usually less significant in non-profit organisations than in the business sector, as the largest cost factor is often labour, which cannot be shared across the units. Nevertheless, costs from fundraising materials, marketing programmes and new programme development, amongst others, can be shared. Economies of scale can be derived from bulk purchasing discounts. This is especially significant for social organisations that purchase medical material or similar.

Benefits of network synergies

Social franchising is an important form of strategic alliance. Since it consists of various levels of independent entities, it can tap the full potential of network synergies. Knowledge transfer between the franchisor and franchisees is one important element of this process. Equally, each entity will have its own network of local and national partners and donors that can be of advantage to the franchise system as a whole. High-engagement philanthropy is becoming increasingly important, meaning that in addition to providing financial resources, the partners of the franchisor and franchisees can also offer the benefit of their experience and provide them with contacts to other potential stakeholders.⁵¹

Easier acquisition of voluntary staff

The work of many non-profit organisations greatly depends on volunteers. Research shows that a major determinant of volunteering is the perception of influence over the composition and allocation of output.⁵² It is therefore more difficult for a centrally managed organisation to recruit volunteers, because managerial responsibility is limited. By contrast, the local structures offered by social franchising, give volunteers the possibility to have their say, exert local control and experience tangible and visible results.

2. Potential Difficulties of Social Franchising

Despite the many advantages that social franchising offers as a replication model, various problems may nonetheless prevail.

Risk of changing initial mission

Initiatives are often set up with a specific geographic focus in mind. Adapting it to local peculiarities might alter the original mission. In the worst case, this might alienate the organisation's core stakeholders.⁵³

Additionally, the franchisees' goals might differ from those pursued by the franchisor, as well as those of other franchisees. Franchisees do not have to provide start-up-capital, because the initial investments are usually provided by the franchisor or a donor. Consequently, because franchisees fear less capital loss, they might behave opportunistically and the motivation to adhere to the system might be lower.

Risk of negative reputation

Operating under the same name, the various units in a social franchise system are perceived as one organisation. Consequently, the reputation of one affiliate has an impact on the organisation as a whole. Franchisees might present themselves in a way which is inconsistent with the central unit. Therefore, the franchisor has to ensure an appropriate level of control over the franchisees. Since the independence of franchisees is such an important element of social franchising, this is a difficult balancing act.

Difficulties of monitoring and evaluation

Monitoring and evaluating franchisee performance is important, because of the risk of negative reputation. However, this is difficult to achieve in practice, because abstract achievements cannot easily be quantified, as in the case of units sold in conventional commercial franchising. Consequently, the question arises of how to measure the achievements of the system.

Difficulties in standardisation

Standardisation is a core element of a social franchise system. However, because the essential knowledge and skills are often tacit, the standardisation of non-profit projects can be difficult. Also, the success of an initiative is often dependent on specific geographic or cultural peculiarities. Excessive standardisation might therefore lead to inflexibility, making it more difficult to adapt the project at other locations. It is thus important to find the right balance between standardisation and flexibility.

Competition over fundraising

We have learned that, on the one hand, a social franchise system can tap the full potential of national and local donors. On the other hand, however, devolution of fundraising activities to the local franchisees might lead to inefficiency and ineffectiveness. Assuming that each of the franchisees serves the same basic purpose and individually solicits contributions from more or less the same donor pool, the effort of one franchisee may entail a reduction in fundraising productivity and thus an increase in the costs of fundraising for the other franchisees.⁵⁴ Consequently, it is important to have some central coordination in place.

3. Conditions for Successful and Sustainable Social Franchising

Implementing a social franchise system requires careful preparation and analysis. In order to systematically replicate a programme successfully and sustainably, a number of conditions should be fulfilled.

Sound project concept

A project should only be replicated if it has actually led to the desired outcome. Therefore, the prototype has to be tried and tested, and if necessary, improved by the franchisor before replication. Furthermore, the project must allow for some standardisation. Standardisation does not necessarily have to include the entire concept, but should focus on the key components that are essential for achieving the main objective. This entails a sound understanding of the factors that have led to the success of the project in the first place.

Sufficient capacity

In order to develop a well-defined concept, the social franchisor needs to have sufficient organisational capacity. Implementing one non-profit project requires far less organisational effort than implementing an entire franchise system. The franchisor has to monitor, coordinate, train and supervise franchisees, and is responsible for all procedures, logistics, finance, and so on, within the franchise network. Additionally, it is important for the franchisor to have sufficient financial capacity and donor support to cover the costs of setting up and running the system. Organisations often underestimate the time and costs associated with the development of a social franchise system.

Sufficient market potential

For social franchising to be viable, there must be some clear social need that the project can serve. In other words, there must be markets with sufficient potential for improvement, i.e. weak or no services, which provide a niche that franchisees can enter and serve. This is the case if there is unmet demand, for example, because of a lack of supply from the private and public sectors or poor quality from existing providers. Furthermore, there must be a sufficient number of potential franchisees in order to reap benefits of scale and justify the development of the franchise system itself.

IV. A Framework for Implementing Social Franchising

This section suggests a framework for implementing social franchising. However, the non-profit sector is not homogenous and a detailed outline of how to set up a social franchise system will, to a large extent, depend on the service to be franchised and the target group to be served. Therefore, the following framework should be considered as a rough guideline which needs further elaboration within a particular context.

1. The Players in Social Franchising

Before presenting the steps for establishing a social franchise, it is important to assess the main players. At a workshop on social franchising held by the German Foundation for World Population in 2000, the role allocation in a social franchise system was defined as follows:

“Social franchising is a process by which the developer of a successfully tested social concept, the franchisor,

- in order to scale up the coverage of target groups
- and the quality of products (services),

enables others, the franchisees,

- to replicate the model,
- using the tested system,
- using the brand name,

in return for

- social results,
- system development,
- information on impact.”⁵⁵

a. The Social Franchisor

The social franchisor can be considered as the “engine” of the expansion plan and is responsible for piloting, implementing and developing the franchise system. He has both rights and duties towards franchisees and the franchise system. These are listed in Table 2.

RIGHTS OF SOCIAL FRANCHISORS:

In return for the right to use the turnkey concept, social franchisors have the right to monitor franchisees and to take any action to ensure system compliance, that efforts are made and that franchisees have sufficiently high quality standards. This might for example include the request for regular and extensive information from franchisees in order to continuously improve the system and project concept. In case of non-compliance, the franchisor can discipline the franchisee and even terminate the contract. While commercial franchisors additionally have the right to collect franchise fees, social franchisors will not always have this option.

DUTIES OF SOCIAL FRANCHISORS:

The franchisor has three main duties with the aim of contributing to the success of local sites and the system:

A. The franchisor must ensure performance and the fulfilment of the social mission of the system:

- He is required to precisely define the social mission as well as medium and long-term objectives.
- He needs to provide a successful turnkey project concept, usually in form of a manual.
- He coordinates the players of the system: franchisor, franchisees, donor and recipients.
- He is responsible for the quality management of the system.
- He must ensure the economic efficiency of the system.

B. The franchisor must ensure an exchange of know-how within the network:

- He needs to offer guidelines and standards for franchisees.
- He must provide initial and advanced training, support and consulting.
- He is responsible for system development.
- He is responsible for research and development of the services.
- He must provide franchisees with project know-how, for example, in the form of a manual.
- He has to offer a framework that encourages communication among franchisees.

C. The franchisor must provide central services:

- He must analyse the market and environment and inform franchisees about relevant developments.
- He is responsible for coordinating national and regional marketing.
- He must coordinate the logistics, finance, distribution etc. of the system.

The franchisor should have a strong bond to the social mission, know the project well and have a profound belief in the effectiveness of the project and franchise. In addition, the social franchisor must have sufficient business know-how. Because social franchisees might lack the business knowledge and experience that is essential for running a programme, the franchisor must be able to assist them in these matters. Also, coordinating a network requires experience and expertise in this area. In principle, there are three entities that can take over the role of franchisor:

- The organisation that has conceptualised the project does not necessarily have to be the franchisor, but, due to its substantial insight into the project, it is well suited to this role. However, it may not have the essential business know-how, organisational and financial capabilities to implement and run a social franchise network. This should not prevent it from franchising, though, as in such a situation, suitable partners can be engaged to compensate for the gaps. This can, for example, be a franchise expert who consults the franchisor or takes over the management processes.

- Also conceivable is that an organisation wanting to replicate a project establishes or commissions a franchisor in order to develop and run a franchise system. The organisation can then act either as the supporting organisation or even as a franchisee, thereby increasing the impact and benefiting from network synergies without acting as the franchisor itself. In order to manage its START project, the Hertie Foundation, for example, has set up the START Foundation which acts as the franchisor of the project.⁵⁶

- Alternatively, an external franchisor with business expertise can be employed to assume the role of franchisor, for example a commercial franchisor. This offers the advantages of having an organisation that has specialised in network coordination. However, essentially profit-oriented organisations can easily lose sight of the missionary aspects. It should therefore be kept in mind that contracting external for-profit organisations will additionally lead to the initiating organisation having to monitor the franchisor.

b. The Social Franchisees

Social franchisees are decentralised, largely autonomous units that implement the project locally. Their rights and duties are shown in Table 3. Finding the right franchisees is probably one of the greatest challenges in social franchising. On the one hand, social franchisees should understand the nature of the non-profit sector and be personally bonded to the social mission. Above all, this means that franchisees should share common beliefs with the franchisor and have the appropriate moral philosophies needed to avoid ethical disagreements. On the other hand, it is equally important that franchisees have – or at least have the potential to develop – the required skills and competences, particularly special qualifications, in order to provide the required services.

RIGHTS OF SOCIAL FRANCHISEES:

Franchisees that enter into a franchise system have the right to a turnkey concept of how to implement the project in the form of a detailed written manual. They further have the right to use the system's brand name that the franchisor has established. Franchisees are further eligible to receive support and training by the franchisor.

DUTIES OF SOCIAL FRANCHISEES:

- Conform to the system's principles and guidelines.
- Cooperate with the franchisor.
- Disclose any information to the franchisor.
- Attend training and seminars.
- Carry out regional marketing activities.
- If applicable, pay franchise fees or any alternatives.
- Ensure financial sustainability and donor support of the franchise unit and/or the whole franchise system.

Table 3: Rights and duties of social franchisees

Various potential franchisee groups can be identified:⁵⁷

1 Existing local non-profit bodies and community agencies:

This has the advantage of drawing on an established organisational structure, such as fundraising or marketing divisions, which facilitates the implementation of the project in franchise units. These organisations can form fractional franchises that are managed in addition to other activities of the organisation. However, existing entities have their own culture and operational style that might not be compatible with those of the social franchisor. Although this can be controlled by means of contractual agreements, the franchisor should aim at recruiting franchisees that have the same philosophy and share common goals.

Case Study: Aflatoun⁵⁸

Aflatoun, an organisation that aims at improving children's chances in life by providing financial and social education, deliberately chooses already existing organisations in the specific countries. Since the units are financially independent, it is important that they be self-sustainable. Proven ability to raise their own funds is therefore a precondition for signing a contract with Aflatoun, something that new units can not easily demonstrate.

In order to reduce the risk of non-compliance, Aflatoun selects its potential franchisees based on their work with children, thereby ensuring a common philosophy.

2 New agencies and local individuals:

Engaging newly established agencies and individuals from the private sector mostly avoids the danger of cultural incompatibility between franchisee and franchisor, as these have not yet been imprinted by any organisational culture. In turn, though, this approach is complex, because along with the implementation of the franchise system, its franchisees still need to establish themselves. Thus, start-up difficulties might occur in developing new structures.

3 Commercial franchisees

It is also conceivable to have business partners as franchisees. These would offer the advantage of having know-how and experience in running an organisation. However, experience has shown that this combination frequently does not work. One main reason is the fear of ethical fallout. Nevertheless, this does not generally exclude working with for-profit organisations. In theory, the franchisor can implement guidelines to ensure social mission objectives and philosophies are followed, which would, however, entail the need to control these for-profit organisations closely.

c. The Donor

In comparison to commercial franchising, there is an additional player in social franchising that must be taken into account – the donor. In most cases, donors, at least in the short term, provide both start-up as well as some working capital for the network. In the medium and long term, social franchisees might be able to generate some income and decrease dependency on donors.

There are various funding models that a social franchise system can use. For example, donors can fund the franchisor, which then is responsible for transferring parts of it to the franchisees. Alternatively, the franchisor and franchisees each conduct their own fundraising activities. As mentioned in Section III, this could lead to fundraising competition within the network, since franchisees might draw on more or less the same donor pool. This would not occur if fundraising is coordinated centrally.

Donors have their own programme and priorities that might conflict with the social mission and objectives of the franchise system. This may make it difficult for the franchisor and franchisees to balance donor objectives and its social mission. The challenge in social franchising is therefore to manage commitment to the beneficiaries and the social mission and, at the same time, ensure satisfaction and financial support for donors. Finding donors with compatible cultures is therefore important.

FRANCHISOR

STEP 1: FRANCHISEABILITY

■ Analyze your project.

Is the concept replicable?
Are there benefits of scale?
Is franchising the optimum replication strategy?

■ Analyze the market and environment.

Is there a clear social need?
Which of the potential markets can be served best by franchisees?

■ Analyze your capacity.

Do you have sufficient financial backup? Is your organisational capacity sufficient? Do you have the required skills?

STEP 2: PLANNING STAGE

■ Reflect the idea of franchising the project carefully and elaborate all steps in your mind.

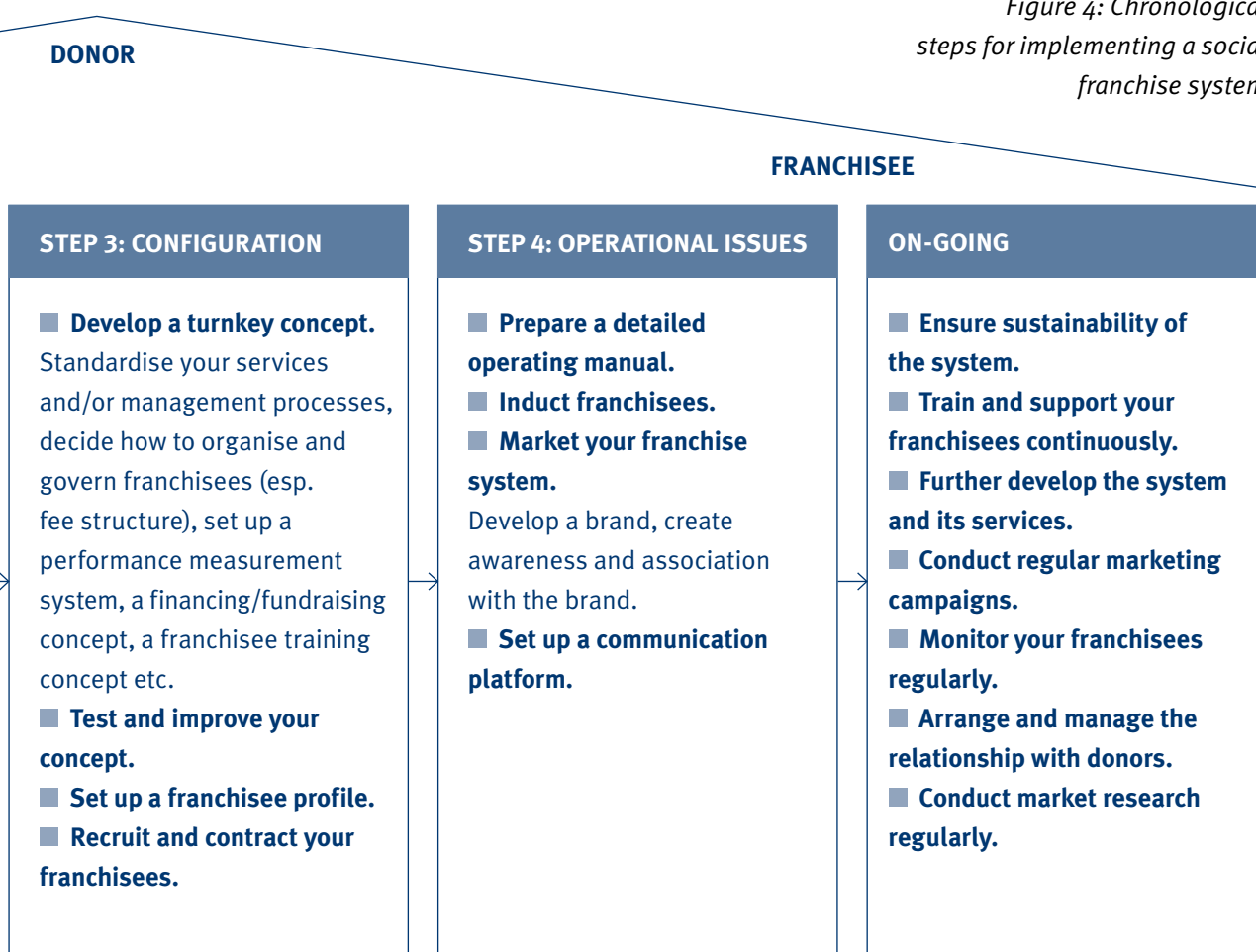
■ Set up a business plan.

Donors can often provide more than financial support. They have a lot of professional experience and an extensive network that franchisees should draw on. Close cooperation with donors can therefore offer many advantages. Finding a Social Venture Partner can be appropriate in this respect. These usually not only contribute financial resources, but also their professional know-how and contacts with other institutions.

2. From the Initial Project to a Successful Social Franchise System

Figure 4 shows the implementation steps of a social franchise system. This model can be used as a guideline for the franchising process and through the following sections. It is important to draft a timetable, including successive steps, milestones and end-points of the process. However, even the most detailed plan generally reveals some flaws once implemented, so that it is important to be flexible.

Figure 4: Chronological steps for implementing a social franchise system



Building up a social franchise system requires an investment of both time and resources. It is therefore essential to evaluate both the opportunities and risks of social franchising. Section III addressed the preconditions of social franchising and has shown that franchiseability is dependent on conceptual, environmental and organisational factors. The following catalogue of questions, aimed at determining whether franchising is suited to the project in question, has been developed from the experience of the Beanstalk Programme of CAN, which has supported various organisations in expanding their projects.⁵⁹

a) Is the non-profit project suitable for franchising?

In order to determine whether a non-profit project is suitable for franchising, the following issues need to be addressed:

Justification of franchising

The replication of a project can only be justified if it has actually made an impact. Therefore, one needs to consider whether or not the project has achieved the intended social mission. Equally, it is necessary to consider whether the approach is an efficient way to achieve the outcome, so that a multiplication is justified. Might there be more efficient and effective approaches to achieve the same social impact?

Furthermore, it is necessary to assess whether the social benefit can be increased through franchising. That is, does a large network yield real advantages?

Potential for franchising

In order to assess whether the project is transferable to other locations, it is important to pose three questions. Firstly, which elements have led to the social impact? In this respect, the theory of change, which explains the cause-and-effect logic by which organisational and financial resources are converted into the desired social results, could be used to find core elements of success. Secondly, are these elements applicable under different circumstances and in other locations? In other words, will the determinants be as effective and efficient in other regions or countries than in the initial location? Thirdly, are the elements describable in a blueprint, that is, is the know-how explicit, so that it can be spelled out in detail? If this is not the case, it is difficult for franchisees to replicate the concept.

Long-term cohesiveness of the system

Without unique advantages for franchisees, a long-term partnership is difficult to establish. Therefore, one needs to determine which elements can bond franchisees to the system and why the franchisee should be part of it and not act autonomously.

Furthermore, the entire organisation must be committed to the idea of franchising and support it in the long term. This must include management, employees and the board.

b) Is the environment suitable for franchising?

Additionally, the social franchisor must determine whether there is the potential to expand the concept, both in terms of social need and potential sites.

Is there sufficient social need?

It is necessary to assess whether there is a clear social need that the project can serve. In other words, is there a gap in various different locations where a franchise system can improve the access to and the use, quality, efficiency or awareness of non-profit services?

Are the targeted sites equipped with “ingredients” for success?

It is essential to determine whether targeted locations offer conditions that are critical for the success of a franchise system. In particular, there must be a sufficient number of trainable franchisees and potential beneficiaries in the long term, so that there is adequate demand for the service. Being able to gain a certain number of franchisees is often crucial in order to justify the costs of creating a franchise network. The significance of this number should not be underestimated and therefore careful analysis is necessary.

In most cases, a social franchisee will probably enter a location where there is a visible service demand from beneficiaries. However, in the case of a merit service, that is services with low receptivity, which are not sufficiently valued by beneficiaries, the franchisor could educate beneficiaries about the benefits of the service, so as to create demand.

c) Is there sufficient organisational/financial capacity and competence?

For the next step, the organisation must analyse whether it has sufficient organisational capacity and skills to set up and manage a franchise system. Implementing a social franchise system uses far more capacity than is often expected and requires various managerial skills. The franchisor has to monitor, coordinate, train and supervise franchisees, and is responsible for all procedures, logistics, finance etc. within the franchise network. The organisation should first evaluate the required capacity and managerial skills when franchising the project. Then, it should assess whether these are available within the organisation.

Equally important is a sufficient capital base for meeting financial requirements. In order to assess this, a financing plan for the first periods is essential, which compares incomes in the form of margins and/or granted funds and the full costs of setting up and running a franchise system. A franchise system should only be implemented if specific and adequate funding has been set aside for this purpose, for instance, in the form of an acknowledgement of a large sum from a donor or government, or if the organisation is large enough to have sufficient fund surplus to provide the capital itself. In addition, sufficient capital reserves for unexpected developments are recommended.

A business plan for social franchising is the written description of the notion of expanding an initial non-profit project through franchising, and describes all aspects of how this is to be achieved. The business plan forces the franchisor to reflect on the idea systematically and ensures that all relevant aspects have been considered. In effect, the business plan ensures that the franchisor has precisely elaborated the aspects that will be addressed in the subsequent steps of this manual. A business plan for a social franchise system targets potential supporters and donors and should therefore include all aspects of the project. It is not a fixed document, and can be further developed or altered when new perspectives become available.

In particular, the following aspects should be part of a business plan:

- 1** An executive summary that elaborates the crucial elements of the franchising concept within a maximum of two pages. This includes a short description of the business concept, service, business strategy, market potential, benefits for the recipients, the competency and capacity of the initiating organization and capital needs for the first few periods. Since the executive summary is often the part of the business plan that an investor (in this case donors or supporters) will read first, it should be detailed and easy to read in order to capture their interest.
- 2** The business concept that describes the aspired social impact, strategies of how the impact can be made and why one believes that the outcomes will be achieved. (“What do I actually want to achieve and how does my step-by-step plan ensure that I’ll get there?”). In this regard, a timetable for the implementation is also useful.
- 3** The service must be described in detail. Donors and supporters expect an explanation of why the specific service benefits the recipients. Most importantly, this section must explain how one’s own service differs from others.
- 4** Next, the most relevant and important issues of the market and sector must be listed in order to demonstrate an understanding of the market to be entered. Who is the target group? What factors influence their decision to use the service? What are their specific social needs? Who are the most important existing providers and what is their service model? What are the most important developments? If applicable, relevant laws and regulations should also be listed.

5 A business plan also must include an elaborated marketing strategy (for further information, see Step 3 of this Section). Here, the business plan must first describe market objectives and set up a timetable: what market share do I want to gain, can the system earn an income and what degree of awareness am I targeting? In addition, the plan must contain policies of how to get there: how do I find franchisees and expand the service and, if appropriate, what price to set? How to communicate and advertise the service?

6 Also important is a section that introduces the team which will undertake the franchise project. This should portray the skills and competencies of each team member and explain who is intended to assume which responsibility. The configuration and organisation of the system should also be addressed.

7 Each business plan must contain a realistic evaluation of opportunities and risks, which points out which developments might affect the organisation positively and negatively, and how this might occur, as well as a plan on how to react to these potential changes in the environment.

8 A business plan must include a section describing the financing plan for the coming three to five years. Financial statements such as an earnings report, liquidity plan, financial and assets position, fundraising plan, investment plan and a development forecast for fundraising, earning and spending must all be prepared. There must be planning on which funds or other capital resources are to finance which expenditure. Actual numbers should only be published if they are traceable and well investigated.

In order to ensure successful replication, the franchisor needs to organise a clear-cut and sound franchise system. This includes finding appropriate franchisees, organising the coordination of the local franchisee units, as well as standardising and setting up management processes. To ensure that this system works, the franchisor finally must pilot its concept.

a) Pilot of Project Concept

Before developing the social franchise system, the project concept must be piloted in a selected location. This is important, as the franchisor must test and prove the viability and profitability of its concept in locations other than the initial one. Piloting constitutes the initial experience with a franchise unit and can deliver further insights into one's own original idea. The pilot can be used for trial and error purposes, and thus for improving and maturing the concept. Piloting is crucial – no matter how well-planned the concept looks on paper, one can only see if it works when it is actually implemented.

Ideally, piloting should be done by the franchisor himself so that he can try and test the concept directly. Alternatively, the franchisor can assign this task to a pilot franchisee. This has the advantage that, in addition to the project concept, the coordination of franchisees can be tested as well. However, in this respect, the franchisor has little direct access to and influence on the pilot.

b) Franchisee Recruitment

One of the greatest challenges in franchising is to find franchisees that fit to the system. The franchisor must therefore carefully develop a franchisee profile using selection criteria that depend on the qualifications (training, experience, skills etc.) that are necessary to meet social needs that are appropriate in terms of the moral and ethical considerations. The more clearly defined the profile, the easier it will be to find the right franchisee. In this context, franchisors must remain flexible, given that profiles may vary across countries and regions.

Case Study: The Green Star Network⁶⁰

The Green Star network hired field staff to locate existing physicians and identify potential franchisees. Initial contacts were made with associations, providers of complementary goods and services and companies in the considered service field, in order to obtain lists of physicians and their addresses. In addition, field staff searched street-by-street for physicians in practice. They were then evaluated in terms of basic minimum standards, and those meeting the standards were visited by Green Star staff to sell the network concept.

Case Study: Dialogue in the Dark⁶¹

The example of Dialogue in the Dark demonstrates the importance of carefully selecting the right franchisee, even when the franchise system is not yet established. The project entails blind people guiding non-blind visitors through completely dark rooms reflecting every day scenarios in order to sensitise to their handicap. The founder and manager, Dr. Andreas Heinecke, reports that in the introduction phase, he often projected too much on interested persons who wanted to implement the concept at other locations. It was often the case that he later realized that these people lacked the managerial competence, although they had the required interest. By then, it was often very difficult to pull back.⁶²

In most cases, a newly launched franchise system with a low profile will probably have to search actively for franchisees and convince them to join the network. In this respect, recruiting inevitably requires a leap of faith on the part of the franchisee, as the franchise network and its benefits have yet to be established. However, cases can vary from project to project. Some ideas might attract the interest of many potential franchisees, spoiling the franchisor with choice, even if the system is not yet established. In any case, the focus must lie implicitly on a careful selection of franchisees that are sufficiently willing, ethically sound as well as competent to replicate the project and make a social impact. Usually, the more respected the network becomes, the more apply to join the network, and in turn, the more stringent the selection criteria can be.

c) Standardisation

In principal, there are two elements that can be standardised in social franchising. Firstly, elements of the non-profit service to be franchised can be standardised in order to set a certain quality standard and facilitate monitoring. In this regard, standardisation has the advantage that the non-profit service to be replicated can easily be taught to any franchisee. Secondly, the management processes can be standardised, e.g. controlling or marketing processes. This is worth doing, insofar as because potential social franchisees might not have specialised in managing an organisation, but rather have their core competence in rendering the non-profit service that is offered. With the standardisation of management processes, franchisees receive instructions on how to manage their units and can concentrate on their core competences. In terms of management processes, the question of which elements to standardise does not arise, but it can be a challenge to determine which elements of the non-profit service to standardise. Table 4 outlines some relevant ideas.

Standardisation options range from broad design principles to fully specified services and procedures. Finding the right degree of standardisation is a balancing act that needs to be performed in the light of the specific project and its environment. Replication is not a cookie-cutter process and therefore, it might sometimes be sufficient to standardise core elements to reproduce the initial programme's results. Such a low level of standardisation grants autonomy to franchisees, promoting motivation and allowing each unit to respect local peculiarities. However, this autonomy jeopardises the consistency and reputation of the system. Comprehensive standardisation, on the other hand, accelerates growth, because of easier replication, ensures a certain degree of quality and thus consistency, and makes monitoring less costly and time consuming. However, a high degree of standardisation might suppress innovation, lower franchisee motivation and lead to inflexibility concerning local adjustments.

WHICH PROJECT ELEMENTS SHOULD BE STANDARDISED?

In the social sector, it is not easy to determine what should be standardised. As a general guide, the following aspects should be covered by standards. This list is only for guidance and will vary according to the specific project.

- Core elements that have led to the success of the project should be standardised in order to replicate the project results. Core elements can be determined by considering the theory of change, which shows how the social impact arises (theoretically) as a result of the strategies and activities of the program. In addition, the programme at the initial site can be broken down into its individual features, which must then be evaluated in terms of whether they are necessary in order to make an impact at other sites. If so, certain standards must be set to ensure the success of replication.
- Services that are difficult to measure and document, should be standardised, so as to facilitate as much controlling and communication as possible.
- Services that are subject to specific requirements, such as hygienic guidelines, should be standardised to ensure that a specific quality and standard is adhered to.
- In each franchise system, there will be elements which have to work together smoothly with other elements, for example the franchisees' computers which have to transfer data to the franchisor's computer. In this case, it is important that the two elements, for example the software, are compatible with each other. Normally, standards are necessary in order to ensure compatibility.

Besides that, there are elements that one should avoid standardising:

- Elements requiring circumstances that are not easily provided at other locations are not easy to replicate and should not be standardised.

Table 4: Project elements that should and should not be standardised

d) Franchisee Governance System

It is crucial that franchisees implement the project as intended by the franchisor, so as to ensure the desired social impact. Although it is expected that the players in the non-profit sector act altruistically, social franchisees may still pursue their own interests and objectives to some degree.⁶³ Thus, monitoring and incentives can assure system compliance.⁶⁴

The incentive system

Commercial franchisees are typically more motivated and compliant than employees in a centralised unit, because they are granted residual claims and fear the loss of their investments.⁶⁵ A social franchisee is granted managerial independence and responsibility, but he mostly does not receive financial benefits or fear the loss of investments. Since social franchisees have less to lose, it can be argued that their motivation to succeed might be low. This could result in control difficulties and high franchisee turnover rates. Each franchisor must therefore judge to what extent effort and system compliance are ensured and how the system must be designed in order to motivate franchisees. Managerial responsibility might be coupled with an effort-based fund release, where funds are allocated among franchisees according to achieved impact or quality.

If the project offers franchisees an income, it is also possible to demand a financial investment from franchisees, thus creating a similar starting point to that of commercial franchising. For example MEXFAM, a social franchise system providing maternal and child health family planning in Mexico, requires financial contributions from its franchisees in the form of franchise fees.⁶⁶

Controlling concept

Despite incentives, monitoring each social franchisee remains necessary to ensure service quality. Controlling furthermore entails dealing with information about the performance and situation of each franchisee, shows each franchisee where it stands in comparison to others and enables them to analyse their strengths and weaknesses. Table 5 lists several means of monitoring that franchisors can use.

MONITORING CAN BE DONE THROUGH DIRECTIVE BEHAVIOURAL CONTROL AND INFORMATION SYSTEMS THAT INCREASE THE TRANSPARENCY OF FRANCHISEES SUCH AS:

- Beneficiary satisfaction surveys
- Franchisee surveys
- Regular reporting
- Quality audits and certification
- Site visits and on-site support
- Benchmarking

Table 5: Means of monitoring

Note: Control is often perceived as a limitation of autonomy and thus reduces franchisee motivation. In a research project about the hidden costs of control, Falk and Kosfeld established that the negative effects of control on highly motivated agents are slightly stronger than the positive effects on egoistic agents, especially when there are weak incentives. If it is assumed that most social franchisees are altruistically motivated and that the absence of a profit orientation leads to weak incentives, the franchisor should rely predominantly on incentives so as to improve the net performance of franchisees.⁶⁷

e) Franchise Contracts

Only in franchising do economically and legally independent partners operate at different levels and cooperate under one roof in such a close relationship that the mutual exchange of information and services by far exceeds the usual business relationship.⁶⁸ The franchise contract imposes rights and obligations on the franchising partners and is thus the cornerstone of this relationship. While contracts do not completely remove the risk of opportunistic behaviour, they limit franchisee discretion and provide grounds for termination of the contract in the event of opportunism.

Franchise contracts differ between branches, products and services. However, any well-drafted franchise contract should include a number of core elements in a precise and structured manner:⁶⁹

- 1** The specific nature and name of the activities being franchised (trademarks, methods, specifications referring to the manual, etc.)
- 2** Obligations/performance of the franchisor/franchisee (e.g. on-going training and support)
- 3** Right to receive information from the franchisor
- 4** Cooperation in advertising and public relations
- 5** Determination of preconditions and aims of the partnership
- 6** Determination of appropriate sanctions and measures
- 7** The duration of the contract
- 8** Conditions under which the franchisor/franchisee can terminate the franchise contract.

The checklist at the end of this manual provides further information about social franchise contracts.

In legal terms, franchising contracts are not regulated explicitly. A contractual arrangement, which covers all eventualities of dynamic scenarios, might scare off potential contract partners. Thus, “evolving contracts” are an important criterion of franchising networks⁷⁰, meaning that franchisors learn from experience and might therefore adapt and improve their contract when working with further franchisees. Since social franchising is a growing and global phenomenon, franchisors could even adjust the terms of their contracts to local environments as they accumulate experience. Although the administrative cost of changing contracts may increase through such measures, by customizing contracts, franchisors may ensure fair conditions.

Franchise contracts do not generally have the primary goal of ensuring franchisees and franchisor performance, because it is simply not possible to specify the desired behaviour in full detail within a legally enforceable document. However, by using precise contractual language, specific contract elements can specify certain performance standards and ensure that both parties do not deceive one another, for example, by refusing to disclose strategic know-how.⁷¹ Likewise, the franchise contract stipulates the duties of the franchisor: know-how transfer, management assistance, advertisement expenditures.⁷² Specifications of such performance issues are necessarily imperfect, because the measures are rather complex.⁷³ Therefore, mutual commitment should be at the heart of every franchise contract. The rights and duties of both partners should be put together in a performance catalogue, to which franchisors and franchisee may refer.

Both franchisee and franchisor should understand and agree on standards before signing any franchise agreements. Taking the time to do so will create a more open relationship that avoids future misunderstandings and conflicts. In addition, the franchisors should communicate the accountability measures, i.e. increased fees, probationary periods and revocation of the franchise contract – which will be executed if the franchisee fails to meet the performance expectations and obligations.⁷⁴ Finally, the franchisee needs to be informed about his rights to withdrawal from the franchise contract.

Know-how is the core element of most franchise systems and should be specified in a manual as guidelines or as business principles. Franchise contracts usually refer to existing know-how at the current status of development. Therefore, franchise contracts should contain a brief system outline and references to the existing manual. In contrast to the contract between franchisor and franchisee, which is generally not altered much over the course of time, the operating manual is a frequently updated blueprint for the effective operation of the franchisee and gives answers to most operational queries that franchisees may have. It is customary for amendments to the manual to become binding elements of the franchise contract.

The legal protection of brands and registered concepts which guarantee certain quality standards, should not be neglected. Intellectual property rights (IPR) is the term used by specialists to cover patents, trademarks and copyrights. At worst, the franchisor as well as the franchisees must face the possibility that other parties copy their approaches and threaten their success by failing to adhere to certain standards or through competition. Property rights should therefore always be mentioned in the contract. Trademark protection can be achieved through registration at the patent office.

f) Franchise Fees

The existence of commercial-sector franchising without fees is inconceivable. Fees usually compensate for the franchisor's lack of capital and guarantee the development of the franchise system. Setting the level of fees is something of a balancing act. Setting them too high leaves little profit for the franchisees and makes it difficult to attract further franchisees. Conversely, setting the fees too low leaves the franchisor with insufficient revenue to provide the franchisees with the service they require and the system will not have sufficient resources to continue operations over time. Franchise contracts contain two forms of payment from franchisees to franchisor: the initial franchise fee and the ongoing royalty payment. While the initial fee is only paid once at the beginning of the contract period, royalties are ongoing payments throughout the life of the franchise contract.⁷⁵ In commercial franchising, royalty rates are usually defined as a percentage of turnover.

In contrast to commercial franchising, franchise systems in the social sector are – as we have seen – based on different business conditions. The franchisee usually does not generate sufficient income to pay fees to the franchisor, as is the case in the commercial sector. Subsequently, three possible approaches are conceivable in the social sector:

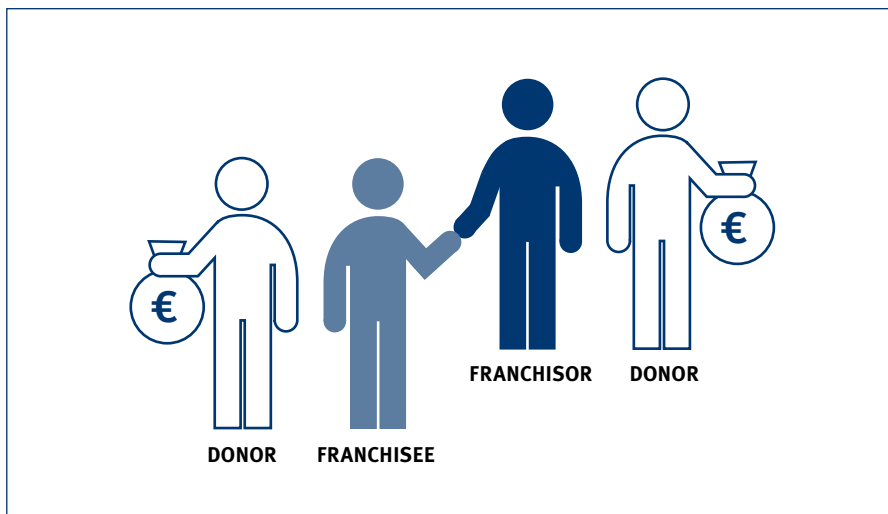
Case 1: No monetary stream between franchisee and franchisor

In this case, franchisor and franchisees are financially independent and self-sustaining. Both parties organize their own funding. However, franchisees often pay a fixed initial fee to join the system. Franchisors may find that even if fees are set on a low level, it could improve the perceived value of the franchisors offer.⁷⁶

Case Study: wellcome⁷⁷

Although the different units are all responsible for finding their own funding, the organisation “wellcome”, which supports new mothers in their everyday life, who otherwise might not have this assistance, receives a small initial as well as ongoing fee from its franchisees. However, the amount received does not cover the operating expenses. Rather, it serves as a contractual fortification between the “wellcome” central unit and the local offices.

Although there is no franchise fee, franchisees have to commit to contractual agreements. In order to benefit from the franchisor’s concept and his reputation, they have to meet the standards set by the franchisor and participate in knowledge interchange and system enhancement.



Case 1

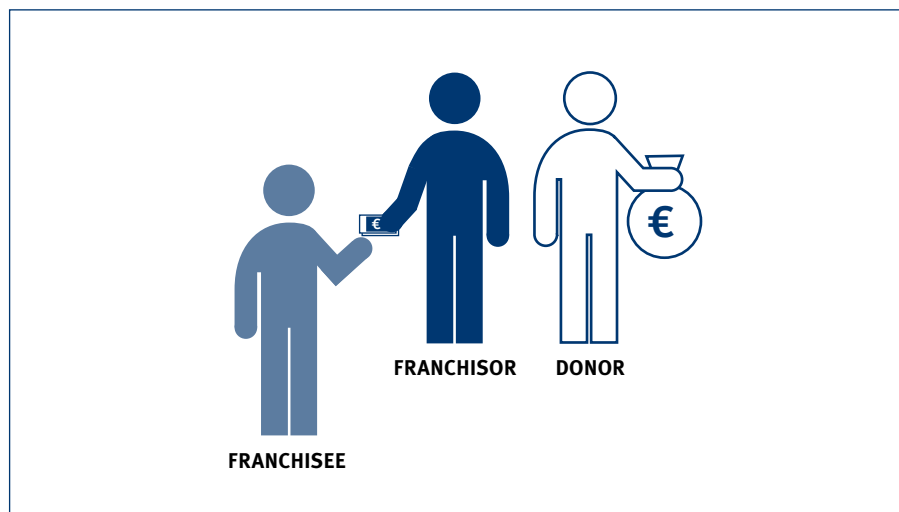
Case 2: Franchisor pays an income to the franchisees

If the necessary capital cannot be provided by the franchisees, because needy beneficiaries are unable to pay them, fees would be counterproductive in the context of social franchising. The following approach would provide an efficient solution. While in a commercial franchise system, the franchisees bear the majority of operational costs by paying fees to the franchisor, this approach can be reversed in the social sector. In order to ensure appropriate performance by the franchisees, the franchisor could support them financially.⁷⁸ The approach inverts the usual monetary streams within a franchise system. Payments could be allocated according to the achievement of specific objectives.

Case Study: Time Together⁷⁹

Time Together is a project of the volunteering charity TimeBank that aims to facilitate the early assimilation of refugees into UK society by pairing them with mentors. TimeBank pays their local partner organisations an annual fee. This is based on an accurate and documented use of these fees in accordance with the Time Together guidelines. Additional financial bonuses are allocated to franchisees and the mentoring coordinator when they reach set targets related to the project goals. The bonus given to the franchisee usually covers the costs of the managers which are not included in the original fee. This has the advantage of ensuring high quality, without impeding on the operability of the local offices.

This approach has the further advantage that the income stream provided, combined with the threat of termination, increases the incentive of franchisees to adhere to the rules of the system and enhance efficiency within it. There is substantial evidence that franchisors, who have credibly guaranteed franchisees a premium, are able to ensure sufficient performance standards in many cases.⁸⁰



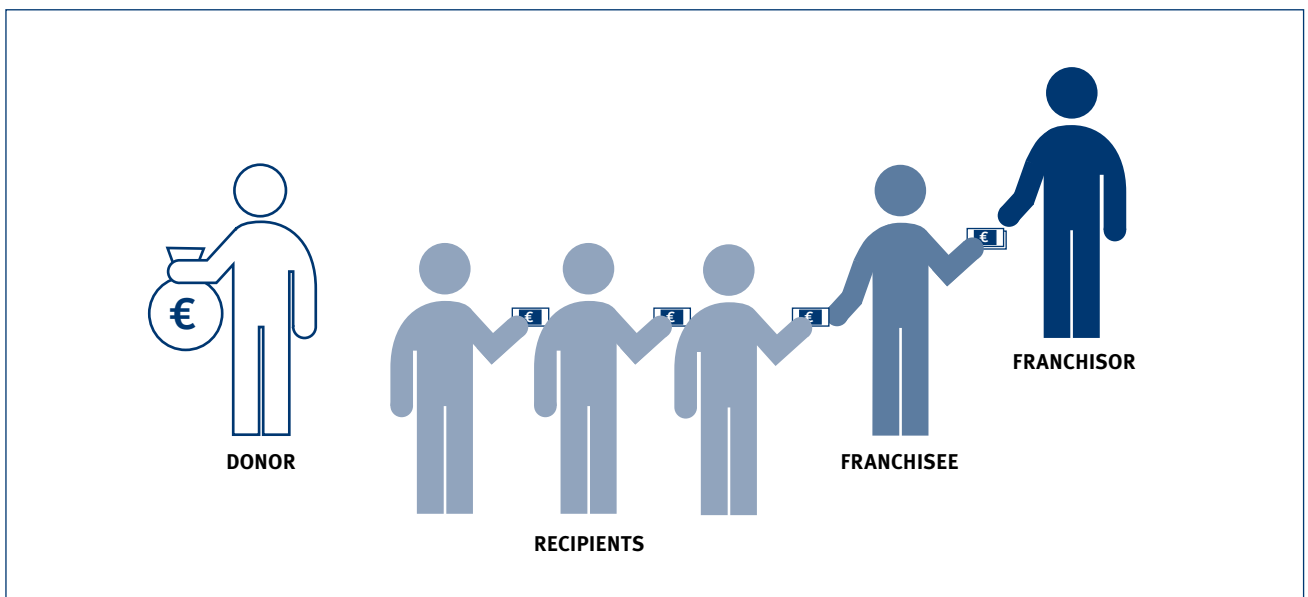
Case 2

Case 3: Franchisees bear most of the franchise costs

The payment of fees is regarded as important in the franchise literature, as it adds value to the franchise system, helps screen out providers who are not honest, makes franchisees feel that they have a vested interest in the network and are therefore more committed to its goals. However, it is important to ensure that fees and royalties do not restrict the franchisees' opportunities. The big challenge for the franchisor is thus to find the right balance of incentives through appropriate fees and sufficient financial freedom.

If social franchisees receive some payment for their services, it is possible to adapt the "commercial approach" to the social context, i.e. to pay fees to the franchisor in order to bear the operational costs of the system. This can also work when franchisees provide their own funding from donors so that they are able to pay fees. Thus, franchisors may establish relationships with social investment banks, which then negotiate with franchisees to provide them directly with the required funding.

Transferring the commercial model to the social sector, however, leads to a further problem. Although social franchisees may generate a small profit, royalties based on turnover do not necessarily provide goal-oriented incentives in a social environment, since maximisation of social impact is the main aim. Therefore, the fee basis has to be reconsidered. Offering a fair fee is a basic question to which social franchising must find an appropriate answer, since ongoing fees should guarantee the development of successful concepts by the franchisor in the absence of donor funding.



g) Performance Measurement System

The need for multidimensional measurement

Performance measurement is crucial in social franchising. It both assures the social mission as the ultimate objective and makes the system more accountable to donors and society. However, it is not easy to measure the performance of social franchisees, since there is no clear-cut feedback from recipients, such as profit that reflects the organisation's performance. There are a number of difficulties in measuring the performance of social franchisees:

- The complexity of a social mission makes direct assessment with a clear-cut performance number difficult and thus requires multi-perspective measurements that capture and consider each aspect of the mission.⁸¹
- Outputs in social franchising do not necessarily reflect the performance and effort of the franchisees and therefore cannot function as a sole measure of performance that evaluates the franchisees.⁸² Even if franchisees do make a considerable effort and are well equipped to render the service, this does not guarantee good results, as the output is, in essence, co-produced by beneficiaries that might not cooperate sufficiently. For example, a competent physician is no guarantee of successful treatment, as results also depend on patients following the physician's instructions, such as taking medicine regularly. In order to take this into account, performance measurement must also consider procedures and input besides the actual main outcome.
- In order to satisfy the interests of all stakeholders – the donor, franchisor, franchisees and beneficiaries, performance measurement must take all four perspectives into consideration.

Taken the complexity of social franchise systems, the performance measurement of services should have different levels, so as to include all relevant aspects:⁸³

- The expertise of franchisee and franchisor in performing the services (input).
- The efficiency and effectiveness of operations of both franchisor and franchisees (procedures).⁸⁴

■ The outcome achieved, i.e. the end results of the system’s activities on targeted issues or people. What quality do the franchisees offer? Do they work towards the stated mission? How well does the franchisor support the franchisees?

■ Depending on the importance of political issues for the non-profit activity, such as legitimisation and authorisation, another perspective might be the public support of the system. This evaluates to what extent the organisation is “in the game”, gains public support and can be viable in the long-term.

It is important for the understanding of franchisees’ own activities, to consider performance in relation to other organisations, both within the franchise system and among other providers, through benchmarking. This enables the establishment of appropriate performance goals and the determination of organisational strengths and weaknesses. The comparative assessment should, however, not lead to an environment of competition but rather provide an opportunity to learn.

Case Study: The Performance Measurement System of Ashoka⁸⁵

Ashoka is a non-profit organisation that identifies and supports social entrepreneurs. It measures its effectiveness by means of two tools. Firstly, it surveys its entrepreneurs via a self-response questionnaire that relies on proxy indicators which serve as measures of success. Secondly, interviews supplement the survey with qualitative and in-depth information that include:

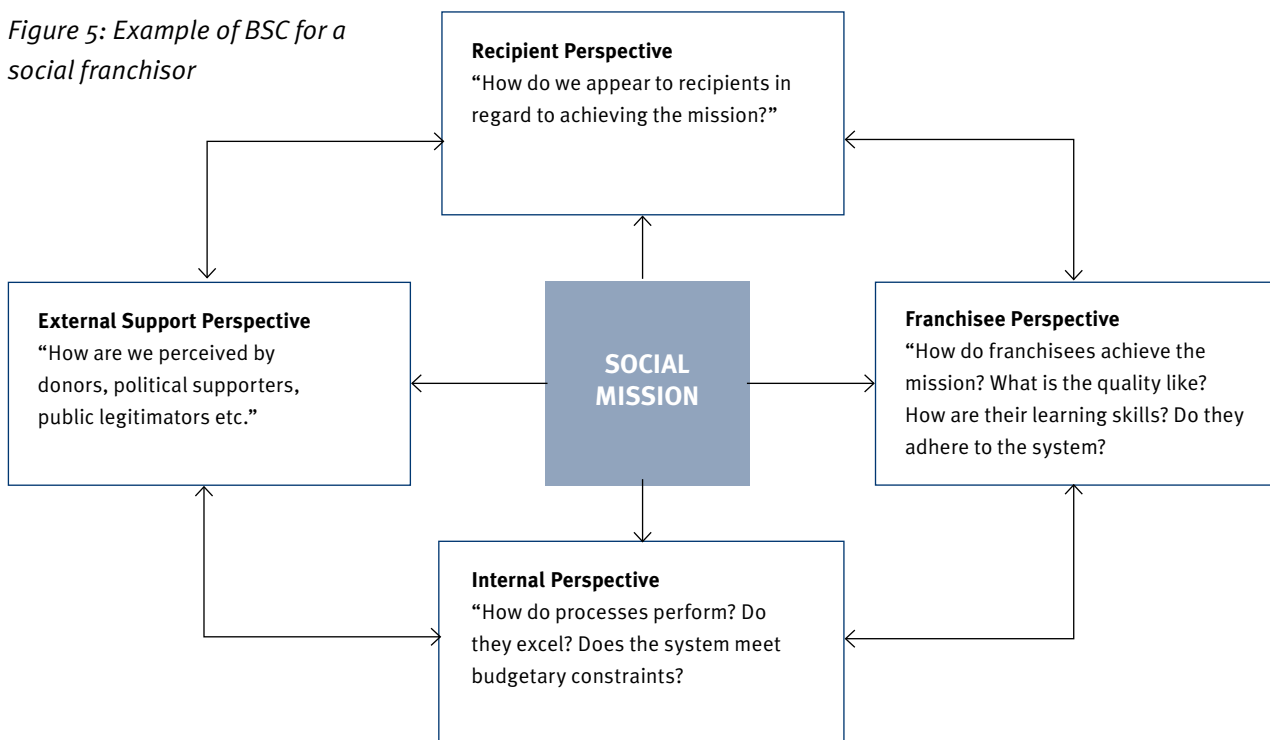
1. Measurement of impact “by numbers”, that is, through accounting procedures. However, this approach is limited in applicability, as social impact is often barely or not at all quantifiable.
2. Measurement of impact as systematic change. This assures that, in addition to quantitative data, qualitative information, intangible and non-quantifiable achievements are considered, e.g. changes in attitudes and philosophies (hearts and minds).
3. Since achievements can be time-lagged and are not always directly discernible, measurement of impact must be conducted over a long period of time.

Adoption and adaptation of the Balanced Scorecard

The Balanced Scorecard (BSC), developed by Kaplan and Norton, looks at performance from multiple angles and is appropriate for measuring the performance of social franchise systems.⁸⁶ It draws on lagging and leading indicators, quantitative and qualitative data, internal and external information, previous and past performance figures, and does so from various points of view. The starting point for a BSC is the long-term mission, which is then translated into a system of strategic objectives and short-term, measurable performance numbers. These, in turn, are connected to each other, usually in a cause-and-effect chain, so as to ensure a target orientation.

Since the social mission is the ultimate goal and drives all activities, the recipient perspective should be placed at the top of the BSC, thus ensuring that the focus of all objectives, perspectives and activities is on improving performance for the beneficiaries.⁸⁷ A BSC can consider each diverse aspect of a social mission and bridge the gap between an often rather vague mission and more specific operational activities. It breaks the mission down into a value chain that specifies links between desired outcomes, processes, activities and resources (see Figure 5).⁸⁸

Figure 5: Example of BSC for a social franchisor



As mentioned above, the franchisor commits itself to take over several duties.

a) The Manual

The franchise manual contains step-by-step instructions on how to implement and run the project and should enable the franchisees to replicate the project at other locations. It must therefore contain the complete know-how and describe the exact procedures that franchisees need in order to run the franchise successfully. Furthermore, the manual is the platform for setting standards and guidelines.

The manual can vary across projects, but should include the following aspects:

- **Description of processes:** This includes a documentation of the service offering as well as work and informational flows within the system.

- **Advice without obligation:** This includes suggestions of how to behave in a specific situation.

- **Binding guidelines:** These complement the franchise contracts and are composed of details that are important, but not included in the contract – due to their complexity. The guidelines and standards concern the services, rights and duties of franchisor and franchisees, marketing, training, controlling, interaction with beneficiaries, research, engagement of staff, system configuration etc.

The checklist at the end of the book offers some guidelines on how to structure a manual in more detail.

b) Learning and Training

One important advantage of a franchise system is that it comprises a network of franchisees in which units can exchange know-how and information. Each franchisee benefits from the experiences of the others, thus accelerating project improvements. The franchisor should therefore offer a platform for franchisees to share ideas, knowledge and experiences. This can, for example, take the form of:⁸⁹

- Meetings on a regular basis (regional or national), annual conferences etc. for the exchange of information, training and joint planning of future steps.
- Internal newsletters that can be used by the franchisor to provide news about market trends, developments, case studies, practical tips etc.
- Internet platforms that can be used as a notice board, access to knowledge data bases etc.

Additionally, training is an important element of social franchising. It should:

- Give franchisees detailed information about the system, its mission, products and processes, above and beyond the content of the manual.
- Give franchisees without a business background some guidelines about how to run an organisation.
- Ensure franchise quality. If franchisees are required to offer quality services, it may be necessary to train them about good quality and how it can be delivered.
- Refresh the skills of franchisees, especially if services are below standard.
- Include on-site visits to assist and train franchisees on the spot.

Training the employees of franchise units is also important. Many are volunteers and need to be informed about how the franchise unit works and get acquainted with the project. The social franchisor can offer intensive initial and ongoing training for volunteers that individual franchisees are probably not able to afford.

Opportunities to network with colleagues, further professional training and access to advances in practise can be considered as attractive benefits of membership and give franchisees an incentive to join and remain in the system. Training and networking should thus be used as a tool to foster loyalty and bond franchisees to the system.

c) Marketing Strategy/Branding

A strong brand and a good reputation can build up trust within the franchise system as well as amongst stakeholders and beneficiaries.⁹⁰ Marketing is therefore also important for the non-profit sector.⁹¹

The franchisor develops a marketing strategy and is responsible for its coordination. This should include both internal and external marketing. The internal marketing focuses on franchisees and employees. Its role is to communicate the benefits of being part of a franchise network, to create acceptance of the system guidelines and deepen commitment by franchisees and employees. Belief in the work and sharing of values, that provide meaning to the activities, will strengthen the system internally.

External marketing serves to promote the services of franchise units in its environment. The main goal is to reinforce the benefits of the project and create awareness of and trust in its quality as well as build loyalty within donor and supporter groups. Marketing in social franchising can also assume an educational role if merit goods or services are involved. The goal then is to promote the use of these services such as in social marketing. Marketing objectives can be summarised as follows:⁹²

- Creation of trust and reputation.
- Ensure longevity of the franchise system, through, for example, attracting donor support.
- Communicating and promoting the mission, especially creating public support and acceptance, and encouraging further projects.

Marketing activities should be shared between the franchisor and franchisees. While the latter is usually better equipped for local marketing, the franchisor should be responsible for the national marketing strategy.

Achieving the marketing goals firstly means creating brand awareness and association.⁹³ While awareness is created by communication tools such as advertising, building up a brand association requires a brand identity – a message about the attributes and values which the social franchise system represents. A specific brand association helps to enhance value perception and trust, and thus a demand for the services, since beneficiaries then know what to expect.

Case Study: Reach⁹⁴

“Freedom from Hunger” decided to create a new brand for its project “Reach”, which delivers training, services and products to local institutions in developing countries in order to improve the lives of poor women and their families. In contrast to “Freedom from Hunger”, which had been around for many years, the brand “Reach” was new, which allowed them to negotiate with local organisations and stakeholders on more neutral terms. Creating a new brand has the benefit that franchisees do not perceive a ‘foreign takeover’, which can be a sensitive issue, especially in developing countries. “Reach” is an Indian registered organisation with local staff and market strategies.

In the case of the franchisee being an already-existing local organisation with its own brand, the franchisor must coordinate the use of multiple brands. In this respect, the franchise system can pursue a brand endorsement strategy. That is, the system brand can act as an umbrella brand and cachet, adding credibility and a value proposition to the endorsed local brands. The local organisation’s name can be maintained, while simultaneously indicating the membership of the organisation to an umbrella organisation, e.g. using the local brand with the auxiliary “by” plus the franchise system’s brand. This could look as follows:
“local brand” by “franchise brand”

Case Study: wellcome⁹⁵

“wellcome” works with established organisations, such as charitable organisations providing family support, whereby the “wellcome” brand is incorporated into the existing structures of the organisations. The organisations are obliged to prominent the brand by, for example, displaying it on the front of all publications or other material, while the own logo is put on the back or another less prominent position.

3. Sustainability of the Social Franchise System

The implementation stage of a social franchise system is crucial for the success of the replicated project. As we have seen, there are important steps that should be followed and questions that have to be kept in mind in order to reduce the start-up risks and increase the success rate. If the social impact is to be maximised, the project has to be sustainable in the long term. There are a number of issues that the franchisor and franchisees have to deal with, not only during the implementation stage, but also later on.

■ *Funding*

As mentioned before, many non-profit organisations would not be able to support themselves financially without external funds. For the social franchise to remain successful and sustainable, continued funding has to be ensured. Yet, such funding can be at risk, if further organisations with similar objectives enter the market. The available funds then have to be shared among more takers, leaving less – or making it harder – for the franchise to attract financial support. Furthermore, donors might alter their policy or programme, hence reducing or eliminating their funding. Lack of funding will impede the ability to achieve the stated social impact. It is thus important to communicate continually with existing donors and to secure further funding. In this context, appropriate marketing efforts – as described before – are essential. The social franchisor must take advantage of the system's credibility and raise funds from national authorities, large foundations and large corporate donors, while social franchisees must try to gain from their local integration and tap into local resources. In order to ensure long-term donor support, the social franchise system should use its controlling and reporting system to provide for transparency. The more transparent the work of the system, the more credible it will be to donors. After all, donors prefer to contribute to projects for which they can monitor the use of the money.

■ *Assured service quality*

The social franchise system can lose trust and valuable support if it cannot achieve the stated goal. The franchisor and franchisees must ensure ongoing quality. Continued training, standardisation and monitoring by the franchisor are therefore crucial.

■ *Continued general acceptance of the social franchise system*

Non-profit organisations need to establish a reputation and have good connections with important institutions in order to be accepted by the public, raise funds and attract beneficiaries who will use its services over the long run. No organisation can “stay in the game” over time without the community accepting its work and without having established a credible presence in the public arena. The franchisor must thus ensure effective outward communication, so as to promote public backing for its work.

■ *Constant re-evaluation*

Both the specific project to be replicated and the franchise system as a whole must be re-evaluated from time to time, as the environment may change constantly, thereby influencing the effectiveness and efficiency of the franchise system. For example, demand can decrease, if the social need in question has been satisfied, alters or relevant legislation changes. This might make it harder for the franchise to operate effectively. It is therefore important to raise the question of how to adapt to such changes and especially how to deal with projects that have “had their day” and are no longer in keeping with the times.

It is important to note that replication is an on-going process. Marketing, fundraising activities, networking, raising awareness and further franchising are as important during the implementation stage as they are later on. Above all, continued evaluation and adaptation should ensure that the project maximises its social impact.



Part 2

Checklists

I. Social Franchise Contract

As explained in Step 3 of Section IV, the franchise contract is the cornerstone of the relationship between franchisor and franchisees. It imposes rights and obligations on the franchising partners. Since franchising contracts vary across different organisations and depend on the particularities of the project to be franchised, the local characteristics etc., there is no standard form for a social franchise contract.

The following list therefore contains elements of a social franchise contract that we suggest you go through when drafting your agreement. We also suggest that you show the franchise agreement to an independent advisor, such as a lawyer.

1 Definitions

Define all important terms, i.e.:

- a. Franchisor
- b. Franchisee
- c. All decisive terms of the project to be franchised

2 Use of name/logo

This section provides the franchisee with information about the exclusivity of the name and the logo, its use, restriction of transferability, etc.

3 Territory

Not every franchisor will want to provide its franchisees with an exclusive territory. When a franchisor does make that provision, the franchisee should be provided with the following information:

- A description of any exclusive territory granted to the franchisee.
- Whether the territory is conditional on achieving certain performance criteria.
- Whether the franchisor can modify the territory.

4 Fees (if applicable)

At this stage, provide information about the fees that franchisees will pay to the franchisor. Fees may include:

- Royalties: the ongoing payment franchisees will make to the franchisor for the franchisee's continued participation in the system.
- Training fees that the franchisor may charge.
- Additional fees franchisees must pay for services or other benefits that the franchisor provides, i.e. for fundraising activities, scientific research etc.

5 Obligations of the franchisor

Every franchise system provides different types and levels of service to its franchisees; some franchisor obligations that the parties might agree on are:

- Provision of a social franchising manual
- Offer of training (including duration, experience of instructors, whether training programme is mandatory, whether refresher courses are required, etc.)
- Public awareness programmes/press coverage
- Fundraising services
- Development of management structure
- Provision of quality management system
- Data collection and provision

6 Obligations of franchisees

The obligations of franchisees obviously differ from case to case, depending on the details of the social franchise system. Some of these obligations may include:

- Conforming to the system's principles and guidelines
- Disclosure of information
- Attendance of training and seminars
- Payment of franchise fees, if applicable.

7 Insurance

The insurance that franchisees should take out will depend mainly on national law.

8 Inter-affiliate dispute resolution

This paragraph should include provisions on whether and how the franchisor and a franchisee might bring a dispute to an arbitrator or use some other method of dispute resolution.

9 Termination

Here, you should list the conditions under which the franchisor or franchisees can terminate the franchise.

10 Relationship of parties

This should include that the franchisor and franchisees:

- Are independent
- Are not in a position to represent each other
- Cannot be made liable for a breach of obligation committed by the other party

The following points are the usual contract clauses that are not specific to social franchising contracts, but should be included.

11 Obligations upon termination

12 Non-waiver

13 Notice to terminate agreement

14 No third party rights

15 Amendments

16 Governing law – jurisdiction

17 Language

18 Entire Agreement; binding effect

II. Social Franchise Manual⁹⁶

The manual is fundamental for every social franchise system. It is a detailed description of the project and passes on the know-how of the franchisor to the franchisees. In order to implement the project correctly, the manual must be transparent and comprehensive. The content must be achievable and up to date. In general, it should include checklists and guidelines which allow the franchisees to operate the project in the anticipated manner.

Similar to the contract, the manual can vary across organisations and projects. The following checklist gives an overview of elements that might be included in the manual. Although the manual will be updated from time to time, we advise you to spend sufficient time drawing it up in the first instance. It will give the franchisees a clearer idea of what is involved and prevent problems later on. Ultimately, the time you invest in getting the manual right, will save time down the line.

1. Background

This should include an introduction to the development and history of the organisation/projects as well as the current status.

It could include the following:

- A description of the organisation's identity (brand name etc.) and philosophy
- Rights and responsibilities of the franchisor and franchisee
- Expectations and objectives of the partnership

Remember that this is also described in the contract in more detail. This can be regarded as the “invariable” part of the manual. It will change little over time.

2. Description of the processes

In this part, you should clearly and comprehensively describe how the project works and the courses of action involved. You pass on all your know-how.

In particular, it should include:

- A marketing strategy
- Guidelines and tips for the start-up phase
- A detailed description of day-to-day business. This might also include guidelines for recruitment procedures
- Guidelines for potential problems and how to handle them
- Guidelines for financial planning, such as checklists on how to do the accounts
- Any legal issues

3. Important information

Here, you should list information that the franchisees will need for the operation of the franchise, such as:

- Name and details of contact persons in the central unit
- Important addresses, for example, of other franchisees
- Information on the intranet or dates of seminars, events, training and other courses etc.



Part 3

Case Studies

The following case studies reflect the range of projects that lend themselves to social franchising. They differ not only in their aims and scope, but also in organisational structure. This underlines the variety of steps involved in setting up a social franchise system, as explained in Section IV. In order to demonstrate how the projects work, we have compiled information on a number of aspects, such as organisational structure, the role of franchisors and franchisees, as well as mechanisms for quality control and impact measurement.

Case Study 1: wellcome

Project description

- wellcome provides support to new mothers who might otherwise not receive such assistance from family and friends.
- It reduces the strain of the transitional period, prevents crises and facilitates a positive emotional attachment to the baby.
- A voluntary worker visits the mother for a couple of weeks and assists her in her daily life.

Organisational structure

wellcome consists of the wellcome gGmbH (non-profit corporation) and regional offices throughout Germany. These are established local organisations which are involved in family support.

A manual describes all relevant processes and provides guidelines on such matters as conducting interviews with volunteers and doing the accounts.

Advantage of social franchise

- Shifts financial risk away from the central to the local units.
- Lean and cost-effective use of available resources.
- Faster expansion and effective use of local knowledge through existing organisations.

How is it financed?

The various entities are financially independent.

- The centre is financed mainly through national fundraising.
- It also receives small initial and ongoing license fees from the franchisees, which, however, is more of a further contractual element, rather than an additional source of income for the centre.
- The regional teams are financed partly through public funding, partly through donations and partly through the families who pay a small fee for the service.

Role of franchisor

The wellcome central unit:

- supports regional offices during the start-up phase,
- provides relevant information material,
- offers biannual training and seminars in the regions and training material,
- provides general support on a permanent basis, e.g. on fundraising activities and
- develops the project through monitoring the market, participating in seminars, symposia etc. as well as suggestions from franchisees.

Role of franchisees

The wellcome regional offices:

- must ensure self-sustainability and sufficient funding,
- act according to the aims of wellcome and
- present the wellcome logo as the main brand.

Quality and impact control mechanisms

There are only a few standards, the main one being that all activities must benefit the families. Thus, there are few control mechanisms. Quality is ensured through biannual questionnaires which help identify problems. The franchisor can therefore provide specific training on such problems.

<http://www.wellcome-online.de>

Case Study 2: Reach

Project description

- Reach is an initiative of the international non-profit organisation Freedom from Hunger, which aims to improve the financial, health and food situation of millions of poor rural women and their families.
- Reach delivers informal education and health products to the many local organizations that form and support groups of women in saving or borrowing money and accessing both knowledge and health-protection products.

Organisational structure

Reach is based on a decentralized network of independent trainers. As the functional unit within Freedom from Hunger, Reach Global acts as the franchisor. Capacity Centres – Freedom from Hunger’s main country offices – act as in-country franchisors, signing agreements with Service Centres trainers who operate as independent “social businesses” under the Reach brand. Service Centres sell the services and products developed by Freedom from Hunger or brokered from other organizations, to local organizations, such as microfinance institutions, rural banks, local governments, NGOs etc. that work directly with the poor women. The different units operate under the brand name “Reach”.

Advantage of social franchise

- Allows Freedom from Hunger to decrease the cost and management burden of employing many people in branch offices, while enabling people who wish to make a livelihood out of helping the poor to achieve more than Freedom from Hunger can do on its own, with its own staff.
- Cost-effective means of scaling up a social business by unleashing the potential of many different people.

How is it financed?

- Reach Global is funded by international organisations.
- The Capacity Centres are financed by national donors and franchise fees from the Service Centres.
- The Service Centres generate income from sales of training and other services.

Role of franchisor

Reach Global mainly:

- develops or brokers and packages the products/services,
- develops international partnerships with product producers conducts fundraising at a global level,
- manages and supports the country-level Capacity Centres.

It is also responsible for the overall development of the project and for assessing impact and controlling quality.

As in-country franchisors, Capacity Centres are responsible for the regional management. In other words, they:

- adapt products/services to the local context (illustrations, language, etc.),
- develop national or regional partnerships,
- conduct fundraising at national and regional levels,
- launch, build and support the service centre network.

Role of franchisees

Service Centres promote and deliver the services to local organizations that serve the poor. Being financially independent, they must ensure sufficient income by obtaining fees for their training and other services, either from the local organisations or from third parties who sponsor their access to Reach services. Service Centres are for-profit entities. They adhere to the training and brand management standards laid out in a “Service Centre Handbook”.

Quality and impact control mechanisms

To ensure quality service delivery for impact at scale, Reach has developed formal training standards, clearly documented policies, procedures and product specifications, to which Service Centres adhere. An internet site, intranet, customer relationship management (CRM) system and various other systems facilitate the dissemination of these policies and procedures. Furthermore, Reach Global assesses the impact by conducting rigorous research on a sampling basis, using randomized control trials and low-cost management tools such as “Lot Quality Assurance Sampling”, borrowed from quality control in manufacturing.

<http://reach-global.net>

Case Study 3: Annapurna Conservation Area Project (ACAP)

Project description

- ACAP improves the environmental and living conditions of one of the most culturally and ecologically diverse areas in Nepal.
- It uses an integrated conservation and development approach, which ranges from snow leopard conservation, forest plantation, sanitation and safe drinking water, to education and awareness-raising activities. The specific activities vary at each site according to its needs.

Organisational structure

ACAP was initiated by the National Trust for Nature Conservation (NTNC). Considering the geographical and cultural vastness of Annapurna Conservation Area, much emphasis is placed on community involvement. There are therefore a number of different levels ensuring effective implementation at individual locations. In addition to the NTNC, the ACAP Headquarters, consisting of the ACAP management team, oversees the project. Unit Conservation Offices act as ACAP field offices. Conservation Area Management Committees (CAMC) are the main link between ACAP and the local communities. They form subcommittees according to specific needs, such as women groups or forest management committees. These are usually existing local institutions.

Advantage of social franchise

- Since the activities have been tried and tested, they can be implemented effectively – with appropriate modification – in other areas, and risks and costs are reduced.
- Involving local communities and field-based staff in successful projects increases their confidence in designing and implementing activities that improve conservation and livelihood.

How is it financed?

- Initial funding through donations from international institutions.
- The aim is to achieve financial independence from donors. Internal funds have thus been increased over the years and constitute more than 70% of the annual budget.
- Internal funding can, for instance, be derived from entry fees from trekking tourists. The area is one of the most famous trekking destinations in Nepal.
- Costs for each project activity should also be shared between ACAP and the community – either financially or in terms of voluntary workforce.

Role of franchisor

The ACAP management team is responsible for

- managing the project and implementing the specific activities and
- coordinating the CAMC and providing technical support.

Role of franchisees

The CAMC

- is the link between communities and ACAP (comparable to a Master Franchisee) and
- is the watchdog for conservation issues in its area, identifies potential activities and reports them to the Unit Conservation Offices.

The Unit Conservation Offices

- implement these activities on the ground in cooperation with the local subcommittees. Once the process is up and running, the local offices play a greater role in decision making.

Quality and impact control mechanisms

- Training, workshops and technical support are provided to the local subcommittees to ensure the effective implementation of conservation and development projects.
- There are a few standards which, however, are not always documented.
- Scientific standards, such as changes in forest cover, access to drinking water, access to family planning services etc. are used to measure the success of the activities.

Case Study 4: Youth-to-Youth (Y2Y)

Project description

- Y2Y improves the sexual and reproductive health of young people.
- Through the establishment of youths clubs, it empowers young people to educate other youths about sexuality, contraception and sexually transmitted diseases.
- The programme has been implemented by many youth groups in Ethiopia, Kenya, Tanzania and Uganda.

Organisational structure

The programme was developed by the German Foundation for World Population (DSW) which acts as the programme franchisor. The programme is implemented at the communal level by a number of youth groups in the form of clubs, youth associations etc. which operate under the brand name Youth-to-Youth. These groups are coordinated by intermediary franchisors who also train the young people. These intermediary franchisors are partner NGOs of the DSW in the various countries.

Advantage of social franchise

- It facilitates reaching large numbers of young people within the shortest possible time frame.
- Implementing the programme through autonomous youths groups makes the most of peer dynamics.

How is it financed?

- The programme is financed through the DSW, which receives funding from individuals, organisations and foundations.
- Part of the scheme entails facilitating access to contraception. Youth groups receive condoms and pills that they can then distribute through social marketing. They are expected to use the income from their selling activities to purchase their own contraceptive supply subsequently.

Role of franchisor

The DSW has developed and implemented the pilot project and supports the expansion of further youth clubs. In particular, it:

- provides financial assistance as well as standardized information, education and communication (IEC) materials and
- strengthens the youth clubs by providing appropriate training in line with its management guidelines.

The intermediary franchisors:

- assist and coordinate the youth organisations in their area and
- monitor and ensure service quality.

Role of franchisees

The youth groups

- implement the programme at the local level,
- conduct awareness-raising activities,
- coordinate the exchange of experiences so that people can learn from one another,
- organise income-generation activities (prior training on market assessment and small business management is provided) and
- replicate other clubs.

They are supported by training centres in Uganda and Ethiopia, which provide “training for the trainers” and contribute to establishing, intensifying, and streamlining the quality control of the programme.

Quality and impact control mechanisms

- The peer education and management manual which is developed and implemented at all levels, ensures a certain quality standard.
- Successes are measured from reporting, monitoring and impact studies that are conducted regularly.

<http://www.youth-to-youth.org>

Case Study 5: Time Together

Project description

- Facilitates the integration of refugees into UK society by pairing them with local mentors.
- Volunteers spend about five hours a month with their mentees for up to a year. They support and guide them through the challenges of their everyday life, such as acquiring an education and finding employment.
- Enhances refugees' employment and integration prospects through voluntary work.

Organisational structure

Time Together was initiated by the volunteering charity TimeBank, which currently works with local organisations in 24 locations across the UK. They acquire licenses that allow them to implement the project at a local level. The partner tool kit and license agreements specify the obligations and standards.

Advantage of social franchise

- It facilitates the delivery of the project as intended, without having to employ and manage it from the London office, which would be difficult.
- There is no need to set up new offices and value is added through local expertise from partner organisations.

How is it financed?

- Initial funding by the Border and Immigration Agency of the Home Office and the HM Treasury extended until September 2008.
- TimeBanks financially supports franchisees.
- From September 2008, it offers a package of support to Refugee Integration and Employment Services in return for a fee. This ensures the delivery of the mentoring component in accordance with the performance standards required by the Home Office, which are based on the Time Together framework.

Role of franchisor

TimeBank is responsible for the development of the project framework and management of the project at the national level, including marketing.

In particular, it:

- supports the Time Together local offices during their start-up phase by providing a Start-up Pack and helping with the recruitment of suitable coordinators and providing thorough training on the workings of the project,
- provides an operating toolkit and other training material,
- provides a Launch Programme and supervises other promotional activities,

- offers IT support, including a webpage, an online matching and support database, access to online e-mentoring services (allows mentors to exchange ideas and provide support and advice) and
- monitors and assesses the project's progress.

Role of franchisees

The Time Together local offices:

- must – in order to receive a license – acquire the necessary equipment (e.g. telephone, printer), recruit suitable coordinators (in consultation with TimeBanks) and have already commenced the programme,
- must – in order to receive funding from TimeBank – demonstrate adequate spending,
- operate the Programme strictly in accordance with the provisions of the Operating Toolkit; any variations must be communicated in advance to TimeBanks,
- provide ongoing training and support to both the mentors and mentees and
- must conduct regional marketing.

Quality and impact control mechanisms

- A target-related incentive scheme ensures quality. By means of five targets (including the number and length of mentor/mentee matches, number of evaluations of mentors and mentees, rate of mentees who go into volunteering etc.), franchisees are allocated a financial bonus which is split between the partner organisation and the coordinator (both receive 100% of their bonus when target is reached; when minimum level is reached, the organisation receives 100% and the coordinator 80%). The scheme is divided into two groups, depending on the number of refugees in that area.
- Regular regional and national support sessions where local coordinators can share their experiences also helps maintain quality standards.
- Output is monitored through Mean Machine, the Time Together online database, quarterly reports from Partner Organisations and independent, external evaluations every 18 months.
- Partner Organisations monitor mentees by means of quarterly monitoring forms and an evaluation at the end of the mentoring process.

Case Study 6: Aflatoun⁹⁷

Project description

- At a global level, Aflatoun inspires children aged 6 to 14 to empower themselves socially and economically, so as to become agents of change in their own lives and to create a more equitable world.
- Through their programme of Child Social and Financial Education (CSFE), they equip children with the knowledge, skills and confidence that they need in order to optimise their life choices.

Organisational structure

The Aflatoun concept is carried by a global network currently consisting of local partners in 13 countries, including India, Serbia and Uganda and the Secretariat, which is located in the Netherlands. After the pilot phase, country programmes scale up through the involvement of additional national and international stakeholders. The Partner Organisations are expected to evolve into resource centres; providing training and expertise to other organisations.

Aflatoun is represented by a common brand, as well as a common curriculum consisting of five core elements (e.g. saving & spending, rights & responsibilities), comprising eight consecutive teaching levels and corresponding workbooks.

Advantage of social franchise

- It enables Aflatoun to achieve its goal of reaching 1 million children in 75 countries by 2010 much faster, without becoming a large, unwieldy organisation with slow and cumbersome processes.
- It allows for maximum ownership by partner organisations, which leads to greater quality, sustainability and impact.
- The broad network facilitates maximum benefit from learning, exchange of information and experience.

How is it financed?

The local partners are financially independent and must raise their own funds. They are supported by the Secretariat through different network meetings, regional meetings, training and the digital member area.

Role of franchisor

The Secretariat signs Partnership Agreements with Partner Organisations and:

- provides technical assistance,
- facilitates the sharing of best practices and further training through regional meetings,
- conducts impact assessment, quality assurance, and improves programme materials and
- provides support for the scale-up processes.

Additionally, it advocates global awareness of the social and economic rights of children.

Role of franchisees

The franchisees (partner organisations) are selected according to their track-record in working with children as well as their network base. They

- adapt the Aflatoun Programme, which consists of the identity (brand/ image), the concept (workbooks) and a cascaded training system,
- ensure a roll-out in their respective country by cooperating with other organisations,
- participate in the self-evaluation of quality and in impact assessment and
- adapt workbooks to the local context in cooperation with the Secretariat.

Quality and impact control mechanisms

In addition to providing training and the possibility of sharing experiences, Aflatoun has set up a quality assurance web tool by means of which the implementing organisations are interviewed about policies and best practices, which are then compiled into a document.

Randomized control methodology (researching the impact of the programme on a randomly selected sample of people who follow the programme and of those who do not) as well as the Social Return on Investment approach (with a focus on quantifiable indicators) are central elements of impact assessment.

Part 4

Conclusion

In this manual, we have presented social franchising as one method of scaling up successful projects. In the face of increasing socio-political challenges and a rise in the number of organisations trying to tackle the problems of today, the “pieces of the funding cake” are under growing competitive pressure. Since there are already a number of excellent approaches at the regional and local levels, it is important to find ways of scaling up what has already proven its effectiveness. In other words, we should extend the scope of a project to other locations, thereby increasing the number of beneficiaries.

Franchising is the most successful strategy of systematic replication in the commercial sector. It entails a successful concept that has been tried and tested, being implemented by largely independent franchisees at other locations within a common framework and supported by a contractual agreement. Although non-profit projects using franchising methods remain the exception to the rule, social franchising has increasingly been recognised as a replication strategy in the non-profit sector. Accordingly, this manual assessed the potential of adapting franchising to the social environment.

In summary, our key findings are as follows:

- Social Franchising is a means of using scarce resources more effectively. By replicating proven models systematically, with local adaptations elsewhere, the number of beneficiaries and, hence, the social impact can be increased substantially.
- It is also a way to use scarce resources more efficiently. Since the conceptual and organisational processes are already in place, the time and money spent on developing new approaches, are reduced. Know-how and experience are passed on through training and support which reduces the risk of failure.
- The process takes local peculiarities into account and gives local organisations considerable autonomy.
- It is an intelligent, self-learning system that reaps the benefits of local resources, networks and entrepreneurial energies of the different units, while the coordination of a central unit and process standardisation ensures that the characteristics of the programme are preserved.
- It can help attract funding and creates trust among donors and stakeholders. Since social franchises stand for the effective and efficient use of resources, donors feel that their money is being “well spent”.
- Setting up a social franchise system takes time and careful preparation. The franchisor must ensure that it has the financial and organisational capacities to establish and run such a network.

Thus, the popularisation of social franchising could lead to a more efficient use of financial and personnel resources in the non-profit sector, as well as improved quality and lower failure rates amongst non-profit programmes.

When setting up a social franchise system, commercial franchising can serve as a guiding model, but, because the for-profit and the non-profit sectors are substantially different from one another – most notably concerning the objectives and the beneficiaries – social franchising processes can be somewhat varied. Particularly important is the fact that franchisees cannot always expect to generate income. This means that, firstly, they are largely dependent on funding by donors – both during the start-up phase as well as in order to remain sustainable. Secondly, it means that they often cannot pay fees – or only reduced fees – to the franchisor, which is an important element of commercial franchising. Therefore, alternatives to franchise fees should be found. Since financial dependency amongst the different levels is reduced, the risk that franchisees might exploit the system arguably increases. Although it can be assumed that franchisees behave largely altruistically, they may nevertheless act or present themselves in a manner that is inconsistent with the initial mission. Since this can negatively influence the entire social franchise system, it is important to set up sufficient control mechanisms, which can sometimes be a balancing act, since the independence of franchisees is such an important criterion for social franchising.

Within this manual, we have tried to provide practical guidelines on the above and other issues with respect to setting up a social franchise system. The aim is to popularize the method and encourage its further usage. In the course of writing this manual, we have observed that there is a trend towards making the non-profit sector more economically efficient. However, much more still needs to be done.

Firstly, there is a very clear need for more research on existing social franchises. In order to understand the processes of franchising a project both effectively and sustainably, it is essential to learn from best practice. It is therefore important to establish formal and informal platforms through which practitioners, experts and those interested in the topic, can learn more, exchange ideas and give advice. Organisations such as Ashoka and the Schwab Foundation already offer an environment in which social entrepreneurs can exchange best practice. Events like the International Social Franchise Summit can also serve as a forum for discussion. Furthermore, regular meetings and conferences at local, regional and international levels might extend the use of this strategy. Moreover, an internet forum is conceivable. This would facilitate the exchange of ideas around the world.

However, in order to reap the full benefits of such platforms, the sector must become more open and transparent. A paradigm shift away from ownership claims which still often prevails, is needed in order to improve the level of social impact.

In addition, more funding is needed for such projects. Even when organisations would like to franchise their project, the process sometimes fails due to insufficient funds. In this respect, the role of donors and especially of foundations is significant. So-called seed money (money to implement a specific project) is important, but more growth money (funding for the expansion of a project) is also needed. In the future, donors should play a greater role in urging organisations to replicate successful projects. Before granting money, they should specifically discuss the issue of scaling up the project. In order to ensure sustainability, scaling up should be laid out clearly as a precondition for funding. Foundations can also play a larger role in funding further research on scaling up.

Generally, more help should be provided to organisations that wish to franchise their project. We have learned that the strategy demands substantial time and resources from the franchisor. The establishment and coordination of a social franchise involves particular skills and know-how that the initiating organisation might lack. Therefore, appropriate points of contact should be established. The Beanstalk initiative from CAN in the UK and the “Stiftung Bürgermut” in Germany can serve as examples of an appropriate framework. Furthermore, the German Franchise Association provides support for commercial franchises in the form of checklists, seminars and so on. Something similar could also be conceivable in the non-profit sector.

To sum it up, social franchising offers considerable potential for the more efficient and effective use of scarce resources in the non-profit sector. A popularisation of this method would increase the social impact and should therefore be implemented wherever and whenever possible and practical.

Footnotes

- ¹ Gonsalves (2001), p. 7
- ² See Dees and Battle Anderson (2003)
- ³ See van Oudenhoven and Wazir (1998)
- ⁴ van Oudenhoven and Wazir (1998), p. 6
- ⁵ http://www.ashoka.org/fellows/social_entrepreneur.cfm
- ⁶ <http://www.schwabfound.org/whatis.htm>
- ⁷ van Oudenhoven and Wazir (1998), p. 7
- ⁸ See Theurl (2006)
- ⁹ Leat (2003), p. 7
- ¹⁰ For more on this, see Tayler et al. (2002) and Dees and Battle Anderson (2003)
- ¹¹ see Bradach (2003)
- ¹² Leat (2003), p. 19
- ¹³ As defined in: Replication and Program Services, Inc. (1994) and: van Oudenhoven and Wazir, (1998)
- ¹⁴ Leat (2003), p. 8
- ¹⁵ Wachs (2007), p. 36
- ¹⁶ <http://www.eff-franchise.com/whatisfranchising.html>
- ¹⁷ Skaupy (1994), pp. 32-33
- ¹⁸ Tietz (1987), pp. 35-36
- ¹⁹ Martinek (2001), p. 327
- ²⁰ Skaupy (1994), p. 34
- ²¹ Skaupy (1994), pp. 35-37
- ²² Art. 1, EU regulation, No. 2790/1999
- ²³ Tietz (1987), pp. 141 ff
- ²⁴ Deutscher Franchise Verband e.V. (1999), p. 31
- ²⁵ See <http://www.dfv-franchise.de/>
- ²⁶ http://www.natwest.com/business02.asp?id=BUSINESS/DAY_TO_DAY/INDUSTRY_AND_COMMUNITY_SERVICES/FRANCHISING/NATWEST_BFA_SURVEY
- ²⁷ Tietz (1987), p. 115
- ²⁸ Posselt (1999), pp. 355-356
- ²⁹ PriceWaterhouseCoopers AG and International Centre for Franchising and Cooperation (F&C) (2006), pp. 48-49
- ³⁰ PriceWaterhouseCoopers AG and International Centre for Franchising and Cooperation (F&C) (2006), p. 49
- ³¹ PriceWaterhouseCoopers AG and International Centre for Franchising and Cooperation (F&C) (2006), p. 49
- ³² German Foundation for World Population (DSW) (2000), p. 3
- ³³ Braun and Lotter (2004), p. 9
- ³⁴ van Oudenhoven (2000), p. 4
- ³⁵ For example, the USAID funded Programmes MEXFAM in Mexico and SDI in the Philippines as well as the Youth-to-Youth Projects of the DSW
- ³⁶ See, for example, Smith (2002)
- ³⁷ See <http://www.iyfnet.org>
- ³⁸ See <http://www.youthactionnet.org>
- ³⁹ See <http://beanstalk-biz.org.uk/images/Recognition%20Express.pdf> and <http://beanstalk-biz.org.uk/>
- ⁴⁰ See http://ec.europa.eu/employment_social/equal/index_en.cfm
- ⁴¹ See http://ec.europa.eu/employment_social/equal/data/document/0512gr-dppeiran.pdf
- ⁴² For more on the International Summit see www.Stiftungen.org/Social_Franchise
- ⁴³ For more on social entrepreneurs, see Section I
- ⁴⁴ See Kotler and Roberto (1991)
- ⁴⁵ See Koziol et al. (2006)
- ⁴⁶ German Foundation for World Population (DSW) (2001), p. 9
- ⁴⁷ Smith (2002), p. 9
- ⁴⁸ There is a rise of so-called venture philanthropists that invest in the scaling up of non-profit projects using franchising methods.
- ⁴⁹ Schuhen (2004), p. 160
- ⁵⁰ Wei-Skillern and Battle Anderson (2003), p. 12
- ⁵¹ See Venture Philanthropy Partners (VPP) and Community Wealth Ventures (CWV) (2004)
- ⁵² See Menchik and Weisbrod (1987)
- ⁵³ Tayler, Dees and Emerson (2002), p. 240
- ⁵⁴ Oster (1996), pp. 83-95
- ⁵⁵ German Foundation for World Population (2001), p. 6
- ⁵⁶ See <http://www.start-stiftung.de>
- ⁵⁷ Houghton and Timperely (1992), p. 51
- ⁵⁸ See <http://www.aflatoun.org>
- ⁵⁹ <http://www.beanstalk-biz.org.uk>
- ⁶⁰ McBride and Ahmed (2001), p. 29
- ⁶¹ See http://www.dialog-im-dunkeln.de/prehome_en.htm
- ⁶² http://www.stiftungen.org/files/original/galerie_vom_02.12.2005_12.26.32/INTERNATIONAL_SOCIAL_FRANCHISE_SUMMIT_Report.pdf
- ⁶³ Braun and Lotter (2006), p. 261
- ⁶⁴ Ebers and Gotsch (2006), p. 265
- ⁶⁵ Combs, Michael and Castrogiovanni (2004), p. 911
- ⁶⁶ Braddock (1996), p. 25
- ⁶⁷ Falk and Kosfeld (2006), p. 1626
- ⁶⁸ See German Franchise Association (2007)
- ⁶⁹ Based on model contracts of Oehl and Reimann (1992), pp. 439 – 497
- ⁷⁰ See Blair and Lafontaine (2005)
- ⁷¹ Combs, Michael and Castrogiovanni (2004), pp. 907 – 931
- ⁷² Pfister et al (2006), pp. 53-78
- ⁷³ Klein (1995), p. 24
- ⁷⁴ The International Franchise Association gives a short overview about the international contract frameworks and limits. <http://www.franchise.org>
- ⁷⁵ Kaufmann and Dant (2001), pp. 537-545
- ⁷⁶ See Desai (1997)
- ⁷⁷ See <http://www.welcome-online.de>
- ⁷⁸ Klein (1995), pp. 9-37
- ⁷⁹ See <http://www.timetogether.org.uk>
- ⁸⁰ Klein (1995), pp. 9-37
- ⁸¹ Colby, Stone and Carttar (2004), pp. 26 – 27
- ⁸² Bruhn (2004), p. 2308
- ⁸³ Hilke (1989), p. 10
- ⁸⁴ The Center for Effective Philanthropy (2002), p. 1
- ⁸⁵ <http://www.ashoka.org/impact/effectiveness>
- ⁸⁶ For further information see Kaplan and Norton (2007), pp. 150-161
- ⁸⁷ Berens, Karlowitsch and Mertes (2001), p. 291
- ⁸⁸ Ahlert (2001), p. 49
- ⁸⁹ Berger (2003), p. 421
- ⁹⁰ Bruhn (2004), p. 2306
- ⁹¹ Bruhn (2004), p. 2302
- ⁹² Bruhn (2004), pp. 2307 – 2308
- ⁹³ Aaker (1991), p. 16
- ⁹⁴ See <http://reach-global.net>
- ⁹⁵ See <http://www.welcome-online.de>
- ⁹⁶ Based on a template of the German Franchise Association; <http://www.dfv-franchise.de/>
- ⁹⁷ Although Aflatoun is not strictly a social franchise system, it contains a number of important elements of the strategy. It therefore serves as a case study for possible future directions of social franchising.

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