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Abstract

Widespread poverty is an economic, social, political, and moral problem, which creates an urgent challenge for poverty alleviation. The role of the private sector in poverty alleviation has changed during the last decade, and their involvement is needed. Thus, this study concentrates on the role of private sector in poverty alleviation, especially on the *microfranchising* approach. The purpose of this study is to describe *microfranchising as a new business concept*. Consequently, this study answers the following sub questions concerning the benefits and challenges of microfranchising:

- How different microfranchisors can be classified?
- How does microfranchising relate to job creation?
- How does specific microfranchising relate to training and partnerships?
- How does microfranchising relate to funding?

This study gives some background to the business environment in developing countries as well as to microfranchising theory. In this context, it is seen that microfranchising is a combination of franchising and microfinance. Moreover, the benefits of microfranchising include among others job creation, and specific training, whereas one of the main challenges is the funding of the microfranchise.

In this study, the content analysis is chosen to be the research method. The research data consists of nine already operating microfranchises that represent the three biggest microfranchise industries in Sub-Saharan Africa, namely food services, health services and telecommunications. However, within the limits of this research only the secondary data is available. Together with the gained results, Christensen's (2008) framework for analysis of microfranchise opportunities is extended to new microfranchising framework, that consists of the origin of business idea (imported or local) and the sponsor of microfranchise (individual entrepreneur, NGO, or MNC).

Main findings from the data analysis are the lack of precise definition of the concept, relatively ineffective job creation, as well as the importance of training and microfinance. Most of the microfranchises employ only the microfranchisee oneself, and therefore the effects of employment are not that remarkable than expected. Moreover, training is always offered but the content, quality and duration are not specified that clearly in all cases. Lastly, although the start-up costs for microfranchises are much lower in practice than in theory, own finance is needed in most cases, but is not provided in all case examples. To conclude, microfranchising has the potential to alleviate poverty by offering proven business models, technical training, and so forth, although it still encounters quite many problems.

Key words	Microfranchising, franchising, microfinance, developing countries, Africa
Further information	



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#### Tiivistelmä

Laajalle levinnyt köyhyys on taloudellinen, sosiaalinen, poliittinen ja moraalinen ongelma, joka luo valtavan haasteen sen vähentämiseksi. Yksityisen sektorin rooli köyhyyden vähentämisessä on muuttunut viimeisen vuosikymmenen aikana ja sen osallistuminen on tarpeen. Tämä tutkimus keskittyy yksityisen sektorin rooliin köyhyyden vähentämisessä, tarkemmin katsottuna microfranchising-käsitteeseen. Tutkimuksen tarkoitus on kuvata microfranchising uutena lähestymistapana köyhyyden vähentämiseen. Näin ollen tutkimus vastaa seuraaviin alakysymyksiin koskien microfranchisingin mahdollisia hyötyjä ja haasteita:

- Miten eri microfranchising-antajat voidaan luokitella?
- Miten microfranchising liittyy työpaikkojen syntymiseen?
- Miten microfranchising liittyy koulutukseen ja kumppanuuksiin?
- Miten microfranchising liittyy rahoitukseen?

Tutkimus taustoittaa kehitysmaiden liiketoimintaympäristöä ja microfranchising-teoriaa. Tässä yhteydessä nähdään, että microfranchising on yhdistelmä franchisingista ja mikrorahoituksesta. Lisäksi nähdään, että microfranchisingin edut sisältävät muun muassa työpaikkojen syntymisen ja yksityiskohtaisen koulutuksen, kun taas eräs microfranchisingin päähaasteista on sen rahoitus.

Tutkimuksen tutkimusmetodina on käytetty sisällön analyysia. Tutkimusaineisto sisältää yhdeksän olemassa olevaa microfranchising-yritystä, jotka edustavat Afrikan kolmea suurinta toimialaa. Nämä toimialat ovat elintarvike- ja terveystaloudet sekä teleliikenne. Tutkimustulosten perusteella laajennettiin jo olemassa olevaa Christensenin (2008) teoreettista kehystä, ja tämä uusi kehys perustuu liikeidean alkuperään (tuotu vai paikallinen) ja microfranchise sponsoriin (yksityinen yrittäjä, hallituksesta riippumaton kansainvälinen järjestö tai monikansallinen yritys).

Tutkimustulokset osoittavat, että microfranchisingin määritelmä on vielä epätasallinen, ja että työpaikkojen syntyminen on suhteellisen tehokasta, kun taas koulutuksen ja mikrorahoituksen merkitys korostuu. Suurin osa microfranchise-yrittäjistä työllistää vain itsensä, minkä vuoksi vaikutukset työllisyyteen eivät ole odotetunlaiset. Lisäksi huomataan, että microfranchising-mallit tarjoavat aina koulutuksen, mutta sen sisältö, laatu ja kesto eivät ole tarkoin määriteltyjä kaikissa esimerkeissä. Vaikka perustamiskulut ovat paljon alhaisemmat käytännössä kuin teoriassa, omaa rahoitusta usein edellytetään, mutta sitä ei kuitenkaan ole saatavilla kaikissa esimerkeissä. Yhteenvedon voidaan todeta, että microfranchisingilla on mahdollisuus vähentää köyhyyttä tarjoamalla muun muassa testattuja liiketoimintamalleja ja teknistä koulutusta, mutta microfranchisingin suhteen on vielä monia ongelmia ratkottavana.

Asiasanat	Microfranchising, franchising, mikrorahoitus, kehitysmaat, Afrikka
Muita tietoja	



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# **MICROFRANCHISING**

## **Comparative Case Studies from Africa**

Master's Thesis  
in International Business

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## 1 INTRODUCTION

*...poverty is the ultimate systemic risk. It is the breeding ground for the proliferation of terrorism, armed conflict, environmental degradation, cross-border diseases and organised crime.*

(OECD Secretary-General, Gurría Angel 2008)

Widespread poverty creates an economic, social, political and moral problem. At the beginning of 21<sup>st</sup> century, it became obvious that traditional development cooperation of governments has not solved the problems in developing countries, and the distribution of wealth is still uneven. Furthermore, the global discussion of poverty alleviation has risen and it has become as the principal goal of development. (Unleashing Entrepreneurship – – 2004, 6.)

### 1.1 Different views on Poverty Alleviation

One fifth of the world's population is living on less than US\$1 a day, without having access to clean water, electricity or other social services that are basic to a decent human life (Unleashing Entrepreneurship – – 2004, 5–6). In 2000, the United Nations published the Millennium Development Goals (MDGs), which target halving the poverty<sup>1</sup> by 2015. All member states of United Nations signed the Millennium Declaration (UN Millennium Development Goals 2008), and it can be seen as an unprecedented manifestation of solidarity, committing both rich and poor countries, to eliminate poverty, endorse human dignity and equality and achieve peace and environmental sustainability (Unleashing Entrepreneurship – – 2004, 5).

According to Magleby (2006, 8; 2007a, 1) there are three schools of thought that exist today about how best to solve poverty.

1. Macroeconomic structural adjustment programmes such as debt relief, increased development aid and trade rules.
2. Improved governance and business climates through transparency, reduced corruption, and respect for the rule of law, proprietary rights and official business registration.
3. Microeconomic enterprise solutions such as microfinance, engaging people at the base of the pyramid (BOP) as business partners and customers, and

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<sup>1</sup> Reduce by half the proportion of people living on less than a dollar a day (UN Millennium Development – – 2008).

building sustainable enterprises by introducing appropriate technologies, innovative business models and cross-sector partnerships.

For many decades, various institutions, such as governments, international organizations, aid foundations and non-governmental organizations (NGOs) have tried to overcome this urgent challenge. Nevertheless, this discussion has been mainly in the fields of public policy and development economics. (Karnani 2006, 51.) Governments have granted for example development aid to struggling countries in order to improve their living conditions. Sadly enough, due to systematic abuses of these resources by some governments in receiving countries, it never reached the people who needed it most. As a result, the benefits of macroeconomic structural adjustment programmes have been under severe scrutiny, as the problem of poverty has not been eliminated. (Gibson 2007, 20; Hatch 2007, 107.) Moreover, Magleby (2007a, 1) states that these programmes are not likely to work in the immediate future because they fundamentally misinterpret the underlying causes of poverty. Moyo (2009, 144–145) goes even further, and argues in her startling book that development aid should be shut off permanently in five years. According to her, this is the only way to help Africa. She argues that if many other countries have generated steady growth and have been capable of raising the standard of living, so why not Africa.

Governance solutions require radical social and political change. (Magleby 2007a, 1.) Most of the social services such as food security, health care and education are supposed to be provided by the government. However, not all governments have been capable of that. Because neither the structural adjustment programmes nor the reforms in governance have improved the situation in developing countries, the role of private sector in poverty alleviation has altered during the last decades. (Gibson 2007, 20; Hatch 2007, 107; Marter-Kenyon 2006, 53; Prahalad 2005, 7.)

However, finding solutions to alleviate poverty seems to be a great challenge (Karnani 2006, 100). Nowadays, the viewpoint to poverty alleviation has changed, and the poor is not only seen as victims (Pralhad 2005, 1–4). What is needed is a greater empowerment of the poor. The empowerment of the poor will help them to gain more control over their lives by offering new opportunities and by providing information and training just to name only a few.

According to many researchers (Pralhad & Hammond 2002, 48; Kandachar & Halme 2006, 3; Brainard & LaFleur 2006, 2–4; Magleby 2007a, 1; Moyo 2009, 145) the private sector and enterprise solutions have an important role to play in poverty alleviation. Karnani (2007, 104–105) suggests that increased employment and better productivity would help the poor to get out of poverty. Moreover, Karnani (2006, 99) believes that the only way to alleviate poverty is to focus on the poor as producers, rather than as a market of consumers.



One of the recent market-based approaches to poverty alleviation was introduced by Prahalad and Hart in 1998. The base of the pyramid-approach (also known as the bottom of the pyramid or the BOP, hereafter the BOP) illustrates world's uneven income levels in the form of an economic pyramid as shown below in the Figure 1 (Prahalad & Hart 2002, 1).

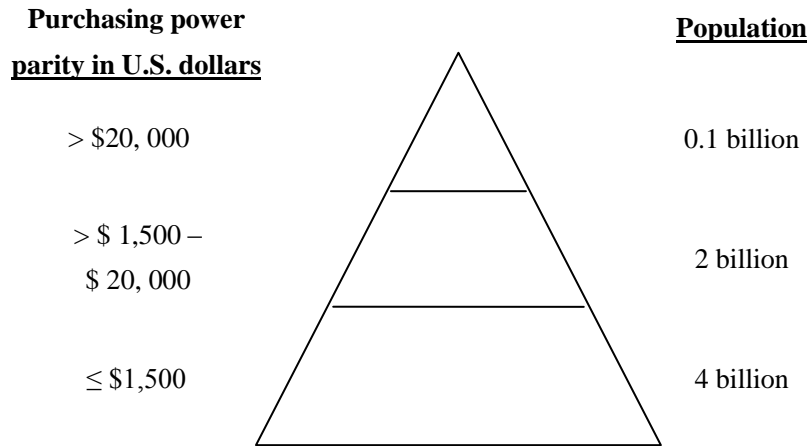


Figure 1 The world economic pyramid (adapted from Prahalad & Hart 2002, 4)

As seen from the above figure, there are 4 billion people living at the base of the pyramid, whereas the wealthy with several opportunities for generating high levels of income are living at the top of the pyramid. These 4 billion people live on less than US\$2 per day. In spite of the uneven distribution of wealth, Prahalad (2005, 1–4) states that the poor should be seen as creative entrepreneurs and value-conscious consumers, not as victims. Furthermore, cooperation between the poor and the companies should be more active, leading to a win-win outcome. Besides that, the BOP tends to create opportunities for the poor by offering them more options and encouraging self-esteem. (Prahalad & Hart 2002, 1.)

According to Prahalad (2005, 109–110) there is an enormous potential for win-win situations for both the BOP consumers and the private sector (Prahalad 2005, 99). This development at the BOP could lead to a social transformation, and further to poverty alleviation. However, new business models must not disturb local cultures and ways of living. What is needed is an efficient mixture of local and global knowledge, not a Western system (Prahalad & Hart 2002, 12).

Secondly, the approach of microfinance was already introduced in the late 1970s and it has grown rapidly during the past three decades. Microfinance offers poor people access to basic financial services such as loans, savings, and other basic financial services. In 2006, Grameen Bank and its founder Muhammad Yunus won the Nobel Peace Prize for pioneering efforts to provide financial services to the poorest of the

poor. Microfinance institutions (MFIs) provides working capital loans for self-employment, but usually does not offer the business skills training or technical assistance necessary for the owner to run a successful business.

Microfranchising could fill this gap by offering proven business models, technical training, and support as well as quality control and marketing expertise. (Gibson 2007, 17–26.) Microfranchising was introduced in 2004, and it is one of the newest business models that seek to alleviate poverty (Fairbourne 2006, 18). Microfranchising combines franchising and microfinance, although it is very different from franchising in its size and scale. It is the replication of business systems at the grassroots micro level, and requires only little capital (Gibson 2007, 24). The report of United Nations Development Programme (Creating Value for All – – 2008, 5–8) sees microfranchising as a promising tool to engage the poor, which is the keynote of this study. Similarly, Magleby (2007a, 2) believes that by increasing the number of small businesses and social entrepreneurs as microfranchises will help dramatically lessen global poverty.

## **1.2 The Purpose and the Structure of the Study**

The purpose of this research is to describe *microfranchising as a new business concept*. After introducing the microfranchising concept first in 2004, there are more studies coming all the time. Fairbourne (2006; 2007a; 2007b; 2007c), Gibson (2005, 2007) and Dyer (2007) have studied the concept of microfranchising broadly. Other influential person has been Magleby (2006; 2007a; 2007b), who has defined numerous case examples from different microfranchises. In fact, most of the followed studies have leant on these writings, and they have contributed to the whole field of research.

Recently, there were some new studies published on microfranchising. Christensen, Parsons and Fairbourne (2010) were studying microfranchising and the extent to which the practice creates employment and enables individual business success. This confirms, that people’s interest concerning this new approach has grown, which will further foster the field of research. One concern, however, is that although there can be found different researches concerning microfranchising, there are only few that are doing any comparison with each other. Therefore the need for further research and comparison is needed in order to have a better picture of the functionality of this approach.

According to Gibson (2007, 26), there are numerous microfranchise systems under development, although not all of the owners and operators are aware of the label “microfranchise” of their efforts. Because the novelty of microfranchising and a small amount research done concerning it, the topic of this research has been chosen in order to clarify and study this field more thorough. Author’s remark is that there is a lot to

study in this field of research, and there can be seen a research gap in this area. This gap is justified next, in context with the purpose of the study.

As already seen, the purpose of this research is to describe *microfranchising as a new business concept*. Consequently, this study attempts to answer the following sub questions concerning the benefits and challenges of microfranchising:

- How different microfranchisors can be classified?
- How does microfranchising relate to *job creation*?
- How does specific microfranchising relate to *training and partnerships*?
- How does microfranchising relate to *funding*?

These sub questions were chosen on the grounds of theory and practice, because these themes emerged most distinctly, and therefore the author wanted to explore them more deeply. To be precise, similarities and differences of diverse microfranchise businesses in Africa will be compared and a framework will be developed based on these results. Moreover, this framework is used to analyse, *how the microfranchise businesses fulfil the given objectives*. However, within the limits of this research, mainly the economical viewpoint will be considered. To conclude, the purpose of this research is summarized in the below operational table (Table 1).

Table 1 The Operational Table

<b>Research question:</b>	<b>Sub questions:</b>	<b>Themes:</b>
The purpose of this research is to describe <i>microfranchising as a new business concept</i> .	How different microfranchisors can be classified?	Origin of business idea, microfranchise sponsor
	How does microfranchising relate to the job creation?	Location, number of microfranchises, microfranchisees and employees, created employment, criteria for new microfranchisees
	How does microfranchising relate to training and partnerships?	Help with site selection, training and consultancy, operational guidelines, mentor, network with other microfranchisees, partnerships
	How does microfranchising relate to funding?	Start-up costs, supply of microfinance, earned returns.

As seen from the above table, the sub questions are divided into different themes that are going to be studied. With the help of these themes, the research question will be answered.

This study is structured so that firstly the backgrounds of microfranchising in developing countries will be explored. This chapter will introduce the concepts of informal economy, entrepreneurship, franchising and microfinance more deeply. Secondly, the theory of microfranchising will be introduced. Besides the theory, this chapter presents also the benefits and challenges of microfranchising. Thirdly, the research design will be introduced in order to explain the research data and the choice of the analysis method among others. Thirdly, the microfranchise framework and research findings are presented. The research findings are divided according to the three sub questions given previously. Finally, conclusions are drawn before continuing to the summary.

## **2 MAPPING THE BACKGROUNDS TO MICROFRANCHISING IN DEVELOPING COUNTRIES**

The majority of developing countries are suffering from high unemployment rates. People are also often uneducated. In order to survive on a daily basis, there is no other choice than to become an entrepreneur. However, these hand-to-mouth businesses are unstable usually due to numerous factors that are generally out of their control such as changes in prices, government interventions and national disasters. (Fairbourne 2007c, 10–11.)

This chapter will study the concepts of the informal economy, entrepreneurship, franchising and microfinance. Firstly, the informal economy will be introduced in order to understand the need of formal enterprises in developing countries. Secondly, different thoughts on entrepreneurship are represented namely micro- and social entrepreneurship. Thirdly, the basics of franchising are introduced due to its close relation to microfranchising. Finally, the concept of microfinance will be specified to facilitate the understanding of microfranchising.

### **2.1 The Informal Economy**

The informal economy (also known as unobserved economy, unorganized sector, and unprotected sector) has grown significantly in recent years in developing countries (Henriques & Herr 2007, 44), and consequently creates one of the biggest development challenges presently facing the developing world. Working in the informal economy means people are without access to developed social security mechanisms. Besides, they are particularly vulnerable and face increasingly severe risks (Jütting & Laiglesia 2009, 11).

Informal employment was first acknowledged in the 1970s (Jütting & Laiglesia 2009, 11). According to International Labour Organization (ILO) self-employment is generally accepted as an indicator of the informal economy. However, this excludes agriculture, animal husbandry, fishery and forestry (Women and Men – – 2002, 17). Figure 2 below illustrates the increase of the non-agricultural self-employment in the world between the years 1980 and 2000.

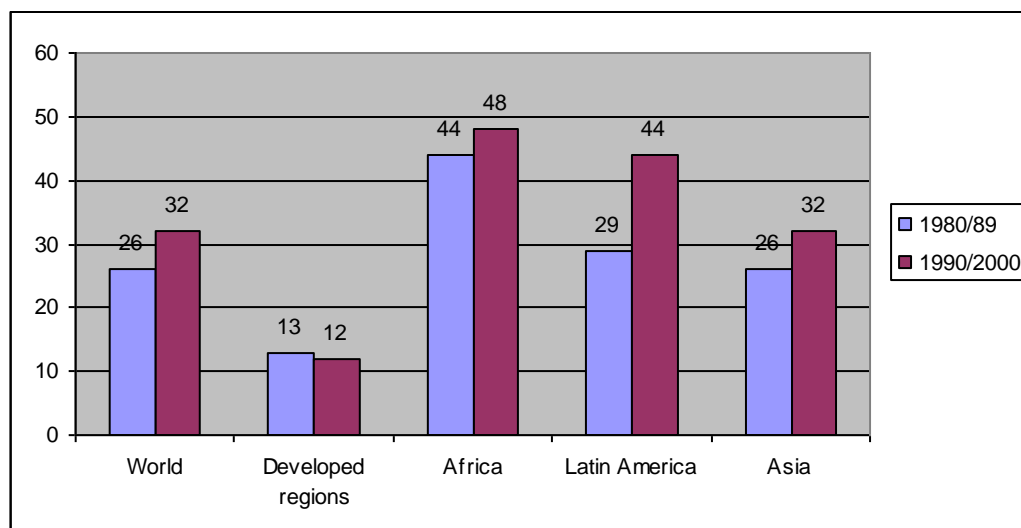


Figure 2 Non-agricultural self-employment in 1980/89, and 1990/2000 (percentage of total non-agricultural employment) (Women and Men – – 2002, 22)

As seen from the above figure, the number of non-agricultural self-employment rates has increased in developing countries, while decreased in developed regions. What is important in this context is the fact that the informal economy embodies almost half of the total non-agricultural employment in the developing world.

There are several constraints that enterprises operating in the informal sector face, such as lack of access to credit, weak networks, low productivity, poor working conditions, limited access to resources, lack of information concerning prices, low level of education and skills, and poor infrastructure (Henriques & Herr 2007, 46–47). Entrepreneurs operating in the informal economy cannot borrow money with favourable rates and terms because they are not legal. Thus, poor people typically address their need for financial services through a variety of financial relationships, which are mainly informal (Unleashing Entrepreneurship – – 2004, 12; What Is Microfinance, 2010). This available credit from informal moneylenders is usually at a very high cost (Rhyne & Otero 1994, 14). In proportion, savings services are offered through a variety of informal relationships like savings clubs, credit associations, and other savings societies who overcharge. However, these tend to be unpredictable and slightly insecure (Unleashing Entrepreneurship – – 2004, 12; What Is Microfinance, 2010).

There are many constraints on entering the formal sector. In most developing countries it is expensive to be formal, and formal players are often overtaxed. In proportion, informal firms can charge less of their products and services because they avoid paying taxes or obeying other regulations. More productive firms operating in the formal economy have difficulties increasing their market share in relation to informal firms, because taxes and other contributions, which naturally increase their costs

significantly. (Unleashing Entrepreneurship – – 2004, 12.) To conclude, a large informal economy can mean lower government revenues and higher taxes for firms in the formal economy, creating more incentives for informal operation. Thus, the informal economy distorts the markets and creates an uneven playing field (Unleashing Entrepreneurship... 2004, 18).

In developing countries, registering a business can be time-consuming and expensive. Furthermore, regulations and government requirements are complicated, and the compliance costs are high (Unleashing Entrepreneurship – – 2004, 13). In reality, many developing countries suffer from high corruption rates. Usually these corruption rates vary according to the geographical locations within a country. These local and national circumstances are important to recognize before launching a business. Moreover, it is important to notice that in some cases the informal rules may be stronger in some locations than the formal laws. (Fairbourne 2007a, 10.)

It is important to remark that informality is not always a bad thing, and in some circumstances it can also provide some benefits. For example, in some societies, where the formal rules, enforcement systems and cultural conditions are so restricted that most entrepreneurs cannot use their know-how, the economy may benefit if these people operate in the informal economy. The informal economy can also give an opportunity to women to provide some money, if the economic role of women is limited in the society. (Unleashing Entrepreneurship – – 2004, 12.) However, the informal economy does not always guarantee only positive effects. In many developing countries, women especially are affected, since they form the majority of entrepreneurs in the informal economy. Indeed, women constitute the majority of informal economy workers in almost all developing countries (Henriques & Herr 2007, 43; Jütting & Laiglesia 2009, 13). This occurs especially in Africa, where self-employed women make up more than half of the total non-agricultural self-employment. (Henriques & Herr 2007, 43–45.)

Finally, business services are seen to improve linkages between informal and formal economy enterprises. The below figure (Figure 3) summarizes the constraints of the informal economy and shows business services, especially microfranchising, have the potential to improve linkages between the informal and formal economy enterprises.

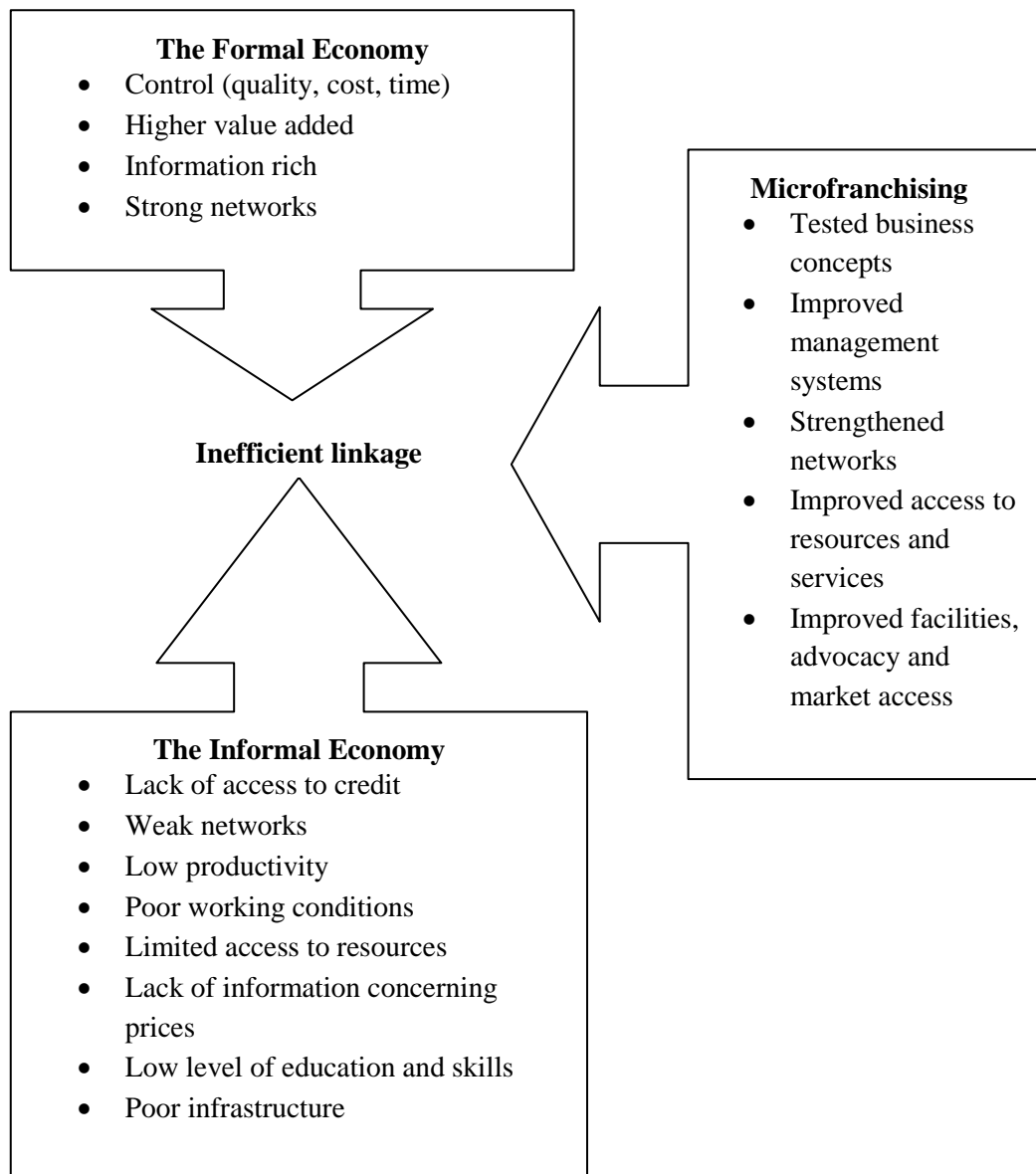


Figure 3 Microfranchising as an improving linkage between the formal and informal economy (adapted from Hitchins & Elliot & Gibson 2005, 12)

The above figure illustrates there is a gap between the formal and informal sector, and there is a need for business services in order to link these economies. Microfranchising can be seen as an option to fill this gap, and it will be introduced more closely in the next chapter.



## 2.2 Entrepreneurship

*Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.*

(Winston Churchill)

The concept of entrepreneurship was first defined more than 250 years ago (Austin, Stevenson & Wei-Skillern 2006, 4). According to some authors (Fayolle 2007, 14; Schumpeter 1934) entrepreneurship embodies a real engine of economic development. For example, economic growth and job creation through successful enterprises have been the keys to lifting out of poverty counties, such as South Korea, China and India (Magleby 2006, 21). However, the role of entrepreneurship is broader than this, since they have a power to contribute to traditional organisation and functioning patterns (Fayolle 2007, 14).

Many entrepreneurs in developing economies face ecologies that neither provide specialized resources, institutional support nor good general-purpose financial, educational, political or legal infrastructure (George and Prabhu 2000, 620). In these developing countries, entrepreneurs may play a vital role in addressing basic social needs such as clean water, and jobs, but are burdened by a lack of environmental philanthropy. As a consequence, many entrepreneurial firms in developing countries are relatively local in scale and scope. Moreover, Hayek (1945, 524) sees that entrepreneurial opportunities can only be seen and implemented at a very local level. The local knowledge is usually tacit by nature, which makes it more difficult for an outsider to identify, frame and estimate a potential opportunity.

Traditionally, entrepreneurship is seen differently among various researchers. Schumpeter (1934) sees entrepreneurs as innovators, whereas Hayek (1945) and Kirzner (1973) see entrepreneurs more as opportunity seekers. Moreover, Kirzner (1973) believes that a successful entrepreneur has a certain alertness to recognize an opportunity. Entrepreneurs create value, and they can be seen as change agents in the economy (Schumpeter 1934, 122–123), who move the economy forward by serving new markets or creating new ways of doing things. However, entrepreneurs are not only seen as change agents in the economy, but also in society. The successful entrepreneur and his/her family rise socially, which is one of the most important elements of growth in the social scale (Schumpeter 1934, 155–156).

According to Magleby (2006, 4) enterprise is the only effective, humane way to solve poverty in a polluted social environment that has largely lost the public trust and cooperation. Many of the poor are illiterate and live in poor rural communities. Usually the only possibility for them to earn an income on their own is to start up their own

enterprises, generally *microenterprises* (Unleashing Entrepreneurship... 2004, 9), and thus they can be seen as opportunity seekers (Hayek 1945; Kirzner 1973). However, in many developing countries, these microenterprises are normally in the informal sector. Moreover, the problem is that entrepreneurship favours among people, who are well-off and have an education (Magleby 2006, 4).

These micro businesses often begin with small ideas, get small earnings, and remain small. This is partly the reason why people in developing countries rarely have the opportunity to be forward-thinking. They focus rather on the present, because they need to meet their daily needs in order to survive (Fairbourne 2007a, 8). Besides in rural areas, livelihood often varies with agricultural seasons (Rhyne & Otero 1994, 12). Thus it can be concluded that microentrepreneurship is a common way of employment in many developing countries (Unleashing Entrepreneurship... 2004, 12).

Another adaptation of entrepreneurship, close to microfranchising, is *social entrepreneurship*. The definition of social entrepreneurship is varying (Dees 1998, 1; Roberts & Woods 2005, 45). According to Dees (1998, 2), however, social entrepreneurs differ from business entrepreneurs in terms of their mission. Indeed, social entrepreneurship gives higher priority to social value creation, and thus differs from other forms of entrepreneurship that strive for profit maximization (Dees 1998, 2–3; Mair & Martí 2006, 42; Zahra et al. 2009, 522). To quote Austin et al. (2006, 2), they define social entrepreneurship as: “*innovative, social value creating activity that can occur within or across the nonprofit, business, or government sectors.*” It can be concluded that social entrepreneurs can be seen as innovators (Schumpeter 1934).

Social entrepreneurship and microfranchising are closely related, and their definitions often overlap. For example, Zahra et al. (2009, 532) mention that some social enterprises are simple replications of existing organizations. Respectively, Gibson (2007, 26) states there are numerous microfranchise systems under development, although not all of the owners and operators are aware of the label “microfranchise” of their efforts. In fact, both approaches have usually the same purpose to alleviate poverty and to enhance social wealth (Zahra et al. 2009, Gibson 2007).

Social entrepreneurs use many of the tools and language of business, although their mission is different. Both social and typical entrepreneurs are forerunners, who tend to be opportunistic rather than sticking to a predefined strategy. Building alliances and networks is also crucial for both groups of entrepreneurs. However, the difference is that social entrepreneurs aspire at social justice rather than financial profits, and therefore tend to communicate their visions in ethical terms. (Roberts and Woods 2005, 47–48.) Moreover, Zahra et al. (2009, 524) states that many social entrepreneurs have a great skill to inspire, organize and activate the efforts of commercial and non-commercial partners, donors, volunteers and employees in the pursuit of social wealth.

Social wealth is seen as a by-product of business entrepreneurship, whereas social value creation is the primary objective in social entrepreneurship (Mair & Martí 2006, 39). Moreover, economic value creation, meaning earned income, is necessary to ensure the sustainability of the venture and financial self-reliance. However, Roberts and Woods (2005, 48) states that social entrepreneurs have no proven technique, code of practice or core business model to follow. Due to lack of education, many social entrepreneurs are unable to implement their businesses successfully. Therefore, more research is needed in order to educate and advise social entrepreneurs.

As seen, entrepreneurship is very important in developing countries. Moreover, there are many variations of entrepreneurship. Traditional definitions conform to new models such as microentrepreneurs, who are more seen as opportunity seekers, as social entrepreneurs, who are more like innovators. Entrepreneurship enhances economic growth in developing countries. Unfortunately as seen, people are often forced to do that because they do not have any other option and often lack of education makes it more difficult to establish successful businesses on their own. Similarly, Magleby (2007a, 2) believes that by increasing the number of small businesses and social entrepreneurs as microfranchises will help dramatically lessen global poverty. Fairbourne (2007a) and Magleby (2006) believe that microfranchising could fill this deficiency in the education of entrepreneurs, which is discussed more closely in the next chapter.

### **2.3 Franchising**

*They are cooperative entrepreneurship, a system where costs, risks, financing and profits are shared between an enabling franchisor or parent company and an implementing franchisee or local business partner based on a mutually profitable contractual relationship of shared ownership.*

(Magleby 2006, 44)

Franchising is defined as a business opportunity, where the owner of a service or a trademarked product (franchisor) provides rights to an individual (franchisee) to distribute and/or sell goods or services, and in return receives a payment or royalty and conformity to quality standards (Justis & Judd 1989, 6–8). Franchises tend to be less risky and more profitable than totally independent enterprises both in the developing world as in the developed countries. The franchise relationship tends to protect the entrepreneur from many of the open market shocks by providing them a degree of sustainability, safety and predictability that they could rarely achieve on their own. (Magleby 2006, 43.)

The origins of franchising can be traced back to the Middle Ages. Then, however, the aim was to maintain civil order as well as to determine and collect tax revenues, and make other special tax assessments. The industrial revolution of the late 1800s fuelled the development of franchising, and the automobile industry can be seen as one of the first examples of franchising. Thereafter, franchising has broadened to other industries too, such as clothing, laundries, security systems, and groceries just to name a few. (Justis & Judd 1989, 11–14). Today, franchising is primarily used in service industries (Alon 2004, 157).

As seen, many developing countries suffer from massive unemployment, underemployment, and labour mobility problems. Franchising is seen to help alleviating some of these problems. In Africa, for example, as said by Alon<sup>2</sup> (2004, 158) each franchisor creates on average approximately 13 direct jobs per year. In addition, the indirect economic impact of franchising is even more significant, because of the multiplier effect. It can be estimated that against 13 direct jobs, franchising creates 20 or more indirect jobs that occur through industrial linkages. In total each franchisor creates more than 30 jobs per year.

Franchising can be divided into two categories, which are traditional format (or product) and business format franchising. *Traditional format franchising* is a relationship between the company and the franchisee in which the company possess a particular product and offers exclusive sales or distribution rights to the franchisee. Mostly, the franchisor is a manufacturer who sells finished or half finished products to its franchisees. In proportion, the franchisees sell these products to consumers. (Justis & Judd 1989, 7–8.)

*Business format franchising* is an ongoing relationship between the franchisor and the franchisee that not only consist of product, service, and trademark, but also the entire concept of the business. Thus it can be characterized by licensing a business model. The franchisor charges a fee for the use of its business model to franchisees. This contractual relationship, however, is complex, and it covers the right to adopt an entire business process. (Justis & Judd 1989, 8–10.)

The relationship between franchisor and franchisee is fairly different than some other cooperating businesses have. It requires more planning, monitoring, and involvement from the franchisor compared to traditional company and their internal relationships. However, the franchisees see value in this kind of experience and assistance. (Justis & Judd 1989, 39, 53). The below figure (Figure 4) illustrates the franchisor-franchisee relationship.

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<sup>2</sup> Siggel, Eckhard – Maisonneuve, Perry – Fortin, Emmanuelle (2003) *The role of franchising in African economic development*.

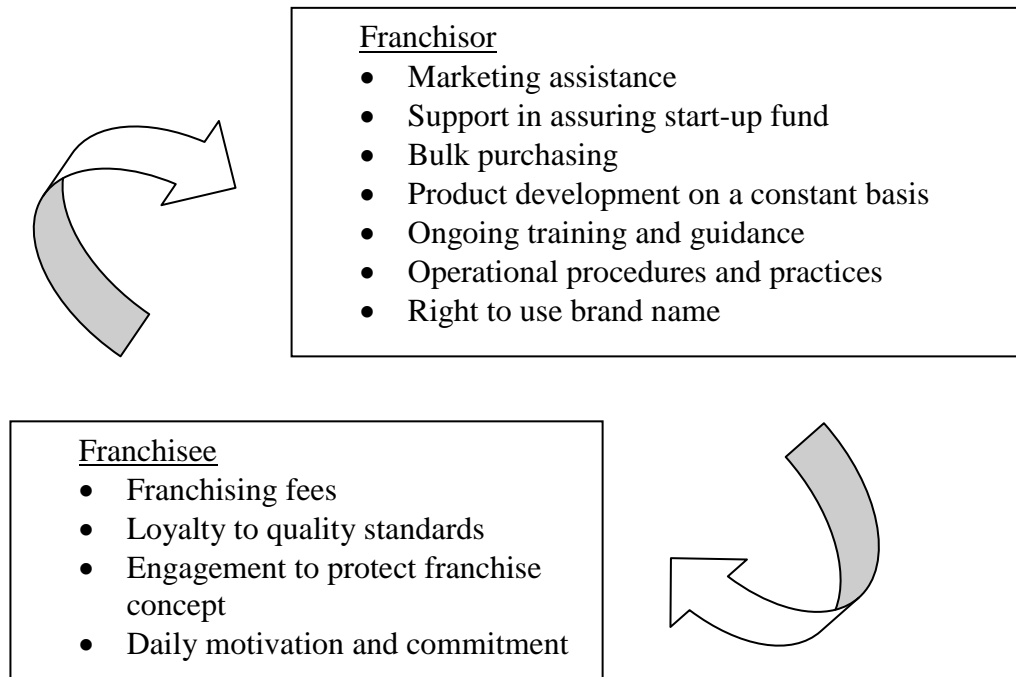


Figure 4 The franchisor-franchisee relationship (adapted from Henriques and Nelson 1997, 24)

At the same time as describing the franchisor-franchisee relationship, the above figure demonstrates some of the benefits to franchisees and franchisors. According to many researchers (Alon 2004, 156; Henriques & Nelson 1997, 25; Justis and Judd 1989, 35–47), there are several advantages and disadvantages to franchisees and franchisors, from which some are introduced shortly. The advantages to the franchisee are established product or service, technical and managerial assistance, quality-control standards that help the franchise to achieve positive results by ensuring product or service regularity throughout the franchise system. Moreover, franchisee requires less operating capital and more opportunities for growth. (Henriques & Nelson 1997, 25; Justis & Judd 1989, 36–42.) Finally, Henriques and Nelson (1997, 26) state people can utilize their knowledge and training gained as franchisees later on, and thus start their own businesses based on these learned skills.

In proportion, the potential disadvantages include failed expectations, misunderstood service costs, and unexpected termination of agreement. Besides, franchisees may become too dependent on the assistance of the franchisor, or feel restrictions on freedom of ownership if the franchisor requires offering some particular product or servicing against franchisee's will, or suffer from the unsatisfactory performance of other franchisees, which can effect on one's own business. (Henriques & Nelson 1997, 25; Justis & Judd 1989, 36–42.) Especially in the context of developing countries, it

requires a considerable number of information concerning legal and accounting aspects, management, and marketing information in order to establish a successful franchise. If the information is incomplete, the potential franchise will be seriously at risk (Henriques & Nelson 1997, 26). However, the corruption rates among others are high in many developing countries, which reduce the services of the public sector.

The advantages to franchisor are different possibilities for a rapid expansion, possibility for bulk purchasing, franchisee's higher motivation compared to the company-employed manager, and franchising is often non-union business, which costs less to operate. Respectively, the disadvantages include among others constant monitoring of quality required to maintain franchise reputation, and other potential problems such as difficulty to finding promising franchisees and communication problems. To conclude, potential franchisees and franchisors need to carefully weigh the possible advantages and disadvantages, while simultaneously analyzing the potential profitability of the business, to determine one's willingness to enter this business activity. (Henriques & Nelson 1997, 25; Justis & Judd 1989, 42–47.)

Henriques and Nelson (1997, 23) consider franchising is a useful tool for promoting small business in developing countries, especially for unemployed people, who do not necessarily have any entrepreneurial experience. Moreover, these franchises could radically improve the survival rate of business start-ups, because they combine the advantages of a large business, such as economies of scale in purchasing and advertising, as well as strengths of the small-scale entrepreneur, namely a high level of commitment and knowledge of the local area. (Henriques & Nelson 1997, 23–24.)

The positive possibility of franchising is its application to attract the informal economy business to the formal economy. Here, governments can play an important role. They can influence in standards for initiating franchises and help to establish franchise associations. This includes promoting overseas franchisors for potential local franchisees as well as raising awareness of franchise principles and thus encouraging indigenous franchises. It can be seen, that overseas franchises often lead to rather elite franchises that require high levels of investments, and their products are aimed at the comfortably well-off consumers. Moreover, in the case of an international franchisor, the profits do move out of a country. (Henriques & Nelson 1997, 26) In proportion, the indigenous franchises are more affordable and compatible with local tastes and income levels. This, however, requires often more support during the initial periods. (Henriques & Nelson 1997, 26–27.)

Henriques and Nelson (1997, 29) believe franchise associations are playing an important role in providing a forum for discussion for local franchisees. With the help of franchise associations, franchisees can share their experiences and receive valuable information from each other, such as identify policy and regulatory concerns, as well as distribute general information on basic franchise principles and franchise opportunities.

Unfortunately, many developing countries lack such an association, because franchise communities are very small and they have not organized themselves.

## 2.4 Microfinance

The history of microfinance dates as far as the Middle Ages, when the Catholic Church founded pawn shops in European towns as an alternative to profiteers (Helms 2006, 3–4; Moyo 2009, 131). Nowadays, the concept of microfinance is widely known in developing countries. Moreover, microfinance plays important role in microfranchising. However, the field of microfinance is quite wide-ranging and therefore the concepts of microcredit, microfinance and microfinance institutions (MFIs) are clarified next.

Grameen Bank (What Is Microcredit, 2010) specifies microcredit as follows: “*Microcredit ... programmes extend small loans to very poor people for self-employment projects that generate income, allowing them to care for themselves and their families.*” Microcredit was introduced in the 1970s, when Bangladesh, Brazil, and a few other countries started lending to poor women entrepreneurs. Well-managed programs showed that poor people, especially women, paid their loans back more reliably than wealthier people who took their loans from commercial banks. As a consequence, microcredit programs became more popular worldwide in the 1980s. (Helms 2006, 4.)

The concept of microcredit has grown rapidly during the past three decades, and the term itself was replaced by microfinance in the 1990s (Helms 2006, 2–5). Consultative Group to Assist the Poor, CGAP (What Is Microfinance, 2010) defines microfinance as: “*Microfinance offers poor people access to basic financial services such as loans, savings, money transfer services and microinsurance.*” Thus it can be concluded that microfinance is a broader concept than microcredit, including not only credit, but also other forms of financial products such as savings, money transfers and insurance (Helms 2006, 2–3). Officially, the focus of microfinance was on poverty reduction and social change, where the key players were NGOs. The change to microfinance came more with the acknowledgement that households can benefit from access to financial services more broadly. Moreover, this movement does not only involve NGOs but also some commercial actors. (Armendáriz & Morduch 2007, 14–15.)

Normally, the borrower gives collateral for the bank as security, gets a loan from the bank in exchange, invests this capital to generate revenue, and finally settles the loan up with interest. If borrower cannot repay the loan, the collateral is seized. However, giving collateral is rarely possible in developing countries, and thus commercial banks are not actively operating in this market (Rhyne & Otero 1994, 13). Because of this, microcredit is made to work differently. One of the main ideas behind microfinance is to replace the

need for collateral, which is done by using group lending and social control mechanism (Armendáriz & Morduch 2007, 14, 52, 88). Thus, microcredit loans are based on group lending in which each member of a group voluntarily guarantees the repayment of all members (Helms 2006, 4). If there are difficult repayment problems, all group members will be cut off from future borrowing. In reality, a borrower who does not want to lose access to loans has to accept the possibility of having to bail out one's fellow group members if necessary. In proportion, if the repayments are done promptly, there is a possibility for a larger loan. (Armendáriz & Morduch 2007, 13, 88–89.)

Overall, microfinance and small loans are enough for hardworking microentrepreneurs to launch or expand their small businesses, such as weaving baskets or raising chickens. These small businesses provide better food, housing, healthcare, and education for entire families, and more importantly, additional earnings give hope for a better future (Christensen 2008, 150). Thus, microfinance can be seen as an effective tool for the poor to move from everyday survival to planning for the future. Helms (2006, 32–33), however, reminds that although microfinance is a powerful tool to lift people out from poverty, it is not always the answer. In many cases, the poor and hungry people are rather in need of small grants, employment and training programs.

Microcredit and microfinance have been criticized among others for the reason that the group-lending addresses problems such as information imperfections that cause moral hazard<sup>3</sup> and adverse selection<sup>4</sup> (Armendáriz & Morduch 2007, 114; Moyo 2009, 127). This may happen if the banks and borrowers lack good information on each other. Armendáriz and Morduch (2007) introduce some alternative lending mechanisms for the future besides microfinance. However, within the limits of this study, these alternative mechanisms are not studied herein. Moyo (2009, 129–130) asserts that although there are always pessimists towards microfinance, the previously unbankable and excluded poor are now part of a functioning financial dynamic.

Another concept often seen in context with microfinance is a *microfinance institution (MFI)*, which started during the 1970s and 1980s in consequence of the microenterprise movement (What Is a Microfinance Institution 2010). It is an organization that provides microfinance services, ranging from small nongovernmental organizations (NGOs) to large commercial banks. Originally MFIs were NGOs, who started to provide small loans for the poor, whereas banks did not consider poor people as a viable market (What Is Microfinance 2010). Nowadays, the borders between traditional microfinance

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<sup>3</sup> *Moral hazard* occurs when banks cannot make sure that customers are making the full effort required for their investment projects to be successful. Moreover, *Moral hazard* occurs when customers try to escape with the bank's money (Armendáriz & Morduch 2007, 7).

<sup>4</sup> *Adverse selection* arises when e.g. banks lack good information about the borrower, and thus are unable to distinguish against risky borrowers. As a result, interest rates become very high, which often drives safer customers out of the credit market (Stiglitz & Weiss 1981, 393).



institutions and commercial actors are starting to blur, and some MFIs have converted themselves into for-profit companies. (Helms 2006, 2–5; What Is a Microfinance Institution 2010.) However, this wide range of providers varies in their legal structure, mission, and methodology. Regardless, they all are providing financial services to customers who are poorer and more vulnerable than traditional bank customers. (What Is a Microfinance Institution 2010.) In other words, typical microfinance borrowers range from the very poor to the vulnerable non-poor<sup>5</sup> (Helms 2006, 18). It is important to note that some MFIs also serve many customers who are not poor, including some people who could also use commercial banks (Christen, Rosenberg & Jayadeva 2004, 1–2).

In many countries, MFIs are among the organizations with the most extensive networks, both in rural and urban areas. Moreover, working with a microfinance institution as a logistics channel has the benefit that financial services can be offered together with the collection or delivery of other products or services (Creating Value for All – – 2008, 82; What Is a Microfinance Institution 2010). Fairbourne (2007a, 10) believes the most successful MFIs are the ones, who adapted their services to fit with the local culture and needs.

Although most of the MFIs are NGOs, who concentrate on giving loans, there are also some MFIs that also have another object besides financial one, namely developmental or social objective. (Christen et al. 2004, 2.) MFIs provides working capital loans for self-employment, but usually does not offer the business skills training or technical assistance necessary for the owner to run a successful business. As already seen, microfranchising could fill this gap by offering proven business models, technical training, and so forth. (Gibson 2007, 17–26.) Moyo (2009, 129–130) however, holds that microfranchises focus only on small part of the world’s poorest households. According to her, the existing network capacity of microfinance institutions is still the most powerful tool for reaching a large number of the world’s poorest, whereas Magleby (2006, 4–5) believes that microfinance is a partial solution for the poverty. He sees that microfranchising is the most effective tool to create large numbers of successful locally-owned small and medium-sized enterprises (SMEs).

As seen, these different concepts introduced in this chapter are closely related to microfranchising. However, it is important to notice that this introduction was not thorough. The main idea was to give a short overview to the backgrounds that have an effect on microfranchising. Finally, microfranchising is introduced in the next chapter.

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<sup>5</sup> The vulnerable non-poor are “those just above the poverty line at risk of falling below it” (Helms 2006, 18).

### 3 MICROFRANCHISING

Microfranchising is a relatively new tool for poverty alleviation, which combines franchising and microfinance in a smaller scale. It is the replication of business systems at the grassroots micro level, and requires only little capital (Gibson 2007, 24).

The following chapter will focus on microfranchising. Firstly, the theory of microfranchising is studied more deeply, namely the background to microfranchising and different types of microfranchises. Also the roles of microfranchisors will be defined in this context. Secondly, the benefits of microfranchising are introduced. This section includes three main benefits given in theory as well as some other benefits. Thirdly, the challenges of microfranchising are explored. Especially the role of funding and the lack of education and business skills will be discussed among others. Lastly, the benefits and the challenges of microfranchising are brought together and represented in one figure.

#### 3.1 Microfranchise theory

##### 3.1.1 *Background to Microfranchising*

The concept of microfranchising was introduced in 2004 by Stephen W. Gibson (Fairbourne 2006, 18), and the research of microfranchising is still in its early stages (Christensen 2008, 168). Microfranchising is also known as “business-in-a-box”, “backpack” (Gibson 2005, 1) or “ready-made jobs” (Christensen et al. 2010, 601). However, the definition of microfranchising is still quite varying. Zahra et al. (2009, 526) see microfranchising in a smaller scale than for example Fairbourne (2007c, 8–9). Magleby (2006, 85) sees microfranchising as a gender neutral business, whereas Lehr (2008, 11) emphasises the role of women.

Microfranchising combines franchising and microfinance, although it is very different from franchising in its size and scale (Gibson 2007, 24). Microfinance was introduced in the previous chapter, and its role in microfranchising will be further discussed in context with challenges of microfranchising. The average start-up cost for microfranchises range from US\$25 to 35,000 (Gibson & Fairbourne 2005, 110). Magleby (2007b, 135) questions the amount of business start-up cost in order to consider that business as a microfranchise.

As seen, microfranchising can be seen as an adaptation of the traditional franchise model. Adaptations relate to size, financial support structures, or how and why

microfranchisors create and sell the microfranchise ideas (Christensen et al. 2010, 596). When comparing to a traditional franchisee, microfranchising is more focused on the microfranchisee and to the benefits one is getting, that brings out the relation of microfranchising and social entrepreneurship as seen in the previous chapter. The primary feature of a microfranchise is its ability to be streamlined and replicated (Christensen et al. 2010, 596). Indeed, microfranchises are normally smaller than traditional franchises, and they put more emphasis on mutual adaptation and co-learning (Fairbourne 2007c; Christensen 2008). Furthermore, microfranchisors frequently offer subsidies or long-term capital to the microfranchisee, as this is not often the case in Western franchise models (Christensen et al. 2010, 596).

According to Christensen et al. (2010, 596), the most significant difference between the traditional and microfranchising model relates to their foundational assumptions. Traditional franchisors first pursue growth and increased profits (Alon 2004, 156), whereas microfranchisors concentrate on increased profits with a simultaneous focus on the microfranchisee (Fairbourne 2007c, 8). Thus, microfranchises are often defined as poverty alleviation tools as well as businesses. Moreover, this tie to poverty alleviation also connects microfranchising and microfinance (Christensen et al. 2010, 596), which is discussed later in this chapter.

Microfranchising operates in various industries (Magleby 2006, 41–43), as in traditional franchising. These industries include among others food services, health services, telecommunications, agriculture, construction, and education. In this study, the industries of food services, health services and telecommunications are explored more deeply.

Microfranchising theory is more concentrated on its benefits rather than detailed information on how to run individual business. Nevertheless, there is also some detailed information too. For instance, Fairbourne and Gibson (2007) specify basic bookkeeping and preparing monthly reports in their microfranchise toolkit. This considers topics such as financial statements (balance sheets, income statements, and the statements of cash flows), inventory management, and financing issues. Lastly, it is important to note that government regulation can unintentionally influence the entire business model (Lehr 2008, 12), depending on country and so forth.

The three main elements of microfranchising are micro, franchising, and for-profit. They are illustrated in the below figure (Figure 5). This figure shows also the difference between traditional franchising and microfranchising, namely the social element.

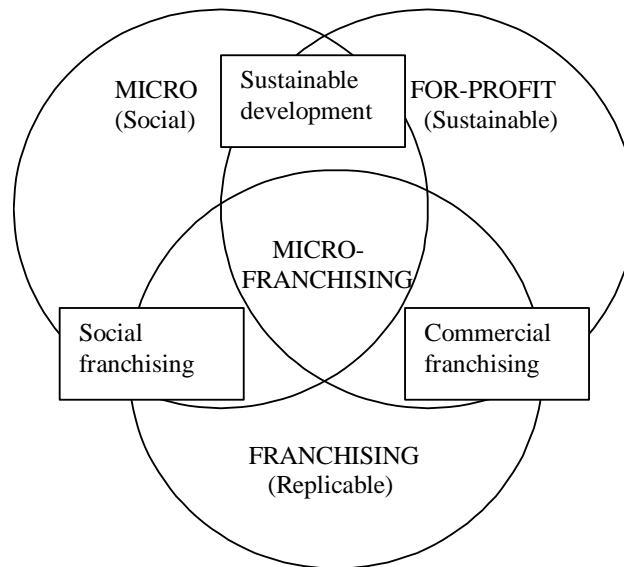


Figure 5 Three main elements of microfranchising (adapted from Fairbourne 2007b, 9)

According to Fairbourne (2006; 2007b; 2007c) “micro” means more than small. It refers to the social aspect of assisting the poor, and its objective is to provide goods and services at an affordable price as well as to create jobs. Moreover, pricing and selection of the products sold must be decent because the customers are low-income (Lehr 2008, 4). This should not be taken to mean that these businesses are not fully developed or that the franchisors or franchisees aspirations are small. They are simply called “micro” because replication of these businesses requires relatively little capital (Fairbourne 2007c). In addition, microfranchising signifies the focus on smaller businesses run by lower income clients (Christensen et al. 2010, 596).

Franchising means the replication of businesses (Fairbourne 2007b, 9), and in many cases microfranchises are built around proven technology (Magleby 2006, 101). In proportion, the objective of for-profit is to generate income. Nevertheless, a real microfranchise business must include all three elements. If there are only two elements, the outcomes are called sustainable development (e.g. microcredit), social franchising and commercial franchising (e.g. McDonald’s). (Fairbourne 2007b, 9.)

### 3.1.2 Different Types of Microfranchises

As the definition of microfranchising is still quite fuzzy, so is the division of different types of microfranchises. The variety of different types of microfranchises allows franchisors some flexibility choosing a best suitable franchise model. Some of the

models are easier to launch than some other models. One relatively simple model is “business-in-a-box”, which is called top-down franchising. A reversed model from this is respectively known as bottom-up franchising. In addition to these, more complicated models are operated by multinational corporations (hereafter MNCs) and can be seen more like cooperatives. (Dyer 2007, 235–236.)

In top-down franchising the franchisor generally plays a central role. The franchisee has to pay the franchise fee in order to get the franchisor’s trademark, starting assistance and staff training as well as manuals how to operate the business, equipment and so forth. Top-down franchises are typically promoted through franchise associations or franchise resource centres, established by governments. (Henriques & Herr 2007, 51, 63.)

Comparably in bottom-up franchising small enterprises in the same sector join together to upgrade their performance and competitiveness through a shared service. In shared services the information on market trends is exchanged, as well as services to achieve economies of scale just to name but a few. Occasionally this initiative is organised by sectoral associations or other actors involved. The advantage, however, in bottom-up franchising is the franchisee’s experience on how to run a business. (Henriques & Herr 2007, 52, 63.) According to Henriques and Herr (2007, 51–64) these two are more complicated and they function more like cooperatives or are operated by MNCs.

As seen, this division is slightly different from the traditional franchising, where franchises were categorized into traditional format franchising and business format franchising. Nevertheless, they may come up with new categorizations of microfranchising later on, when there are more studies on it. Besides, the main idea stays the same, namely the symbiotic relationship between local entrepreneurs and an enabling organization (Magleby 2006, 43–44).

### ***3.1.3 Different Types of Microfranchisors***

According to Felder-Kuzu (2007, 221) microfranchisor can be an independent microentrepreneur or an established company, whereas Gibson (2007, 26–32) states that microfranchisors are usually independent business people, NGOs or MNCs.

Independent microentrepreneurs are normally seen to expand their businesses in two ways. Microentrepreneur can open a new location independently, which is currently the most popular method. The other is to franchise one’s own business, and sell one’s franchise rights to others. In spite of this, not all microentrepreneurs are capable of expanding their businesses without any external assistance. (Gibson 2007, 27.)

NGOs can help to create the business from scratch, invest in already-operating microenterprise or operate as a BOOT Model franchisor. When NGOs are creating the business from scratch, they aim to build a very promising microenterprise, which can easily be replicated and sold to interested parties at a reasonable price. In case NGOs are investing in already-operating microenterprise, they usually search for microentrepreneurs, who might struggle with their businesses, but who have a promising business idea. Through their resources, NGOs strengthen microenterprises to the point where they are stable, and then replicate them further. (Gibson 2007, 27–28.) In the BOOT Model (also known as microequity or sliding scale of ownership) NGOs *build, own, operate*, and then gradually *transfer* ownership to a person, who has been selected and tutored to this process (Christensen 2008, 154; Gibson 2007, 29). The franchisor (here NGO) mentors the selected microfranchisee for 6-12 months before transferring the ownership to the microfranchisee. However, transfer of ownership can only take place when the NGO's start-up costs are recovered, which are normally taken from the microfranchisees' salaries they have earned during their mentoring phases. After transferring the ownership to microfranchisees, they can start to earn money through a profit-sharing program. Besides that, this program gives an opportunity for the franchisor to evaluate microfranchisees' skills and potential to run an own business. If the microfranchisee proves his/her qualifications for running a business, one is able to start purchasing portions of the microfranchise, and eventually become a single owner of the microfranchise. (Gibson 2007, 29–31.)

MNCs are newcomers in the field of microfranchising (Gibson 2007, 32). According to Prahalad (2005, 76) MNCs, small-scale enterprises and entrepreneurs can create a market together, and hence build a local entrepreneurship as well as improve the quality and choice of products and services available for the poor. The BOOT Model presented above can also be used by MNCs. Indeed, MNCs can also do the sponsoring, mentoring, or promotion. However, according to Christensen (2008, 154), the participation of MNCs is less likely, which quarrels with Gibson's view.

Many people (Brugmann and Prahalad 2007, 82–85; Gibson 2007, 32; Magleby 2006, 70) see the cooperation between NGOs and MNCs positive in order to improve the businesses' distribution channels at the base of the pyramid. Moreover, companies and NGOs can together create innovative business models, as their interests and capabilities converge. The existing knowledge, infrastructure and relationships that NGOs possess, are valuable for companies when entering to the BOP markets. Furthermore, from the perspective of NGOs, microfranchising is helping to build a larger business in order to make families more self-reliant (Gibson 2007, 29–31).

Finally, according to Christensen (2008, 154) there are four different types of microfranchises. This classification can be seen in the below table (Table 2).

Table 2 The framework for analysis of microfranchise opportunities (adapted from Christensen 2008, 154)

Origin of Business Idea	Microfranchise Sponsor	
	MNC	NGO
Imported	MNC-sponsored: Imported	NGO-sponsored: Imported
Local	MNC-sponsored: Local	NGO-sponsored: Local

As seen from the above table, microfranchises are divided according to the origin of business idea (imported or local) and the type of agency that may sponsor microfranchises. According to Magleby (2006, 68) most microfranchises are created in the developing world rather than established abroad, and then imported to the developing countries. However, he believes that a huge amount of creative social entrepreneurship is needed. Naturally businesses that already operate in the region understand the market dynamics better, have more contacts, and thus work best when they are matched up to local needs (Lehr 2008, 10, 15; Magleby 2006, 43; Prahalad & Hammond 2002, 54–55). Even if microfranchising is based on replication, sometimes business models need to be adjusted according to the local situation. Moreover, in the long run, it is important to conduct initial research of the local culture, although not all local knowledge is best (Fairbourne 2007a, 5–8). Herein, the imported origin of business idea comes along, which means that they are established abroad.

Finally, Christensen (2008, 154) believes that this division of microfranchises can help researches to discover the origin of successful and unsuccessful businesses, and thus clarify details such as growth and turnover rates. In fact, there is not much research on growth and turnover rates done yet, and therefore some further research would be practical in this context.

### 3.2 Benefits of Microfranchising

*To be in business for yourself but not by yourself.*  
(Magleby 2006, 43)

Microfranchising is seen as a collective business, where the microfranchisee is not operating alone, which is seen positive. Moreover, the increased awareness and interest in “social good” make microfranchising attractive for people and organizations (Felder-Kuzu 2007, 224). According to Fairbourne (2007b, 10–11) the main benefits of microfranchising are:

- job creation
- specific training
- effective delivery.

In his later publication, Fairbourne (2007c, 9) adds that microfranchising addresses following problems that prevent people from becoming economically self-reliant:

- The shortage of competence to develop a successful business.
- The shortage of jobs in developing countries.
- The shortage of commodities and services available to the poor.

The first grouping is going to be introduced next more deeply. However, on the grounds of both these lists, the two most important benefits, namely job creation and specific training are going to be scrutinized together with the main challenge that is funding.

### **3.2.1 Job Creation**

As mentioned earlier, one of the biggest problems of developing countries is the lack of jobs available. In consequence, most of the people are working in the informal economy, since the formal economy does not offer enough jobs. Besides low salaries, the work conditions of informal sector are often poor; there is lack of formal employment contracts, and hardly any social protection. In reality, the informal economy presents one of the biggest development challenges at the moment, but the increase of microfranchising could upgrade those businesses into the formal economy. (Henriques & Herr 2007, 43–47.) Thus, small, local businesses can enjoy the benefit of the microfranchisor’s official registered status (Magleby 2006, 37). When business models are proven such as microfranchising, the potential for job creation and growth is better (Fairbourne 2007b, 10).

Many developing countries suffer from migration problem, when people from the rural areas are leaving to the bigger cities to look for jobs. The flow of people from the villages to the cities weakens the rural economies even more and sets an even heavier burden on the people who stay. The possibility of microfranchising is that it creates new employment possibilities not only in large cities but also in rural areas. Indeed, microfranchising can stem migration and help the development of rural areas in developing countries. (Gibson 2007, 34.) Besides that, microfranchising creates jobs for



the community, and for those who do not have managerial skills and would rather work as an employee because microfranchises are often larger than traditional microenterprises (Fairbourne 2007c, 9).

Gibson (2007, 22) states the development of microfranchising is recognized by many as the most innovative and fastest method to transform temporary, informal microenterprises into legitimate, viable businesses. However, according to Christensen et al. (2010, 600) previous studies have not discussed the poor as employees that much. They see employment creation as one of the greatest benefits of microfranchising that employs people who do not generate their own business ideas.

As was seen previously, each franchise in Africa tends to create over 30 jobs. With microfranchises this is slightly different, and not all microfranchises employ many people. For example, there are microfranchises, which employ only one person. To quote Magleby (2006, 67) "*MicroFranchises can be very small operations.*" However, the high employment is slightly arguable, if the microfranchise employs only one person. On the other hand, Magleby (2006, 103) also sees important that microfranchise networks employ labour intensive rather than capital intensive production and delivery processes. This is to maximize local employment opportunities.

### 3.2.2 *Specific Training*

When people are uneducated, the need to be familiar with the business model and specific training connected to that is remarkable. Specific training provided by the microfranchisor is important opportunity for the microfranchisee to recognize the significance of utilizing creativity, know-how as well as social and financial capital resources. Also the risk starting a new business is much lower when compared to starting a business from scratch for the microfranchisor. (Fairbourne 2007b, 10-11.)

According to Gibson (2007, 34–36) there are several benefits for microfranchisee that are in relation to training. For instance, microfranchisor helps microfranchisee with site selection, negotiating the terms of lease for the storefront, and establishing an effective store layout. Moreover, tested operational guidelines and different checklists help microfranchisee both in daily and long-term planning and reporting. Lastly, there are built-in support systems, where microfranchisors financial success is tied directly to microfranchisee, and thus there is an incentive for both actors to do their job successfully. These built-in support systems include among others mentor and network of other microfranchisees.

Fairbourne (2007b, 10-11) sees the cooperation between franchisee and franchisor important. He believes that the cooperation should be continuous to ensure success.

Correspondingly, Magleby (2006, 53) believes that franchises empower their owners not only financially, but also emotionally and socially.

### 3.2.3 *Effective Delivery and Other Benefits*

Poor communities are often physically and economically isolated, and for that reason better distribution systems and communication links are essential for the development of the BOP. According to Prahalad and Hart (2002) only a few of the large BOP countries have distribution systems that reach more than half of the population. Moreover, distribution opportunities in cities are easier than in the rural areas, since most of the biggest cities in developing countries are populated densely and therefore have better access to the communication systems. Besides that, most of the rural areas are inaccessible to audio and television signals, which mean they neither have access to products and services, or to information about what is available and how to use it. The spread of wireless devices among the poor has improved the situation, and the poor are getting actively engaged in a dialogue with each other. (Prahalad 2005, 12–13, 16.)

Microfranchising targets to open microfranchise businesses also in the rural areas, which will decrease delivery costs when there are more microfranchisees in those areas. Also the use of local sources can be more effective, and thus reduce costs (Fairbourne 2007b, 11). Moreover, Felder-Kuzu (2007, 223) states that existing infrastructure designed for MFIs will also benefit microfranchising since microfranchising is most likely to become part of MFIs' business operations.

Besides the three main benefits introduced here, there are other benefits too. Partnerships and networks are important for microfranchising (Felder-Kuzu 2007, 222; Magleby 2007b, 135). Magleby (2006, 54–55) see networks as excellent vehicles to help people lift themselves out of poverty<sup>6</sup>, because they are among others democratic and thus robust, they tend to self-govern through concurrence, and empower participators by widening their perspectives and giving them a voice. Besides that, networks are normally more heterogeneous than hierarchies for example, and they tend to limit enormous failures because bad ideas are not likely to prosper.

The financial service providers, such as MFIs and microbanks are likely to become one of the key players in microfranchising. This is mainly because they are the most apparent funding source for the microfranchisees and local microfranchisors (Felder-Kuzu 2007, 222). They can also benefit from the distribution networks that have built over the years. According to Hatch (2007, 102) borrowers average repayment rates are 97%. This is likely to attract more capital to microfranchising, as well as donor funds,

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<sup>6</sup> Munnecke, Tom *Networked Theory of a Better World*.

since it will offer high social returns (Felder-Kuzu 2007, 223). Moreover, profitability, property protection and asset leverage are all things franchise networks tend to do very well (Magleby 2006, 33).

In this context it can be brought out that some microfranchise businesses support microfranchisees by compulsory savings accounts. The money for these savings accounts is funded from microfranchisees' franchise fees, rents and so forth. These savings are for retirement, health insurance bonuses or a rainy day support. (Magleby 2006, 58.) Thus, franchisees' will benefit from this system, and it can be seen more as a repayment for themselves.

Hatch (2007, 108) sees the future of microfranchising extremely positive. He continues by suggesting that the family of micros could be expanded by microinsurance, microhealth care, microhousing and so forth. Furthermore, these could generate an increasing number of jobs for unemployed people. In spite of this, Fairbourne (2007c, 9) reminds that there are lots to learn from traditional franchises when considering them as a useful practice for microfranchising. In that sense, it is crucial to study, which traditional franchise models are suitable for microfranchising. On the other hand, Magleby (2006, 88) states that the possibilities to implement profitable microfranchises all over the world are almost endless.

### **3.3 Challenges of Microfranchising**

As always with different business models, they are not without some challenges and risks, and so it is also with microfranchising. Thus, these challenges of microfranchising are introduced next.

#### **3.3.1 Funding of Microfranchising**

One of the main criticisms of microfranchising has been its funding. As seen before, if the average start-up cost rises to US\$35,000, not many people in developing countries can afford to buy a microfranchise with their savings. Besides that, there is often need for ongoing capital during the microfranchise's early stage as well (Lehr 2008, 11). Therefore, in order to establish a microfranchise, finding suitable finance for microfranchisee is usually needed. However, it has been argued how the poor can afford a franchise if they cannot afford any necessities, namely how to reach the poorest of the poor (Woodworth 2007, 95)?

According to Christensen (2008, 167–168) there is no overarching tendency regarding the ideal role of microfinance in the development of microfranchising. This is

mainly due to the diversity of microfranchise businesses. Some microfranchise businesses do not offer or require any microfinance opportunities, while some businesses depend on it. Moreover, issues such microfinance, can be a key factor in a microfranchises' growth and replication strategy.

It was seen previously that according to Moyo (2009, 129–130) the existing network capacity of microfinance institutions is the most powerful tool for reaching a large number of the world's poorest. However, integration of these two powerful concepts is beneficial because microfinance can provide the capital needed for self-employment whereas microfranchising provides the training to run the businesses strongly enough to generate continuous growth in sales, jobs and profits (Fairbourne 2007c, 8). In reality, both microfinance and microfranchising concentrate on the need of the poor, but from different perspectives. Microfinance focuses naturally more on the need for credit, whereas microfranchising focuses more on established and potentially profitable business ideas (Christensen et al. 2010, 596).

Christensen (2008, 153) states that the relationship between microfinance and microfranchising is not that clear. At a minimum, the word “micro” is what combines these two, as well as a similarity to concentrate on people in the developing world. At a maximum, microfranchising depends on microfinance for growth and expansion. In proportion, Fairbourne (2007c, 8) sees the partnership between microfinance and microfranchising promising, and Magleby (2006, 81) believes that successful microfranchisors will develop partnerships with financial institutions that allow most franchisee start-up capital to be sourced locally. Furthermore, Felder-Kuzu (2007, 222–223) believes microfinance institutions are more likely to be investors in the start-up phase, whereas private and commercial investors will come in on a business later. Indeed, because microfranchises are operating in the formal sector, this will attract more commercial investors to the sweep of microfranchising. Besides, it will also attract donor funds because it will offer very high social returns as well as venture capital funds just to name only a few. Lastly, it is also challenging to look for funding of large-scale franchises (Dyer 2007, 237). According to Felder-Kuzu (2007, 223–224) funding is likely to appear when there are more examples of microfranchising businesses.

Microfranchising can create a larger individual debt, and repayments that are clearly over their heads (Woodworth 2007, 96). This is a critical problem, if the average start-up cost rises to US\$35,000 as was seen previously. The financing requirements, however, can be lowered by using a revenue share model, where start-up fees are reduced by concentrating more on revenue sharing based on sales. This has attracted more microfranchisees by lowering their barrier to entry and lowering their financial risk. (Lehr 2008, 11.) On the other hand, Hatch's (2007, 101) argument is that the poor are survivors, and that failure is out of the question because it means they starve.

As seen in the previous chapter, microfinance offers poor people access to basic financial services such as loans, savings, and other basic financial services. However, microfinance institutions (MFIs) provides floating capital loans for self-employment, but generally does not offer the business skill training or technical assistance that is needed in order to run a successful business (Gibson 2007, 17–26; Hatch 2007, 99-100). Herein microfranchising is coming in, namely microfranchising could fill this gap by offering proven business models, technical training, and support as well as quality control and marketing expertise. Indeed, microfranchising can be seen as a natural extension of microfinance, because it builds a bridge between the formal and informal economies, promotes enterprise growth, and increases per capita incomes (Gibson 2007, 17–26). Finally, Felder-Kuzu (2007, 223) states that microfranchising is the missing piece in the economic development ladder between the small microentrepreneurs and the small and medium enterprises (SMEs).

### **3.3.2 *The Lack of Education and Business Skills***

Woodworth (2007, 95) argues that microfranchising is more likely going to work for individuals who are better educated, and have the math and reading skills required. Besides, Dyer (2007, 236-237) asserts that it is needed for a microfranchisee to have some basic level of education, skills and motivation. Indeed, some microfranchisors require previous experience, for example, from selling and teaching from their microfranchisees. Moreover, some microfranchises require ready educated nurses, such as the HealthStore Foundation, which is introduced later. In reality, the lack of education can create a problem, because not everyone is able or willing to run a business.

Dyer (2007, 236-237) and Fairbourne (2007c, 9) argue that one does not have to be a real entrepreneur in order to be a successful microfranchisee. Also Lehr (Lehr 2008, 10–11) believes that there are some models that do not require any specialized skills. Thus it can be concluded that some microfranchises are more suitable business models for the poorest of the poor than others that require more education, experience and skills. However, the motivation is important. To quote from Lehr (2008, 10) *“The ability and willingness to follow processes and procedure and a desire to learn are often more important than having a high risk tolerance or the ability to generate a new business idea.”* However, it will be a challenge for the microfranchisor to find people who are willing and capable to start their own business as a franchisee, and who accept the risks of ownership (Dyer 2007, 236-237; Lehr 2008, 10).

### 3.3.3 *Other Challenges*

As seen, funding as well as the lack of education and business skills are the most criticized sections of microfranchising. However, there are also some other challenges too, which are introduced next.

Although it was mentioned earlier that the delivery costs will decrease when there are more microfranchisors in the remote areas, the challenging part is to gather the franchisees from remote areas together for the training. Better infrastructure is one of the biggest constraints that microfranchises face in developing countries, and this is often difficult to overcome in heavily impoverished regions (Woodworth 2007, 95). However, Fairbourne (2006, 23) reminds that already existing networks of MFIs are valuable also for microfranchising, and should be taken advantage of.

One challenge is the marketing of microfranchising to the microfinance industry (Dyer 2007, 237). The launching of these businesses relies on the institutions that participate in skills training and business development support. However, the more important question is the number of institutions willing to offer these types of training.

There has been discussion on what the motivation is of all players involved. For example, how many of the poor who take microcredit loans are willing to start microfranchising with low profit margins and therefore questionable sustainability, or what if the franchisees lack motivation because of the set business model, and blame franchisors in the case of failure (Dyer 2007, 237). Comparably also the franchisors can operate unethically by limiting the fair shares of the microfranchisee (Felder-Kuzu 2007, 24). One challenge is also the possible impact of the microfranchise on the local markets. What happens to local entrepreneurs, if the microfranchise is extremely efficient (Dyer 2007, 237)?

## 3.4 **Recap on the Benefits and Challenges of Microfranchising**

The purpose of this chapter was to give an overview of microfranchising as well as to introduce benefits and challenges. The outcome of the benefits and challenges of microfranchising is summarized in the figure below (Figure 6).

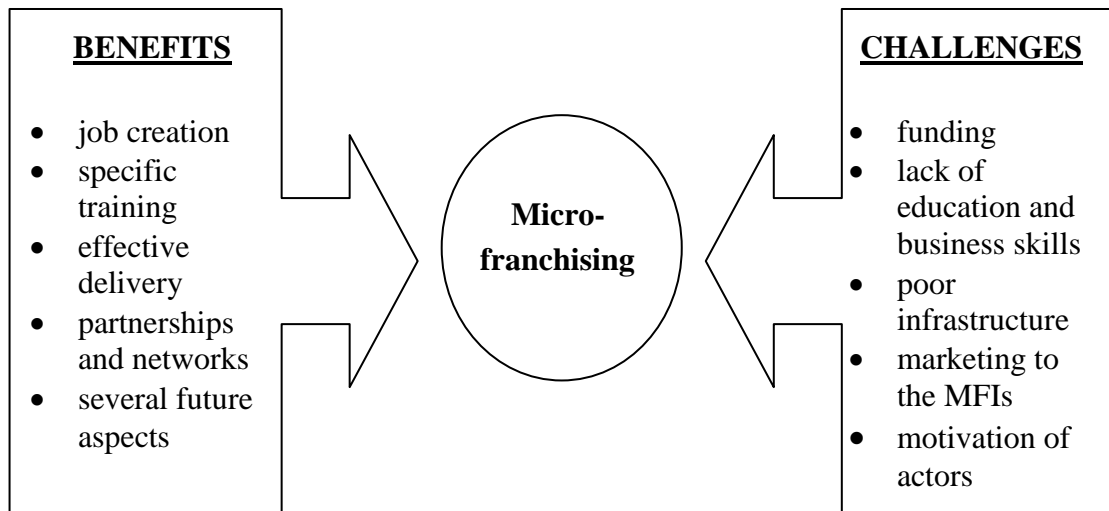


Figure 6 Benefits and challenges of microfranchising

The aim of the figure above is to give a short overview of the benefits and challenges of microfranchising. According to Fairbourne (2007b, 10–11) the main benefits of microfranchising are job creation, specific training and effective delivery. Besides these main benefits, partnerships and networks as well as several future aspects are mentioned in the literature. In proportion funding and the lack of education and business skills are seen the most criticized challenges of microfranchising. Some other challenges include poor infrastructure, difficulties to market microfranchising to the MFIs as well as the motivation of different actors.

Microfranchising offers several future aspects. The extension of the micro family can bring more possibilities for the poor, and thus improve their way of life. Since microfranchising is still quite a new approach to poverty alleviation, more research is needed in order to get more information about its benefits and challenges. Although the future of microfranchising is difficult to estimate, it has an opportunity to attain an important role in poverty alleviation.

## **4 RESEARCH DESIGN**

The purpose of the research is to study microfranchising in Africa as a new business concept, and thus only examples from Africa are included. Furthermore, a framework based on results will be developed, which will be tested in order to test its usefulness.

A research design consists of the detailed specifications that guide the handling of data and make the research replicable and critically examinable for a later occasion (Krippendorff 2004, 340). In order to answer the research questions, this chapter will describe the research data and the choice of the analysis method. Besides, the phases of conducting a case study will be presented. Lastly, data analysis is done and evaluation of the research is evaluated.

### **4.1 The Research Data and the Choice of the Analysis Method**

The research methodology can be divided into quantitative or qualitative analysis. This study, however, is qualitative and thus only qualitative analysis will be introduced. In qualitative analysis, respectively, the data are seen more as en bloc. The aim is to understand the phenomenon that is behind the research. It is important, however, to note that they are not necessarily mutually exclusive but they can also be seen as a continuum to each other. (Alasuutari 1999, 32–39.) Miles and Huberman (1984, 15) state that qualitative data are a source of justified, and rich described processes that occur in local context. One can preserve chronological flow, evaluate local causality, and derive productive clarifications. In addition, qualitative data are more likely to lead to new theoretical findings and integrations, which help researchers to go beyond underlying preconceptions and frameworks.

The nature of this research is both inductive and deductive. In inductive research the generalizations are based on the data, and the theory is constructed from the practice. Inductive research assumes that there is no previous theory. Deductive research, on the other hand, steers the research of new information in pursuance of analyzing and systematizing the collected data (Eriksson & Kovalainen 2009, 21–23). There is already an available theory of microfranchising, which refers to deductive research. In deductive research the inferences proceed from general level into details. On the other hand, the purpose of this study among others is to build a framework based on findings, and thus this refers also to inductive research. In other words, if new theory is forged based on findings, this is normally perceived as induction. Besides that, the empirical data are used to create new theory rather than to prove theories or hypotheses. (Grönfors 1982, 30.)



A distinct research method is needed, in order to distinguish the findings from the results. The method consists of those practices and operations, which help the researcher to produce findings. Moreover, the method can also be composed of rules, which help the researcher to revise and interpret the discovered findings. The research method can be seen unsatisfactory if the researcher has not any possibility in principle to find new hypotheses after one's analysis. Finally, the research method must be in connection with theory's frame of reference. (Alasuutari 1999, 82.)

When the best method to process and analyze the data was considered, the author concluded on the use of case study, because it can be seen as a useful method when the area of research is relatively less known, and the researcher is pursued theory-building types of research (Ghauri 2004, 109). Furthermore, the content analysis was chosen to be the research method. It provides appropriate tools for the analysis of great amount of varying type of data (Krippendorff 2004, 40–43). The method of content analysis will be presented more deeply in the following section.

The time and resource constraints set limitations for the available data and research method. It turned out that in the context of Africa, it would be difficult to gather primary data from different microfranchises. Thus, within the limits of this research such as time frame, costs, and long distances, it was presumed that only the secondary data are available. Secondary data are collected by someone else than the researcher. Typical sources of secondary data are for example surveys, and organizational documents. (Ghauri 2004, 109–110.)

Finally, it was determined by the author to base the study on readily available information in the publications and web sites. In the beginning, all found case examples were aggregated into a table from where 3 biggest microfranchise industries in Africa were chosen, namely food services (5 microfranchises), health services (2 microfranchises) and telecommunications (2 microfranchises). Moreover, the criteria for case selection also included that the examples must be already operating microfranchise businesses, not only potential ones. Consequently, 9 different microfranchises were chosen, which are examined in this study. In appendix 2 the references of these selected case studies are listed.

As seen from appendix 2, some case-companies were found in several sources, whereas some were found only in one particular source. Moreover, one criterion for the selection was the existence of own web pages. Typically organization's webpage offer the basics of their profile, goals, and operations. Besides, history and the description of the mission and vision, as well as key people and customers may be provided (Eriksson & Kovalainen 2008, 101). This criterion was chosen, because it was considered that all case examples are in the same position, and one has similar opportunities to draw the data.

## 4.2 Content Analysis as a Research Method

Content analysis is a method that analyses the contents of documents. The number of times that a certain item appears in the document shows its significance of particular ideas or meanings (Berelson 1971, 13; Grönfors 1982, 160–161; Scott 2006, 40). Content analysis originates from the 1940s, when it was especially used to study the presentation of information in the mass media about wartime. In fact, it began with examinations of written text (Neuendorf 2002, 25). However, content analysis was based more on particular assumptions, and over the next decades it was systematized as a distinct formal method. (Scott 2006, 40.) Later on, the use of content analysis has grown substantially. Especially, over the last years the development of the text content analysis software and the proliferation of online archives and databases have facilitated this growth (Krippendorff 2004, 257).

Content analysis has different purposes. According to Berelson (1971, 14–15), the five purposes are:

- to illustrate substance characteristics of message content
- to illustrate form characteristics of message content
- to make inferences to creators of content
- to make inferences to audiences of content
- to determine the influence of content on the audience

Besides this classification, content analysis can also be defined as a combination of qualitative and quantitative method for data analysis. The different research approach options in content analysis are illustrated in Figure 7.

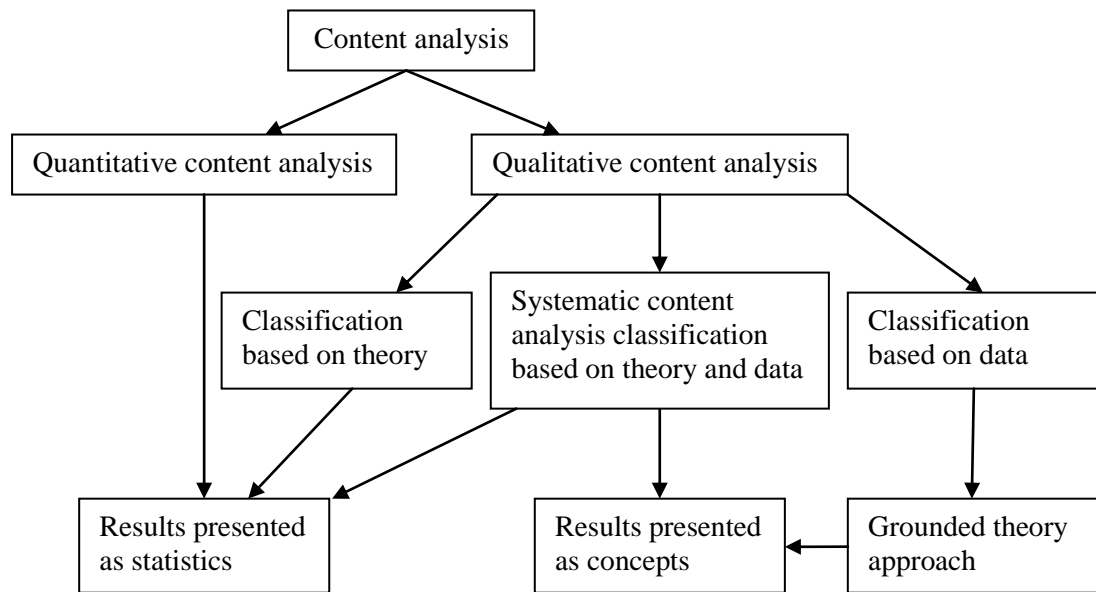


Figure 7 Content analysis approaches (adapted from Seitamaa-Hakkarainen 2002c)

As seen from the above figure, the research approach in content analysis can be either quantitative or qualitative. In quantitative content analysis the frequencies of specified words or phrases are analyzed with the help of statistics. Thus, results are naturally in the numeric format. Classifications are normally selected beforehand, and are not allowed to be changed during the research. In qualitative content analysis, which is used in this study, the actual content functions as research subject instead of the frequencies of specified words or phrases. Qualitative content analysis can be divided into three categories depending on whether the content is classified based on theory, on data, or both theory and data. The content analysis based on data embodies the grounded theory –approach. Finally, the systematic classification enables to study the phenomenon both conceptually and statistically. (Seitamaa-Hakkarainen 2002c.) In this study both theory and data are analyzed hand in hand, and finally results are presented as concepts.

Content analysis is a research technique for making replicable and valid inferences from data to the context of their use. It is a tool that is crucial to be reliable. This means that researchers should get the same results in all circumstances when applying the same technique to the same data, and thus the findings should be replicable. Indeed, replicability is the most important type of reliability. Moreover, scientific research needs to yield valid results, meaning that the research endeavor is open for careful scrutiny. (Carmines & Zeller 1979, 11–12; Krippendorff 2004, 18.) In this study the data is reported so (see appendix 1 and 2) that researchers should find the same data and get the same results in all circumstances. Finally, it is important to note that although the results

would be reliable, it does not mean that they would automatically be valid, and vice versa (Carmines & Zeller 1979, 13).

In every content analysis the researcher has to have an aim, what she or he wants to know about, and the aim of the inferences must be clearly stated. The aim of this study is to describe *microfranchising as a new business concept*. This is done by answering different sub questions that were introduced in the first chapter. Moreover, it is essential to know in every content analysis which data are analyzed, how they are defined, and from which population they are drawn (Krippendorff 2004, 23–24). In order to calculate the relative significance of data in the overall message, it is endeavored to identify into clear and coherent categories (Scott 2006, 20). Different categories are seen in the appendix 2 that are formed according to the sub questions.

Content analysis is a practical and important tool of documentary analysis that provides objective and rigorous methods for data research (Scott 2006, 41). When considering the results, it is important that they are generally consistent and fulfill their explicit purpose (Carmines & Zeller 1979, 16). In this study the results fulfilled their purpose, and they answer to the research question. In conclusion, content analysis summarizes rather than reports all characteristics related to messages (Neuendorf 2002, 15).

Every research technique has its strengths and constraints, and so has content analysis (Ghauri 2004, 116). A researcher can misuse a technique or use a technique that is not coherent for a particular purpose (Grönfors 1982, 144–145; Krippendorff 2004, 40). The main benefits of using content analysis in contrast to other research techniques are presented next. Content analysis is an *unobtrusive technique* because it enables minimal inference and interaction of the researcher with the phenomenon analyzed. Moreover, it is possible to use *unstructured data* in content analysis. When the data are not readily analyzable as in surveys, and structured interviews, there are more likely to be found some unexpected findings. In addition, content analysis is seen *context sensitive*. This allows the researcher to process data that are meaningful, informative, and representative to others. Lastly, it is possible to handle *large volumes of data* when using content analysis. However, in the academic world the full potential of this is not exploited very often. (Krippendorff 2004, 40–43.)

Some of these strengths are possible to use in this study, whereas others are beyond the scope of the thesis. When analyzing the vicarious data, it is possible to observe microfranchising without being in contact with the microfranchises directly. Moreover, rigorous classification system is aimed to reveal the hidden symbolic meanings of the unstructured data. This classification system is presented next in the context of conducting the case study. Lastly, the amount of the research data is manageable to one person, but the computer is used in order to help the analysis.

With the help of content analysis, the content of data that is collected by means of qualitative methods can be examined. However, it is only a way to examine the data, not its behavior. Moreover, with the help of content analysis the collected data can be organized for conclusions, but conclusions cannot be drawn solely from collected data. To conclude, content analysis yields the information for theoretical consideration, but consideration itself will occur through researcher's logical thinking. (Grönfors 1982, 161.) Herein the comparison and researcher's logical thinking is coming to the picture.

### **4.3 Conducting the Case Study**

The research process is cyclical by nature, and the analysis of the data already starts in context with data collection. Also the familiarity as well as the development of classification of the data occurs cyclical. Besides that, classification categories may develop and change during the analysis. It may also happen that some extra data is needed to be collected. In other words, classification categories are flexible tools for conceptualization of the data. (Seitamaa-Hakkarainen 2002a.)

The progression of content analysis can be divided into four steps: (1) transforming data into text form, (2) developing a classification system and outlining a classification structure, (3) defining the analysis unit and segmentation of data, and (4) coding and reporting data. In order to analyze the data, it needs to be in text form (Seitamaa-Hakkarainen 2002b). In this study, however, the analyzed data are already in the written form, and thus no transformation is needed and therefore, the second phase is introduced next.

#### **4.3.1 *Developing a Classification System***

The development of a classification structure should be conducted carefully, because it has decisive implications. The classification system should consist in the research questions and previous theory framework. Moreover, the classification system can be built so that it is based on research data or on external classification system, frame of reference or theory. (Seitamaa-Hakkarainen 2002d.) In addition, the realization of classification is based on comparison. Comparison and confrontation are used during the analysis in order to classify the data into categories (Ghauri 2004, 119; Seitamaa-Hakkarainen 2002a).

According to Scott (2006, 20) clear and coherent categories will vary from study to study, in compliance with the nature of the data and the theoretical assumptions of the

researcher. Moreover, the analysis of qualitative data is fairly eclectic by nature, and thus there is no single way to formulate the classification categories (Seitamaa-Hakkarainen 2002a). The precise words, phrases or images must be identified that demonstrates certain category. The frequency with which the words, phrases or images appear, work as indicators of the importance of the category of meaning. However, the ambiguity of classification can be reduced through two criteria. Firstly, a set of categories must be exhaustive so that all relevant data can be classified into one of those categories. Secondly, the categories need to be mutually exclusive so that it is not possible to categorize research material into more than one category. (Scott 2006, 20–21.)

In order to segment the data, a classification system is needed, which is based on the research questions. There are three different sub questions, which are further divided into several different themes. These themes combine the theory and findings that were emphasized in the data. Mainly the benefits or challenges of microfranchising were used when considering the diverse themes for the classification system. An example of the classification system is seen below (Table 3).

Table 3 An example of the classification system

<b>Sub question 1:</b>				
Number of microfranchises	Number of microfranchisees	Number of employees	Created employment	Criteria for new microfranchisees

Above table illustrates the classification system, which is based on research questions. Furthermore, each sub question is divided into different themes that describe each question. In appendix 2, the whole classification system is seen in the horizontal axis.

#### **4.3.2 *Defining the Unit of Analysis, Coding and Reporting Data***

The third phase in the progression of content analysis is the definition of the appropriate unit of analysis. The unit of analysis can be for example words or phrases that convey a certain meaning, topic, or idea (Seitamaa-Hakkarainen 2002a). It is important to notice the difference between the unit of data collection and the unit of analysis, although they may sometimes be the same. The unit of data collection is the component on which each

variable is measured, whereas the unit of analysis is the element on which data are analyzed and for which findings are reported. (Neuendorf 2002, 13–14.)

At this point, the unit of analysis is defined for the purpose of this research. The individual articles and web pages are studied in order to get as detailed information from different microfranchises as possible. Moreover, the collected data are read through several times in order to analyze the data properly. Lastly, the collected information will be analyzed in the light of the research questions.

The fourth phase in the progression of content analysis is the activity of coding the data. In this context, this indicates to the process of writing memos or interpretations of the text or the unit of analysis, or simply assigning labels for the units of analysis. (Seitamaa-Hakkarainen 2002b).

There is a wide range of documents, varying from meeting agendas and evaluation reports to newspaper articles and budgets. Regularly documents are long and therefore some summarizing is needed in order to get a better understanding from the subject. In the theory and data, some specific themes were emphasized, which were summarized into the microfranchising case research table (Appendix 2). To be exact, these themes were the two most important benefits, namely job creation and specific training and one of the main challenges that is funding. Moreover, these themes were divided into four different categories, namely general information, job creation, specific training and partnerships, and funding. Comparably these themes were further divided into more specific questions, which are also illustrated in microfranchising case research table (Appendix 2).

Respectively, in appendix 1 the references of different case microfranchises are pulled together. A document summary form helps to put the document in context, clarifies the importance, and gives a brief content summary. Moreover, the document summary form can be coded, in order to facilitate the later analysis as well as to give a quick review of the documents. (Miles & Huberman 1984, 51–54.) In this study, however, no coding was needed due to rather small data.

#### **4.4 Evaluation of the Research**

*...a research procedure is reliable when it responds to the same phenomena in the same way regardless of the circumstances of its implementation.*

*(Krippendorff 2004, 211)*

In qualitative research, there are many ways, how general criteria of trustworthiness can be presented (Neuendorf 2002, 11–13). In this study the classification of Neuendorf

(2002) is presented. According to Neuendorf (2002, 11–13) content analysis relies on the scientific method, and there are seven methods that are important to take into consideration when evaluating the study. These are *reliability*, *replicability*, *validity*, *objectivity-intersubjectivity*, *an a priori design*, *hypothesis testing* and *generalizability*.

In content analysis, *reliability* is seen as the most important criterion for trustworthiness. The collected data have reliability, if it does not include any contradictions. Furthermore, the data may have reliability, although it would not have any validity. (Grönfors 1982, 175.) In content analysis, reliability represents gaining the same results when repeating the measurement process (Neuendorf 2002, 12). However, when human coders are used, this stands among others for intercoder reliability (Neuendorf 2002, 141). Moreover, the reliability and validity of the research can be enhanced by reporting the research implementation in detail. This should be continuous through the whole reporting phase.

In this study, the researcher is the only coder for the data. In order for another independent coder to be able to code and analyze the similar data by using the same decision rules, used decision rules in this study are planned to be descriptive and straight enough. Additionally, the analyzed data is also available to others, and further information is most likely to be published also after this study. Thus, there should be material to replicate the study with using the same frameworks. Because there is only one coder, the decision rules must be exact enough to facilitate reliable analysis.

In this context, also the *replication* is considered. *Replication* repeats a research with different cases or in a different context, in order to see if similar results can be attained every time. (Krippendorff 2004, 18; Neuendorf 2002, 12–13). In this study, because of the time frame and a limited number of case studies, cases were not repeated in a different context, and therefore it is difficult to say if the results would have been similar every time. Appendix 2, however, provides the references of the case examples used in the sample, thus providing an occasion to replicate the research.

*Validity* is the extent to which a measuring procedure sufficiently represents what humans agree on as the real meaning of the concept (Neuendorf 2002, 12). The inferences drawn from the available data need to withstand the test of independently available evidence in order to be valid. When considering making valid inferences from data, it is clear that much depends on the abilities and experiences of the individual conducting the research. For example, it is important to note, how to interpret the data or distinguish the possible symbolisms and hidden messages in the data. (Krippendorff 2004, 24–25). Thus, a measuring method is considered valid if it measures what its user claims it measures. (Krippendorff 2004, 313). According to Grönfors (1982, 178) practically the only way to prove the validity of the research is to describe the whole research process in such a detailed manner that it is expected to facilitate the



independent evaluation of the research. In other words, the greater the amount of detailed processes of the research, the greater the validity of the research.

Poverty has not alleviated in spite of several efforts, and thus the role of private sector and the topic of this study are seen current. In this study, the data collection is based on readily available information in the publications and web pages. The list of used publications and web pages refers to appendix 2. Because of the secondary data, however, it is not verifiable that every detail is valid. Nevertheless, most recently updated data was collected when possible.

Objectivity is desirable, because in a scientific research, it is crucial to provide descriptions of phenomena in a way that avoid the biases of the researcher. According to Neuendorf (2002, 11), true objectivity is difficult to gain, and thus all human research is naturally subjective. However, it is important to aim for consistency among research. Shared consensus is essential in the shaping of our ideas, which is referred as *objectivity-intersubjectivity*. In order to increase the misinterpretation of the researcher, collecting data and the analysis were not separated, and the analysis occurred constantly.

In response to the objectivity-intersubjectivity in this study, it may be noticed that the researcher had some training for the method of content analysis. Although the analysis were done carefully, the researcher found out that learning took place also during the analysis itself and therefore more training could have increased the trustworthiness of the study. As a final point, the researcher's knowledge of the languages used, English and German are addressed. The language of all case examples is in English and some of the theories in German, which are not mother tongues of the researcher. The experience and skills, however, of the researcher are sufficient due to almost two decades of language studies both in English and German. Moreover, the researcher has used both languages actively outside the academy while working in Germany and Austria almost for a year as well as taking part in international seminars and an exchange for six months in South Africa.

*An a priori design* can be seen as a part of the requirement of objectivity-intersubjectivity. However, Neuendorf (2002, 11–12) has separated it, in order to emphasize its importance. All decisions concerning the variables, their measurement, and coding rules should be decided before starting the observations. In this study, most of the decisions were conducted before, but some were defined by the data used (Seitamaa-Hakkarainen 2002c). This also refers to the nature of this research, namely inductive and deductive researches that were presented earlier.

When one or more hypotheses are taken from theory, the scientific method is normally considered as *hypothetico-deductive*. Every hypothesis is tested deductively, which means that measurements are made for each of the variables, and their relations are examined statistically to see if the assumed relation is true. If so, the hypothesis is supported and gives further support to the theory. (Neuendorf 2002, 13.) The aim of this

study is to describe microfranchising as a new business concept and build a microfranchising framework based on results, which is used to analyse, how the different microfranchise businesses fulfil the given objectives.

*The generalizability* of results is the extent they may be applied to other circumstances so that they are accurate for a larger population from which a study's sample has been drawn (Neuendorf 2002, 12). Within the time limits of this research, only nine case microfranchises were taken into consideration in this study, and thus this sample is not representing the entire population. To conclude, no generalizations can be done based on these results.

## **5 THE COMPARISON OF DIFFERENT MICROFRANCHISING BUSINESSES IN RELATION TO RESEARCH QUESTIONS**

The following chapter will focus on the empirical research findings. Firstly, the selected case companies will be introduced shortly. Secondly, the microfranchising framework will be developed. Finally, the research questions will be answered one by one using the developed framework.

### **5.1 Case Companies**

This study is based on nine different case companies, which are shortly introduced next. Moreover, the collective table of case companies is demonstrated in appendix 2.

#### ***Bangladesh Rural Advancement Committee***

More than 80% of worldwide poultry production takes place on small, family-based rural farms. The Bangladesh Poultry Model is a system of support for poultry rearers in Bangladesh, and today also internationally. The Bangladesh Poultry Model offers a practical and sustainable model which can be expanded to increase efficiency and profitability of rural poultry production throughout the world. The program is designed to increase agricultural output, decrease livestock mortality, raise farm income, and increase rural employment. The model is organized around an area office which provides training, support, and credit to participants.

Nowadays, Bangladesh Rural Advancement Committee (BRAC) is one of the largest Southern development organizations employing more than 120,000 people, with 61% women. BRAC reaches more than 110 million people with their development interventions in Asia and Africa, and they are working with the twin objectives of poverty alleviation and empowerment of the poor. The jobs BRAC is offering ranges from breeder, to feed supplier, to vaccinator.

#### ***Coca-Cola Entrepreneur Development Program***

In 1999, Coca-Cola's Southern Africa division, in conjunction with local bottling companies, began the Entrepreneur Development Program in South Africa to help local

entrepreneurs create and sustain a viable business. The Entrepreneur Development Program operates to help both the formal and informal sectors.

The Entrepreneurs Development Program trains the entrepreneur in essential business skills including developing a business plan, managing cash flow, and creating profit. The business models for selling the products vary including mobile mini kiosks and street bicycles. According to Gibson and Fairbourne (2005, 91) this microfranchising model has the potential to be replicated throughout the world. Furthermore, this model can be applied to other businesses with a wide variety of products.

### ***Fan Milk***

Fan Milk Limited produces and distributes a variety of nutritious dairy and drink products in Ghana. Its headquarters are located in Ghana, but a network of depots and agents make its products accessible throughout the country. It is the only dairy company in Ghana that sells its products by using street vendors on bikes.

Fan Milk offers microfranchise opportunities for people that would like to work as vendors. The bike is equipped with a cooler, and the vendor rides around the streets selling Fan Milk products. Fan Milk's products fall under two categories: milk-based (yogurt, ice cream and milk) and fruit-based (drinks and popsicles).

### ***Grameen Village Phone***

Village Phone has been replicated and adapted among others to Uganda and Rwanda from Bangladesh, where the initial model was established by the Grameen Bank. Grameen Village Phone works to increase access to reliable and affordable telecommunications for those living in rural areas, which are unconnected. Village Phone Operators (VPOs), who are mostly poor women and borrower members of Grameen Bank, provide phone access to the local community. Paying by the minute, remote villagers gain access to a phone. This approach allows nearly any microfinance institution (MFI) or other organization to develop a Village Phone product.

Village Phone Direct enables easy access to the equipment necessary to start a Village Phone business. It utilizes existing services available from telecommunications operators, and it provides training materials for creating a sustainable business. Today, they are also developing new ways to use mobile phones and other technology to benefit the world's poor.

### ***The HealthStore Foundation***

The HealthStore Foundation's (formerly the Sustainable Healthcare Enterprise Foundation, SHEF) CFW model is a network of micro pharmacies and clinics, whose mission is to provide access to essential medicines in underserved areas. The network operates two types of outlets; basic drug shops owned and operated by community health workers, and clinics owned and operated by nurses, who provide a deeper list of essential medicines as well as basic primary care.

Franchisees receive among others the right to use the CFWshops™ brand, training, ready access to high quality, affordable drugs, and continuing training. The CFW franchise operating system includes an operations manual complete with policies, procedures and forms constituting a turnkey management.

### ***Honey Care Africa***

Honey Care Africa is an innovative, quickly expanding Kenyan social enterprise launched to increase the income of rural farmers. Honey Care purchases the honey from farmers and sells it in local and international markets.

Honey Care provides a comprehensive package of services, which ranges from training to start-up financing, technologies and market access. This is in line with Honey Care's policy that strives to reach the millennium development goals. Honey Care cooperates with private sector organizations, development sector organizations, and rural communities. This partnership is called Tripartite Business Model.

### ***KickStart***

In Africa, 80% of the poor are small-scale farmers. They depend on unreliable rain to grow their crops. KickStart (formerly ApproTEC) promotes sustainable economic growth and employment creation in Kenya and some other African countries. Moreover, they develop technologies that can be used by dynamic entrepreneurs to establish and run profitable small-scale enterprises. KickStart found that irrigation would allow people to move from subsistence farming to commercial agriculture.

These MoneyMaker Irrigation Pumps that allow farmers to easily pull water from a river, pond or shallow well, pressurize it through a hose pipe and irrigate up to two acres of land. These pumps are easy to transport, install and retail, and they allow farmers to grow crops year-round. They are easy to operate and, because they are pressurized, they allow farmers to direct water where it is needed. They can grow higher value crops like

fruits and vegetables, get higher yields as much as 400%, and most importantly, they can produce crops in the dry seasons.

### *VisionSpring*

The mission of VisionSpring (formerly known as Scojo Foundation) is to reduce poverty and generate opportunity for the poor through the sale of affordable eye glasses. Across the developing world, hundreds of millions lose their livelihoods because they do not have access to eyeglasses. VisionSpring has developed a replicable, self-sustaining “Business in a Bag” model to empower local “Vision Entrepreneurs” to earn their living selling glasses. This model has proven successful in Asia, Africa, and Latin America.

Each Vision Entrepreneur receives their own “Business in a Bag”, a ready-to-go sales kit containing all the products and materials they need to market and sell glasses. Vision Entrepreneurs receive step-by-step training to conduct vision screenings, sell affordable eyeglasses, and refer those who require advanced eye care to reputable clinics. With business blueprints, Vision Entrepreneurs can easily learn to run successful, profitable businesses selling life-improving health products.

### *Vodacom Community Services*

Vodacom provides phone and fax services to the poor throughout South Africa via phone kiosks set up by Vodacom and operated by a franchisee. In 1993, Vodacom was issued a license to operate in South Africa with specific requirements that involved providing services to the poor who either had restricted or absolutely no access to phone lines. Kiosks receive a wireless signal, which is directed to stationary phones in a renovated shipping container.

Vodacom look for entrepreneurs who own and run the kiosks. Vodacom started by tracking cell phones with abnormally high numbers of calls each month, and they perceived that these people were self-motivated entrepreneurs selling air-time. After identifying the natural entrepreneurs, Vodacom trained them how to manage a mobile kiosk. At the moment, the demand for kiosks is greater than Vodacom is capable to develop them.

## 5.2 Building the Microfranchising Framework

In chapter 3 the theory of microfranchising was introduced. In this context, the framework for analysis of microfranchise opportunities of Christensen (2008) was introduced. This framework divided the origin of business idea into imported and local contexts, and the microfranchise sponsor into NGOs and MNCs. However, as seen in the chapter 3, Felder-Kuzu (2007) and Gibson (2007) declared that besides NGO or MNC, microfranchise sponsor can also be an independent business person or an established company.

Based on presented theory and case companies, however, the author found that Christensen's framework was slightly inadequate, because there were also individual and company franchisors that were not taken into consideration in this framework. Indeed, when collating the selected case companies, it came out from the results that there exists also a third microfranchisor sponsor, an individual company, who did not fit either in NGO or MNC category. Nevertheless, there was no single example from individual franchisor found in the case companies, and thus only individual company was added to this framework, but the aspect of individual company as a microfranchisor sponsor was added to Christensen's framework. This framework is presented below in Table 4.

Table 4 The microfranchising framework

<b>Origin of Business Idea</b>	<b>Microfranchise Sponsor</b>		
	<b>Individual Company</b>	<b>NGO</b>	<b>MNC</b>
<b>Imported</b>	Global Company	Global NGO	Global MNC
<b>Local</b>	Home-grown Company	Home-grown NGO	Home-grown MNC

In the above table, the vertical axis describes the origin of business idea, whereas the horizontal axis illustrates the microfranchise sponsor. In this framework, the categories were renamed so that business ideas that are local are called home-grown companies, NGOs or MNCs, whereas imported business ideas are called global companies, NGOs or MNCs. Thereafter these terms are used in this study.

Herein, it is reasonable to clarify the grounds for origin of business idea, namely home-grown (local) and global (imported) categories. The origin of business idea is

considered from the perspective of the microfranchise's current location. For example, Bangladesh Rural Advancement Committee (BRAC) is global NGO in this study, because it has been imported to Africa as such. In Bangladesh, however, it would be home-grown NGO due to its initial origin of business idea. Importantly, microfranchises that are established in Africa, and thus are home-grown (local), are considered home-grown microfranchises also in other African countries. Thus, this classification of home-grown is actually seen more as continental-wise as single-country-wise. Nevertheless, author did not find the name of continental microfranchise that illustrative and therefore the name is rather home-grown for these local business ideas.

The selected case companies can be situated in this framework so that different combinations of the origin of business idea and microfranchise sponsor are covered. In this framework the division of case companies is the following:

- global company: -
- global NGO: BRAC, Grameen Village Phone Direct, The HealthStore Foundation
- global MNC: VisionSpring
- home-grown company: Fanmilk, Honey Care Africa
- home-grown NGO: KickStart
- home-grown MNC: Coca-Cola Entrepreneur Development Program, Vodacom Community Services

It can be seen that the distribution between different categories is uneven. Moreover, there is not any case example of global company (individual company, whose business idea is imported). This, however, was seen as a natural hole in the framework, because it can be assumed that individual entrepreneurs or companies have their own, indigenous business ideas instead of imported ones.

When building the framework, it came up from the data that there are several different types of microfranchisees and microfranchisors, and thus the division to different categories is not always unambiguous. In the below table (Table 5), chosen microfranchises are placed so that if they cooperate with another microfranchise sponsor too, they are represented in the middle of these two sponsors.



Table 5 Studied case examples placed in the microfranchising framework

Origin of Business Idea	Microfranchise Sponsor		
	Individual Company	NGO	MNC
Imported	-	BRAC, Grameen, HealthStore	
Local	Fanmilk	KickStart	Coca-Cola, Vodacom

Honey Care Africa

As seen from the above figure, not all microfranchises are locating in the middle of the boxes. Honey Care Africa is partnering with NGOs so closely that they are in the boundary of individual company and NGO. Besides that, VisionSpring is likewise situating between the border of NGO and MNC. The only difference, however, is that the Honey Care Africa is local from the origin of business idea (home-grown), whereas VisionSpring is imported (global). In fact, it can be seen that there is no single microfranchise in this study, which is global MNC, because VisionSpring is actually a NGO that cooperates with MNC. Besides that, Grameen Village Phone Direct is working together with microfinance institutions (MFIs), which are not placed in this framework. Lastly it is important to note that all microfranchises partner with many different actors, although it is not seen in this framework.

The selected case companies are compared in relation to the microfranchising framework and to the research questions. Moreover, it will be studied if there can be found a congruent with the different origin of business ideas, microfranchise sponsors or industries. Next, the findings of case companies are analyzed in relation to the research questions.

### 5.3 Analyzing the Case Examples by General Information

As already mentioned earlier, these selected 9 case examples are located in Africa. Three of the chosen microfranchises (Bangladesh Rural Advancement Committee, Grameen Village Phone Direct, and VisionSpring) operate also in other continents, such as South America and Asia. In all these cases, they have been establish originally

somewhere else than in Africa, but they have been so successful that they have been imported to Africa.

As seen previously, microfranchising operates in various industries (Magleby 41–43). However, within the limits of this research, only the three biggest microfranchising industries in Africa were chosen, namely food services, health services, and telecommunications. Although there are only three different industries, it can be seen from appendix 2 that especially food services and health services provide several different products and services.

In theory, it is not clearly stated, who can be a microfranchisee. Appendix 2 illustrates that there are several different types of microfranchisees running the microfranchise business. These include among others women, individual entrepreneurs, and licensed nurses. The criteria for new microfranchisees will be seen later on in context with sub question 1. Moreover, it can be noticed that there does not seem to be any significant differences between selected industries whether who the microfranchisee is.

As seen, microfranchisors are usually independent business people, NGOs or MNCs (Gibson 2007, 26–32). However, as the definition of microfranchising and the roles of microfranchisors are still a bit blurry, it can be seen from the case examples in appendix 2 that also other possibilities for microfranchisors exist, such MFIs in the case of Grameen Village Phone Direct. Besides that, some private companies, NGOs and MNCs (herein Honey Care Africa and VisionSpring) cooperate together in order to establish a successful microfranchise. In this study there are three different types of microfranchisors, namely private companies, NGOs, and MNCs, which are seen in the horizontal axis in the microfranchising framework. When comparing these three different industries, it can be seen that food industry has all types of microfranchisors, whereas health services and telecommunications only have NGOs and MNCs as microfranchisor. An important observation, however, is that the two last mentioned industries only have two case examples each, while food industry has 5 case examples.

Respectively, in the vertical axis there is the origin of the business idea, which is either home-grown (local) or global (imported). Case examples show that the distribution between home-grown and global microfranchises is quite even. In reality, there are both local (4 cases) and imported (5 cases) microfranchises operating in Africa. In most cases the microfranchisor is a NGO when the origin of the business idea is global, whereas the microfranchisor does vary between given three factors in the horizontal axis when the origin of business idea is home-grown. Another remark is that the two case examples of health services are both global, but food services and telecommunications have both global and home-grown microfranchises. This raises the question if only global health service microfranchises exist in Africa.

Lastly, it is seen that the year of the foundation vary greatly between selected case microfranchises. The oldest microfranchise is Fanmilk, established on 1960, whereas others are established in the 1990s or in the 2000s in Africa. Nevertheless, Fanmilk has not gone in for microfranchising directly. In general, this is an interesting remark, because as seen in chapter 3, the concept of microfranchising was introduced in 2004 (Fairbourne 2006, 18). This shows that there have been several operating microfranchises already long before the concept of microfranchising was launched, which confirms that there are numerous microfranchise systems, although not all of the owners and operators are aware of the label “microfranchise” of their efforts (Gibson 2007, 26).

## **5.4 Analyzing the Relation of Microfranchising to Job Creation**

One of the biggest problems of developing countries is the lack of jobs available. In consequence, the relation of microfranchising to employment creation is studied. The first sub question is *how does microfranchising relate to employment creation?* This question is divided into different themes, which were supposed to give the answer to the question. These themes include location, the number of microfranchises, microfranchisees and employees, created employment as well as the criteria for new microfranchisees.

### **5.4.1 Location**

According to Gibson (2007, 34), one of the possibilities of microfranchising is that it creates new employment possibilities not only in large cities but also in rural areas. When looking at the results, it seems that microfranchises are established both in rural and urban areas. Moreover, a delightful fact is that all selected case microfranchises operate in rural areas. The location does not seem to be defined in compliance with microfranchise sponsor (individual company, NGO or MNC) or the origin of business idea (imported, local). However, whether microfranchising manages to lift people out of poverty, as successful enterprises have done in South Korea, China and India (Magleby 2006, 21), stays questioned.

Furthermore, many developing countries suffer from migration problem, when people from the rural areas are leaving to the bigger cities to look for jobs (Gibson 2007, 34). In case of the HealthStore Foundation, for example, many Kenyan nurses migrate to other countries in order to promote their careers in terms of higher wages, and more efficient health systems just to name but a few. However, the existence of CFW clinics

has diminished this problem by creating challenging jobs, and sustainable income among others (Fertig and Tzaras 2007, 172–173). To conclude, microfranchising can stem migration and help the development of rural areas in developing countries. (Gibson 2007, 34.)

#### **5.4.2 *Microfranchising in Numbers***

The number of microfranchises, microfranchisees and employees seems to vary a lot in selected case companies. As seen from appendix 2, there is a large distinction between the numbers of microfranchises. For example, HealthStore Foundation has 85 microfranchises whereas Vodacom Community Services has around 5,000 phone shops, not to mention Grameen Village Phone Direct, who has more than 25,000 microfranchises worldwide. However, Grameen Village Phone Direct is operating outside Africa too, which skews this comparison. In spite of all, it can be seen that NGOs and MNCs have more microfranchises than individual companies. Thus one can come to a conclusion that NGOs and MNCs have more resources to build a microfranchise than individual microfranchisors.

When looking at the number of microfranchisees it can be seen that home-grown microfranchises have basically more microfranchisees than global ones (VisionSpring does not have specified number for Africa). Furthermore, these home-grown microfranchise businesses are either individual companies or MNCs. As seen, this result is varying from the previous one. However, this result cannot be concluded so that NGOs have not educated many microfranchisees, but rather that NGOs have not informed the number of microfranchisees. To support this, Vodacom Community Services is the only case that has given both, numbers of microfranchises and microfranchisees. In other cases, only one data is found, which makes the analysis imperfect.

The results show that the number of microfranchises in food industry varies from 100 to 700 per microfranchise, whereas in health services this number is under 100 and in telecommunications the number of microfranchises is between 5,000 and 25,000. Thus it can be concluded that the industry of telecommunications has been the most successful when comparing the number of established microfranchises. When comparing the number of microfranchisees, the results are contrary. Then food industry has employed 3500-7000 microfranchisees per microfranchise, whereas health services over 6,000 and telecommunications over 1,800. In this light, the food industry has been the most successful. However, this study did not highlight any particular reason for that.

### 5.4.3 *Created Jobs*

According to Fairbourne (2007b, 2007c), Gibson (2007), and Christensen et al. (2010) employment creation is one of the greatest benefits of microfranchising. However, the results do not support theory completely. From the selected case companies in Africa, Vodacom Community Services seems to be most successful microfranchise in contrast to created employment, because they have managed to create approximately 25,000 jobs in South Africa.

It was said in theory that microfranchising creates jobs for the community (Fairbourne 2007c, 9). Nevertheless, also smaller microfranchises that employ only one person are possible (Magleby 2006, 67). This study shows that there are many microfranchises that employ only one person, the microfranchisee. Thus, in the analyzed case examples the effects on employment are not that remarkable as said in the previous literature. Besides, some of the microfranchises can also be seen as entrepreneurship or small microbusinesses. Moreover, it did not come up from the case studies, if the employees of microfranchises are mainly family members. Since typically small business entrepreneurs in developing countries are employing the owner and their family.

When comparing the number of employees between chosen industries, it is seen that the health services does not have any results. In food services, the number of employees was either unavailable or zero. Respectively, in telecommunications the number of employees is between zero and five. The comparison of the chosen industries can be seen quite inadequate because of lack of information, and thus the general view of the industries is impossible to generalize. Appendix 2 shows that only half of the cases have given the number of employees, from which most are home-grown. Thus in these case examples, the home-grown microfranchises have been more successful in creating jobs than the global ones.

It can be seen from the results that Vodacom Community Services is the only microfranchise that clearly jumps out from the results in proportion to other case examples, because each franchisor creates on average 5 direct jobs. Moreover, when comparing these results on Alon (2004, 158), where mentioned that each franchisor creates on average, approximately 13 direct and 20 or more indirect jobs per year, results concerning microfranchising are modest. However, it needs to be remembered that microfranchising is operating in a smaller scale compared to traditional franchising, and thus same effects on employment cannot be expected.

When looking at created employment in total, not only in Africa, it can be seen that NGOs and MNCs have created more employment than individual companies. Especially the biggest microfranchise operators have created a huge number of jobs. BRAC, Coca-Cola Entrepreneur Development Programme, Grameen Village Phone Direct, and

Vodacom Community Services have all created more than 10,000 jobs, from which Grameen Village Phone Direct have created impressive number of employment, namely more than 362,000 jobs. However, these numbers do not only include numbers from Africa. Lastly, whether the microfranchise is home-grown or global does not seem to have any influence on created employment.

Created employment cannot be compared between all three industries, because the results of health services are lacking. Nevertheless, it can be seen that in both industries, food services and telecommunications, the minimum is 1,500 jobs. The maximum varies from a bit less than 13,000 jobs in food services to 25,000 jobs in telecommunications. Moreover, it can be noted that in the both industries, the most successful microfranchises in relation to created employment have been home-grown MNCs.

As mentioned earlier, the informal economy presents one of the biggest development challenges at the moment (Henriques & Herr 2007, 43–47), and there are many constraints on entering the formal sector in developing countries (Unleashing Entrepreneurship... 2004, 18). It was seen that microfranchising is one of the most innovative methods to transform informal microenterprises into legitimate, viable businesses (Gibson 2007, 22). An interesting note from the case companies is the Coca-Cola Entrepreneur Development Programme, which operates both in informal and formal sector. The future will tell, if the Coca-Cola Entrepreneur Development Programme manages to upgrade those informal businesses into the formal economy.

Although the elapsed time for work was not studied more deeply, it came up from the results that it seems to vary in selected case studies. For example, 90 percent of VisionSpring's (global MNC-sponsored) employees work only part-time, meaning 3-4 hours a day. Moreover, four beehives of Honey Care Africa (home-grown individual company) requires only 30 minutes of labour every two weeks, which means that the revenue from beekeeping is only supplementary income.

To conclude, it is interesting that the creation of employment is said to be one of the main benefits of microfranchising. However, this does not come out from the case examples that clearly. Lastly, it can be remarked that the number of created employment is missing in two cases.

#### **5.4.4 *Criteria for New Microfranchisees***

There are many criteria for new microfranchisees. According to the results, themes such as education and literacy, experience from business or sales, start-up costs, age, electrical and land ownership permissions, and support from family came up. It seems that the expectations for starting a microfranchise are quite high, which highlights the question whether microfranchising is a workable model for the poor. Indeed,

Woodworth (2007, 95) have argued that microfranchising is more likely going to work for individuals who are better educated, and have the math and reading skills required.

In VisionSpring, which is global MNC, no literacy was required, whereas in Grameen Village Phone Direct, a global NGO, the microfranchisee should be literate or at least numerate. Therefore, one remark from this is that the MNC has built a more workable model for the poor than the NGO. Nevertheless, these results cannot be generalized because there were not more examples studied. In many case companies, however, it was required to have an already-existing business, a basic knowledge of proven business principles or sales experience. This collides with the previous results concerning for instance VisionSpring, where no literacy was required.

In some cases, it was assumed to have an own finance in order to build a microfranchise. Nevertheless, as seen in chapter 3, the average franchise cost for microfranchises range from US\$25 to 35,000 (Gibson & Fairbourne 2005, 110). If the start-up cost is high, this can limit the number of microfranchise entrants, who would like to start their own business. The role of microfinance, however, is further analysed later, in context with funding.

When looking at the criteria for new microfranchisees according to chosen industries, it can be seen that in food services microfranchisees are either chosen by the microfranchisors or they have to have the start-up fee in beforehand, whereas the previous education is rarely required. Respectively in health services, the HealthStore Foundation requires previous education, whereas VisionSpring does not require even any high level of literacy. However, the previous work experience and respect in the community are highly valued in the case of VisionSpring. Lastly, in telecommunications, one of the most important criterions is strong business management skills. Thus, it can be concluded that different industries emphasize different criterion for microfranchisees. Nevertheless, not any particular criterion for specific industry was found.

It was seen that women constitute the majority of informal economy workers almost in all developing countries and especially in Africa (Henriques & Herr 2007, 43–45). In microfranchising, Lehr (2008, 11) was emphasising the role of women, whereas Magleby (2006, 85) saw microfranchising as a gender neutral business. From the results, it can be noticed that some of the microfranchise models are suited especially to women. This is a positive result, if microfranchising manages to lift these businesses in informal economy into formal economy. Moreover, thus women improve their roles in the society, where their roles are usually limited. Lastly, it seems that microfranchises that recruit more women are global.

As seen, microfranchising puts quite high criterion for new microfranchisees. Most of the criteria and expectations for new microfranchisees are in contrast to the basic idea of the model, namely raise the poor out of the poverty. It was argued in the theory that

microfranchising is more likely going to work for individuals who are better educated, and have the math and reading skills required. In reality, these requirements can create a problem, because high literary level among others is not likely to occur in the developing countries. Thus it can be concluded that microfranchising does create employment, but the requirements for new microfranchisees might be too high. It is also argued that one does not have to be a real entrepreneur in order to be a successful microfranchisee, because microfranchising business model provides training. Thus, the role of training in the microfranchising business model will be studied next.

In conclusion, microfranchising relate to job creation, but not that closely as said in theory. According to the results, it seems that the existing microfranchises have not created that many jobs as indicated in theory. The reason for that did not come up from the results. Nevertheless, there are quite high expectations for new microfranchisees in many case examples, which may have an effect on the functioning of microfranchises. In addition, it can be assumed from the results that microfranchising can help the development of rural areas in developing countries. Moreover, there does not seem to be any particular factors that only describe certain microfranchise sponsors or the origin of business idea, which can result from the relatively small number of cases. Lastly, the information of criteria for new microfranchisees was available in all selected case microfranchises, whereas created employment was unavailable in two cases, and the number of employees only in five cases.

## **5.5 Analyzing the Relation of Microfranchising to Training and Partnerships**

When people are uneducated, the need to be familiar with the business model and specific training connected to that is important (Fairbourne 2007b, 10-11). The second sub question is *how does specific microfranchising relate to training?* This question was divided into different themes, namely help with site selection, training and consultancy, operational guidelines, mentor and network with other microfranchisees.

### **5.5.1 Help with Site Selection**

Gibson (2007, 34–36) states that microfranchisor helps microfranchisee with site selection. According to the analysed case examples, microfranchisee was helped with site selection approximately in half of the cases. There was no difference, if the franchisor was individual company, NGO or MNC. However, it looks as if home-grown microfranchises were giving more likely help with site selection than global ones. In



fact, global microfranchise businesses did not give any support with site selection. On the other hand, this is logical, because foreign organizations do not know the local situation that well. Moreover, it was seen in the context with entrepreneurship that the local knowledge is usually tacit by nature, which makes it more difficult for an outsider to identify, frame and estimate a potential opportunity (Hayek 1945, 524).

When comparing the results between the chosen industries, the results show that in all industries the help with site selection varies. There are always cases, where help is given as well as cases, where it is not given. Therefore, there cannot be any conclusions between these different industries. However, it should be further studied, if the help from site selection has an effect on success of the microfranchise. A positive remark is that only in one case the information was unavailable.

### **5.5.2 Training and Consultancy**

Fairbourne (2007b, 10-11) believes that specific training provided by the microfranchisor is important opportunity for the microfranchisee. According to Gibson (2007, 34–36), training belongs to built-in support systems, which is the incentive for both actors, since microfranchisors financial success is tied directly to microfranchisee. The results do strengthen this view, since training is included in all case companies. However, the content, quality and duration are not specified that clearly in all cases, which make it more difficult to analyse their importance in relation to success. For example, VisionSpring provides a three-day training session, where practise and business skills parts are divided, so does HealthStore Foundation. However, their training lasts four weeks, whereas KickStart provides simple instructions on how microfranchisees can achieve their sales goals. In proportion, Grameen Village Phone Direct provides a training outline that includes among others information concerning the loan, equipment, business operations, marketing and operational tips. Lastly, there cannot be seen any difference between different industries in relation to training. Furthermore, the duration varies approximately from 3 days to 4 weeks in all industries. In telecommunications, however, the duration is not clearly stated.

As seen, training is normally provided by the microfranchisor. In the case of Grameen Village Phone Direct, however, an interesting note is that the microfinance institution is providing the training for the microfranchisees. Respectively, Vodacom Community Services cooperate together with the private training company. According to the writer, the role of outsourced training should be further studied in future, in order to understand which educational methods are the most effective.

The cooperation between franchisee and franchisor should be continuous to ensure success (Fairbourne 2007b, 10-11). The role of ongoing support and consultancy

however, seems to be quite varying in selected case companies. Especially questions as to how often retraining is held, what is included, and who is visiting microfranchisees, came up from the data. For example, regional coordinators visit VisionSpring entrepreneurs every week, whereas KickStart did not report any continuous training available. In general, however, there is little information about KickStart's training. Between selected industries there cannot be seen any differences, because continuous training is provided in every industry. Nevertheless, the definition of constant visits is undefined, and therefore different descriptions concerning the ongoing support should be more precise.

### **5.5.3 Operational Guidelines**

Tested operational guidelines and different checklists help microfranchisee in day-to-day operations and long-term planning and reporting (Gibson 2007, 34–36). Approximately half of the cases provide operational guidelines to microfranchisees. Only Vodacom Community Services did not report delivering any operational guidelines, whereas Grameen Village Phone Direct, the HealthStore Foundation, and VisionSpring offer extensive instruction materials and sales tracking sheets. Thus, it seems that in analysed case examples global microfranchises offer more likely operational guidelines than home-grown ones. However, it did not appear from the data, how much these operational guidelines include theory and how much practice.

More importantly, it needs to be taken into consideration that not all microfranchisees can read. Furthermore, what is the function of the operational guidelines if the microfranchisee is illiterate? This can also influence the utilization rate of these guidelines, namely it is possible to assume that if the guideline is difficult to understand, it is not being used. Thus, some valuable information may escape microfranchisee's notice, which can influence on the success of the microfranchise.

As seen, operational guidelines are provided in most cases. In food services, in half of the cases the information is unavailable, whereas in half of the cases the operational guideline is offered. In health services the guideline is given, whereas in telecommunications Grameen Village Phone Direct provides operational guideline and Vodacom Community Services again does not provide any.

#### 5.5.4 *Mentoring, Networks and Partnerships*

Mentors (Gibson 2007, 34–36), partnerships and networks are important for microfranchising (Felder-Kuzu 2007, 222; Magleby 2007b, 135). In this study, this data was also collected, but there are quite many cases where the data is unavailable.

Coca-Cola Entrepreneur Development Programme and Honey Care Africa seem to be the only case companies that have reported about the mentor, in all other cases the information is either unavailable or no mentor is provided. The assistance of mentors is varying between these three industries, and these two cases that provide mentors are both in food industry. However, it should be further studied, if the microfranchisees consider mentoring as an important advantage or not.

Networks are seen positive that among others empower participators by widening their perspectives and giving them a voice. Moreover, networks tend to limit enormous failures because bad ideas are not likely to prosper. (Magleby 2006, 54–55). The results show that most microfranchises do have weekly, monthly or yearly meetings with their microfranchisees. Fanmilk and VisionSpring, for example, provide additional training included in these meetings, whereas Bangladesh Rural Advancement Committee holds meetings with their microfranchisees weekly. However, weekly meetings may be difficult to put into practice in rural areas, where distances are long. Lastly, Vodacom Community Services provide only a quarterly newsletter, which share the experiences of owners throughout the country. Thus it can be concluded, that networks with other microfranchisees vary from microfranchise to other.

When comparing the results between industries, it can be seen that the information was missing in two cases in food services and once in telecommunications. In food services the variation is from weekly meetings to annual meetings. In health services, however, there are group meetings held either once or twice a year. Finally, as seen Vodacom Community Services provides a quarterly newsletter. In consequence, it seems that in food and health services the personal network with other franchisees is in more important role than in telecommunication industry.

As seen, partnerships are important for microfranchising (Felder-Kuzu 2007, 222; Magleby 2007b, 135). According to the results, it can be noticed that governments, non-governmental organizations, private sector as well as the civil society play an important role in promoting microfranchising. Moreover, Felder-Kuzu (2007, 222) believes that the financial service providers, such as MFIs and microbanks are likely to become one of the key players in microfranchising. This is mainly because they are the most apparent funding sources both for the microfranchisees and local microfranchisors. The results support this argument and, for example, Grameen Village Phone Direct and Honey Care Africa, cooperate among others with local microfinance institutions. With the help of microfinance institutions, microfranchisors are able to provide loans for their

microfranchisees and thus facilitate their access to microfranchising. Besides, there are other partnerships such as churches, telecommunication providers and foreign donors cooperating with microfranchises too. Lastly, the information was easily available and only Fanmilk was lacking the data concerning this question.

The partnerships between these different industries seem to be quite similar. Food services lean mostly on local partnerships and governments, whereas in health services the partnerships vary. Partnerships with technology companies and telecommunications providers are in important role especially in the telecommunication industry. Thus, it can be concluded that there are partners such as NGOs, governments, and financial institutions in all industries, which shows that this model requires a lot of associates in order to work properly. This emphasizes the role of these important partnerships.

Finally, Fairbourne (2007b, 10-11) believes that the cooperation between franchisee and franchisor should be continuous to ensure success. Correspondingly, Magleby (2006, 53) believes that franchises empower their owners not only financially, but also emotionally and socially. In this study, however, Vodacom Community Services has encountered problems as microfranchisees have little incentive to maintain the containers that Vodacom possess. Nevertheless, Vodacom is committed to retaining the container ownership as a way to ensure brand consistency and recognition.

To conclude, microfranchising relate to training and partnerships very closely. Specific training was said to be one of the main benefits of microfranchising and the results did back this up. Nevertheless, the content, quality and duration could have specified more deeply in case examples. Between the different industries, there cannot be any remarkable differences seen. In addition, the importance of partnerships was emphasized more in case examples than in theory. This shows that the alliances between different actors are important in microfranchising.

## **5.6 Analyzing the Relation of Microfranchising to Funding**

As mentioned already earlier, one of the main criticisms of microfranchising has been its funding (Woodworth 2007, 95). Finance does play a vital role in some microfranchise cases, and therefore there was an incentive to study this further. The third sub question is *how does microfranchising relate to funding?* This question includes different themes, namely start-up costs, the supply of microfinance, and earned returns.

### 5.6.1 Start-up Costs

The average franchise cost for microfranchises range from US\$25 to 35,000 (Gibson & Fairbourne 2005, 110). In this study, the start-up costs were between US\$0 and 3,632. According to the data, the home-grown MNC Vodacom Community Services was the most expensive, whereas another home-grown MNC microfranchise, Coca-Cola Entrepreneur Development Programme was the cheapest. This is a positive result, because all case examples are far below the start-up cost given in theory, and thus more likely to work for the poor. Besides, Coca-Cola Entrepreneur Development Programme without any start-up cost is a positive exception. In all other microfranchise models the start-up costs vary between US\$25 to 1700, which shows that the start-up costs are quite reasonable compared to the amount given in previous literature. Nevertheless, the large variance in start-up costs given in previous literature raises the question, what is an affordable start-up cost, because not many people in developing countries can afford to buy a microfranchise with their savings if the start-up cost rises to many thousands?

The results show that there can be some differences between these three industries. The start-up costs are seen in the below table (Table 6).

Table 6 Start-up costs

Microfranchise	Start-up costs	Microfranchise	Start-up costs
<b>Food Services</b>		<b>Health Services</b>	
BRAC	US\$25 - US\$200	The HealthStore Foundation	Approximately US\$1,700
Coca-Cola Entrepreneur Development Program	US\$0	VisionSpring	US\$115 - US\$130
Fanmilk	US\$22 for a bike + US\$33 per day for products	<b>Telecommunications</b>	
Honey Care Africa	Around US\$160	Grameen Village Phone Direct	US\$50 - US\$300
KickStart	US\$350	Vodacom Community Services	\$3,500 + cost of transporting the container from US\$26.50 - US\$132

It can be seen from the above table that the start-up costs vary from US\$0 to 350 in food services, whereas from US\$115 to 1,700 in health services, and from US\$50 to 3,632 in telecommunications. To conclude, on average the food services are the most affordable microfranchise model in regards of the start-up costs, whereas health services

is the second, and telecommunications the most expensive. However, initial investments vary between these industries, which influence on start-up costs too. Therefore, no specific generalization can be done.

Lastly, although there is no start-up cost in the Coca-Cola Entrepreneur Development Programme, microfranchisees have to have some working capital. This fact was seen also in the theory (Lehr 2008, 11), but the amount of needed working capital did not come out from the data. Therefore, in order to establish a microfranchise, finding suitable finance for microfranchisee is usually needed. The supply of microfinance is discussed next.

### **5.6.2 *The Supply of Microfinance***

As seen, microfinance institutions (MFIs) provides working capital loans for self-employment, but usually does not offer business skills training or technical assistance necessary for the owner to run a successful business. (Gibson 2007, 17–26.) According to the results however, it seems that the Grameen Village Phone Direct does an exception. Their business idea is based on Grameen Bank, and for the loans they offer. With the help of these loans local people have an opportunity to establish a microfranchise, and they have at least two years to repay their loans. An interesting remark is also that the initial training of microfranchisees is offered by the microfinance institutions.

Some microfranchise businesses do not offer or require any microfinance opportunities, while some businesses depend on it (Christensen 2008, 167–168). Magleby (2006, 81) believes that successful microfranchisors will develop partnerships with financial institutions that allow most franchisee start-up capital. According to the results, only one MNC-sponsored microfranchise did provide some help for microfranchisees with financing, namely Coca-Cola Entrepreneur Development Programme, who provides access to working capital. However, because the model is otherwise for free, the need for credit is not clearly stated. The unsubstantial role of microfinance in MNC-sponsored microfranchises is quite interesting, because one could expect MNCs to have the capacity to provide loans for microfranchisees. Furthermore, there does not seem to be any particular difference here if the microfranchise is home-grown or global. Lastly, Vodacom used to finance microfranchisees before, but when the programme became so popular they dropped that. However, this is fairly against the programme due to payments required beforehand.

When looking at the individual companies and NGOs as microfranchisors, the results are more positive. Individual companies provide loans or at least required contacts. Most NGOs provide loans also, while only one case example, KickStart, does not.

KickStart, however, aims at low start-up costs, so that they can be recouped in only one month of operation. Moreover, the HealthStore Foundation is different from others by providing up to 88 per cent of the required start-up costs. All the other case examples provide loan either for the whole required start-up cost or none. After these diverse results, it would be interesting to know why the studied MNCs are not eager to provide any funding for microfranchisees. Finally, the supply of microfinance seems to be quite similar in all chosen industries, and no particular conclusions can be drawn.

Although the average repayment rates of borrowers are 97% (Hatch 2007, 102), another aspect of the finance is its solvency. Microfranchising can create a larger individual debt, and repayments that are clearly over their heads (Woodworth 2007, 96). This danger has also been found in this study, especially in the cases of Bangladesh Rural Advancement Committee and Grameen Village Phone Direct, whose repayment periods are short, from 4 months to one year. However, an average Ugandan Village Phone Operator (Grameen Village Phone Direct) earns about US\$360 per year, which does not leave that much room for manoeuvre for the microfranchisee. Another example is BRAC and its Poultry Programme, whose start-up costs vary from US\$25 to 200 and, the repayment period is also one year. On average, nevertheless, poultry rearers increase their annual income by US\$40, which means that microfranchisees are not necessarily capable of paying the loans back. Interestingly, these examples are both global NGOs, and this should be further studied in order to see if there is conformity.

Against the repayment problems, one solution could be a revenue share model, where start-up fees are reduced by concentrating more on revenue sharing based on sales (Lehr 2008, 11). It can be seen in appendix 2 that this model is used in Honey Care Africa, where each farmer pay the NGO a deposit of at least 10 percent of the value of the hives, and then at least 25 percent of the proceeds of each kilogram of honey sale is deducted as loan repayments from the entire loan. This is likely to attract more microfranchisees by lowering their barrier to entry and lowering their financial risk.

According to Fairbourne (2007c, 8) the existing network capacity of microfinance institutions is still the most powerful tool for reaching a large number of the world's poorest. However, integration of microfinance and microfranchising is beneficial because microfinance can provide the capital needed for self-employment, whereas microfranchising provides the training to run the businesses strongly enough to generate continuous growth in sales, jobs and profits. The analysed case studies support the theory (Christensen 2008, 167–168) that in some cases microfinance is needed in order to establish a microfranchise. Thus, it can be concluded that issues such microfinance, is one of the key factors in a microfranchises' growth and replication strategy. However, microfinance is not necessarily always needed, and therefore it would be useful to explore more, when the possible cooperation between these two is profitable.

### 5.6.3 *Earned Returns*

As seen in chapter 1, there are 4 billion people living on less than US\$2 per day (Prahalad & Hart 2002, 4). When looking at appendix 2, the findings are surprising, although some data concerning the income was unavailable. Some microfranchise models do not turn a profit more than US\$1 per day, whereas some models are so expensive that it takes relatively long time to repay the loan and service a debt. Moreover, Honey Care Africa and VisionSpring employ the microfranchisee only part-time, which means that one gets only supplementary income. In other words, microfranchisees may need another job in order to take care of their families.

In theory, no specific revenues are given. When looking at different microfranchise sponsors, it looks as if NGOs generate less return than individual companies and MNCs. Indeed, Bangladesh Rural Advancement Committee and Grameen Village Phone Direct are examples from global NGOs, and their results are somewhat shocking. In reality, the average poultry rearer increases one's annual income by US\$40 whereas Ugandan microfranchisee earns about US\$360 per year that both are less than US\$1 per day. Unfortunately, the example of Bangladesh Rural Advancement Committee is even more alarming. However, it is not said how much the poultry rearers earn normally, so it is impossible to say how much this increase of US\$40 bring additional value for them. Finally, when taking all the expenses from these returns, it can be concluded that these two examples are not quite profitable for the microfranchisee. Nevertheless, not all examples are that unsatisfactory.

As seen, home-grown microfranchises are on average more profitable than global ones in relation to earned returns. In fact, the results show that home-grown MNC Vodacom Community Services is the most succeeding microfranchise in terms of earned returns in this study, while home-grown individual company Fanmilk is the second. Besides, these individual companies and MNCs were generating more returns when compared to NGOs. However, the ground for that does not come up from the results, but this should be further studied in order to improve the profitability of NGOs.

Earned returns are varying between these three industries. Earned returns are seen in the below table (Table 7).



Table 7 Earned returns

<b>Microfranchise</b>	<b>Earned returns</b>	<b>Microfranchise</b>	<b>Earned returns</b>
<b>Food Services</b>		<b>Health Services</b>	
Bangladesh Rural Advancement Committee (BRAC)	On average, poultry rearers increase their annual income by US\$40.	The HealthStore Foundation (HF)	Community Health Workers earn an average annual income of US\$600-800, and nurses US\$1000-1400.
Coca-Cola Entrepreneur Development Program	Unavailable	VisionSpring (Scojo Foundation)	A microfranchisee can earn around US\$960 per year.
Fanmilk	An average annual profit of US\$1,430.	<b>Telecommunications</b>	
Honey Care Africa	A supplementary income of US\$200-250 per year.	Grameen Village Phone Direct	The average Ugandan VPO earn about US\$360 per year.
KickStart (ApproTEC)	Unavailable	Vodacom Community Services	Average revenues are approximately US\$14,280 per year.

It can be seen from the above table that two data were unavailable in food services. Their average annual earnings vary from US\$40 to 1,430, whereas from US\$600 to 1,400 in health services, and from US\$360 to 14,280 in telecommunications. Thus it can be concluded that the earned returns vary most in telecommunications, whereas in food and health services the fluctuation is more even. Both, in food services and in telecommunications, the minimum profits are below US\$2 per day, and in fact, unhappily under US\$1 per day. Respectively, the maximum profits vary from around US\$4 per day in food and health services to US\$39 per day in telecommunications. These maximum profits are already making difference to the poor, but the minimum profits should also rise to higher level in order to alleviate poverty. Thus, it can be concluded that the both examples of health services are generating profitable income for microfranchisees, whereas in food services and telecommunications there are both good and weak examples of operating microfranchises.

Some microfranchise businesses support microfranchisees by compulsory savings accounts. The money for these savings accounts is funded from, for example, microfranchisees' franchise fees, and rents. Respectively, these savings are for retirement, health insurance bonuses or a rainy day support. (Magleby 2006, 58.) Indeed, here a positive remark is that, Fanmilk requires vendors to save US\$ 0, 55 per day, and this is put aside. When the vendor leaves the company, they receive this money back. However, it is not mentioned if the microfranchisor pays dividends for these

savings. This raises the question whether these savings are to finance microfranchisor's businesses, or sincerely to support the microfranchisee. If the microfranchisee gets marketable interest for one's savings, this kind of backing from the microfranchisor can be seen positive in the name of microfranchisee's future. Nevertheless, there need to be enough returns in order to save any money.

In conclusion, microfranchising relate to funding quite remarkably in many cases. Although the start-up costs were much lower in case examples, than in theory, it came up that funding is often needed in order to establish a microfranchise. Moreover, the results demonstrate that earned returns vary greatly in studied case examples. Lastly, it can be noticed that information for this sub question was best available, when comparing to other sub questions. Only in earned returns two microfranchises were missing the data, whereas start-up costs and the role of microfinance were informed in full. These microfranchises that were lacking the information were both home-grown, although they were different from microfranchise sponsor. In a way, it is quite remarkable that the role of microfinance is better reported than created employment.

## 6 CONCLUSIONS

*The best time to plant a tree is twenty years ago.*

*The second-best time is now.*

African proverb (in Moyo 2009, 155)

This study has presented and conducted an empirical research concerning the new business concept to poverty alleviation, namely microfranchising. In the following chapter, theoretical and managerial conclusions are presented as well as some limitations and suggestions for further study will be presented.

### 6.1 Theoretical Conclusions and Discussion

The role of the private sector in poverty alleviation has changed during the last decade, and this study concentrated on the private sector, especially on the microfranchising approach. Nevertheless, it was seen that other introduced concepts, informal sector, entrepreneurship, franchising and microfinance, all complete the theory of microfranchising.

According to the literature, microfranchising is a promising tool for poverty alleviation (Gibson 2007, 24). The research of microfranchising is still in its infancy, and this study strengthened the view that already existing classifications of microfranchising are still lacking. In consequence with that the microfranchising framework (Table 4) was built. This framework combines Christensen's (2008) framework for analysis of microfranchise opportunities as well as previously published theory (e.g. Fairbourne 2006, 2007b, 2007c). This framework was used in the analysis in order to compare the selected case studies to others. In author's view this framework can also be widened to apply other developing countries as well as other microfranchise industries too. Moreover, the definition of microfranchising concept should be more precise, because there is no mutual understanding about the size and scale of microfranchising, just to name only a few.

It is not clearly stated in theory what the criteria for new microfranchisees is in general. Nevertheless, it was seen in the study that there are several criteria for new microfranchisees that vary from microfranchise to microfranchise. These criteria should be documented more literally in order to facilitate the access of the poor to this new business concept.

In addition, the role of women in microfranchising should be studied more in theory, namely their role is varying from gender neutral business (Magleby 2006, 85) to emphatic role of women (Lehr 2008, 11). Besides, the role of women came out in

context with the informal sector, and microfinance as well as with some case examples. In this study, it was seen that many global microfranchises, namely Banglades Rural Advancement Committee, Grameen Village Phone, and VisionSpring, favor women microfranchisees. Thus, the role of global microfranchises regarding to women microfranchisees should also be explored.

In proportion, the roles of microfranchisors are illustrated well in theory. It was seen that microfranchisor can be an independent microentrepreneur, established company, NGO or MNC. Nevertheless, the results brought out that some microfinance institutions may operate as microfranchisors, and thus it can be concluded that the microfranchising theory is incomplete in this context. Besides, theory concerning the individual entrepreneurs, who establish microfranchises is lacking. It can be thought that there are many different individual entrepreneurs in developing countries that have used this business concept. However, since they are working in such a small scale, these examples are not in the public domain. It would facilitate the research field, if there would be more information about local activities in developing countries.

Although the roles of microfranchisors are illustrated well in theory, there is need to report more from their operations. For example, the BOOT Model of NGOs was introduced in theory, but this kind of process did not occur in case studies. Besides, other undefined details include information about the establishment of microfranchises, balance sheets, good and unsatisfactory practices and so forth. With the help of these details, it would be easier to measure the success factors of different microfranchise businesses. For example, whether some of the microfranchise businesses work better in some certain countries, or if there is a significant difference from where the business idea originates. Or whether one of the microfranchise sponsors is more effective than others? Answers to these questions would help the future microfranchisors in the dissemination of these success factors.

Microfranchising has several benefits and challenges. The below figure (Figure 8) summarizes the main findings of this study.

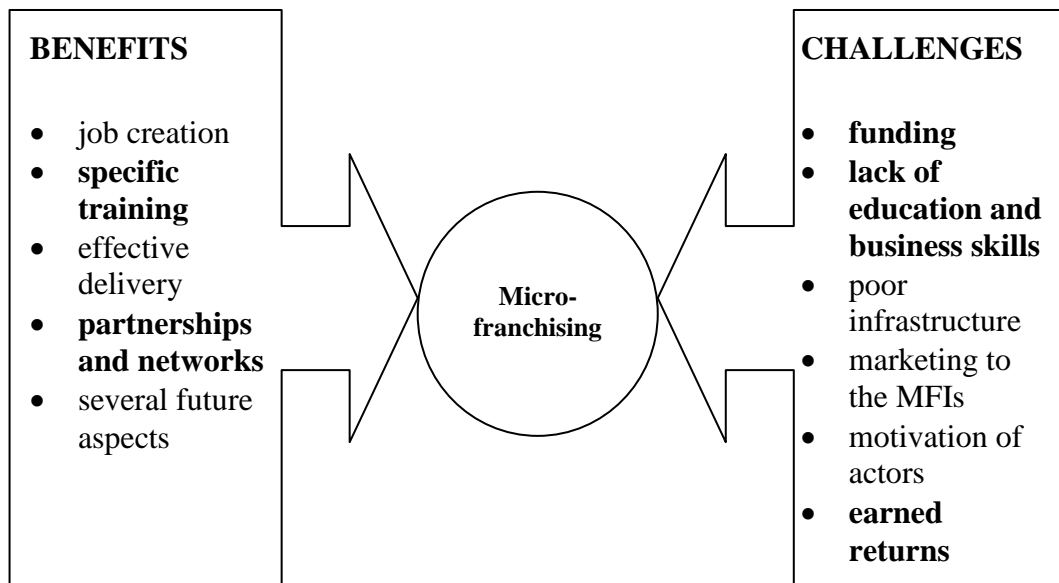


Figure 8 Redefined benefits and challenges of microfranchising

The above figure illustrates the redefined benefits and challenges of microfranchising. In this figure, those benefits and challenges that were emphasized in analyzed case examples are in bold. Thus it can be seen that not all benefits and challenges appear the same in analyzed case examples as in theory. Besides, earned returns are added to the challenges of microfranchising.

Microfranchising has several benefits. In this study two different divisions were introduced. First included: job creation, specific training, and effective delivery (Fairbourne 2007b, 10–11), whereas the second emphasised the role of microfranchising in addressing the following problems: the shortage of competence to develop a successful business, the shortage of jobs in developing countries, and the shortage of commodities and services available to the poor. However, the analyzed case examples did not support these classifications fully as already seen from the above figure (Figure 8).

There is little information concerning the creation of jobs. Indeed, job creation is emphasized in theory but no specific numbers are given. It is said to be one of the main benefits of microfranchising, but this does not clearly occur in the analyzed case examples. Either the data was unavailable or the result did not touch the numbers given in traditional franchising in Africa, where each franchisor creates on average approximately 13 direct jobs and 20 or more indirect jobs per year (Alon 2004, 158). However, it needs to be remembered that microfranchising is operating in a smaller scale compared to traditional franchising, and thus same effects on employment cannot be expected. The shortage in reporting can also result from the novelty of the business

model, but the creation of jobs should be reported more specifically in order to prove efficiency of the model. Besides, the numbers of direct and indirect jobs would be valuable information too. Equally the role of effective delivery or shortage of commodities and services available to the poor were not emphasized in case descriptions, although they were highlighted in theory.

Specific training provided by the microfranchisor is important opportunity for the microfranchisee. It was seen that the results do strengthen this view, because training is provided in all microfranchises. Nevertheless, the content, quality and duration of these trainings could be reported more specifically. With the help of this information, the effects of these trainings could be improved. Moreover, these recommendations relate also to operational guidelines, where it was seen that in analyzed case studies global microfranchises offer operational guidelines more likely than home-grown.

Partnerships and networks are important for microfranchising (Felder-Kuzu 2007, 222; Magleby 2007b, 135). These built-in support systems include among others mentor and network with other microfranchisees (Gibson 2007, 34–36). In reality, the results support theory. Moreover, partnerships and networks with other microfranchisees are better documented than mentors' availability. Nevertheless, it would be useful to examine in theory whether these built-in support systems are valuable or not.

Finally, according to Hatch (2007, 108) the family of micros could be expanded by microinsurance, microhealth care, microhousing and so forth. Furthermore, these could generate an increasing number of jobs for unemployed people. This study, however, did not elicit any information concerning this expanded microfamily. All in all, it can be concluded that the microfranchising framework (Table 4) that was developed for this study can be used in later studies. It is a simple classification of diverse microfranchise sponsors in the microfranchise business, as well as different business origins that exist (global versus home-grown).

One of the main challenges of microfranchising has been its funding. It was seen that microfinance institutions provides working capital loans for self-employment, but usually does not offer the business skills training or technical assistance necessary for the owner to run a successful business. Fairbourne (2007c, 8) sees the partnership between microfinance and microfranchising promising, whereas Christensen (2008, 153) does not see the relationship between microfinance and microfranchising that clear. According to the analyzed case examples, microfinance is needed in many microfranchises. Therefore, the supply of microfinance and its cooperation with microfranchising should be studied more. Moreover, there is a need to study the repayment periods as well as the role of different investors, namely microfinance institutions, as well as private and commercial investors ought to investigate. Lastly, an interesting remark is that only one MNC-sponsored case example provided some help

for microfranchisees with financing, although one could expect MNCs to have the capacity to provide loans for microfranchisees.

It was seen that in previous literature that the start-up costs vary from US\$25 to 35,000. However, in this study the start-up costs were between US\$0 and 3,632. It would be useful to study what is an affordable start-up cost for the poor. Lastly, there is nearly no information about earned returns in theory, which makes the comparison between case examples difficult. In this study it appeared that individual companies and MNCs were generating more returns when compared to NGOs. However, the ground for that does not come up from the results, but this should be further studied in order to improve the profitability of NGOs. Lastly, some case examples reported from revenue share models and compulsory saving accounts. In reality, such issues can be key factors in a microfranchises' growth and replication strategy.

Woodworth (2007, 95) have argued that microfranchising is more likely going to work for individuals who are better educated, and have the math and reading skills required. In the analyzed case examples it seem that the expectations for starting a microfranchise are quite high, which highlights the question whether microfranchising is a workable model for the poor. According to the results, themes such as education and literacy, experience from business or sales, start-up costs, age, electrical and land ownership permissions, and support from family came up. It seems that the expectations for starting a microfranchise are quite high, which highlights the question whether microfranchising is a workable model for the poor.

It was seen that there are 4 billion people living on less than US\$2 per day (Prahalad & Hart 2002, 4), and it is believed that by increasing the number of small businesses and social entrepreneurs as microfranchises will help dramatically lessen global poverty (Magleby 2007a, 2). However, in terms of earned income, the analyzed case examples do not support this. Some microfranchise models do not turn a profit more than US\$1 per day, whereas some models are so expensive that it takes relatively long time to repay the loan and service a debt. These are shocking findings and thus more research is needed. Because there were no specific revenues given in the previous literature, earned returns were added to the figure of redefined benefits and challenges of microfranchising (Figure 8).

Poor infrastructure, marketing to the microfinance institutions and the motivation of all actors involved were not emphasized in case descriptions, although they were highlighted in theory. Nevertheless, in order to run successful microfranchising businesses in the long run, an interesting question is also, how well franchises empower their owners not only financially, but also emotionally and socially (Magleby 2006, 53). Naturally there is an incentive to run the business successfully for microfranchisee's own sake in order to satisfy the basic needs. However, it can be challenging to microfranchisors, how to empower microfranchisees emotionally and socially so that

they run businesses as it is their own business. This problem was also seen in this study, when Vodacom Community Services encountered problems as microfranchisees had little incentive to maintain the containers that Vodacom possess. Thus, these kinds of challenges should be reported in order to find some solutions for them. To conclude, because some benefits and challenges were emphasized differently in analyzed case studies, it raises the question if the benefits and challenges mentioned in the previous literature are best describing microfranchising.

In general, the lack of information is challenging for the research of microfranchising. As seen from the microfranchising case table (Appendix 2), there was many boxes where the data was unavailable. In fact, this was a challenge for the analysis of the study. However, this study gave an overview of this research field, and an incentive to study more in order to build successful microfranchises.

## 6.2 Limitations and Suggestions for Further Study

This study has some limitations. More case examples would have been suitable in order to gain more reliable results. The build framework does not give exhaustive description about the classification, because some categories in the framework included only one example. Moreover, found results are neither exhaustive nor generalizable due to incomplete data (see Appendix 2). Especially, the data about Bangladesh Rural Advancement Committee and KickStart were unfortunately scarce. Besides, some case examples had more information available than others, but only one case example, Vodacom Community Services, had all information gathered. Although all case examples have internet web pages, they are varyingly informative, and some web pages contain more information than others. Furthermore, there were differences in updating the web pages, and therefore some data are not simultaneous.

Because the research of microfranchising is in its early stages, there are many suggestions for further study. However, only the matters that are closely related to this study are in the author's interest to give any further suggestions. Future studies could address *the definition of microfranchising* more precise. Especially, *the individual entrepreneurs*, who establish home-grown microfranchises, would be valuable to study more. However, it is challenging to find any adequate data from these microfranchises, since they are operating in such a small scale.

In developing countries, the informal economy presents one of the biggest development challenges at the moment (Henriques & Herr 2007, 43–47; Women and Men – – 2002, 17), and there are many constraints on entering the formal sector (Unleashing Entrepreneurship... 2004, 18). Therefore, an interesting matter is the businesses' upgrading into formal sector. What is the risk that an individual



entrepreneur is an informal microfranchisor? Moreover, how to guarantee that this does not happen? These are questions of the public sector, which may complicate the research, because of varying governances and rule of laws in different countries. Nevertheless, microfranchising can be seen as an effective linkage between the informal and formal sector, which was seen in the Figure 3. An interesting case in this study is the Coca-Cola Entrepreneur Development Programme, who operates both in informal and formal sector, and thus does not support the previous theory. For that reason it would be important to reassess *the role of informal sector in relation to microfranchising* as well as to study more deeply *how effectively microfranchising transforms informal microfranchises into formal sector*.

Microfranchising is close by traditional franchising. Moreover, it was seen that franchises tend to be less risky and more profitable than totally independent enterprises both in the developing world as in the developed countries. (Magleby 2006, 43.) Nevertheless, Fairbourne (2007c, 9) reminds that there are lots to learn from traditional franchises when considering them as a useful practice for microfranchising. In that sense, it is crucial to study, *which traditional franchise models are suitable for microfranchising*. These possibilities to implement profitable microfranchises all over the world are almost endless.

As seen from the theory, one of the most important benefits of microfranchising is *job creation*. However, this did not appear that clearly from the data, and therefore further research would bring some new information about it. For example, how many jobs (direct and indirect) microfranchises are probably going to create? And are new microfranchises employing only the microfranchisee or also their families and some other community members? Nevertheless, in some results there are also additional information included, such as numbers from Asia and Latin America. This distorts the results, but in these cases there were not any detailed numbers available only for Africa. Therefore, the different locations should be evaluated separately. Lastly, it is seen from the results that they did not highlight the role of effective delivery, which is mentioned to be one of the main benefits. In the author's view, the main benefits should be reassessed in the future studies of microfranchising.

*The content of initial training and its influence on success* should be further studied. As seen, there are high expectations for microfranchisees in some microfranchise models. However, how likely these microfranchises are going to reach and work for the poorest of the poor? And what is the role of different actors in the field of training? Moreover, the role of partnerships and networks such as public, non-profit, corporate and civic sector in microfranchising as well as their impact on success would be useful to study. As seen from the results, home-grown microfranchisors gave help with *site selection* more likely than global ones. For example, this kind of issue, if the assistance

with site selection has an effect on success of the microfranchise, it would be important to measure.

Future studies could address *the role of microfinance* in microfranchising. Future researchers would benefit from studying the content of the loans, the cooperation between microfinance and microfranchising as well as the conditions for granting a loan. For example, are financial services offered together with the collection or delivery of other products or services as was mentioned in theory? Besides, *the amount of start-up costs* should be reassessed.

Lastly, *the earned returns* should also be studied in order to see, how successful the microfranchising concept is in the long run. For example, it was found that individual companies and MNCs were generating more returns when compared to NGOs. However, the ground for that does not come up from the results, but this should be further studied in order to improve the profitability of NGOs. Nevertheless, one weakness of this study was that the data was not updated simultaneously. For instance, exchange rates may have changed greatly which influence on the results. Besides, in earned returns some are net whereas others gross revenues, which dilute the reliability in some extent.

All in all, there is still a lot to study in order to improve this new business concept. However, this study has shown that microfranchising has its potential to alleviate poverty, although there are still some obstacles on the way. What is certain is that more research is needed.

## 7 SUMMARY

Widespread poverty is an economic, social, political, and moral problem, which creates an urgent challenge for poverty alleviation. Different programs made to reduce poverty have not worked properly, and the benefits of foreign aid have been under severe scrutiny. After the turn of the new millennium, the discussion has widened due to continuous inequality in the world, and different actors have tried to find new solutions for this dilemma (e.g. Millennium Development Goals of the United Nations). Moreover, a transition from traditional development assistance to a more market-base viewpoint can be seen.

In reality, the role of the private sector in poverty alleviation has changed during the last decade, and the involvement of the private sector in poverty alleviation is needed. The traditional development cooperation has not brought relief to the poor, and the gap between rich and poor keeps widening while environmental issues and terrorism among other things are of concern. Thus, this study concentrated on the role of private sector in poverty alleviation, especially on the microfranchising approach. The purpose of this study was to describe *microfranchising as a new business concept*. Consequently, this study attempts to answer the following sub questions concerning the possible benefits of microfranchising:

- How different microfranchisors can be classified?
- How does microfranchising relate to job creation?
- How does specific microfranchising relate to training and partnerships?
- How does microfranchising relate to funding?

In the beginning, some background to the business environment in developing countries was illustrated. Indeed, there are many concepts related to microfranchising, from which some were introduced in order to understand the backgrounds of this new concept. The majority of developing countries are suffering from high unemployment rates. People are also often uneducated and in order to survive on a daily basis, there is no other choice than to become an entrepreneur. Entrepreneurship is seen as a real engine of economic development across the years, and its different variations, microentrepreneurship and social entrepreneurship are closely related to microfranchising. These companies, however, are usually small in their nature.

These small and micro businesses are mostly in the informal sector, which creates one of the biggest development challenges presently facing the developing world. In fact, there are many constraints on entering the formal sector, but franchising is seen as a positive possibility to train uneducated people and to attract the informal economy business to the formal economy. Moreover, franchisor provides among others, support in assuring the start-up fund, ongoing training and guidance, operational procedures and practices, and right to use brand name, whereas franchisee pays franchising fees,

engagement to protect the franchise concept, daily commitment and so forth. These all apply also to microfranchising, which is the combination of franchising and microfinance. Besides, it was seen that microfinance includes not only credit, but also other forms of financial products such as savings, money transfers and insurance.

Secondly, the microfranchising theory was presented in order to understand the main elements of this business concept. Also the benefits and challenges were introduced in order to answer the sub questions of this study. It was seen that benefits include among others job creation, and specific training, whereas one of the main challenges is the funding of the microfranchise. Indeed, these three themes create the groundwork for this study and for the sub questions.

The content analysis was chosen to be the research method in this study, because it provides appropriate tools for the analysis of great amount of varying type of data. Within the limits of this research such as time frame, costs, and long distances only the secondary data was available. The research data consists of nine already operating microfranchise businesses that represent the three biggest microfranchise industries in Africa, namely food services, health services and telecommunications. To be exact, these case examples are Bangladesh Rural Advancement Committee, Coca-Cola Entrepreneur Development Programme, Fanmilk, Grameen Village Phone Direct, The HealthStore Foundation, Honey Care Africa, KickStart, VisionSpring, and Vodacom Community Services.

After introducing the research design, the empirical research findings were illustrated. With the help of Christensen's (2008) framework for analysis of microfranchise opportunities as well as previously published theory, new framework was developed. The framework is based on the origin of business idea (imported or local) and the sponsor of microfranchise (individual entrepreneur, NGO, or MNC). However, the names of the different categories were changed in order to clarify the framework, which is seen below (Table 8).

Table 8 The microfranchising framework

<b>Origin of Business Idea</b>	<b>Microfranchise Sponsor</b>		
	<b>Individual Company</b>	<b>NGO</b>	<b>MNC</b>
<b>Imported</b>	Global Company	Global NGO	Global MNC
<b>Local</b>	Home-grown Company	Home-grown NGO	Home-grown MNC

It can be seen from the above table that the origin of business idea is either global (imported) or home-grown (local). The microfranchise sponsor remained as individual company, NGO or MNC. Nevertheless, it was seen that the microfranchise sponsor can also be a combination of different operators, as in the cases of Honey Care Africa and VisionSpring. Within the limits of this study, however, these were studied as there is only one microfranchise sponsor, the original one. Finally, this framework was used in the analysis of the other research questions, and in the author's view this framework can also be widened to apply other developing countries as well as other microfranchise industries too.

One of the main findings was the lack of precise definition of microfranchising. Other findings concerning the benefits and challenges of microfranchising are summarized in the below figure (Figure 9).

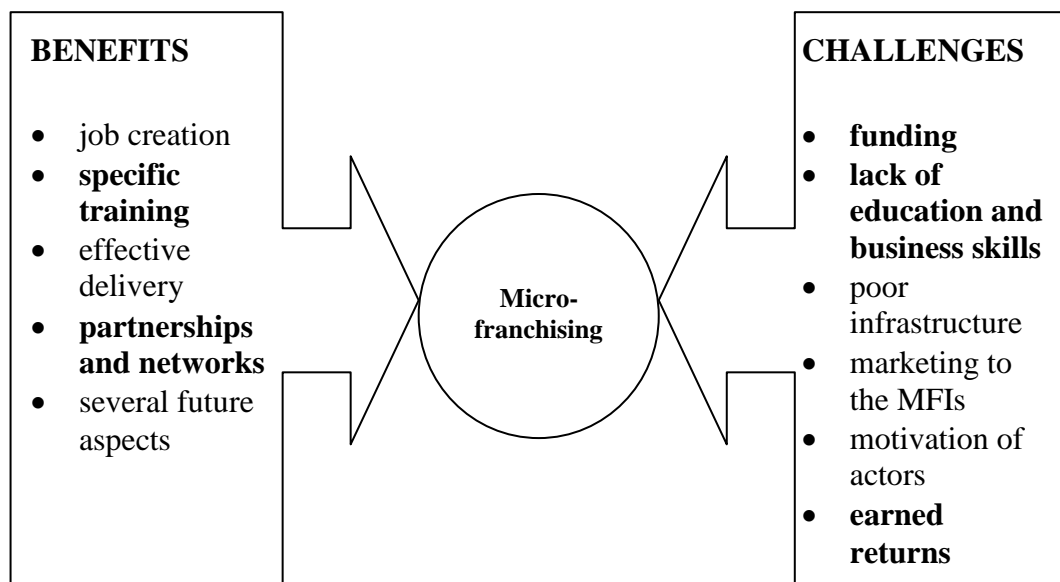


Figure 9 Redefined benefits and challenges of microfranchising

In the above figure, those benefits and challenges that were emphasized in analyzed case examples are in bold. Thus it can be seen that not all benefits and challenges appear the same in analyzed case examples as in theory. For example, job creation is said to be one of the main benefits of microfranchising. Nevertheless, this did not come out that clearly from the analyzed case examples. Most of the microfranchises employ only the microfranchisee oneself, and therefore the effects of employment are not that remarkable as expected. In proportion specific training as well as partnerships and networks were emphasized in the analyzed case examples.

In order to establish a microfranchise and pay the microfranchising fees, own finance is needed in most cases. Unfortunately, finance was not always offered by the

microfranchisor and therefore funding is seen as one of the main challenges. Besides, earned returns were added to the challenges of microfranchising. It came out that in some cases earned returns did not cover all expenses, and thus incurred some problems for the microfranchisees.

The functionality of microfranchising in practise was also questioned, because in many case examples literacy and other business experience were required in order to start a microfranchise business. This is an interesting notion, because it is said that training and consultancy is included in this business concept. According to the analyzed case examples training is always offered but the content, quality and duration are not specified that clearly in all cases.

As one has seen, microfranchising creates many opportunities, which should be taken into consideration in order to understand the real potential of this approach. Microfranchising seeks to alleviate poverty by applying the proven marketing concepts of traditional franchising to small businesses in the developing world. Due to high unemployment rates that most of the developing countries suffer from, these small businesses have a potential to create jobs and educate people. Indeed, one of the private sectors' strengths compared to the public sector is their efficiency. They use different tools to measure their businesses, and they know how to use these results to improve their performance. Therefore, it is reasonable to believe that microfranchising as a market-based poverty alleviation tool take advantage of its effectiveness also in developing countries.

Finally, it is important to notice that mainly economic effects of microfranchising were discussed, and that these effects may be totally different when considered, for example, from a political or social point of view. Moreover, the lack of information and relatively small sample decrease the trustworthiness of the study. Thus, more case examples would have been suitable in order to gain more reliable results. Although microfranchising is only one of the several activities by which poor people can achieve self-reliance, contribute to their national economies and take advantage of market opportunities in global markets, it can be concluded that microfranchising has good potential to alleviate poverty by offering proven business models, technical training, and so forth. Nevertheless, there is still lot to study in order to improve this new business concept, and therefore more research is needed. It will be seen what the future holds, and if this new business concept is going to work its way into mainstream.

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## APPENDIX 1 THE REFERENCES OF SELECTED CASE-COMPANIES

<b>Microfranchise:</b>	<b>Literacy:</b>	<b>Web pages:</b>
Bangladesh Rural Advancement Committee (BRAC)	Felder-Kuzu 2008; Gibson and Fairbourne 2005	<a href="http://www.brac.net">www.brac.net</a>
Coca-Cola Entrepreneur Development Program	Gibson and Fairbourne 2005	<a href="http://www.wbcasd.org">www.wbcasd.org</a>
Fanmilk	Christensen, Parsons, Fairbourne 2010; Gibson and Fairbourne 2005; Lehr 2008	<a href="http://www.fanmilk-gh.net">www.fanmilk-gh.net</a>
Grameen Village Phone Direct	Christensen 2008; Henriques and Herr 2007	<a href="http://www.villagephonedirect.org">www.villagephonedirect.org</a>
The HealthStore Foundation	Felder-Kuzu 2008; Fertig and Tzaras 2007; Lehr 2008	<a href="http://www.cfwshops.org">www.cfwshops.org</a>
Honey Care Africa	Gibson and Fairbourne 2005; Jiwa 2007	<a href="http://www.honeycarefrica.com">www.honeycarefrica.com</a>
Kick Start	Felder-Kuzu 2008; Gibson and Fairbourne 2005	<a href="http://www.kickstart.org">www.kickstart.org</a>
VisionSpring	Christensen 2008; Felder-Kuzu 2008; Gibson and Fairbourne 2005; Henriques and Herr 2007; Kassalow et al. 2007; Lehr 2008	<a href="http://www.visionspring.org">www.visionspring.org</a>
Vodacom Community Services	Christensen, Van Kirk, Wood 2007; Christensen 2008	<a href="http://www.vodacom.co.za">www.vodacom.co.za</a>

## APPENDIX 2 THE SUMMARY OF SELECTED CASE STUDIES

Basic information:								
Microfranchise	Microfranchisee	Type of microfranchisor (Individual company/ NGO/MNC)	Local/ Imported	Country	Microfranchise Model	Founded	Industry	Product/ Service
<b>Bangladesh Rural Advancement Committee (BRAC)</b>	Women farmers	NGO	Imported (to Africa)	Afghanistan, Bangladesh, Liberia, Sierra Leone, Southern Sudan, Tanzania, and Uganda	<b>NGO-sponsored Imported</b>	1972 in Bangladesh, 2006 in Tanzania and Uganda, 2007 in Southern Sudan, and 2008 in Sierra Leone and Liberia.	Food Services (Among others Agriculture, and Health Services)	A sustainable poultry production
<b>Coca-Cola Entrepreneur Development Program</b>	Individual entrepreneurs	MNC	Local	South Africa	<b>MNC-sponsored Local</b>	1999	Food Services	Coca-Cola products
<b>Fanmilk</b>	Not defined	Individual Company	Local	Ghana	<b>Individual-sponsored Local</b>	1960	Food Services	Milk, ice cream, yoghurt, ice lollies

Basic information:								
Microfranchise	Microfranchisee	Type of microfranchisor (Individual entrepreneur/ NGO/MNC)	Local/ Imported	Country	Microfranchise Model	Founded	Industry	Product/ Service
<b>Grameen Village Phone Direct</b>	Micro-entrepreneurs (typically women)	NGO together with MFIs.	Imported	Bangladesh, Uganda, Rwanda, the Philippines, Cambodia, Haiti and Indonesia	<b>NGO-sponsored Imported</b>	1997 in Bangladesh, and 2003 in Uganda, and 2006 in Rwanda.	Telecommunications	Telecommunications Service
<b>The HealthStore Foundation (HF)</b>	Licensed nurse or a community health worker	NGO	Imported	Kenya, Rwanda	<b>NGO-sponsored Imported</b>	2000 (Kenya) 2008 (Rwanda)	Health Services	Medical products and diagnostic services
<b>Honey Care Africa</b>	Rural farmers	Individual Company (Social enterprise)	Local	Kenya, Uganda, Tanzania	<b>Individual (partnership with NGOs)- Local</b>	2000	Food Services	Honey

Basic information:								
Microfranchise	Microfranchisee	Type of microfranchisor (Individual entrepreneur/ NGO/MNC)	Local/ Imported	Country	Microfranchise Model	Founded	Industry	Product/ Service
<b>KickStart (ApproTEC)</b>	Private entrepreneurs	NGO	Imported	Kenya, Tanzania, Mali	<b>NGO-sponsored Local</b>	Kenya in 1991, Tanzania in 2000, and Mali in 2004	Food Services (and Agriculture and Construction)	Oil Press (and water pumps and Brick Presses)
<b>VisionSpring (Scojo Foundation)</b>	Local women	VisionSpring (NGO) together with Scojo Vision, LLC (MNC).	Imported	Guatemala, El Salvador, India, Bangladesh, Ethiopia, Ghana, Kenya, Nigeria, South Africa and Zambia	<b>MNC-sponsored Imported</b>	2001, in Africa 2007	Health Services	Reading glasses, sunglasses and eye drops
<b>Vodacom Community Services</b>	A local entrepreneur	MNC	Local	South Africa	<b>MNC-sponsored Local</b>	1994	Telecommunications	Phone shops



Sub question 1:						
Microfranchise	Location	Number of microfranchises	Number of microfranchisees	Number of employees	Created employment	Criteria for new microfranchisees
<b>Bangladesh Rural Advancement Committee (BRAC)</b>	Rural	Unavailable	Unavailable	Unavailable	BRAC employs more than 120,000 workers. Around 3,400 jobs are in Africa.	Criteria for new microfranchisees vary between different programmes. For example, in Uganda microfranchisees are selected from BRAC microfinance groups, whereas in Tanzania they are selected by the BRAC branch office.
<b>Coca-Cola Entrepreneur Development Program</b>	Rural/Urban	Unavailable	7,000 people were trained between 2000 and 2001.	Unavailable	In 2000 alone, over 12,900 jobs were created.	The new entrepreneurs are selected based on their commitment and capability.
<b>Fanmilk</b>	Rural/Urban	Unavailable	7,000	0	Around 7,000 vendors	Start-up costs

Sub question 1:						
Microfranchise	Location	Number of microfranchises	Number of microfranchisees	Number of employees	Created employment	Criteria for new micro-franchisees
<b>Grameen Village Phone Direct</b>	Rural/Urban	More than 25,000 microfranchises in Africa and Asia.	Unavailable	0→	More than 362,000 Village Phone Operators (VPOs) to date, from which 1,500 VPOs are in Uganda.	There are several criteria for microfranchisees such as; microfinance institution member for at least one year, 100 percent repayment history, strong business management skills, literate or at least numerate, and ability to understand messages on the phone.
<b>The HealthStore Foundation (HF)</b>	Rural/Urban	82 shops and clinics in Kenya and 3 in Rwanda.	Unavailable	Unavailable	Unavailable	Licensed nurse or a community health worker with a nurse on staff
<b>Honey Care Africa</b>	Rural	Unavailable	Close to 3,500 small-scale farmers	0	Close to 50 staff + 3,500 "part-time" small-scale farmers	Project implementers select the people.

Sub question 1:						
Microfranchise	Location	Number of microfranchises	Number of microfranchisees	Number of employees	Created employment	Criteria for new microfranchisees
<b>KickStart (ApproTEC)</b>	Rural/Urban	More than 700	Unavailable	Unavailable	More than 1,500 new jobs created in oil pressing businesses, and over 8,000 in related activities.	Small-scale farmers, who have the start-up fee.
<b>VisionSpring (Scojo Foundation)</b>	Rural/Urban	Unavailable	All together 6,211 vision entrepreneurs. The number of microfranchisees in Africa is unavailable.	Unavailable	Unavailable	Most of the recruited VE's are women; high level of literacy is not required. Success factors that VisionSpring has found are: connection with church community, support from husbands and family, past experience with NGOs, sales experience, respect in the community and a friendly personality
<b>Vodacom Community Services</b>	Rural/Urban	Approximately 5,000 phone shops	Over 1,800 owners	Each phone centre provides jobs for an average of 5 employees.	Approximately 25,000	Microfranchisee must be South African, at least 21 years, convey business acumen and entrepreneurial spirit, have to be able to cover the start-up costs, electrical and land ownership permissions, and propose a feasible site.

Sub question 2:						
Microfranchise	Help with site selection	Training & Consultancy	Operational guidelines	Mentor	Network with other microfranchisees	Partnerships
<b>Bangladesh Rural Advancement Committee (BRAC)</b>	Unavailable	The duration and content of the training vary between programmes. In Uganda all participants receive at least four days of training in livestock husbandry, health issues and vaccinations. Also the production and conservation of fodder groups are included in the training. Regular refreshment courses are also provided. In Tanzania, the training of artificial insemination workers lasts for three weeks.	Unavailable	Unavailable	Relevant subjects are discussed in weekly meetings.	BRAC is working together with civil society, private sector, government and knowledge institutions.
<b>Coca-Cola Entrepreneur Development Program</b>	Yes.	Training includes skills such as pricing, stocking, forecasting, legal requirements, sales, customer relations, marketing, and advertising. The training is based on a standardized format handed down from Coca Cola Southern Africa; however it is increasingly being customized to meet the differing needs in each region. Different monitoring mechanisms are also available.	Training is delivered through written material by each of the bottlers.	Yes. The franchisee is mentored by the bottlers.	Unavailable	Local bottling companies and other business groups, NGOs, as well as the South African government.
<b>Fanmilk</b>	No. (Moving vendors)	Fan Milk offers to its Agents/Distributors equipment support (bicycles/push carts, deep freezers, and coolers), credit facility, and on-the-job training. There is also training on product handling and hygiene twice a year. Moreover, Fan Milk franchisees have the opportunity to rise in the organization (e.g. own a shop or sub-leasing bikes to other vendors)	Unavailable	Unavailable	Training sessions that are held twice a year.	Unavailable

Sub question 2:						
Microfranchise	Help with site selection	Training & Consultancy	Operational guidelines	Mentor	Network with other microfranchisees	Partnerships
<b>Grameen Village Phone Direct</b>	No.	Microfinance institution trains Village Phone Operators. Training includes business operation skills (such as financial basis, cash flow management and record keeping), marketing, and operational tips (such as the usage of the phone, timing calls and the calculation of the call charges).	Training outline includes among others information concerning the loan, equipment, business operations, marketing, and operational tips.	Unavailable	Unavailable	Local microfinance institutions, and non-governmental organization; technology companies (such as Nokia), and telecommunications providers.
<b>The HealthStore Foundation (HF)</b>	Yes.	Owners (10-20 new franchisees) have a four-week training program from business management to medical skills. After an outlet has been open for 3 months, there is a one day of "continuing information" training from central staff. In addition, there is support days each month provided by field officers. Also regular monitoring of individual locations (monthly evaluations) and a significant threat of closure if franchisees' cheat.	CFWshops manual, which includes business and clinical reference. However, these are disregarded by most microfranchisees.	No.	Annual reunion of all microfranchisees at CFWshops headquarters in Nairobi. There is an also monthly newsletter distributed.	HealthStore has three different classes of partners: government, foreign donors, and suppliers.
<b>Honey Care Africa</b>	Honey Care conducts a preliminary site evaluation in order to assess if the project will be sustainable in the long run.	Each training session lasts three days in groups of 25 people. An emphasis is on the practical skills development due to the low literacy level. Training can also be provided in the local dialect. District Bee keeping Officers (DBOs) help the farmers if they need assistance.	Written and basic pictorial reference material is provided for free. Complete Training Manuals will also be available on sale at an extra cost.	The staff of the NGOs and community-based organizations (CBOs) helps the farmers if they have any problems.	Annual Farmer Field Days or a Honey Harvesting Celebration.	Partnerships with a number of local NGOs and international development and financial institutions as well as Governments of Kenya and Tanzania.

Sub question 2:						
Microfranchise	Help with site selection	Training & Consultancy	Operational guidelines	Mentor	Network with other microfranchisees	Partnerships
<b>KickStart (ApproTEC)</b>	No.	KickStart provides simple instructions how entrepreneurs can achieve their sales goals.	Unavailable	Unavailable	Unavailable	For example numerous NGOs.
<b>VisionSpring (Scojo Foundation)</b>	No.	VisionSpring provides a three-day training session. This trains the franchisee in vision screening (how to do it, how to identify other potential eye problems, how to determine the strength of reading glasses, if the person should be referred to a clinic) and business skills (inventory management and care, which models are the most successful, how to recommend supplemental and preventative products, data collection and how to fill out the forms, how to conduct a marketing campaign). The ongoing training is provided by regional coordinators, who visit once every week or to replenish the stock.	Instructional materials, sales tracking sheets	No personal mentors.	VisionSpring holds regional meetings twice a year for all VE's, which includes additional training.	VisionSpring forms relationships with many different organizations in the various countries such as local NGOs, municipal entities, churches among others.
<b>Vodacom Community Services</b>	Microfranchisees are responsible for that, but Vodacom representatives works closely to evaluate the feasibility of a site.	Vodacom collaborate with the private training company to provide training to microfranchisees. Trainers and Vodacom representatives travel throughout the country to develop business competency (goal setting, profit maximization, financial statement development, and staff salaries and expenses, and human resources management). Vodacom is available to offer advice, insight and lessons learned, but there is no continuous training.	No.	No.	A quarterly newsletter "Ringers", which shares the experiences of owners throughout the country.	Vodacom operates in a close relationship with local entrepreneurs, government, local communities, and a technology company.

<b>Sub question 3:</b>			
<b>Microfranchise</b>	<b>Start-up costs</b>	<b>Supply of microfinance</b>	<b>Earned returns</b>
<b>Grameen Village Phone Direct</b>	US\$50-US\$300, depending on which elements of the kit are necessary, as well as the quantity purchased the shipping fees, and local taxes and duties.	Microfinance institutions offer a loan, which is repaid by the microfranchisee in 4-12 months (normally within one year).	The average Ugandan VPO earn about US\$30 per month (=US\$360 per year).
<b>The HealthStore Foundation (HF)</b>	The start-up capital is approximately US\$1,700.	HF provides up to 88 percent of the required start up capital. Franchisees make cash investment of \$200, and are given 3-5 years at below market interest rates to repay a US \$500 working capital loan. Another US \$1000 no-interest fixed capital loan is provided for store fixtures, signage, and tenant improvements to franchisees in good standing.	Community Health Workers earn an average annual income of US\$600-800, whereas nurses earn an average salary of US\$1000-1400, in where the variance is based on individual franchise sales.
<b>Honey Care Africa</b>	Around US\$160 for the four hives and necessary equipment.	Each farmer pay the NGO a deposit of at least 10 percent of the value of the hives, and then at least 25 percent of the proceeds of each kilogram of honey sale is deducted as loan repayments from the entire loan.	A supplementary income of US\$200-250 per annum.

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<b>Sub question 3:</b>			
<b>Microfranchise</b>	<b>Start-up costs</b>	<b>Supply of microfinance</b>	<b>Earned returns</b>
<b>KickStart (ApproTEC)</b>	The initial investment of US\$350 for the Oil Press. For the other products, the start-up fee varies from US\$100 to US\$1000.	KickStart does not provide any loans, but it is crucial for KickStart that the initial investment can be recouped in only one month of operation.	Unavailable
<b>VisionSpring (Scojo Foundation)</b>	Depending on the country, the initial setup for US\$115 to US\$130 is for free (this is rare) or on the consignment basis (postsale).	VisionSpring does not provide loans anymore.	A microfranchisee can earn around US\$80 a month.
<b>Vodacom Community Services</b>	\$3,500+cost of transporting the container from US\$26.50 to US\$132.	Vodacom does not help with the finance anymore. The programme became so successful that there is no need for funding anymore.	Microfranchisees retain one-third of phone shop calling profit or gross margin. Average revenues are approximately US\$1,190 per month for the owner. (= US\$14,280 per year)