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FACTORS AFFECTING PERFORMANCE OF INTERNATIONAL MICROFRANCHISES

Case of HealthStore Foundation

Master´s Thesis
in International Business

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1 INTRODUCTION

1.1 Microfranchising

Three billion of the world's population has to live on less than two dollars a day. Therefore, many people are forced into entrepreneurship in order to make a living. Unfortunately, they often end up with businesses that can barely stay afloat as 99 per cent of low-income individuals in developing countries lack the skills to build their own business from scratch (Microfranchise Ventures 2010). Many people around the world operate microbusinesses, but this increase in activity has not resulted in the increase of wages for everyone. Instead of a decrease in wage gaps, global income inequality has continued to grow. (Fairbourne 2006b.)

Many of these microbusinesses operate in the grey economy and they often have low-level organisations, low and uncertain wages, and entrepreneurs and employees do not benefit from social welfare and security. The informal status of these enterprises results in other constraints as well. Unregistered businesses cannot benefit from government support programmes, such as financial assistance, training and tax incentives. In some cases, they may even face extortion and harassment from local officials. When part of the informal sector, businesses face the same obstacles as traditional small and medium enterprises, in addition to suffering from additional operating challenges. (Bracken et al. 2006.)

Despite these challenges, people in many developing countries end up as self-employed due to the lack of better choices. Yet, many lack the necessary education and training to launch a successful business. Businesses are started based on limited market knowledge, with no business plans, and they are run without official bookkeeping, which could enable management to operate more efficiently. Because of these limited resources, in addition to the lack of entrepreneurial vision, marketplaces are often crowded with small businesses that end up being copies of each other. (Bracken et al. 2006.)

However, there is a new business concept that has gained traction in the past few years that could provide a solution to these challenges faced by microentrepreneurs. This new business concept is called 'microfranchising'. As the term 'micro' might suggest, microfranchising operates on the same principles as traditional franchising, but on a smaller scale. One important distinction is that microfranchises are located within bottom-of-the-pyramid (BOP) markets instead of developed markets, and they tend to be significantly smaller than traditional franchises (Fairbourne 2007).

The concept of franchising is familiar to most people and we often relate it to well-known Western fast food chains, such as McDonald's or Subway. Traditionally the

owner of a good or service, the franchisor, obtains distribution through a franchisee in exchange for a share of the profits (Entrepreneur). For the franchisor, franchising is a growth strategy that is used to expand the business to new geographic markets. At the same time franchising offers a way to overcome agency concerns and resource scarcity associated with growth (Combs & Ketchen 1999). The franchisee, on the other hand, can utilise the proven business model provided by the franchisor and leverage the advantages that are brought by an established brand and standardised business format (Kaufmann & Dant 1996).

Franchising is associated with economic success in countries. As can be seen in Table 1, there is a positive correlation between the number of franchise systems in operation and per-capita GDP. This can be accredited to the fact that strong franchises are able to provide jobs, create wealth and increase incomes. The effect is the same whether in developed economies such as the United States, and developing economies such as Malawi. (Microfranchise Ventures 2010.)

Table 1 Strength of the franchise economy and per-capita GDP (2008 estimates)

Country	**Per capita GDP ($)**	**Franchise systems in operation**
U.S.	47,000	15,000
Spain	34,600	3,200
Brazil	10,200	1,400
Ecuador	7,500	200
Philippines	3,300	150
Malawi	800	8

Source: Microfranchise Ventures (2010)

The United States economy can provide excellent examples of the tremendous effects of franchised businesses on an economy. In 2016, franchised businesses operated over 801,000 establishments in the United States. This figure includes establishments owned by both franchisees and franchisors. Franchised businesses in the United States also directly provided nearly nine million jobs, generated 868 billion dollars of output, and produced over 541 billion dollars of gross domestic product. In 2016, franchised businesses directly provided more jobs that all manufacturers of durable goods. (IFA Education and Research Foundation 2016.)

Table 2 Direct contributions of franchised businesses to the United States economy in 2016

	In franchised businesses	Per cent of United States nonfarm private sector
Jobs	8,968,000	5.6%
Payroll	$351.1 billion	3.8%
Output	$868.1 billion	2.8%
GDP	$541.1 billion	3.4%
Establishments	801,153	2.3%

Source: IFA Education and Research Foundation (2016, 14)

However, the effects of franchised businesses are not limited to their direct contributions. As Table 3 shows, the total contributions of franchised businesses to the United States economy in 2016 were double of what the direct contributions were. This is due to the fact that franchised businesses demand products and services from other businesses. As such they are providing income to their workers and owners, who in turn spend their money for a trickle-down effect. As this cycle is repeated, jobs, payroll, output and GDP that are originally provided by franchises expand way beyond the original figures.

Table 3 Total contributions of franchised businesses to the United States economy in 2016

	Because of franchised businesses	Per cent of United States nonfarm private sector
Jobs	16,077,500	10.1%
Payroll	$723.2 billion	7.7%
Output	$2,080 billion	6.8%
GDP	$1,200 billion	7.4%

Source: IFA Education and Research Foundation (2016, 15)

Franchising has established itself as a strategy for growth across many different industries, including business and financial services, construction, cleaning, food, medical, and recreation (Franchising.com 2010). Franchising is regarded to be a strong means of growth in both developed and developing economies (Welsh et al. 2006). The success of franchising across a wide array of industrial and geographical settings has spurred research interest in whether franchising could be utilised in BOP markets (Henriques & Nelson 1997; Kistruck & Beamish 2010).

Microfranchising is equivalent to traditional franchising in the sense that in both models one party purchases the rights to operate a specific business model from a

second party (Christensen et al. 2009). Traditional franchises pose problems in low-income countries due to their high price. In the United States, the average franchise costs around 250,000 dollars. The cost of microfranchises on the other hand ranges from 25 to 25,000 dollars (Fairbourne 2006b). However, typically initial investments do not exceed 1,500 dollars (Lehr 2008). Microfranchising has been designed to empower the poor economically by providing them with the opportunities to operate proven successful businesses (Fairbourne 2006b).

More importantly, the term 'micro' also refers to the social nature of microfranchising that incorporates a focus on the wellbeing of the microfranchisee and the residents of communities (Fairbourne et al. 2007). Most of the research conducted on microfranchising has focused on the potential social benefits to local communities and the opportunities for job creation, the benefits of investing in a proven business model, and the benefits of belonging to a democratic network (Fairbourne 2007; Magleby 2007; Christensen et al. 2009).

With such a strong focus on social benefits, it can be easy to overlook the overall feasibility of microfranchising as an organisational form for scaling. One of the core tenets of microfranchising is economic sustainability (Fairbourne 2007; Magleby 2007). The microfranchisor's economic survival and profitability directly affects the ability of the microfranchisee to continue spreading social value to underprivileged communities, and broadening these benefits as is the aim of microfranchising. A stronger emphasis on economic value creation and a microfranchisor perspective can aid in realising microfranchising's potential for scaling. (Kistruck et al. 2011.)

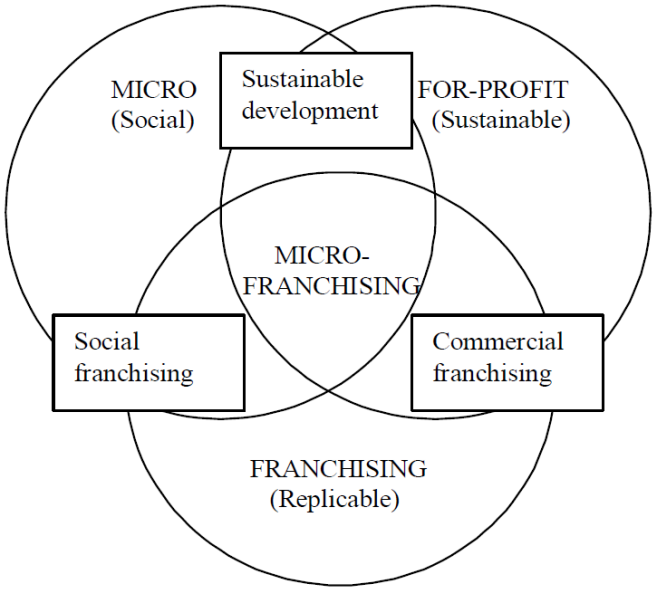
One of the main challenges that small businesses face is survival as the failure rate faced by small business is very high. According to Bracken et al. (2006), 37 per cent of businesses with less than 20 employees survive after four years of being operational, whilst only 10 per cent survive after 10 years. Such figures can only be combatted with sustainable business models, which microfranchising can offer (Fairbourne 2007).

The three main components of microfranchising are summarised well by Fairbourne (2007) in Figure 1. 'Micro' refers to the size of the business, but in addition to that it depicts the nature of the business, which is benevolent and focuses on helping the poor. 'For-profit' in plain terms means that microfranchising is not charity; the aim of the business is to generate income. Finally, franchising means that the business is replicable. According to Fairbourne (2007, 9), "a true microfranchise business must include all three components".

There are three main problems that microfranchising addresses that prevent people from becoming economically independent: (1) the lack of skills needed to develop a successful business, (2) the lack of employment in developing countries, and (3) the lack of goods and services available to the poor. Microfranchising addresses these problems by firstly providing people in developing countries with clear business

blueprints that are designed to ensure economic success. Secondly, microfranchises can create employment opportunities for those who do not have the entrepreneurial skills and are better suited as employees. Lastly, microfranchising offers multinational corporations an avenue for providing their goods in BOP markets for equitable prices. (Fairbourne 2006a.)

Figure 1 Three main components of microfranchising



Source: Adapted from Fairbourne (2007, 9)

According to Fairbourne (2007), there are three key underlying financial structures in microfranchising: social microfranchising, sustainable microfranchising, and for-profit microfranchising. The objective of social microfranchising is to deliver goods and services at affordable prices, and to create jobs in BOP markets. In these cases, the underlying financial model is not focused on sustainability and the social microfranchise often subsidises product costs to reach its goal. The obvious drawback with the model is that it requires a constant flow of donor funds to keep the project afloat. On the other hand, the microfranchisee can earn a higher income and they are able to pass on lower cost product to the consumer. This model is most commonly used by pharmacies in developing countries.

The objective of sustainable microfranchising is to create enough profit to sustain the microfranchisor and microfranchisee. Additional profits may be used to start more franchises or used on additional training and marketing to further increase microfranchisee profits. The aim of this model is to fulfil a triple bottom line: (1) creating profit for the microfranchisee, (2) financial sustainability, and (3) the provision of goods and services at an equitable cost.

For-profit microfranchising is similar to sustainable microfranchising, except for the fact that for-profit microfranchising aims to create enough profit for the microfranchisor to return profit to investors. Problems can arise with this model when a franchise system is not fully developed and is struggling financially. For-profit franchising also requires higher start-up investments in order to build scale quickly and to start making a profit for investors. Sustainability is often only reached after there are a certain number of franchisees operating franchises that pay royalties. As such, start-up costs are higher due to the need to launch enough microfranchises.

All three models have social objectives as suggested by the term 'micro'. However, benevolent motives are present in varying degrees in each model. It can be difficult to balance the need to reach sustainability and support a community at the same time. In conjunction with the financial structures, various microfranchise business structures are emerging. Some are adopting NGO status, some private, and some a merger of the two. (Fairbourne 2007.)

It is generally agreed in franchise literature that there are two main types of franchises: product franchises and business format franchises. In a product franchise, the franchisee buys products from the franchisor, which is source of income for the franchisor (Magleby 2007). The franchisee is provided an income when they sell the product at a premium under the franchisor's trademark. In a product franchise the franchisor retains controls over several of the franchisee's operating processes, but the franchisee retains the ability to customise store layouts and marketing displays. A business format franchise on the other hand has the franchisor standardising operations and offering the franchisee a complete standardised operation system, in other words a 'business-in-a-box'. (Kistruck et al. 2011.)

Table 4 Four types of microfranchises

Origin of business idea	**Microfranchise sponsor**	
	MNC	**NGO**
Imported	MNC-sponsored: Imported	NGO-sponsored: Imported
Local	MNC-sponsored: Local	NGO-sponsored: Local

Source: Christensen (2008, 154)

According to Christensen (2008), there are four types of microfranchises (see Table 4). The division is based on the origin of the business idea and the type of agency that sponsors the microfranchise. The origin of the business idea can be local or imported, whilst the microfranchise sponsor can either be an MNC or an NGO.

Two main types of franchises are established, but in addition to this, according to Chatnani (2010), there are three types of microfranchising relationships that predominate. First, in the traditional franchising model a parent organisation offers franchise opportunities. Variations can include offering a manual on how to start and run a franchise; offering necessary training to run a franchise; monitoring and quality control; as well as promotional support. The second type is a business-in-a-box where a parent organisation provides a business plan for an easy-to-replicate small enterprise in addition to offering all the necessary information for starting an enterprise. This model may include some initial training, however, overall no support is provided beyond the early stages. Finally, there is the local distributors model, where an individual buys ready-made goods from an organisation. The franchisee starts a small business to sell the good in areas where it is not yet widely obtainable. The microfranchisee can benefit from the brand recognition or marketing of the parent company, as well as training in the sale and use of the good.

Magleby (2007) has outlined 14 different variations of franchises, but according to him, all of them share the following key franchise traits:

- symbiotic relationships between local owner(s) and enabling institution;
- significant intellectual property;
- mentoring;
- collective know-how organised in an operating system;
- potential for replication; and
- a clear social initiative to alleviate poverty through enterprise.

1.2 Why microfranchising is needed now?

Since the Bretton Woods conference in 1944, where the International Bank for Reconstruction and Development (commonly known as the World Bank) and the International Monetary Fund (IMF) were formed, market capitalism has been the prevailing ideology and development strategy. Globalisation is currently a buzzword that generates opinions in support and opposition. Joseph Stiglitz (2002, 11) has defined globalisation as: “The closer integration of the countries and peoples of the world which has been brought about by the enormous reduction in the cost of transportation and communication, the breaking down of artificial barriers to the flows of goods and services, capital, knowledge, and (to a lesser extent) people across borders.”

Beyond the on-going debate, the reality is that market globalisation has had its own share of successes and failures. The benefit of the prevailing market ideology is that it has provided people with the opportunities to operate businesses and earn a living. However, most businesses remain informal and the market is only used as a survival

mechanism. The largest failure of market globalisation remains to be the fact that the income gap between the poor and the wealthy has continued to grow exponentially. Despite the increasing prosperity in developed countries, the developing world is still home to chronic poverty, which is maintained through variables such as war, AIDS and corruption. As such, in its current form market globalisation does not benefit the poor. (Fairbourne 2007.)

The prevailing theory is that one of the main benefits of market globalisation is that the cost of goods and services decreases and trade barriers are lessened, which leads to improved access to goods and services. This is what developed countries have experienced. However, developing nations have not experienced globalisation in a similar manner. The impoverished often pay more for goods and services than the wealthy people of developed countries. The poor also pay more for their goods than the middle class in their own nations. (Fairbourne 2007.) A report to the Secretary General of the United Nations states that: “In Mumbai, slum-dwellers in Dharavi pay 1.2 times more for rice, 10 times more for medicines, and 3.5 times more for water than do middle class people living at the other end of the city on Bhulabhai Road.” (CPSD 2004, 7.) In their current state markets alone do not work for the poor and the income gap between the poor and wealthy continues to grow.

In 2005, the wealthiest 20.0 per cent of the world accounted for 76.6 per cent of total private consumption. The poorest fifth accounted for just 1.5 per cent. In 2006, world gross domestic product was 48,200 billion dollars. Of this, the wealthiest countries in the world (1 billion people) accounted for 36,600 billion dollars (76.0 per cent). Low-income countries (2.4 billion people) on the other hand accounted for just 1,600 billion dollars (3.3 per cent). An analysis of long-term trends shows the distance between the richest and poorest countries has continued to grow exponentially. The wealth gap between the richest and poorest countries was about 3 to 1 in 1820, 11 to 1 in 1913, 35 to 1 in 1950, 44 to 1 in 1973, and 72 to 1 in 1992 (UNDP 1999).

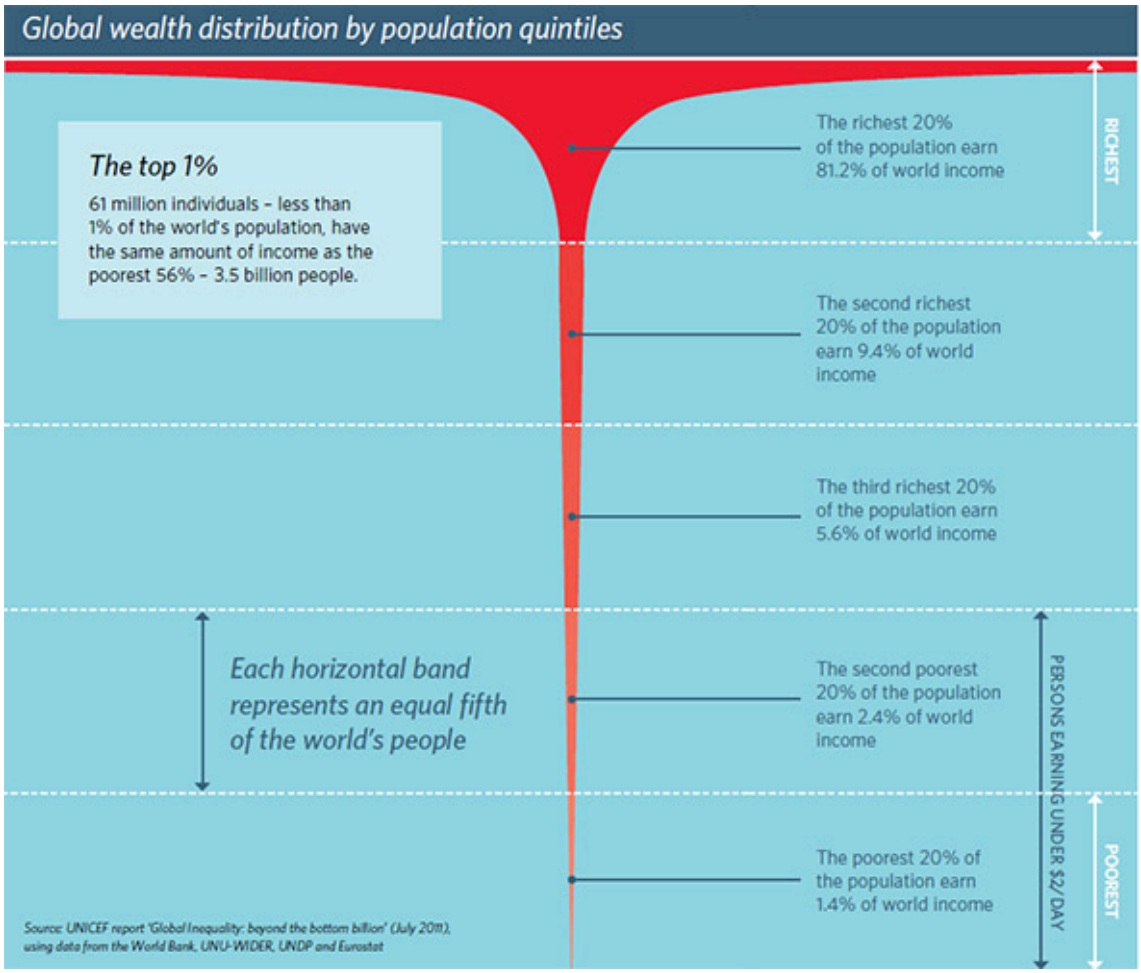
The Credit Suisse Research Institute published a report in November 2016 (Credit Suisse 2016). During the 12 months prior to the publication of the report, global total wealth increased by 3,500 billion dollars to 256,000 billion dollars, which represents a growth of 1.4 per cent. However, this growth merely represents an increase at the pace of population growth. For the first time since 2008, wealth per adult remained unchanged. Some major economies, such as the United States and Japan, were able to generate additional wealth whilst countries like the United Kingdom experienced a decline due to currency depreciation.

The report also established that wealth inequality, measured by the share of the wealthiest one per cent and wealthiest 10 per cent of adults, as compared to the rest of the world's adult population, has continued to rise. While the bottom half collectively

owns one per cent of total wealth, 89 per cent of all global assets are owned by the wealthiest top 10 per cent. (Credit Suisse 2016.)

UNICEF published a report in 2011 and it depicts the increasing inequality experienced by billions of people (UNICEF 2011). Global wealth distribution by population quintiles (Figure 2) illustrates the uneven distribution of global wealth amongst the world's population. The richest 20 per cent of the population earn 81.2 per cent of world income. On the other hand, the poorest 20 per cent earn just 1.4 per cent of world income. The top one per cent, 61 million individuals, has the same amount of income as the poorest 56 per cent, 3.5 billion people. And as reported by the Credit Suisse Research Institute, the gaps have only grown larger.

Figure 2 Global wealth distribution by population quintiles in 2007



Source: UNICEF (2011, 21)

Most arguments for reducing poverty rest solely on moral reasons for doing so, as the nature of poverty is unfair. But there is also an economic case to be made for reducing poverty. When children grow up in poverty, they are more likely to have low earnings as adults than non-poor children. Lower earnings reflect lower workforce productivity.

Children who grow up in poverty are also more likely to engage in crime and to have poor health late in life. This reduced productive activity causes a direct loss of goods and services to the economy. (Holzer et al. 2007.)

It is possible for businesses to alleviate poverty through profits. There are large unexploited markets at the bottom-of-the-pyramid, and if companies would restructure their operations to deliver goods and services at affordable prices, businesses could serve the poor while making a profit. The underlying theory is that instead of selling to millions of people at higher margins, businesses would sell products to billions of people at lower margins. The result can be considered a win-win situation for both the poor and the investors. However, the problem lies in how businesses can restructure their operations so that they can profit off volume in addition to penetrating a market with limited infrastructure. (Prahalad 2004; Hart 2005.) Microfranchising can provide a solution to this problem.

1.3 Earlier research on microfranchising

In order to gain an understanding of the existing knowledge on microfranchising, this chapter will discuss the findings of earlier studies and articles written on the topic. Microfranchising is a relatively new topic and as such it is a topic that has not undergone extensive empirical research. Most of what is known about microfranchising is derived from practitioner reports and/or is not based on any particular theoretical framework (Fairbourne et al. 2007; Lehr 2008; Deelder & Miller 2009). As such it is difficult to find academic literature on the topic. Below is the overview of the studies and articles that have focused on microfranchising.

Fairbourne (2006b) provides an overview of microfranchising as a phenomenon and how it can be used to alleviate poverty in the developing world. The aim of his article is to offer an introduction to microfranchising, as it still remains unfamiliar to a majority of the population. According to Fairbourne, microfranchising is a tool, which helps the poor become more successful in the global market economy, by providing them with opportunities to own and operate successful businesses. Essentially, microfranchising tackles the three core problems that stop people from becoming economically self-reliant: the lack of jobs in developing countries, the lack of skills needed to grow a successful business and the lack of goods and services available to the poor. According to Fairbourne, microfranchising provides a partial solution to these problems. First, microfranchising provides a ready blueprint, which people can follow when starting a business. This makes it unnecessary to have entrepreneurial spirit to have a successful business. Second, microfranchises provide jobs to those individuals who lack entrepreneurial skills and who without microfranchising might be better suited for

employee or technician roles. Third, microfranchising supplies MNCs with an effective channel of delivery for their goods and services to bottom-of-the-pyramid markets.

Bracken et al. (2006) did a feasibility study on microfinance and microfranchising for FINCA (Foundation for International Community Assistance). Their primary objective was to provide FINCA International a framework that it could use to pilot a project where microfranchising and microfinance are integrated. Their further aim was to help FINCA International join the new movement known as microfranchising to help alleviate poverty and human underdevelopment. Their study was very much case sensitive as their research focused on three different microfranchising organisations and whether FINCA International would benefit from a partnership with any of the organisations. Bracken et al. found that microfranchising is a feasible avenue for FINCA International to help underemployed youth. The integrated programme, which combines microfranchising and microfinance, supports FINCA's poverty alleviation goals. In addition, the programme provides training to develop the skills of the business owner and as such also addresses human development goals.

Fairbourne et al. (2007) have authored a book on microfranchising and its uses in creating wealth in a BOP environment. Their book describes the methods that have been previously used to try and alleviate poverty, such as microfinancing. The book introduces the concept of microfranchising and discusses how this new business model can be used in the efforts to alleviate poverty. Fairbourne et al. review different models of microfranchising and use specific case studies to highlight how microfranchising has succeeded in different parts of the world.

In his work, Lehr (2008) goes beyond a mere introduction to microfranchising and instead takes an in-depth look at how microfranchising organisations work in reality and what challenges and successes are associated with these businesses. Lehr focuses on the cases of Drishtee, VisionSpring and the HealthStore Foundation. Drishtee is essentially a network of kiosks, VisionSpring aims to provide affordable glasses to the poor and the HealthStore was created to improve access to necessary medications. Each organisation has used microfranchising in different ways in trying to achieve their business and social goals. However, a key point of the work of Lehr is that though all three organisations vary in terms of mission, geography and business models, the problems they face are very similar. The essential lessons learned focus on the creation of the microfranchising model, the understanding of microfranchisees, the operating of a microfranchising organisation and the characteristics of a good microfranchisor.

In their article, Christensen et al. (2009) have treated microfranchising as an employment incubator. The aim of the research was to reveal how business model innovations such as microfranchising can generate positive results in subsistence markets. Their research introduces ways in which people living in poverty can overcome non-credit-related barriers to gain entry into employment. Their initial

research focuses on one type of microfranchise operating in Accra, Ghana. By using the data they gather in their preliminary research, Christensen et al. explore whether workers in subsistence markets benefit from the microfranchise model. Their results suggest that Fan the business model innovation of Fan Milk can partially explain the variance in business success between microfranchise businesses and similar sized non-franchise businesses. Participating in the Fan Milk microfranchise yields higher monthly profits because, although margins are lower, turnover is greater. The Fan Milk microfranchise also does not require education or business expertise from its microfranchisees as all product development, marketing and pricing is handled by the parent company. Opting for a microfranchise produces success as people are implementing a proven model. According to Christen et al. (2009), microfranchising acts as an employment incubator as Fan Milk vendors, who are mainly individuals from high risk groups, may learn the following skills: how to forecast demand, manage inventory and turnover, work within a formal framework, incorporate sales and marketing skills, do small bookkeeping, or interface with corporate officers, etc.

Microfranchising is essentially a business approach to fighting poverty as Burand and Koch (2010) explain in their work. Burand and Koch make a distinction between ‘microfranchising’ and ‘social franchising’. Social franchising is usually focused on using business format franchise practices to make products and services accessible to people living at the base-of-the-pyramid. Social franchising, according to some research, does not necessarily generate profits. An important distinction made by Burand and Koch is that while microfranchising may or may not provide goods and services to the poor, it does focus on building businesses that are affordable for the poor. On the other hand, social franchising always focuses on providing goods and services to the poor, whilst the franchisees themselves might not be drawn from the poor. One of the main conclusions of the study is that increasing the access of the poor to financing is crucial, but it is not the only required factor in reducing poverty. Improving the access of the poor to affordable, scalable business opportunities is another necessary factor. For people who have to live on one or two dollars a day, operating a microfranchise is the first step in becoming economically empowered.

Chatnani (2010) has provided a focused view of the empowerment opportunities of microfranchising. Motivated by the Millennium Development Goals, now known as the Sustainable Development Goals, Chatnani (2010) discusses women’s empowerment through microfranchising. Women are continually getting more marginalised as resources are distributed unevenly even among those living in poverty. Microfranchising offers a way to combat this problem, though even it is not without its fault. All microfranchises face the same challenges when trying to reach scale: product distribution, pricing, quality control and adequate business training for microfranchisees. These challenges are experienced even more strongly by women.

Chatnani (2010) believes that merging microfinance and microfranchising into a single strategy can combat gaps in services experienced by poor women. Microcredit is a proven tool while microfranchising is still in its early stages of development. While microcredit can provide the capital that is needed to launch a business, microfranchising will provide the capability to build a business strong enough to generate profits and continuous growth. (Chatnani 2010.)

Concrete examples of microfranchise success can be found in a discussion paper written by Oduor et al. (2010). Their work takes a look at the impact of microfranchising in the distribution of malaria medication in Kenya. There are several preventative measures already in place such as the use of mosquito nets and the spraying of houses with insecticides. However, the curative aspect of malaria is largely lacking: access to timely and effective anti-malaria drugs amongst the rural poor is deficient. The Kenyan government partnered up with a local non-governmental organisation, HealthStore Foundation (HSF), in an effort to improve the distribution of anti-malaria drugs. A microfranchise system was used to increase access to drugs through small privately owned rural shops. The medicine Coartem is provided for free by the government through the main procurement body, Kenya Medical Supplies Agency, and then distributed through HSF and small privately-owned stores to the rural population. The owners of the small stores, branded as Child and Family Wellness (CFW) clinics, are in a microfranchise agreement with HSF. Their agreement covers procurement, medical and business best practices including diagnostics, record keeping and general management of the stores. The CFW clinics distribute the medicine for free, only charging a small screening fee. The study evaluated the effectiveness of the microfranchising model in distributing the anti-malaria drugs by using difference-in-difference. The results show that malaria morbidity decreased by about 46 per cent in the sub-locations of the study. Findings showed that the mere existence of the CFW clinics reduced malaria morbidity in the areas where they were located as the medicine was now nearer to the patients and the threshold for using the medicine had decreased.

In her study, Heinonen (2010) concentrates on the role of the private sector in poverty alleviation, and especially on microfranchising as an approach. The purpose of the study is to describe microfranchising as a new business concept. Heinonen used content analysis as her research method. The research data consists of nine microfranchises that operate in Sub-Saharan Africa. A limitation of the research was that only secondary data was available. In her study Heinonen uses the framework by Christensen (2008) for the analysis of microfranchise opportunities, which she develops in to the new microfranchising framework that is comprised of the origin of the business idea (imported or local) and the sponsor of the microfranchise (individual entrepreneur, NGO or MNC). The main findings of the study indicate that the definition of microfranchising is still undefined, the creation of new jobs is limited, and the

importance of training and microfinance is immense. Most microfranchise establishments only employ the microfranchisee and as such the effects on employment are limited. All microfranchises offer training but the quality and content of the training is unclear when looking into the cases. Although start-up expenses are lower than in traditional franchising, own financing is often required that many people cannot provide.

As seen in this literature review, not much has been written about microfranchising from an academic point of view. A possible explanation for this may be the limited number of established microfranchises that can provide data for studies. Due to the unfamiliar status on microfranchising, several studies have focused on introducing the topic and on providing an overview of the phenomenon. Some studies have explored the microfranchisee point of view by researching how microfranchising can provide employment, alleviate poverty or empower the poor in bottom-of-the-pyramid markets. Finally, some research has been done on the successes of microfranchises.

Until today, there have been a limited number of empirical studies on microfranchise performance. Prior research in this field has focused on the results and uses of microfranchises from a narrow point of view without providing a framework illustrating what factors affected performance. In their study Kistruck et al. (2011) have developed a framework regarding the challenges BOP markets pose to the franchise model and how the model could be adapted. It is evident that there is a research gap in examining the drivers behind microfranchise performance and how the challenges of BOP markets affect microfranchise performance. This study will use the framework of Kistruck et al. (2011) to examine the drivers and challenges affecting microfranchise performance.

1.4 Objective of the study

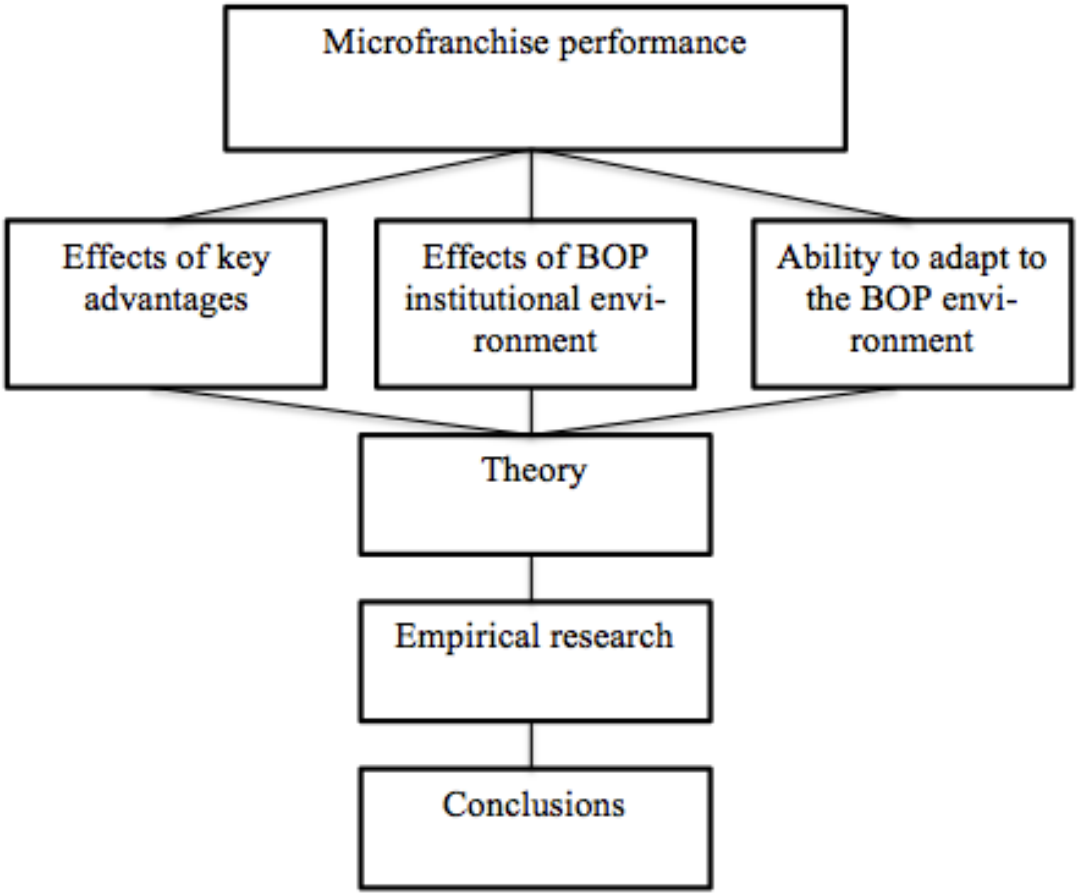
The objective of the study is to examine microfranchise performance. The objective of the study can be divided into the following sub questions:

- How have the key advantages of the traditional franchise model affected microfranchise performance?
- How has the bottom-of-the-pyramid (BOP) institutional environment affected microfranchise performance?
- How has a microfranchise been able to adapt the traditional franchise model to mitigate BOP institutional challenges?

Microfranchise performance can be regarded differently from the points of view of the microfranchisor and microfranchisee. The aim of this study is to focus on

microfranchise performance in a BOP market environment from the franchisor point of view. The structure of this thesis is presented in Figure 3.

Figure 3 Structure of the study



1.5 Key definitions

Microfranchising is a relatively new topic, which is why many of the terms related to the phenomenon have varying definitions. Below are the definitions for the most common terms related to the concept of microfranchising, which will be used in this study.

Microfranchising: Though microfranchising is a new concept, its roots lie in the more familiar franchising. Franchising at its heart is the practice of replicating a successful business in another location by following a predetermined set of well-defined processes and procedures. The 'micro' in microfranchising does not only refer to a smaller version of a franchise, but it also refers to the grassroots nature of the initiative. Microfranchising in its simplest form is about providing capital to people who lack the

access to formal finance institutions. The word ‘micro’ also refers to the effort of creating economic sustainability at the bottom-of-the-pyramid. (Fairbourne 2007.)

The ‘franchise’ in microfranchise refers to replication to scale. This process involves systemising an operation, further developing it to a turnkey operation, and then replicating it to scale. At the core of franchising is the concept of giving someone the right or access to a proven business system. (Fairbourne 2007.)

The traditional franchising relationship is built around the franchisor and franchisee. The franchisor owns the overall rights to the business and they then licence the rights to use the brand and business approach to the franchisee. The franchisor normally retains the rights to control the macro aspects of the business such as brand and marketing, as well as recruitment and training of franchise operators. The relationship between the microfranchisor and microfranchisee follows the same principles. (Lehr 2008.)

The combination of the two terms ‘micro’ and ‘franchise’ makes up microfranchising, which is significantly different from traditional franchising. In traditional franchising, the purpose of establishing a franchise is to expand one’s business swiftly, whilst also increasing profits. In microfranchising, the focus also stays on the microfranchisee and how they benefit from the arrangement. A microfranchise is established to support the poor in generating a sustainable income through owning and running their own business. The benefits to the microfranchisee lie in the reduction of risk, provision of specific training, continuous mentoring, and reduction of creative burden. (Fairbourne 2007.)

Bottom-of-the-pyramid markets: The term ‘bottom-of-the-pyramid markets’ refers to a market, which consists of the world’s population that resides at the lower levels of the world’s economic pyramid. While BOP markets are predominantly located in the least developed markets, some areas of China and India are also considered to be BOP markets due to less development in the region. The global economy is often disconnected from BOP markets, as BOP markets are not a part of the supply chains that link developed markets with emerging markets. Additionally, BOP markets are often oligopolistic in nature due to the lack of competition. Thus, consumers in such markets often overpay for necessities such as water, housing and financial products. (Kistruck et al. 2013.)

BOP markets have several characteristics that distinguish them from the markets of developed economies. There are three features that are especially relevant when it comes to economic activity: (1) poorly developed or undeveloped formal institutions, (2) significant differences between developed and BOP markets in terms of formal and informal institutions, and (3) substantial institutional differences within and among BOP markets (Kostova & Zaheer 1999; Webb et al. 2010). Unlike in developed markets, formalised property rights do not generally exist in BOP markets. This lack of formalised property rights can make it difficult for individuals to use property as

collateral, which in turn, can complicate the access to capital (De Soto 1989). Incentives for investments and property improvements decrease as insecurity over property ownership increases (Besley 1995). Without formalised systems of monitoring, individuals need to rely on informal means of monitoring and enforcing property rights in BOP markets (De Soto 1989). As contracts are difficult to enforce, they are mainly used to set up expectations for partnering. Legal recourse is often ruled out as an option due to its high cost and due to the relatively small sums that are generally involved in BOP market ventures.

Business ventures in BOP markets may incur increased transaction costs due to missing infrastructure. Existing public-use infrastructures on the other hand lack dependability. Infrastructures maintained by private communities are poorly developed. Face-to-face transactions are made difficult due to the absence of reliable roads, bridges and communications infrastructure. The monitoring and enforcing of transaction partners is also made more demanding and costly. Energy-intensive operations are undermined by the lack of utilities, which often results in labour intensive or small-scale business relations. The undeveloped nature of capital markets causes entrepreneurs to rely on personal funding or loan sharks. Both of these funding options are limited and high risk. Lastly, the supply of skilled labour is limited due to undeveloped labour markets and educational institutions. (Kistruck et al. 2011.)

BOP markets have stayed mostly separate due to limited mobility and cultural nuances. Microfranchises often originate from developed markets, yet substantial differences separate the institutions of developed markets and those of BOP markets. However, differences within BOP markets are also derived from tribal, ethnic, cultural and linguistic divisions. Both formal and informal institutions can vary significantly within a single country's boundaries, particularly in least-developed countries and developing economies with high shares of BOP markets (Karnani 2007).

Bottom-of-the-pyramid markets can also be considered as a development tool for alleviating poverty through what can be called capitalism-for-the-poor. The purpose of BOP markets is to provide goods and service to the four billion people who survive on under 2 dollars per day. MNCs can build new markets at the base of the global social pyramid. The poor are essentially value-conscious consumers who could be the buyers of newly designed cheaper products. By combining entrepreneurial creativity, innovative trade, and emerging prosperity, poverty could be eradicated via low-end capitalism. (Woodworth 2007.)

Microfranchise performance: Performance of a microfranchise can be defined in terms of the success of a franchise brand, which consists of three components: (1) quality of the end-consumer service, (2) quality of the franchise system and the mechanisms in place that support its sustainability and growth, and (3) the ability of the franchisor to deliver measurable results. Ultimately performance in the context of the

microfranchise model and the three components listed above come down to unit success or failure. In the long term, a microfranchise unit will remain in business because it is profitable. (Wiseman 2015.) For the purpose of this study, microfranchise performance will refer to the success of the franchise brand and its three components.

2 THEORY OF MICROFRANCHISE PERFORMANCE

The interest of this study lies in what factors determine microfranchise performance and how these factors affect microfranchise failures. The clear majority of research that has been done concerning franchising and franchise success has been done in relation to developed economies. Research has outlined the success of franchising as a growth model to be derived from several criteria, three of which are the ability to reduce agency concerns, capitalise on the franchise brand and standardise operating procedures across geographic markets, and overcome resource constraints associated with growth. An assumption exists that the traditional franchise model, which relies on the three performance drivers above, should lead to similar success in BOP markets as it does in developed markets. (Kistruck et al. 2011.)

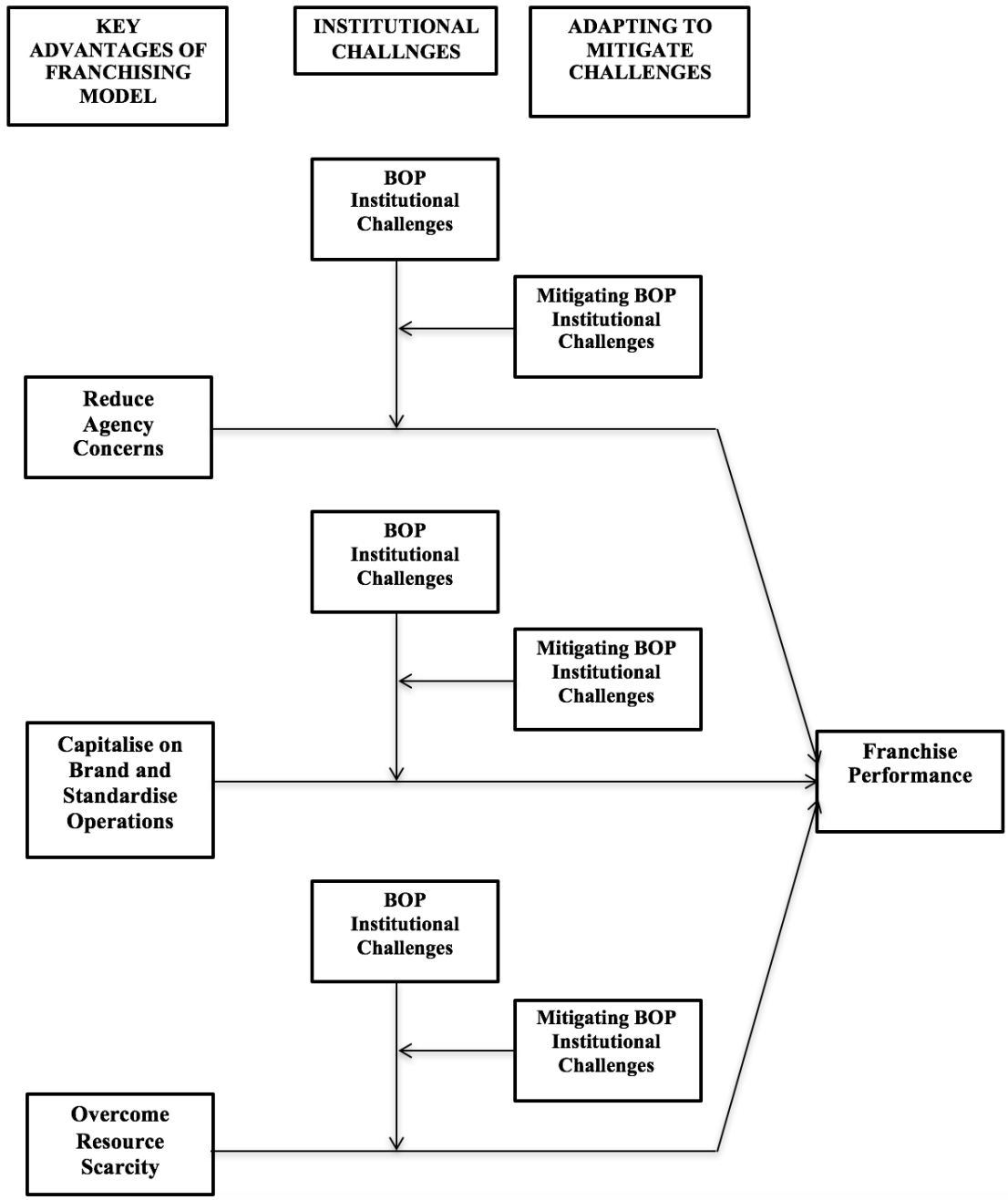
However, data collected by Kistruck et al. (2011) indicates that the traditional franchise model may face challenges due to the BOP context. These challenges arise mainly from the local institutions and not from the external environment (i.e. competition, marketing conditions, etc.). As such, microfranchisors tend to struggle with capitalising on each of the three primary performance drivers of the traditional franchise model.

Institutions are persistent social constructions that direct actions of society (Jepperson 1991; Clemens & Cook 1999). Institutions can be divided into two distinct categories: (1) formal and (2) informal (North 1990). Formal institutions are comprised of the formalised laws and regulations, such as property rights and contract law, which determine legality, as well as the supporting systems that monitor and implement actions within the legal framework of a society. Different infrastructure elements, such as transportation, utility, capital markets and communication infrastructure, are also included in formal institutions as they help provide for the basic needs of a society and support economic activity. Informal institutions complement formal institutions by defining social acceptability through the norms, values and beliefs that individuals in a society hold (North 1990).

This study will use the theoretical model developed by Kistruck et al. (2011) to explain the drivers behind microfranchise performance. In their study, they have taken the traditional franchise model and adapted it to better suit the BOP market environment in which microfranchises operate. The key advantages of the traditional franchising model are reducing agency concerns, capitalising on brand and standardising operations, and overcoming resource scarcity. Research has shown that these three primary drivers of franchise performance explain the success of franchising as a growth model in developed economies. Kistruck et al. have worked in their study to understand how the traditional franchise model works in BOP markets and how the BOP institutional environment affects these three traditional franchise performance drivers.

As Figure 4 indicates, though the BOP institutional environment poses a set of challenges to realising the benefits of using franchising as a growth model, there are ways of adapting the traditional franchise models to incorporate ways of overcoming each of the specific institutional challenges in BOP markets. These innovative adaptations include leveraging non-profit relationships and shifting the franchise model, leveraging informal lending institutions as well as leveraging social embeddedness. Though the adaptations are focused on challenges in BOP markets, they could be applicable also in emerging and transition economies.

Figure 4 Conceptual model of proposed theoretical relationships



Source: adapted from Kistruck et al. (2011, 524)

As a result of their research, Kistruck et al. (2011) built a conceptual model describing the relationships between the traditional franchise performance drivers, the BOP institutional environment and franchise performance. In the model, they have outlined the challenges brought on by the BOP institutional environment in addition to presenting several non-traditional mechanisms that can help microfranchises overcome some of the potential challenges. These three levels of actors can be used to analyse the factors behind microfranchise performance, and as such they can aid in gaining an idea of why microfranchises have failed and succeeded in the past. The following sections explain in more detail the relationships between the primary performance drivers and the challenges posed by the BOP institutional environment, as well as how these challenges can be negated.

2.1 Ability to reduce agency concerns

A dominating motivation in choosing franchising as an organisational arrangement originates from agency concerns. The reduction of agency concerns is derived from agency theory, which has been used to evaluate franchising as a strategic alternative to internal growth that the company could achieve via company-owned units (Combs & Castrogiovanni 1994; Shane 1998). Agency theory highlights the importance of incentives and self-interest when it comes to organisational thinking. It also reminds us that most action within organisations is based on self-interest. (Eisenhardt 1989.)

The salary-earning managers of company-owned units do not automatically have any incentive to guarantee the success of their unit. The interests of managers most often lie in maximising their own benefits first, whilst the interests of the organisation they work for come second. Managers are often paid in salaries and as such their earnings are not tied to the performance of the organisation. Researchers have theorised that these agency concerns can be addressed through the use of franchising. In theory the interests of the franchisor and the franchisee should be aligned as both have vested interests in seeing the franchise succeed (Combs & Ketchen 1999). The income of a franchisee is tied to the performance of their franchise, so they are intrinsically motivated to increase unit performance. Empirical research supports agency theory, as franchising seems to increase along with intensified agency concerns and as franchising supports chain expansion and survival (Shane 1996; Combs & Ketchen 2003).

Institutional challenges: Agency concerns are a primary motivation for an organisation to choose franchising (Combs & Castrogiovanni 1994), as in developed markets employees often resign from their jobs in order to achieve greater wealth as a franchisee. However, in BOP markets the poor condition of labour markets and the lack

of formal employment affect the skill and knowledge level of hopeful microfranchisees (Lehr 2008; Deelder & Miller 2009). Many individuals are unemployed and they may lack any official employee experience. As such, without employment experience, microfranchisees may have no points of reference of how much effort is needed to run a franchise unit, as they may not be able to judge the difference between levels of effort required from an employee compared to an owner of a microfranchise unit. Microfranchisees may expect their role to be more reactive instead of proactive in attitude, when the latter is more sought after in a franchisee. A healthcare franchisor based in the United States had experiences where a BOP franchisee would sign the franchise agreement and then expect the franchisor to do the work for them. (Kistruck et al. 2011.)

The findings of Kistruck et al. (2011) suggest that in BOP markets, the lack of awareness in terms of how the role of a microfranchisee differs from the role of an employee, in addition to the strong desire of locals to gain the certainty of employment can result in the dampening of the proactive efforts usually attained through the franchise model in developed markets. These problems can be combated by the microfranchisor by undertaking a more rigorous search and selection process when it comes to choosing appropriate microfranchisees. In the end, the overall lower number of appropriate microfranchisee candidates can end up increasing agency costs of a company for search and selection.

The poorly developed or underdeveloped nature of formal institutions is another highlighted feature of the BOP environment that can affect the agency performance driver. Utilities infrastructure, court systems and property rights protection are found lacking in BOP markets, which often result in governance problems. (De Soto 1989; Besley 1995; Khanna & Palepu 1997.) Even though a microfranchisee enjoys social benefits due to the efforts of a microfranchisor, Kistruck et al. (2011) noted that the lack of monitoring was associated with a higher level of opportunistic behaviour in all of the microfranchises that they explored. As was the case with the education microfranchise in the Kibera slums of Nairobi, the microfranchisor had to perform systematic surprise classroom checks to guarantee that the Kenyan teachers were present and not sleeping.

Although the physical distance between (micro)franchisor and (micro)franchisee may not vary when it comes to developed and BOP markets, the level of technological infrastructure that can be used to monitor business activities does. In developed countries, it is easy to for example mount computer programs that track and report on inventory or to implement customer feedback through websites to ensure quality control. As on-site monitoring is made difficult, costly and sometimes unsafe due to poor infrastructure, monitoring microfranchisees is often made impossible, which again has an effect on the propensity for opportunistic behaviour. As such, microfranchisors often either acquire high agency costs through monitoring activities or they are

incapable to follow through with effectual monitoring procedures. The overall profitability of the microfranchise operations is affected by this inability to stop opportunism. (Kistruck et al. 2011.)

The inefficient enforcement and legal systems in BOP markets, hindered by corrupt enforcement agents and legal systems, obstruct contract enforcement, which in turn makes it more difficult to realise franchise advantages from the reduction of agency concerns (Webb et al. 2010). In developed countries, the enforcement systems for ensuring proper franchisee behaviour can be substituted by the courts. A weak and corrupt legal system in BOP markets can only create more management difficulties and costs for the microfranchisor, for example when trying to settle disputes between parties. (Kistruck et al. 2011.)

The lack of implementation at the institutional level in BOP markets contradicts the very core of the franchise contractual relationship, which the microfranchisor relies on. As franchising involves the transfer of valuable knowledge from the franchisor to the franchisee during the initial phases of the relationship, the franchisor profits when the relationships stay intact for a relatively extended period. Lengthier relationships make it possible for the franchisor to earn a profit on its invested capital. Many microfranchisees may adopt a passive mind set when it comes to operating their franchise. However, more proactive microfranchisees who develop an ownership mentality find it easy to terminate payments to the microfranchisor without suffering legal repercussions. Inefficient enforcement at the institutional level makes it difficult for microfranchisors to enforce contracts and protect their intellectual property. (Kistruck et al. 2011.)

Whilst the threat of enforcement is substantial in developed markets, the threat remains minimal in BOP market environments. The threat of enforcement is also reduced by the unwillingness of microfranchisors to seek punitive actions against the microfranchisees they are trying to aid. Due to the absence of enforcement, microfranchisees are incentivised to act opportunistically. Overall, opportunism and the costs associated with monitoring and enforcement of the microfranchising relationship pose a significant challenge to the microfranchisor and their ability to gain profits and scale through the overall franchise model. (Kistruck et al. 2011.)

Adapting to mitigate challenges: However, there are ways of mitigating the drawbacks caused by a BOP environment so that a microfranchise can overcome agency concerns. Though the legal environment, lack of information technology, and high unemployment in BOP markets are challenging when it comes to monitoring and enforcement, a microfranchise can use non-governmental organisations as social auditors to mediate contract disputes. A social auditor is a non-profit organisation that has significant influence in the local community, which it has garnered over several years, which guarantees that the community and microfranchisees trust them. A social

auditor can act as an arbitrator when disputes between a microfranchisor and a microfranchisee arise. If the microfranchisee refuses to conform to the decision of the social auditor, the microfranchisee risks community censure in addition to potentially losing other support services from the non-profit organisation. (Jiwa 2007.)

Organisations operating in BOP markets often incur substantial costs when it comes to resolving disputes, due to the absence of formal legal institutions and effective contract enforcement. Microfranchises may be able to avoid incurring any enforcement agency costs from arbitration, as the purpose of non-profits is to increase social benefits in a community, which is why they may agree to act as social auditors without charge. (Kistruck et al. 2011.)

To combat the problem of under-reporting, a microfranchise can adapt by modifying the franchise model and adopting a hybrid product/business format franchise model. By adopting a hybrid franchise model microfranchisors could minimise agency concerns by (1) providing the physical assets, business support services, and initial training that are part of the business format franchise, whilst also (2) permitting more franchisee customisation. The majority of the revenue a franchisor obtains comes from the mark-up on sales. In business format models, the microfranchisee is only allowed to sell the microfranchisors product. On the other hand, the hybrid product model allows for the microfranchisee to sell other products as well. When the microfranchisee is able to sell multiple products in addition to the product of the microfranchisor, profits increase and the initial costs can be recovered quicker. Furthermore, business format/product hybrid models can take advantage of collective bulk purchasing that allows for higher profit margins for microfranchisors and microfranchisees. (Kistruck et al. 2011.)

A hybrid microfranchise model can also be used for brand leverage and achieving standardisation. Instead of trying to create a standardised business format, hybrid microfranchises can deliver a standardised socially valuable product that can aid the microfranchisee in building a brand locally. However, it is noted that the hybrid model is suited best when producing physical products. (Kistruck et al. 2011.)

2.2 Ability to capitalise on brand and standardised operations

The second performance driver, capitalising on brand and standardising operations, relates to creating consistent routines that can be replicated across the chain. By standardising routines, a franchisor can replicate its existing sources of competency throughout the franchise chain. Operational efficiency can cut costs and provide a standardised level of service to the customer. A strong brand can help legitimise a franchise and it can define the preconceived notions customers have about franchisee outlets (Kaufmann & Eroglu 1999). Research has shown that customers are often

willing to pay more for well-branded products and services, which in turn supports the growth and survival of a franchise (Nayyar 1990).

Brand leveraging and standardised operations are intertwined when it comes to influencing the growth potential of a franchise. Microfranchises can achieve rapid growth in BOP markets by capitalising on these two features (Fairbourne 2007; Magleby 2007). The microfranchisee's lack of human capital can be counterbalanced with standardised operations, which in turn creates a high-quality brand image for the microfranchise unit (Gibson 2007; Christensen et al. 2009).

Institutional challenges: The first institutional challenge focuses on cultural heterogeneity and how cultural differences across BOP markets limit the ability of an outsider to influence local values, norms and beliefs regarding brand value. Cultures differ even within single countries and especially in rural communities, which are the markets that microfranchising often targets. Language differences are a significant source of cultural contrast (Muehlmann 2008) as a rural area may boast tens of dialects and if a person cannot speak in the same vernacular, there is no hope for successful communication. In a fragmented market with a high level of violence distrust towards outsiders runs high, which makes it difficult for microfranchises to permeate into a community (Karnani 2007). A strong brand can send a signal of wealth, which in turn can result in communities trying to take advantage of microfranchises instead of building a name for a business (Kistruck et al. 2011).

Second, the institutional differences between BOP markets can pose a challenge to capitalising on standardised operations as microfranchises need to adapt tools and techniques to fit local market needs due to location-specific characteristics. Microfranchises can garner more benefits if they automatically adapt their tools and techniques to fit the fragmented context, instead of trying to fit one design and operating procedures across different cultural environments. However, this can mean that a franchise cannot benefit from standardised operations, as it cannot create consistent routines across the chain. (Kistruck et al. 2011.)

The third institutional challenge in this instance is the lack of communication infrastructures. Without the infrastructure, the ability of a microfranchise to use mass media outlets for building a brand and leveraging it is limited. Instead, someone who actively educates communities in BOP markets must often do the brand building. However, due to poor transportation infrastructure it is difficult for microfranchises to benefit from word-of-mouth advertising to the same extent that they might in developed countries as in BOP markets communities continue to be mostly disconnected. Though a microfranchise might be built eventually in the community, the speed at which it happens significantly diminishes the strength of the benefits of the franchise model. (Kistruck et al. 2011.)

Adapting to mitigate challenges: Poorly developed institutions and institutional differences can make it challenging for microfranchisors to leverage their brand and standardise operations. A microfranchisor can circumvent the problems posed by the BOP environment by transferring marketing responsibilities to local microfranchisees. Because the institutional context can affect branding, microfranchises operating in BOP markets needs for the microfranchises to build the brand locally. The microfranchisor must choose microfranchisees that have ties to their local community in order to avoid having problems creating a brand locally. It is important for the microfranchisee to be from the area because the community is sensitive. For example, when it comes to wages, a competitor with better wages can shut you out. But if you work in conjunction with the community, you can develop an element of loyalty. (Kistruck et al. 2011.)

In this case, the role of the microfranchisor becomes more of a consultative role where it supports the microfranchisee in their attempts to leverage the brand. Microfranchisees can be encouraged to take a more active role in building the brand locally if microfranchisors replace an exclusively top-down approach with a more supportive one. This approach allows for microfranchisors to redirect capital from marketing to cover start-up training and business support services, which can help counterbalance the problems of inadequate formal education and business experience. Additionally, allowing a microfranchisee to customise their operation, such as store layouts and marketing campaigns, to suit the local cultural environment can help in capitalising on the cultural nuances of local communities. (Kistruck et al. 2011.)

There is also a distinction between approaches that should be used in rural and urban areas when it comes to building a brand. Rural BOP markets seem to be markedly closed in nature, whilst urban BOP markets are more open to outsiders. This difference can be attributed to higher levels of education and literacy, in addition to better infrastructure. As such, it may be possible for franchisors to adopt a standardised marketing approach in urban areas, whilst they adapt their approach in rural areas to suit the needs of the area. (Kistruck et al. 2011.)

2.3 Ability to overcome resource scarcity

A third theory, resource scarcity, also outlines the effectiveness of franchising in comparison to internal growth (Oxenfeldt & Kelly 1968). Market expansion requires significant resource inputs from the company, ranging from ascertaining favourable market locations, hiring new employees to building local brand awareness. Franchising allows for the franchisor to share some of the expansion costs with the franchisee. The company is then free to focus its resources to developing key functions that improve competitive advantage, such as building a strong franchising brand and guaranteeing a

consistently high-quality service through the franchise. (Caves & Murphy 1976; Carney & Gedajlovic 1991).

Franchising is a way for an organisation to accelerate market growth and build a strong market presence. Capital constraints can become a significant hindrance to the ability of an organisation to build competitive advantage and balance growth. As such, the evidence provided by scholars supports resource scarcity as a motivation for choosing franchising as an organisation model. (Combs & Ketchen 1999; Castrogiovanni et al. 2006.)

Institutional challenges: BOP markets often have low purchasing power and minimal products margins, which decreases the ability of the microfranchisor and microfranchisee to seize economies of scale. Low purchasing power and minimal products margins can actually compound the resource scarcity problem and decrease the potential for microfranchisor profits and scale. Whilst some research suggests that the microfranchising model may aid in overcoming resource scarcity (Gibson 2007), Kistruck et al. (2011) propose that low capital availability, low levels of human capital, as well as low product margins can all significantly limit the advantages of franchising as a growth model in BOP markets.

Though the purpose of microfranchising is to deliver social benefits to broader markets, microfranchisors are still interested in being self-sufficient, as they then do not need to rely on donor support or grants. Though the start-up costs for microfranchises amount to less than those of a traditional franchise, they can still represent a significant expense to a potential microfranchisee (Fairbourne 2006b). Identifying potential locations, purchasing or leasing property and equipment, selecting and training employees, and creating market awareness all pose costs that are necessary to launch a microfranchise unit. In addition to this, on-going operational costs are also a significant expense. The franchise model allows for the franchisor to share incurred costs with franchisees. Whilst the franchisee helps absorb some of the costs of the franchisor, the franchisee benefits from the established business model of the franchisor and both parties share in the revenues of the franchisee.

Institutional challenges posed by BOP markets in the form of undeveloped financial and human capital markets can make it difficult to realise the benefits outlined by the resource scarcity theory. According to Kistruck et al. (2011), microfranchisors suffer from a shortage of microfranchisees that have the financial capital to share the incurred costs. Due to the lack of sophisticated financial institutions, individuals are unable to procure financing needed for the start-up and operation costs of microfranchise unit (Lehr 2008; Deelder & Miller 2009). Some formal capital funding sources do exists, yet they have a habit of being very risk averse and having strict lending requirements, which means that they are not an ideal source of funding for microfranchisees (Kirstruck et al. 2011).

BOP markets are also riddled with riskier sources of financing such as loan sharks, but utilising their services will inevitably mean that individuals end up with more financial problems than they started out with, which negates the purpose of microfranchising. Whilst microfranchisees require patient capital to establish their business, loan sharks offer excessive interest rates. (Prahalad 2004.) Microfranchisors that operate in BOP markets are frequently forced to cover a larger share of the capital requirements when launching new outlets in comparison to developed markets (Kistruck et al. 2011).

The undeveloped nature of human capital markets can also pose problems for microfranchises, due to the general lack of educational institutions and opportunities for gaining business experience. Whilst microfranchising is intended to provide social benefits, also in the form of new knowledge and capabilities, microfranchises are faced with substantial costs when trying to deal with these issues. (Kistruck et al. 2011.)

Adapting to mitigate challenges: Although the BOP institutional environment poses challenges when using microfranchising as an approach for overcoming capital constraints that are associated with growth, there are potential adaptations that can help cover financing needs. Donor funding is a long used source of funding that microfranchises can use to support their business activities in BOP markets. However, donor funding can be unstable and more focused on short-term projects, which is why it may not suit the needs of microfranchises. (Kistruck et al. 2011.) Additionally, having microfranchisees and consumers aware of the use of donor funding can also affect the economic success of BOP ventures (Kistruck & Beamish 2010). Kistruck et al. (2011) note that consumers can grow unwilling to pay for a good or service when they learn that a venture has donor backing.

A financing method, that is quite unique but well known in BOP markets, is microfinance (Fairbourne et al. 2007). Microfinance is defined as: “formal schemes that are designed to improve the well-being of the poor through better access to savings and loans services” (Schreiner 2001, 637). Microfinance activities are often used by development-oriented organisations to combat the lack of capital. These microfinance institutions typically loan microfranchising fees to microfranchisees that are urged to repay the loan via informal social institutions such as lending circles. (Yunus 2008.)

Though microfinance organisations are still relatively scarce, microfranchisees can use them as a substitute for strong capital markets to acquire start-up capital and to overcome resource scarcity. In the recent years however, microfinance options have continued to be rare as microfinance institutions have experienced a shortage of capital, which has translated into tighter lending practices and fewer loans. (Kistruck et al. 2011.)

Especially in the case of rural microfranchisees, a possible avenue for obtaining financing are local cooperatives that have been formed as a consequence of farming,

water irrigation or other joint community initiatives. It is typical for members of such cooperatives to rely on each other for money lending. Though this type of financing has the advantage of being 'home-grown', this type of lending is mostly designed to cover short term financing short falls, which is why it may not be a sufficient form of patient financing for a microfranchisee. (Kistruck et al. 2011.)

Table 5 summarises the key advantages of the franchising model, the institutional challenges to realising these advantages and possible adaptation to mitigate these BOP institutional challenges.

Table 5 A summary of institutional challenges to microfranchising and adaptations to the franchise model

Key advantages of the franchising model	**Institutional challenges to realising advantages of franchise model**	**Adaptations to mitigate BOP institutional challenges**
Reduce agency concerns	• Poor condition of labour markets • Poorly developed formal institutions • Inefficient enforcement and legal systems	• Use non-governmental organisations as social auditors • Adopt a hybrid business/product franchise format
Capitalise on brand and standardise operations	• Cultural heterogeneity • Institutional differences between BOP markets • Lack of communication infrastructures	• The microfranchise transfers marketing responsibilities to locally embedded microfranchisees
Overcome resource scarcity	• Low purchasing power and minimal product margins • Undeveloped financial and human capital markets	• Donor funding • Microfinance • Local cooperatives

3 METHODOLOGY

3.1 Research strategy and approach

According to Merriam (2014, 3), research is "inquiring into, or investigating something in a systematic manner". This research is usually divided into two categories, basic and applied. Basic research revolves around intellectual interests in a phenomenon and its purpose is to extend knowledge. Although at some point basic research may be applied in practice, its main interests lie in attaining information about a phenomenon. Applied research on the other hand involves the practical application of science. Those who undertake applied research hope their work will be utilised in improving the way things are done. As this research focuses on attaining more knowledge on the phenomenon known as microfranchising, it can be classified as basic research.

This study is adopting a qualitative approach to explore the research question for several purposes. First, qualitative methodologies are especially useful when researchers are trying to capture the complexity of concepts instead of trying to control for variance in variables (Mintzberg 1979). As this study aims to examine microfranchise performance and the underlying reasons behind microfranchise failure, a qualitative method allows for the understanding of complex interrelationships between the traditional franchise model with its performance drivers and the BOP environment.

Second, a qualitative research method provides the researcher with flexibility. Microfranchising is a relatively new concept and it has not undergone extensive scholarly study. Therefore, the freedom to explore additional themes as they arise is a requirement. (Mintzberg 1979.)

Third, a qualitative approach to data collection makes it possible to overcome the persistent social desirability bias that is often connected with studies that involve intensely normative and sensitive issues such as poverty alleviation (Fisher 1993). As Kistruck et al. (2011) point out, there is a tendency by respondents to overestimate positives and underestimate negatives when answering questions in order to provide a more positive image of the situation. Development-oriented organisations are often reluctant to divulge information concerning failures or setbacks, as they are afraid of losing support provided by key stakeholders.

There are numerous qualitative research strategies. According to Merriam (2014), seven of the most commonly used strategies are basic qualitative research, phenomenology, grounded theory, ethnography, narrative analysis, critical qualitative research, and case studies. All of these strategies have some characteristics in common, which allow for them to fall under the umbrella of qualitative research. However, they all have slightly different approaches and focuses. These variations affect the formation

of research questions, sample selection, data collection and analysis, and the actual writing of the report.

Each research strategy has its own advantages and disadvantages depending on three conditions that determine when to use each strategy: (1) the type of research question posed, (2) the extent of control a researcher has over actual behavioural events, and (3) the degree of focus on contemporary as opposed to historical events. The first condition covers the research question. A basic categorisation of types of questions is a familiar list: who, what, where, how and why. 'How' and 'why' questions are more explanatory in nature and they are most likely to lead to case studies. This is due to the fact that these types of questions deal with operational links needing to be traced over time, instead of just frequencies or incidence. (Yin 1994.)

The second and third conditions focus on the extent of control a researcher has and whether the focus of the research is on contemporary or historical events. Case studies are preferred when the focus is on contemporary events and when the relevant behaviours cannot be manipulated by the researcher. A case study relies on many of the same techniques as a history, but a case study adds two new sources of evidence: direct observations and systematic interviewing. Although the different research methods overlap, the strength of case studies lies in its ability to handle different types of evidence, such as documents, artefacts, interviews and observations. (Yin 1994.) By concentrating on one single phenomenon or case, the researcher can discover the interaction of significant factors that are characteristic of the phenomenon. The case study wants to construct a holistic picture, which is why it is a useful strategy when it is impossible to separate the phenomenon's variables from their context. (Merriam 2014.)

An additional benefit of case studies is that they can be practical as well as normative. A researcher may decide to study an exceptionally successful business project or a project that has failed. With the results of the study the researcher will be able to say something about how to perform a successful project or how to avoid some problems, at least in a specific context. (Eriksson & Kovalainen 2008.)

Taking into consideration the topic of this study and the research question, it is clear that a case study approach is the most suitable. As the sub questions of this thesis are 'how' questions and explanatory in nature, using a case study as the research strategy is the logical choice. Also, as the aim of this study is to gain a holistic picture of microfranchise performance the rationale for choosing to do a case study is strengthened.

Its special features can further define the case study strategy. Qualitative case studies can be particularistic, heuristic or descriptive. Particularistic means that the case study focuses on a specific situation, phenomenon, programme or event. The design is best utilised for practical problems arising from everyday practice. Heuristics case studies on the other hand aim to illuminate the reader's understanding of a phenomenon.

Descriptive case studies result in an end product where a ‘thick description’ of the phenomenon under study is provided. Thick description is a term borrowed from anthropology and it refers to the comprehensive description of the incident or entity being explored. These case studies incorporate as many variables as possible in order to build a complete picture of the phenomenon. (Merriam 2014.) As the aim of this study is to gain comprehensive description of the phenomenon that is microfranchise performance, a descriptive case study is the most applicable.

3.2 Data collection

A traditional distinction between quantitative and qualitative research is that quantitative research produces data, which is in the form of numbers, whilst qualitative research produces data, which in its simplest form in the form of text. This text can be generated depending on the researcher or independently of them. Examples of data that are dependent on the researcher are interviews and observations, while personal diaries, biographies and letters are examples of data independent from the researcher. Qualitative studies often focus on a small number of cases that are analysed as thoroughly as possible. Thus, the scientific criterion for the research material focuses on quality, not quantity. The case that is chosen for analysis is in some way unique or critical, and it is the key objective of the research to project this to their audience. (Eskola & Suoranta 1998; Eriksson & Kovalainen 2008.) This study will focus on a single case to provide a comprehensive view of microfranchise performance and of the societal connections involved.

Qualitative data can be gathered in various ways, for example through interviews, surveys, observations, protocols and textual data. Interviews and surveys are less resource consuming, while methods such as observations and protocols can be very time consuming and poorly accessible. Case studies, like any other research, are considered more accurate if they are based on several sources of empirical data. However, every source of empirical data holds its own advantages. According to Eriksson and Kovalainen (2008), in-depth interviews are often used as the primary source of empirical data in business-related research. Other sources are considered complementary or they are even overlooked. As the aim of this study is to gather information about microfranchise performance in a specific context it is natural to choose interviews as the source of data. However, textual data has been used to gain a comprehensive view of the research topic.

According to Silverman (2001), there are three main types of interview studies: (1) positivist, (2) emotionalist, and (3) constructionist. These focus on the different types of research questions, which in turn require different types of interview questions.

Positivist interview research is concerned with facts, whilst emotionalist interview research is more concerned with uncovering the authentic experiences of a participant. On the other hand, constructionist interview research is interested in how meanings are constructed through the interaction that takes place between the interviewer and the interviewee. As the aim of this study is to gain a comprehensive view of how different factors affect microfranchise performance, the best approach of these three is the positivist approach. This approach allows for the collection of as accurate information as possible and it enables the construction of a true picture of what happened.

There are also different types of qualitative interviews, and as seen above, the choice of research approach and research questions should guide the choice concerning the use of interviews. A usual reason for the use of interviews in business research is that, interviews allow for a researcher to gain access to information efficiently and practically. Interviews also allow for the researcher to study the experiences of people from their own point of view or the social construction of knowledge. According to Eriksson and Kovalainen (2008), there are three main types of qualitative interviews: (1) structured and standardised, (2) guided and semi-structured, and (3) unstructured, informal, open and narrative.

Structured and standardised interviews are usually used with a positivist approach to answer 'what' questions. In these types of interviews, an interviewer has to adhere to a previously prepared script and there is little flexibility when it comes to the order or wording of the questions. Structured and standardised interviews can be considered qualitative when the participants give open-ended responses. These types of interviews are efficient when it is important to collect the facts and to minimise the variety caused by the involvement of numerous interviewers, when interviewers are less knowledgeable, or when it needs to be possible to compare the answers of participants in a methodical manner. (Eriksson & Kovalainen 2008.)

Guided and semi-structured interviews are used to study both 'what' and 'how' questions. When doing a guided or semi-structured interview, an interviewer may have a prepared outline of topics or themes they wish to discuss with the participant, but they retain the flexibility to vary the order and wording of the questions they pose. These types of interviews allow for an interviewer to cover all the topics they wish to discuss, but it also allows for them to cover any additional issues the participant may raise during the interview. (Eriksson & Kovalainen 2008.)

Unstructured, informal, open and narrative interviews are often used in qualitative research as they allow for the interviewer to explore a topic extensively and from the participant's point of view. Although an interviewer may have some core concepts they wish to discuss, no formal interview protocol is followed and the interview is free to move in any direction of interest. These types of interviews rely greatly on the participant and on what they wish to discuss. Though the end result of these interviews

is highly individualised, the interviewer forfeits much of their control of the interview over to the participant. (Eriksson & Kovalainen 2008.)

In this thesis, a semi-structured interview method is used as it suits the nature of the research question best. This approach will allow for the interviews to cover the themes presented in Table 6, as well as any additional issues that may arise during the interviews. As such, a semi-structured interview will make it possible to gain a comprehensive understanding of the issue at hand.

Table 6 Operationalisation chart

Objective of the research	**The sub-objective is to analyse:**	**Interview themes derived from theoretical framework**
To analyse microfranchise performance and what has caused microfranchises to fail in the past	How the key advantages of the franchise model have affected microfranchise performance	• Reducing agency concerns • Capitalising on brand and standardising operations • Overcoming resource scarcity
	How the BOP institutional environment has affected microfranchise performance	• Condition of labour markets • Poorly developed formal institutions • Inefficient enforcement and legal systems • Lack of communication infrastructures • Cultural heterogeneity • Institutional differences between BOP markets • Underdeveloped financial and human capital markets • Low purchasing power and minimal product margins
	How microfranchises have been able to adapt to mitigate BOP institutional challenges	• Hybrid business/product franchise format • Social auditors • Transferring marketing responsibilities • Donor funding • Microfinance • Local cooperatives

As can be seen from the operationalisation chart in Table 6, three key parts of the original theory were out outlined in this thesis: key advantages of the traditional franchise model, effects of the BOP institutional environment, and adapting the traditional franchise model to mitigate the BOP institutional challenges. As a whole these three parts form the model, which Kistruck et al. (2011) say explains the factors behind microfranchise performance. The key advantages of the traditional franchise

model are considered to be the primary performance drivers of franchise performance in developed markets, so this study aims to investigate if the same holds true in BOP markets. The reason for investigating the effects of the BOP institutional environment on franchise performance is to see to what extent BOP institutions have hindered the ability of microfranchises to rely on the key advantages of the franchise model. Finally, the ability of microfranchises to adapt the traditional franchise model in order to mitigate BOP institutional challenges is taken into account, so that it is possible to see how microfranchises have been able to counterbalance the challenges posed by BOP markets with the possibilities they provide.

Expert interviews are a popular way of conducting social research. Firstly, because conducting expert interviews can be more efficient than undertaking a time-consuming data gathering process through surveys. Expert interviews are especially useful when they can provide insider knowledge on a phenomenon and as such act as surrogates for a wider group of people. Expert interviews are also a way of gaining access to a particular social field, where some subjects may be treated as taboo. (Bogner et al. 2009.)

Experts may hold such positions in their organisations, that by gaining access to the expert, a researcher may unearth new access points into the organisation during the interview. In some cases the expert themselves may point out additional possible interviewees who may possess their own expertise regarding the research subject. With the support of an existing expert in a key position within the organisation, a researcher may find it easier to gain access to an extended circle of experts. (Bogner et al. 2009.)

The search for eligible case companies was conducted mainly through online research and the reading of previous studies written on microfranchises. The number of international microfranchises is small, and as such it became evident that the case company would be one that has already been included in microfranchise research. However, none of the previous research has focused on microfranchise performance in a similar manner to this study, so this did not affect the eligibility of a microfranchise.

The original idea was to interview several microfranchises and to compare and contrast their experiences to improve generalisability. Due to the low number of international microfranchises, only a few organisations could be contacted and asked to participate in an interview. Some organisations were reluctant to talk about their microfranchise operation. Only one of the approached organisations responded to the request: the HealthStore Foundation. Due to the single response, the scope of the study was narrowed to a single case. The HealthStore Foundation has been active for several years in Kenya and it has initiated clinic networks in Ghana and Rwanda. The HealthStore Foundation has continued to develop its operations over the years. Thus, the results were expected to provide comprehensive information about microfranchise performance from several different business environments.

In this thesis, an expert interview was conducted in order to gain a comprehensive understanding of the research topic. As the objective of this study was to examine the performance of a microfranchise, the co-founder and chairman of the HealthStore Foundation, Scott Hillstrom, was interviewed. In addition, Walter Obita, the chief operating officer at HealthStore Foundation, and Abraham Orare, the franchise development manager at HealthStore Foundation, were also part of the interview. The researcher did not approach Obita and Orare, however they provided important information during the interview from the point of view of a local.

The interview was conducted in August 2017 through Skype. This was mainly due to the fact that the interviewer and interviewees were located in different countries and Skype was perceived to be the most effective way of conducting the interview. Due to the lack of face-to-face contact between the interviewer and interviewee, non-verbal gestures could not be observed. There were no technical difficulties during the interview. At times, there was some additional background noise due to the choice of an outdoor location by the interviewees, however this did not significantly affect the conducting of the interview.

The interview structure (Appendix 2) was helpful in keeping the interview focused on the central issues. However, the interviewees covered issues in the interview that proved to be very useful, although they were not part of the original interview questions. The interview lasted a little over two hours. The interviewees had arranged their schedules in a manner that the interview could last as long as necessary. The interviewees themselves wanted to cover as many issues as possible, which is why the interview lasted as long as it did.

To complement the data from the interview with Hillstrom, Obita and Orare, the interviewees provided comprehensive textual data that offered supporting background information to the topics discussed. The data consisted of memoranda, background files and previous studies conducted by other researchers. Together these files provided support to the information given by the interviewees in the interview.

All of the interviewees consented to the recording of the interview. The interview was conducted in English, which was the native language of one of the interviewees. This could cause misunderstandings whilst analysing the data. However, due to all of the participants' high proficiency in English, the possibility for misunderstandings remained minimal.

3.3 Data analysis

A defining feature of qualitative studies is that a researcher does not have to form a hypothesis for their research before gathering data. This means that a researcher should

not have preconceived notions of the research subject or results. Qualitative research also aims to create new information about the research topic. However, the infinite amount of qualitative data poses a challenge, as the researcher still needs to be able to narrow their research so that they are able to analyse the data in a meaningful and sensible manner. (Eskola & Suoranta 1998.)

Eriksson and Kovalainen (2008) distinguish between two main strategies of analysis. The first is centred on pre-formulated theoretical propositions and a respective coding system. The second is centred on the development of a case description, which forms the basis for research questions and a framework for forming the case study. The latter approach does not focus on formal coding, instead it utilises direct interpretation of the research materials.

The first step of the data analysis focused on the individual case through within-case analysis (Eriksson & Kovalainen 2008). This was done by first transcribing the interview from the recording after which the transcription was read several times to provide a thorough understanding of the material. The second step was to code the material in order to recognise which themes of the theoretical framework the data belonged to. This was relatively simple as the interview themes and questions were grouped according to the theoretical framework. However, there were some answers that were narrative in nature and that were related to several distinct sections of the theory. (Eskola & Suoranta 1998.)

After coding, the individual case analysis moved on to drafting a general description of the case. The information from the interview was structured in a thematic order according to the three key advantages presented in the framework by Kistruck et al. (2011). Subsequently, the information was additionally divided into the subcategories of the framework: (1) institutional challenges of the BOP market environment, and (2) adaptations to mitigate the BOP institutional challenges. The purpose of this description was to use empirical patterns to form a holistic configuration, the case. (Eriksson & Kovalainen 2008.)

3.4 Evaluation of the study

As the researcher is a central tool in qualitative research, some level of subjectivity is always present. Thus, in qualitative research the main criteria for trustworthiness is the researcher and as such the evaluation of trustworthiness focuses on the entire research process. Simply put, a study is trustworthy if the researcher can persuade the reader that the findings of their study are worth taking account of. This presents a clear difference to quantitative studies, where trustworthiness refers explicitly to the trustworthiness of

measurements, and where the other actions of the researcher are generally not evaluated. (Eskola & Suoranta 1998.)

There are several ways of evaluating the trustworthiness of qualitative studies. The first technique used in this study is realistic credibility. The basic concept of realistic credibility is simple: how competently does the research text describe the object of the study. Realistic credibility uses the traditional concept of validity, which is divided into external and internal validity. Internal validity refers to the harmonisation of theoretical and conceptual definitions. Internal validity demonstrates how well a researcher is acquainted with the scientific field of their study. External validity refers to the relationship between the interpretations and the conclusions, and the research data. External validity is related more closely to the behaviour of the researcher than the subjects of the study. A research finding is said to be externally valid when it describes the object of the study exactly as it is. (Eskola & Suoranta 1998.)

To increase the internal validity of this research, the first step was to become familiarised with the topic of this study by reading a number of academic articles and books about microfranchising as well theories related to franchising. By being thoroughly acquainted with the scientific field it is possible to know that the theoretical framework and the key concepts used in this study complement each other. The external validity of this research was increased by first ensuring that the data used in this study, the interview, was accurate. This was done by carefully transcribing the interview and then going through the transcribed text to eliminate all possible mistakes. By basing all of the conclusions and findings on the research data gathered through the interview as well as the additional data provided by the interviewees, it was made sure that the findings describe the object of the study exactly.

In this thesis trustworthiness is also evaluated according to the framework of Mäkelä (1990). Mäkelä (1990) focuses on four aspects when evaluating qualitative research: (1) the significance of the data, (2) the sufficiency of the data, (3) the comprehensiveness of the analysis, and (4) the level to which the data can be evaluated and repeated. The first two aspects focus on the evaluation of the research data, whilst the latter two focus on the analysis of the research.

The significance of the research data can be very subjective. It relates to a researcher being able to defend the significance and importance of their data. A researcher must be aware of the cultural position of the research as well as the condition under which it was conducted. (Mäkelä 1990.) This study has aimed to guarantee the significance of the data through the use of expert interviews. The interviewees included Hillstrom, the American co-founder of the organisation as well as Obita and Orare, local high level employees. While as an outsider the views of Hillstrom may not accurate in terms of the cultural context, Obita and Orare were able to provide complementing information in this aspect. It should be taken into account that though the interview questions were

worded as neutrally as possible, the questions were based on the theoretical framework and the interview themes, and as such they may have been leading.

The second aspect deals with the sufficiency of data. In qualitative studies it is very difficult to predict when there will be sufficient data. A general guideline is that it is best to avoid gathering too much data. One possibility for stating the sufficiency of data is through saturation. In its simplest form, saturation refers to gathering additional data when the new cases do not bring any additional value to the research. (Mäkelä 1990.) Only one interview was conducted for this study, as only one organisation responded to the interview request. However, the interview was complemented with additional data that was supplied by the interviewees. As a result the sufficiency of the research data improved.

Comprehensiveness of the analysis refers to a researcher not basing their interpretations on random samples from the data. Another question is how to handle material, which is not meant to explain data in an exhaustive manner? Increasingly the task of the data gathered is to act as a catalyst for theoretical thought, instead of only describing reality. Yet, it should be remembered that data is compiled from a limited case. (Mäkelä 1990.) In this thesis the data was first in the form of an interview recording from which it was transcribed into text. The interview was transcribed so that the information could be analysed more accurately. After this the data was coded according to the theoretical framework of Kistruck et al. (2011) that acted as the basis for this thesis. As such, the interpretations of this study are not based on random sampling as the entire interview was read through carefully and coded after which pertinent information was included in the results.

Evaluation of the analysis refers to the fact that a reader should be able to follow the inferences of the researcher. The ability to repeat the analysis means that the classification and interpretation rules used in the analysis process should be presented as unambiguously as possible. The principle is that another researcher should be able to make the same inferences from the data using the described rules. (Mäkelä 1990.) The methodological approach and gathering of the research data have been covered in as many details as possible in this study to make the process as logical and traceable as possible. The aim has been transparency and clarity regarding the research process.

4 EMPIRICAL FINDINGS

4.1 Case HealthStore Foundation

The HealthStore Foundation (HSF) is an American non-profit organisation that has pioneered a franchise medical clinic business model that delivers effective quality care in places where substandard healthcare is a problem. Healthcare delivery systems in Africa are compromised by ineffective regulatory systems that incentivise substandard care and enforcement of standards necessary for safe and effective prevention and treatment is non-existent. Counterfeit drugs are common because they cost less than real drugs and as such they generate more profit. In addition, too few health workers are adequately trained and dispersed to meet the demand driven by high disease rates. (The HealthStore Foundation 2016.)

Hillstrom says that to solve this problem, HSF has developed a standardised franchise operating system (FOS). Initially, HSF opened 11 drug shop outlets. These outlets were owned and operated by community health workers. These were people who had had just weeks of training and they were trained to address a very short list of health problems. The community health workers did a large amount of health education and prevention activity and additionally they were allowed to sell over the counter drugs. The outlet network grew for several years up to 30 outlets, before HSF began shifting from drug shops to nurse practitioner clinics.

The current system consists of a clinic format, a unit economic mode, operating policies, standard operating business procedures, clinical and financial record forms, diagnostic and treatment guidelines, a drug formulary, and other materials. HSF has recruited local nurse practitioners as franchisees and it has trained them to comply with the requirement of the FOS. By doing this, HSF ensures that effective quality care standards are maintained throughout the Child and Family Wellness (CFW) clinic network of primary care clinics. (The HealthStore Foundation 2016.)

The franchisor in Kenya is a non-profit Kenyan NGO that franchises for-profit medical clinics, and HSF's Board of Directors in the United States controls it. The clinic network is branded CFW clinics for 'Child and Family Wellness'. Through their NGO-franchisor in Kenya, the HSF supports its almost 60 franchise clinics that are owned and operated by local nurse practitioners. Since its establishment in 2000, the clinics have served more than five million people; half in the CFW clinics and half through community prevention, treatment and education programmes. The HSF franchisees are nurse practitioners; they are well trained entrepreneurs building their own businesses. (The HealthStore Foundation 2016.)

According to Hillstrom, HSF has also initiated similar clinic networks in Ghana and Rwanda, however the clinic in Kenya is the main focus of HSF as the other networks are currently run by sister non-profit organisations. The clinic networks in Ghana and Rwanda are now controlled by Sanford Health based in the United States and GlaxoSmithKline based in the United Kingdom, respectively, and they are investing millions of dollars to open hundreds of new clinics in each country.

The strategy of the HealthStore Foundation has been to create a simple, low-cost, flexible clinic format that can be easily scaled while maintaining necessary quality standards to treat patients. HSF franchisee nurses primarily target a short list of diseases, such as malaria, various respiratory infections and dysentery, in addition to perinatal health risks. These diseases and risks cause 70 per cent of serious illness, and sometimes death, among children. CFW clinics also provide a range of other healthcare services commonly provided by nurses, as long as adding them to the standardised menu of services does not impair the ability of HSF to scale their franchise clinic network. (The HealthStore Foundation 2016.)

HSF has chosen the simple, low-cost, flexible franchise format because it is easier to standardise and replicate compared to clinic networks that offer a broader spectrum of care. The main aim of HSF has been to provide access to affordable and effective healthcare, and through significant economies of scale HSF has been able to reduce the cost of serving each person as the network has grown. (The HealthStore Foundation 2016.)

HSF believes that the experience it has gained from its non-profit NGO proves that a retail franchise model outperforms conventional government and NGO approaches in delivering basic primary care in severe poverty conditions. The CFW clinics model improves access to effective quality care at a lower cost than other approaches and it delivers substantial economies of scale. However, due to limitations inherent in non-profit NGOs as franchisors, the current social franchise model cannot scale to the size of large commercial franchise networks. (The HealthStore Foundation 2016.)

To address this, HSF has launched HealthStore East Africa Ltd. (HSEA), a fully commercial, for-profit franchise subsidiary in 2016, which aims to expand the CFW clinic network and develop 500 clinics throughout Kenya within the next ten years. HSEA is going to be funded by investment capital that will be raised through a public benefit corporation holding company located in the United States. In addition to being sustainable, the company will deliver a double bottom line to investors: (1) a financial return including a possible exit by sale to a large company or public registration of its shares, and (2) a social impact serving 20 million Kenyans while growing to 500 clinics over 10 years, and serving five million more Kenyans each year thereafter. The holding company will also hold the controlling interest in the stock of HSEA. HSEA is recruiting Kenyan partners that will execute the business plan of the subsidiary on the

ground. HSF will license all the necessary methods, brands, specialty resources and tools to support the holding company, including the right to sublicense the resources to HSEA and its franchisees. (The HealthStore Foundation 2016.)

4.2 Performance of the HealthStore Foundation microfranchise

The following sections describe how the key advantages of the franchise model and the challenges of the BOP institutional environment have affected microfranchise performance of the HealthStore Foundation, and how HSF has adapted the franchise model to mitigate BOP institutional challenges.

4.2.1 Reducing agency concerns

A dominating motivation in choosing franchising as an organisational arrangement originates from agency concerns. Agency theory emphasises the importance of incentives and self-interest in organisational thinking. Franchising addresses these agency concerns and aligns franchisor and franchisee interests.

Poor condition of labour markets: The first institutional challenge faced by microfranchisors is that of the poor condition of labour markets. The lack of formal employment affects the skill and knowledge level of hopeful franchisees. When the HealthStore Foundation started out with its CFW model it started with 11 drug shops. These shops were operated and owned by community health workers. Community health workers are people who have just weeks of training and they are trained to address a very short list of health problem and they do a large amount of health education and prevention activity. It was relatively easy to find people who qualified as community health workers as they did not need previous training.

After a time HSF began shifting from drug shops to nurse practitioner medical clinics. To qualify as a franchisee for a CFW clinic in Kenya, a person has to have a registered nurse degree, which is four years of training, and additionally they need five years of practice. According to Orare, HSF initially had challenges when recruiting franchisees and this was due to the basic minimum required number of years of practice for someone to register a clinic. Over the years the franchise model has been adapted to overcome this problem. HSF has been able to use peer recruitment where a prior nurse will link HSF with a fellow nurse or a fellow colleague whom they work with. After this adaptation the recruitment process has been easy going forward. There have generally been more nurse applicants than HSF has had franchisee opportunities.

The above is true for the social franchise model that HSF has been using. Going forward, as HSF is moving from social franchising to a commercial franchise model, the recruitment process will remain relatively similar. The ability to recruit new franchisees will depend on two things. First, the number of nurses graduating from the medical training colleges, which has increased compared to the past. Secondly, it depends on the entrepreneurial properties or characteristics of the nurses and whether they are interested in running and operating their own business under a franchise model. Finding that combination from the set of nurses who have fulfilled the current licensing requirements of more than five years of practice will be the challenge that HSF will face.

However, it is only the first threshold to find nurses who are interested in franchising. The second threshold is that HSF needs to be competitive in attracting them. The question HSF has faced is that will there be enough entrepreneurial nurses. In the 1990's, Hillstrom started a business with his brother and his friend, who were residents at the Mayo Clinic at the time, where they had to recruit a particular kind of doctor to join their company and the demand for these doctors was very high. They were going into rehabilitation medicine and it was a successful field at the time. Yet, Hillstrom and his partners were able to attract residents from places like Mayo Clinic who had job opportunities wherever they went in the world. They came to Hillstrom and his partners because their business was a physician driven company. Hillstrom and his partners developed a culture that was there to serve the doctors so that they could serve their patients to the best of their ability. That is the kind of culture the HealthStore Foundation is developing in the future to recruit nurses. Hillstrom wants the CFW clinics to be the number one thing that any entrepreneurial risk-taking nurse wants to do. That means that HSF needs to develop this in such a way that it is an exciting opportunity for nurse practitioners. In commercial franchising a franchisor has to create a franchise opportunity that is so attractive that the type of franchisees they are recruiting will choose their franchise over any other franchise or any other job opportunity they might have.

Nurses have to pay to buy a franchise. HSF does not permit somebody to have a franchise that, as Hillstrom put it, "…does not have their own skin in the game, so to speak." This requirement filters out a majority of people. HSF has found that not very many nurses are going to want to spend money and take an entrepreneurial risk in which they might fail and lose their investment. The nurses have to give up their job to start out as franchisees, they have to take out a loan to fund their start up and if they fail they will still owe the money. This is why a nurse has to have the profile of an entrepreneur. They do not have to be an experienced entrepreneur because the franchise system of the CFW model answers most of the entrepreneur problems. Franchisees are getting a turnkey business that they step into. But if they lack the instincts of an entrepreneur they

are likely not going to succeed. HSF has run tests where it has opened clinics where it employs nurses. In all of those cases, four in all, the clinic failed. Hillstrom believes that the reason behind this is that the franchisee did not have the incentive to make it succeed. According to Hillstrom, “They come to work and they spend their time at work and they do what do at work and they get a cheque at the end of the week.”

However, there is a way that HSF has adapted its CFW model to lower the threshold for potential franchisees. Unlike Subway or McDonald’s, HSF is not interested in the real estate of their franchise clinics. All of Subway’s locations are owned by franchisees. In addition to franchisee owned locations, McDonald’s has company owned locations because they want to own the real estate. HSF is not interested in the real estate of these franchise clinics because if they did get into the real estate business, it would vastly complicate things. It would significantly increase the threshold of getting a new clinic open. The goal of HSF is to get as many clinics as possible open fast.

Undeveloped nature of formal institutions: The HealthStore Foundation has a very high respect for the Ministry of Health in Kenya. They have a good working relationship and there has been a lot of contact between the organisations over the years. HSF always strives towards all of their clinics complying with regulations. If HSF ever finds out that it is out of alignment with any regulation, it works towards being compliant. The real root of the problem is healthcare providers at the grassroots level who are not complying with the necessary regulations. Kenya has the regulations for quality. It is just very difficult to enforce them in the Kenyan environment of inefficient enforcement and legal systems. This is true for most of the developing world. HSF does its best to comply with regulations and to encourage everyone else to comply with regulations. HSF wants to become an example for others by having systems in place, having quality standards established and having operating systems that require compliance with standards.

In addition to operating in Kenya, the HealthStore Foundation built up a clinic network in Rwanda. In 2006 HSF leaders visited Rwanda and it decided to launch a clinic network. HSF originally built the network up to 25 clinics before transferring the network over to its sister non-profit One Family Health (OFH). OFH was run by the then CEO of HealthStore, former vice-president of GlaxoSmithKline. The network has grown to over 90 clinics with funding from GlaxoSmithKline. Before the transfer, the operating company entered into a public-private partnership (PPP) with the Ministry of Health of Rwanda. The main idea behind the partnership was for the government to provide locations, basically buildings in which the clinics could operate. This partnership also provided HSF with a direct channel of communication to the government, which could help it work around undeveloped institutions. It was a very

valuable contribution that allowed for the Rwandan project to grow quickly. The partnership mitigated the challenges of poor formal institutions and legal systems.

Inefficient enforcement and legal systems: As Hillstrom explains it, the root cause of the global health problem is substandard care. And the reason care is substandard is that care providers have negative incentives and enforcement of regulations is inefficient. According to Hillstrom, "Incentives are the heart and soul of franchising. It's all about incentives. And the problem with the whole social sector is that they ignore that."

Healthcare providers can buy cheaper drugs to serve their patients instead of more expensive ones. The problem is that the cheaper drugs are cheaper because they are counterfeit. Providers keep selling counterfeit drugs because they make a profit if they sell them. More than 70 per cent of medicine currently in circulation in Nigeria is counterfeit (SAPHEX 2017). Billions of dollars are spent on healthcare in the developing world and a large part of it is wasted on substandard care.

The HealthStore Foundation, through its CFW model solves the problem of inefficient enforcement and legal systems by applying the franchise model to its work. In their system there is a rule that franchisees can only sell drugs that the HealthStore Foundation supplies or authorises. Because HSF maintains a secure supply chain, counterfeit drugs cannot get into it. The franchisee manual also informs franchisees that their franchise will be revoked if HSF finds them selling any drugs that it did not authorise. According to Hillstrom, in the early years after the launch of the franchise, HSF found some franchisees selling counterfeit drugs and their franchises were revoked. This has enforced the fact to the franchisees, that HSF is serious about upholding its standard of care.

There are strong incentives for franchisees to follow the rules, because then they prosper. Franchisees have a business of their own, they are self-employed, and they have an asset they can build up over the years that they can at some point sell for profit. Franchisees also have the prestige of being a quality care provider in the community where a lot of the care is substandard. Additionally, HSF as the franchisor offers a strong brand and support services to the franchisee. The incentives to follow the rules are powerful as the disincentives to break the rules are just as powerful. If you break the rules your franchise license gets revoked and that is the death of the franchisee's business.

Compliance to regulations is especially crucial in healthcare. HSF has tried to compensate for inefficient enforcement by incentivising its franchisees to follow regulations. However, the poorly developed nature of formal institutions as well as the inefficient enforcement and legal systems in Kenya does pose a challenge to franchisor oversight. The HealthStore Foundation uses several ways in its CFW model to counteract the challenges created by the BOP institutional environment. HSF has field

officers who go in unannounced and they inspect the clinics for compliance. The franchisees know that they are being regularly inspected, so they impose a discipline on themselves. They have to be in compliance every day of the month, so that they are sure to be in compliance on the day that they are inspected.

Hillstrom himself plays a part in combating inefficient enforcement and legal system. He has his own test he does whenever he is in Kenya that he uses to see whether the organisation is keeping its brand promise. Hillstrom goes to a clinic and talks to a mother who is there with their child and he asks why they come to the CFW clinic when they could go to a free clinic instead. When he gets answers such as "I come here because they give good care and my child gets well", he knows that the care that the clinic is giving is keeping with their brand promise.

According to Hillstrom, one of the crucial benefits of franchising is that you are incentivising franchisees to self-regulate. This way they do not need top-down supervision. Their supervision is that they can only continue to do business under the HealthStore Foundation brand and they can only own their business if they are compliant. If a franchisee does not comply they lose their business. Their supervisor is the incentive that they have to follow the rules and the fact that somebody is checking to see if they are.

4.2.2 Capitalising on brand and standardising operations

A key driver of microfranchise performance and growth is the ability to standardise operations. During the interview, Hillstrom emphasised the importance of standardisation and how it has laid the groundwork for the success of the franchise. To achieve standardisation, Hillstrom has taken the HealthStore Foundation and its franchise operation through a very specific process. According to Hillstrom, it is the foundation of the franchise and it is what has abled them to successfully operate in Kenya as well as Ghana and Rwanda. With limited resources in terms of financial, human and physical capital, the standardising of the franchise has to be planned extremely carefully.

The fundamental concept of this business is about the three-point test, as Hillstrom calls it. In order for HSF to get healthcare delivered to millions of people across a large geography over a long period of time, there are three things that have to be true of the business model: (1) it is standardised, (2) it can be geometrically scaled, and (3) it needs to achieve economies of scale. By fulfilling these three points, the HealthStore Foundation has been able to deliver effective quality care in Kenya, Ghana and Rwanda.

A franchise has to create the same quality consumer experience for all customers that do business under the brand throughout the world. The ability to provide standardise,

high quality end-consumer service is a key feature of improving microfranchise performance. This has been accomplished by HSF by standardising a single business unit of a CFW clinic. To achieve this, Hillstrom used a tool called the unit economic model (UEM). The unit economic model is on a spread sheet and it determines what all the revenue sources are, such as royalties. Franchisors will often be selling goods to the franchisees and charging fees to their franchisees, but the main revenue source is royalties. For franchisees the revenue sources can include selling additional things like selling health and hygiene products.

Hillstrom had to estimate the number of customer patient transactions the clinics would have per day. Then he multiplied that by the number of days that they were going to be operating. Hillstrom calculated the daily revenue based on the transactions they were going to have, the different kinds of revenue they were going to get, he multiplied the daily amount by the number of days the locations would be open in a year and that gave him the annual revenue for that location. That is the revenue side of the unit economic model.

Then there is the expense side. There are things such as rent, electricity, Internet service and patient services, which amount to the cost of human services performed for each of the patients. The total revenue is compared to the total costs and in the case of a social franchise they are most likely not aligned correctly. In other words, there is not enough revenue to pay for all of the costs. The unit economic model spread sheet allowed for Hillstrom to begin tweaking or adjusting all the different numbers that are there. The revenue sources and amounts can be changed, as can the number of days the clinics are open. On the expense side the expenses can be added or subtracted.

The unit economic model is a tool that helps a franchisor fine tune the revenue side and the expense side, and to test all of their assumptions as they work towards narrowing the gap. The goal is to come up with enough money on the revenue side so that they are going to pay for all of their expenses and they are going to have profit left over for the franchisee. When HSF was working through this unit economic model, it was establishing the business format for the franchise system. The business format includes the square feet each clinic will use, the floor planning of the clinic, the equipment and the fixtures and furnishings that will go into the clinic. The business format also includes things like diagnostic and treatment guidelines, list of all the drugs called drug formulary, secure drug store procedures and secure supply chains. HSF has a manual that contains all of this. The manual is called the franchise operating system.

As an entrepreneur, these were the first steps of HSF. It worked out the unit economic model and then it knew what expenses it was planning to incur and then it went on from there to figuring out how much space it was going to have to rent in order to provide their services. HSF needed front-end space for reception and patient waiting, examination rooms and a back room where it would do storage and other things. This

was the minimum space requirement without which it could not run a clinic. This all had to fit into their unit economic model. Everything in the franchise is linked together in a systematic way and all of these different variables affect one another. The unit economic model helped HSF as the franchisor to analyse and adjust all the different variables.

This unit economic model explains how HSF standardised a single clinic format. The next step for them was to make sure that the medical quality was also standardised. Without the proper quality of care HSF never would have succeeded in its mission. To make sure that the medical quality would be there, HSF established another brand called EQC for effective quality care. HSF and in extension its CFW clinics made a brand promise to everybody who comes to their brand, which is about 20,000 people a month at the moment, that they are going to receive effective quality care. The reason why this was chosen as the brand promise was that the main reason 25,000 children who were then dying every day would not have died if they had effective quality care. Throughout the world the leading cause of death is substandard healthcare. Most of the time when people get healthcare in developing countries it is from people who perform alternative medicine. Even if it is a nurse or a doctor who sees to the patient, whether they are following the necessary standards of care to deliver effective quality care is the problem.

The whole mission of the HealthStore Foundation was born from the need to solve that problem: substandard care. HSF had to take a system that was delivering substandard care and shape it and run it in a manner that would incentivise everybody in that system to deliver effective quality care. That is the brand promise. When a person sees a CFW brand clinic it is telling them that if they bring their child there they are going to get effective quality care. Hillstrom found out that the way to solve the problem of substandard care was through the franchise business model, because with it HSF could standardise the care procedures to deliver effective quality care.

HSF has created consistent routines and replicated them across the CFW clinic chain. Through standardisation HSF replicated its existing sources of competency throughout the franchise chain and the clinics have been able to provide a standardised level of service to the customers. The CFW clinics have a strong brand, which has built the legitimacy of the franchise in Kenya. As proven by the patients Hillstrom has interviewed during his visits in Kenya, patients are willing to pay for the services the CFW clinics offer instead of going to a free government location, because they know that the CFW clinic will offer effective quality care.

As Hillstrom explains it, all of the industries in the developed world where the quality of services performed by human beings is the most mission critical aspect of the business, all of the largest companies in the world are franchises. The reason this is true is that it needs to be possible to regulate the quality of services performed by humans.

According to Hillstrom, a top-down command control bureaucracy has a limited span of control. It can regulate quality relatively well when there are a limited number of locations, but somewhere along the way there are too many things, too many humans making mistakes and not following rules that you cannot regulate that. One can only grow systems that are top-down command control bureaucracies when the cost of that operation is not being fully paid for by the customers, such as government healthcare and the military. Franchising solves that problem, which is why it has been such an effective method for delivering effective quality care for HSF. A franchising system can scale geometrically and never get so large that it can no longer maintain consistent quality standards to keep the consumer brand promise.

Hillstrom says, "I'm against top-down command and control medical systems. But I want to be very clear, the reason I'm against them is that the model can't work where the quality of healthcare is not effectively regulated. What I just described is the American model, top-down command and control systems. Almost all the healthcare in America today is delivered by big government bureaucracies or big business bureaucracies. But they have effective regulation of care. In America if you make it a business to sell counterfeit drugs, when you're caught you don't just get your business revoked, you go to prison. So the regulation is quite effective in America." Top-down command and control bureaucracies cannot regulate the quality of care that is being delivered. Hillstrom is only against it where effective quality regulation does not reach the grassroots level.

Institutional differences in the BOP market: One of the challenges posed by BOP market is the institutional differences between BOP markets. Franchisors often need to adapt their operation to fit location-specific characteristics and as such operations cannot be fully standardised. The HealthStore Foundation has not faced this challenge, as healthcare is one of the fields of service that actually benefits from being standardised even across different BOP markets. Consumers want to receive care that is being performed according to the same strict guidelines everywhere, without variations by the franchisees. The standardised level of effective quality care is a specific advantage for HSF and its franchise operation. As such the franchise has been able to fully benefit from the key advantage of standardisation.

Cultural heterogeneity: One of the challenges franchises often face in BOP markets is cultural heterogeneity and how cultural differences across BOP markets limits the ability of an outsider to influence local values, norms and beliefs regarding brand value. The HealthStore Foundation has adapted in the face of this challenge and all of their employees are Kenyan. When Hillstrom started out HSF had no employees. Hillstrom himself was a volunteer and he had a charitable organisation established to raise funds in New Zealand and then he established one in the United States. Then HSF started hiring staff. There are no employees outside of Kenya and Hillstrom is only a volunteer.

All of the people running the operating in Kenya are locals. The problem of HSF not being from Kenya was never an actual problem. The faces representing the brand that customers see in the CFW clinics are all local. This has allowed HSF to appear local, which in turn has enabled it to permeate into the local communities.

According to Hillstrom, you cannot run something like the CFW clinics if you are not from Kenya. The role of Hillstrom is that he innovates, he is the architect, he raises money and he drives the operation forward. But he does not pretend to know how to actually run a medical clinic in Kenya. Hillstrom says, "It would be foolish of me to think that I could ever do that. And even a doctor coming from America would have a difficult time doing it because she would come at it with all the learning and habits and programmes she had that don't make any sense and you know certainly not at the nurse practitioner level clinics."

One of the fundamental premises of HSF was that the company had to be run by Kenyan people or at least by people who are deeply familiar with the environment. Hillstrom says there are some missionary doctors who are American than can run clinics in Kenya, but that is because they have been practicing there for decades. Because local nurses run the CFW clinics, HSF has not faced backlash for being a foreign organisation. In addition, instead of the sending a signal of wealth, a strong brand has made the CFW clinics appealing to consumers because it represents effective quality care.

Lack of communication infrastructures: Microfranchises often face the challenge of lacking communication infrastructures and as such the ability of the franchisor to build a brand and leverage it is severely hindered. Microfranchisors can benefit from transferring marketing responsibilities to their franchisees that have ties to their local communities. The HealthStore Foundation has been in a fortunate position where it has been able to use national advertising campaigns to promote their brand on a nationwide basis. HSF's main motivation in doing large national advertising campaigns is that this way each franchisee benefits from the marketing efforts. Single franchisees, or even several combined, would never be able to gain the same level of visibility with their own limited resources. Additionally, when doing nationwide campaigns with large advertising agencies, HSF has had access to the existing infrastructure the large marketing agencies have access to.

Some marketing responsibility has also been taken on by the microfranchisees. While HSF has been able to establish a single national brand, nurse practitioners have built the brand locally. Nurses act as living proof of the advertised brand when they deliver effective quality care that cannot be received from the government clinics. In addition to delivering medical care, nurses also act as health educators in their communities. In their role, they are banishing existing values and beliefs, as well as establishing loyalty.

In addition to profiting from traditional advertising, HSF and its CFW clinics benefit from word-of-mouth advertising. Clinics are designed to be located close to the people they are intended to serve and as such, poor transportation infrastructure does not hinder the delivery of word-of-mouth advertising. As such HSF has been able to build its microfranchise in the community and the strength of the benefits of the franchise model has not been diminished due to the lack of communication infrastructure.

4.2.3 Overcoming resource scarcity

A key reason for choosing the franchise model is that it allows for a business to grow more easily compared to internal growth. This is where the second point of the three-point test comes in. According to Hillstrom, what most social organisations believe is scaling is printing up a manual and calling it a franchise manual. They run people through some training and they open up as many locations as their donor money can pay for. They put people in those locations and they just expect them to deliver effective quality care when they have not done anything to manage the incentives of those people. The root problem is substandard care and the reason care is substandard is that the care providers have negative incentives.

In the case of the HealthStore Foundation, scaling is the replication of a standardised business unit, in this case a clinic. There is a certain amount of floor space, a floor plan and a list of equipment. It has opened clinics that are as identical as possible. As it is operating in a developing country it is not possible to make them actually identical. HSF uses rental space for its CFW clinics so it has to adapt. In the social sector, one cannot look at things too dogmatically. There must be flexibility on certain things like floor plan because the organisation might not be able to find a space that it can rent that fits the floor plan. However, there are things for which there is zero tolerance, such as counterfeit drugs.

The second step is to replicate the standardised business unit. In the past HSF has only scaled linearly. This means that it has opened one or two, at the most five or ten clinics all at one time. This has significantly limited the rate at which the CFW clinic network has been able to grow. Currently there are 50 CFW clinics and eight drug shops. Considering that the first shops opened in 2000, growth has been moderate.

Now that HSF is moving from social franchising to commercial franchising, instead of scaling linearly it will be utilising geometric scaling. In geometric scaling, a franchisor takes their franchise model and they license it to a territory. HSF is considering licensing its brand in the Kisumu territory in Kenya. By finding someone who would like to have the license to use the brand in the Kisumu territory, HSF would

gain access to a territory with a strong economy and some millions of people. The person with the license could open 100 or 200 clinics over a five- or ten-year period.

HSF gives the licensee the license and gets them started on replicating the standardised clinic that goes with HSF's brand and is keeping with its brand promise. These new licensees use their own money and efforts to start up the business. HSF as the franchisor gives them the tools and license. Additionally, it can offer franchisor support to the licensee such as training their franchisees to help them get started. Once this is done HSF can move onto Mombasa and do the same thing over there. This way HSF will have groups of people in two regions building up their businesses simultaneously. This process can be repeated over and over again.

The HealthStore Foundation has copied this franchise model from Fred DeLuca who is the co-founder of Subway. This is how he built Subway into the largest franchise network in the world. HSF will follow the Subway model when developing their commercial franchise concept. As a part of the benefit of overcoming resource scarcity, scaling is an important step for a commercial franchise and it cannot be achieved without the necessary condition of standardisation. It is possible to scale a franchise one at a time or a few at a time. But as a commercial franchise company, HSF will need a business plan where it scales geometrically by establishing a lot of people in different territories all developing their own networks simultaneously.

Low purchasing power and limited product margins: NGOs are charitable organisations and the reason they get grants is that they are doing something for the public good. In the case of HSF, it is delivering effective quality healthcare in its clinic locations to low income people. The clinics often do it for free or for reduced prices because people cannot afford the care. Because HSF does that charitable part, it can get grants and donations to fund the franchisor. This way HSF can perform all of its functions for its franchisees. This means that HSF as the franchisor is incentivised to get grants and the franchisor cannot charge a royalty to franchisees because the franchisees are already giving away some of their revenue to free medical care for people that cannot pay for it themselves. A franchisor cannot add to that burden of the franchisee in royalty.

As Hillstrom describes it, "Let's say that they're already losing 15 per cent of their revenue giving away free services and drugs to poor people. If you add a 10 per cent royalty on top of that it makes it very difficult to remain in business. So we knew not to charge a royalty." Because HSF cannot charge a royalty as a franchisor, it must obtain grants. As such, HSF as a franchisor is grant dependent. According to Hillstrom, this is known as social franchising. While according to Hillstrom it is better than not franchising at all, it is nothing remotely like actual franchising.

This is where the challenges of low purchasing power and minimal products margins are evident. Although the aim of HSF is not focused on making a profit as a franchisor,

the low purchasing power of potential customers has made the organisation grant dependent. As HSF is not self-sufficient, the resource scarcity problem is compounded and the ability of HSF to achieve profits and scale is limited.

For this reason, the HealthStore Foundation has created a new commercial franchise company in Kenya. The key is that the new business model has designed into it payments for people who cannot pay for their own care so that not only do they get care, but the franchisee gets paid in full. Since the franchisee is paid in full, HSF as the franchisor can charge a royalty to the franchisee. And since it can charge a royalty to the franchisee as the franchisor company, it can scale the business and at some point, the royalty revenues will exceed the expense of operating the franchise company. At this point the business will breakeven and afterwards it will be profitable.

When the company is profitable it can pay a return on capital. So just like any other start up business, HSF can go out and raise investor capital. The investor capital is used to get the company to the breakeven point where it can make a profit. After that the company can distribute the profits to the investors, so that the investors can get a return on their capital.

This is the standard commercial business model used all throughout the world. The aim of the HealthStore Foundation is to develop and prove up a model that works on a commercial basis, the exact same way that franchising companies all throughout the world work. Franchising companies collect royalties from franchisees that can afford to pay them because the franchisor is helping the franchisee to improve the performance of their business. This makes them more profitable. The franchisor then opens up more locations because each new location means new royalty income. This is how franchising helps to overcome resource scarcity.

While the old approach of linear scaling has limited the ability of HSF to overcome resource scarcity, its new commercial franchise model will help them finally overcome it. Instead of HSF focusing on the need to build up funding to overcome the undeveloped nature of human capital markets, HSF is transferring this responsibility over to its licensees.

The third point of the three-point test focuses on the franchise achieving economies of scale, which is closely linked to low purchasing power in the case of microfranchisees. A franchise can have the capability of achieving economies of scale without actually achieving them. For example, HSF has to go out and buy laptop computers for its franchisees. HSF could tell each of its franchisees to go out and buy their own computer. They would all come back with a computer with the cost of X. However, HSF can sign a contract to supply 500 computers starting with 50 in their initial order. Then it can buy those computers to the price of X minus a discount for volume. Volume discount purchasing is a major way that HSF as the franchisor can benefit its franchisees. It makes a lot of things available to franchisees at a lower cost.

Another place where HSF has utilised economies of scale is advertising. Advertising in a consumer franchise business like medical clinics or restaurants is a very fundamental part of the business. As the franchisor, HSF has been able to develop the scale as a company with enough revenue coming in so that it can afford to use national advertising agencies to do big advertising campaigns just like other large corporations are doing. This advertising is benefitting each little clinic. This is a scale of advertising with a quality and effectiveness that no clinic could supply for themselves. Even 100 clinics could not supply for themselves. One would have to go to hundreds before they would get to a point where they could economically afford to do national and regional advertising.

The discounted purchasing and large scale advertising is benefitting the franchisee by adding profits to the franchisee. That is one of the reasons that franchisees are happy to pay royalties to HSF. It is that royalty money that HSF is using to provide those discounted purchasing opportunities and national advertising. The institutional challenge of cultural heterogeneity usually dictates that a franchisor cannot use national advertising campaigns in BOP markets because consumers in different territories respond to different things. However, due to the fact that CFW clinics are a healthcare franchise and that healthcare is one of the few things that can be standardised nationally, cultural heterogeneity has not played a part when it comes to advertising. While traditionally microfranchisors might benefit from transferring marketing responsibilities to franchisees, HSF has instead been able to benefit from economies of scale.

Undeveloped financial markets: Developing countries often suffer from undeveloped financial markets. Microfranchisees have been able to adapt to this environment through the use of donor funding and microfinance. According to Hillstrom, microfranchisees may choose to use microfinance in the form of microlending to finance the development of improvements to their business. The major weakness of microlending is that a microlender is lending money to a group of people and they can all be in different businesses. They might have 100 different people and they in turn might represent 15 or 20 different businesses. In these cases, the microlender is unlikely to offer anything besides financial support.

HSF as a franchisor has taken on the role of a microlender, except in this case everybody is not only in the same business, but they are using the same exact business model. As a result, if there is some new improvement that can be made, HSF develops it. ExxonMobil gave HSF a grant to develop new treatment protocols for the new Coartem anti-malaria drug that came out ten years ago. ExxonMobil has a lot of medical clinics in West Africa while the HealthStore Foundation has clinics in East Africa. The difference between the two situations is that HSF has a franchise system and it was able to run a trial in five clinics. From there it was able to develop new protocols for the drug and then upgrade all of the CFW clinics to these new malaria protocols. From there

HSF gave the system to ExxonMobil so they could use it in their clinics. This is another example of economies of scale that HSF has been able to use to the benefit of its franchisees.

As mentioned earlier, donor funding in the form of grants is often limited to NGOs that are non-profit organisations, which in turn limits the way these NGOs can do business. This does not mean that donor funding will not play a role in the future commercial franchise. When HSF started out, it was not its mission to make a lot of money; its goal was to take care of poor people. When HSF first started out, Hillstrom had the idea that it could start the clinics and make enough money from people who can pay to cover the cost of taking care of people who could not pay.

Then Doctor William Foege, who is a widely famed doctor in global health, visited HSF. He was instrumental in eradicating smallpox. At the time Foege visited HSF he was in charge of drug and vaccine issues for the Gates Foundation. Foege visited some CFW clinics and afterwards called Hillstrom, "Look Scott, you've got to give up on this idea that you're going to make enough from people who could pay to pay for people who can't pay if the people who are paying are poor people. You're going to have to subsidy. Just accept it and figure out how you're going to do subsidy."

After this call Hillstrom understood that he knew little of what he was doing and Foege knew everything. Hillstrom knew they were already stuck in the NGO franchisor mode, and while the NGO model is not the best way to grow a large-scale franchise, it does deliver effective quality care at the retail level. It also does it at a low cost and it is a way to get subsidies for poor people.

Hillstrom believes that as long as the franchisee is paid in full, then commercial franchising will work in Africa just like it works in Helsinki, Finland. The unit economic model starts with what is the revenue. Then comes the design for the business unit and expenses so that they will work given the revenue that is coming in. But if a franchisor is paying expenses and they are not getting enough revenue to cover those expenses, the system will not work. That is the reason social franchising cannot work without grant money.

However, there are problems associated with grant money. With the grant money, a franchise will end up with a top-down kind of system with related problems. An organisation has to be non-profit to get grants. Yet non-profit organisations cannot govern effectively because they are made up of committees and they are essentially group projects. People have different ideas and they all have to have a say. Microfranchises have to have executive functions just like all the other major franchises. A franchise needs a CEO to function properly; a committee cannot run it.

The need to move away from the restrictive NGO model has brought the HealthStore Foundation a new way to overcome resource scarcity. There is a popular movement afoot and though it is being talked about now it is not widely practiced. The movement

talks about shifting donations away from paying the operating costs of a charitable organisation over to paying for the outputs of the organisation. This model is already being used in things like environmental organisations that are doing things to reduce emissions. Factories can get output payments from the government as they reduce their emissions. The movement is about earning the output payment.

In its new commercial model HSF will similarly go earn output payments. There are billions of dollars that are spent on global health annually. Healthcare in the developing world is in a place where on the low end maybe 15 per cent of care is ineffective, but there are places where as much as 50 per cent is not effective. Any money that is spent on ineffective care is essentially wasted money. By improving the effectiveness rate, HSF is reducing the cost per person of delivering effective quality care because donors are no longer spending any money on ineffective quality care, or at the very least a lot less money.

According to Hillstrom, the idea is that in the new commercial model donor money will be available to pay for healthcare that is delivered, but it is going to be paid after the care has been delivered and only if the provider delivering it is delivering effective quality care. If the clinics meet the standard of effective quality care then the donor will pay the franchisor, and in turn the franchisee, for delivering these outputs. Part of this process is determining what people should be eligible to receive a subsidy. In order for this to work there has to be a healthcare provider that is using a system that ensures that franchisees are delivering effective quality care. There also has to be a system for recording each charge documentation that goes with the service. This way a payer will know that the payment qualifies to be paid and what the amount of the payment is.

The HealthStore Foundation is designing such a system and the way it is going about it is it wants to generate a large stream of payments in the form of small contributions. HSF is working on this concept with salesforce.com, which is a business software platform. Companies like Accenture have programmes where they will match charitable contributions made by their employees. If an employee donates 50 dollars to a charity, the company will match it with 50 dollars and in the end the charity will end up getting 100 dollars. HSF aims to first enable companies who are already using the salesforce.com platform to offer this opportunity to their employees. Then it will market it within those organisations that are set up to do charitable contributions and get them to market it to their employees. HSF can promote opportunities where for a certain amount a donor can send a patient for a medical visit.

Hillstrom believes that the reason this is not being done now is that there is nobody capable of producing actual effective quality care outputs and documenting them on a large scale. People would much rather be able to use their money for an output payment, so HSF wants to give them that opportunity. Charitable donors should be able to depend on their money being used to actually pay for effective quality healthcare since that is

why they are giving it away. Donors should also know how much is being spent on each patient being served and they are going to know that with this new system. The theory Hillstrom has is that there will be more money flowing in than the franchise will be able to utilise.

This is essentially how HSF is going to make sure that franchisees are being paid in full. This is where charitable mission and the commercial franchise business intercept. When the franchisees are paid in full, HSF as the franchisor can charge royalties. When the royalties are being paid to the franchisor, the franchisor is then incentivised to do two things. First, they can maximise the performance of each franchisee and second, they can open as many new locations as possible because that is how franchisors increase their revenue. When HSF breaks even and makes a profit, it will be able to pay a return on the use of investor capital, like all the other businesses in the world that get investor capital. When that is possible, it can attract new investor capital.

This is the silver bullet for global health. It helps microfranchises overcome the challenge of undeveloped financial capital markets, which in turn enables microfranchises to benefit from the ability of the franchise model to overcome resource scarcity. With the output payment, the HealthStore Foundation can get near 100 per cent efficiency of donor funding because it is only paying for care after it has been delivered and only if delivered by a provider that is delivering effective quality care. The silver bullet also enables the commercial microfranchise model to work as well as the Subway model works, because the franchisee is being paid in full. This means that HSF can project its unit economic revenue; it can match the expenses to its unit economic revenue and design a business unit that will be profitable. Then HSF can replicate that unit so that it can get it on a large scale, which means that a large amount of royalties is flowing back to the franchisor, and it is going to achieve economies of scale.

The new commercial franchise model of the HealthStore Foundation can solve the problem where a vast majority of people are suffering needlessly for the lack of access to effective care. This can be done with private investor capital as long as somebody is paying for the people who cannot pay. If HSF can enable a way that somebody can shoot millions of silver bullets into its system, it can do it on an enormous scale. It will not only be the HealthStore Foundation that is doing this, as HSF will be sharing everything it knows with everyone else so that they can do it in countries all around the world.

4.3 A summary of the main empirical findings

The empirical part of this thesis has focused on examining the factors that have affected the microfranchise performance of the case company HealthStore Foundation. In this

study, microfranchise performance is defined in terms of the success of the franchise brand, which consists of three components: (1) quality of the end-consumer service, (2) quality of the franchise system and the mechanisms in place the support its sustainability and growth, and (3) the ability of the franchisor to deliver measurable results. In terms of this case, performance is defined in terms of whether HSF as the microfranchisor is delivering on its brand promise of effective, quality care on a large scale and whether the franchise network has been able to grow sustainably.

The microfranchise operation in Kenya was the main focus of this study as it is still owned and operated by HSF, while the microfranchises in Rwanda and Ghana were looked at in minor detail as they are operated by other NGOs. The empirical findings were obtained by conducting an interview and by complementing the interview with public reports. The interviews were held with a co-founder and two experts from the organisation that have all been in key roles when developing the current social franchise and the future commercial franchise models. The interview themes were based on the three key advantages of the franchising model, the institutional challenges posed by the BOP market environment and possible adaptations to the franchise model to mitigate the challenges, which were presented in the theoretical framework of this thesis.

Table 7 provides an overview of the main empirical findings regarding what institutional challenges of the BOP environment HSF has faced when trying to realise the advantages of the franchise model as well as how it has adapted the traditional franchise model to mitigate for the challenges. As seen in Table 7, the interviewees from the HealthStore Foundation were able to identify challenges and adaptations related to all of the key advantages.

For the HealthStore Foundation there were clearly some dominant institutional challenges of the BOP market environment to realising the key advantages of the franchise model: (1) the inability of HSF to charge royalties, (2) grant dependency, (3) negative incentives of franchisees and inefficient enforcement, and (4) cultural difference across BOP markets.

The first two challenges that impacted performance the most and forced HSF to transition from a social franchise model to a commercial franchise. As a social franchise, HSF was grant dependent as it could not raise investor capital and it could not charge royalties from its franchisees. As such, HSF was limited in its ability to overcome resource scarcity, as it could not share the expansion costs with its franchisees. Though HSF has been able to scale its franchise, growth has been moderate and limited mainly due to the lack of resources. The ability of HSF to deliver measurable results has also been limited by the fact that the CFW clinic network has faced limited growth and as such the number of patients HSF has been able to treat has been constrained.

Table 7 An overview of the main empirical findings

Key advantages of the franchising model	**Institutional challenges to realising advantages of franchise model**	**Adaptations to mitigate BOP institutional challenges**
Reduce agency concerns	• Challenges in recruiting nurse practitioners due to minimum requirement of years practicing medicine • Nurses are not always willing to take entrepreneurial risk • Franchisees have negative incentives and enforcement of regulations is inefficient	• Using peer recruitment to find new franchisees • HSF has lowered threshold of opening a new clinic by not owning the real estate • Partnership in Rwanda with the Ministry of Health • HSF has strong incentives in place to follow the rules and to self-regulate • Field officers inspect clinics unannounced for compliance
Capitalise on brand and standardise operations	• Institutional differences between BOP markets are not applicable • Cultural differences across BOP markets limits an outsider's ability to operate a franchise • Individual franchisees do not have the resources to advertise their clinic	• Healthcare services do not need to be adapted to different BOP markets • All HSF are Kenyan and nurse practitioners are locals • HSF has established a single national brand while nurse practitioners have built local brand • HSF benefits from word-of-mouth advertising
Overcome resource scarcity	• HSF as a social franchisor cannot charge royalties • HSF is grant dependent • Linear scaling has limited HSF's ability to scale the business • Donor funding paying for inefficient care	• HSF has created a new commercial franchise that can raise capital and charge royalties • Geometric scaling and licensing to territories makes scaling easier • HSF has taken on the role of microlender • Donor funding used output payments of effective care

The new commercial franchise HSEA will overcome these problems. The new model will have output payments paid for with donor funding, which will help with low

purchasing power and minimal product margins. Because of these output payments franchisees get paid in full and HSEA can charge royalties. Additionally, HSEA will be able to raise investor capital, which will give it more resources for scaling its operations geometrically. This will lead to improved performance in terms of growth and results.

The latter two challenges were relatively easy to adapt to and as such the ability of HSF to deliver a quality end-consumer service was not jeopardised. The negative incentives of franchisees were what initiated the strict guidelines of the CFW clinic franchise model that are intended to ensure effective quality care. Cultural differences across BOP markets dictated that all CFW clinic employees need to be Kenyan and that nurse practitioners benefit from being local.

There are also some smaller issues that have negatively affected the performance of HSF. HSF has found it challenging to find nurse practitioners that fill the minimum amount of years of practicing that is required to run a clinic, in addition to having entrepreneurial spirit. The social franchise model has also made it possible for the clinic network to be scaled linearly, which has put constraints on growth. Also, individual franchisees have lacked the resources to advertise their clinic. Finally, it has been hard to ensure that the donor funding that has been used to overcome resource scarcity is used to deliver effective, quality care.

Besides transitioning from a social franchise to a commercial franchise, HSF has adapted the traditional franchise model to mitigate the BOP institutional challenges. When faced with the challenge of the poor condition of labour markets, HSF has resorted to peer recruitment. In addition to this, HSF has lowered the threshold for acquiring a clinic by not owning the real estate for the clinics. Once franchisees are recruited, they may be tempted by negative incentives, which contradicts the advantage of reduced agency concerns. HSF has counteracted this by imposing strict guidelines that incentivise the franchisees to self-regulate or their franchise will be revoked. Enforcement is conducted through field officers who inspect clinics unannounced.

Individual franchisees have lacked the resources to advertise their clinic. Due to the fact that the one challenge that has not applied to HSF is that of institutional differences between BOP markets, HSF has been able to use its resources to build a national brand through nationwide advertising, while nurse practitioners have built the brand locally. On a more local level clinics have benefited from word-of-mouth advertising.

As this chapter has demonstrated, the HealthStore Foundation has faced institutional challenges inherent to the BOP market that have made it more difficult for HSF to benefit from the key advantages of the franchise model. However, HSF has also found ways to adapt the franchise model to mitigate BOP institutional challenges. HSF has done this by focusing on the fundamental concept of the franchise business, which is about the three-point test. To deliver healthcare to millions of people across a larger geography over a long period of time there are three things that must be true of the

business model: (1) it must be standardised, (2) it has to be able to be geometrically scaled, and (3) it must achieve economies of scale. The three point test brings together the three key advantages of the franchise model: (1) reducing agency concerns, (2) capitalising on brand and standardising operations, and (3) overcoming resource scarcity. The three-point test gives HSF the framework to overcome the institutional challenges of BOP markets to benefit from the key advantages of the franchise model to ultimately improve microfranchise performance.

According to the empirical findings, HSF has faced challenges that have affected its microfranchise performance but it has also found ways to adapt in the face of these challenges. The original social franchise model has made it possible for HSF to deliver effective, quality care, which has been its measurement for performance. However, the social franchise model has put constraints on growth. As growth was part of the definition of microfranchise performance, it can be said that the performance of HSF has not reached its fullest potential.

As Hillstrom declared, “The only real solution to the primary healthcare challenge in the developing world is commercial franchising. There are no other solutions.” HSF will take what it has learned from its previous model and implement it in its commercial franchise model that will enable HSF, and in extension HSEA, to deliver effective, quality care to more people through considerably more clinics.

5 CONCLUSIONS

5.1 Theoretical discussion

The theoretical framework by Kistruck et al. (2011) on the drivers of microfranchise performance was found to be accurate in the case of the HealthStore Foundation. There was evidence found for all the key advantages, most of the institutional challenges of the BOP market as well as the adaptations to the franchise model. Even though all of the findings of this study were not discussed in the theoretical framework by Kistruck et al., they still clearly were a part of the drivers of microfranchise performance.

In terms of reducing agency concerns, the poor conditions of labour markets as well as inefficient enforcement and legal systems were found to be the major factors explaining microfranchise performance. There was partial evidence found to support the challenge of the poor condition of labour markets. HSF had no problems in finding educated nurse practitioners. However, problems arose when it attempted to find nurse practitioners with entrepreneurial skills. Kistruck et al. (2011) did not suggest in their framework any way of overcoming this challenge, but this study provided some complementing ideas in this regard. HSF has used peer recruitment to find new franchisees, which has made it easier to recruit franchisees as existing nurse practitioners contact their like-minded colleagues.

Kistruck et al. (2011) suggest that the franchise model could be adapted to adopt a hybrid business/product franchise format and to use non-governmental organisations as social auditors. The hybrid business/product franchise format was used when HSF opened drug shops. Kistruck et al. predicted this would apply when a microfranchise was selling physical products. However, this approach was abandoned and HSF aimed to eliminate customisation by franchisees to guarantee standardised service. There was also no support found for the use of social auditors, as instead HSF used field officers for enforcement.

When it comes to capitalising on brand and standardising operations, there was no support found for the challenge relating to institutional differences between BOP markets. This is due to the fact that in the healthcare industry tools and processes need to be standardised, and institutional differences do not need to be accounted for. Case HSF supports the notion of cultural heterogeneity. As Kistruck et al. (2011) suggested the responsibility for operations was transferred over to locals. However, no support was found for the idea that marketing responsibilities should be transferred to local microfranchisees. Branding was done on a national level, but this was possible due to the fact that healthcare services can be, and should be, standardised and because communication infrastructure did not pose a problem. Additionally, local franchisees

did not have the resources to do their own advertising and branding. Instead at the local level marketing consisted of franchisees representing the brand through their work and of word-of-mouth advertising.

Kistruck et al. (2011) suggest in their framework that when microfranchising is used to overcome resource scarcity franchisors face the challenges of undeveloped financial and human capital markets as well as low purchasing power and minimal products margins. The challenge of undeveloped human capital markets was mainly covered as a part of the poor condition of labour markets. The suggestion of undeveloped financial markets found some support in this study. The challenge was not directly applicable to HSF as it used funding from sources in developed markets. However, the findings of this thesis support the notion of the financial challenges. HSF as a franchisor did not make a profit because it could not charge royalties. This was due to the fact that customers were not able to pay the full fees for services and franchisees had to provide discounts. The empirical findings support the use of donor funding as a way to mitigate this challenge, however it was pointed out that being dependent on grants and donor funding is not a desirable state for a franchise. The findings suggest that donor funding should be directed into output payments to ensure that funding is used effectively and that healthcare providers are incentivised to provide outputs at the required standard.

The findings of this study support the fact that microfranchises can benefit from the key advantages of the franchise model that are the primary drivers of franchise performance that explain the success of franchising as a growth model. HSF has been able to reduce agency concerns through incentives, to capitalise on their brand and standardise operations in their social franchise model. In addition HSF has overcome resource scarcity in its new commercial franchise model. The BOP market environment poses clear institutional challenges to realising the benefits of using franchising as a growth model. The major challenge has risen from low purchasing power and minimal product margins, which is why HSF has launched its new commercial model. The study also supports the notion that there are ways for microfranchises to adapt the traditional franchise model to overcome these challenges to growth and microfranchise performance. HSF has utilised many of adaptations suggested by Kistruck et al. (2011), but it has also adapted its operations in new ways.

The findings of this thesis have proved that institutional challenges and adaptations differ between BOP market environments. The findings also suggested that the importance of challenges and adaptations vary in terms of microfranchise performance. Financial factors seem to have the most effect in terms of adapting the franchise model. The lack of communication infrastructures seemed to play no role in determining performance. Overall the findings indicate that service and product franchises face different institutional challenges and as such they can adapt in different manners. The complemented framework presented in the end of chapter 4 was created based on the

empirical findings of case HSF. It should be noted that this framework is not universally applicable and that the drivers behind microfranchise performance may vary in between industries and BOP market environments.

5.2 Managerial recommendations

In addition to theoretical contributions, this thesis also provides some recommendations that can be useful for the managers of microfranchises. Four managerial recommendations can be draw from the empirical findings of this thesis: (1) using a commercial franchise model supports profitability and sustainable growth; (2) employing locals helps an international microfranchise to adapt to a market; (3) the three-point test provides a framework for setting up a microfranchise; and (4) donor funding should be used for output payments to ensure efficient use of money.

The assumption seems to be that as microfranchises often aim to make a social impact in addition to a financial one, they should be based on a social franchise model. Social franchises are non-profit organisation and as such they are eligible to obtain grants. Though grants can be a useful form of financing for non-profit franchises, growth, a main aspect of microfranchise performance, can be severely hindered. Additionally, social franchises cannot scale and maintain their standard of services provided. In a commercial franchise, the franchisor can raise investor capital, franchisees get paid in full and the franchisor can charge royalties. This allows for the microfranchise to grow and to maintain a certain standard in the services it provides. Making a profit and making a social change can go hand in hand. By choosing a commercial franchise model, a microfranchise can be profitable and grow in a sustainable way.

Furthermore, a microfranchise should employ locals to avoid facing the distrust of the community. Cultural differences across BOP markets affect the ability of outsiders to influence local values, norms and beliefs regarding brand value. A rural area can have tens of dialects and a person needs to be able to speak all of them to ensure good communication. By employing locals and by minimising outsider presence, especially at the grassroots level, a microfranchise may more easily become a part of a community.

The third recommendation of this thesis relates to the three-point test. According to the three-point test, in order for a microfranchise to be successful three things need to be true of the business model: (1) it is standardised, (2) it can be geometrically scaled, and (3) it needs to achieve economies of scale. By using the unit economic model and by ensuring that the chosen business model fulfils all of the three points, a microfranchise can build a solid foundation for success.

Finally, the results show that donor funding should be used for output payments to ensure efficient use of the money. Donor funding is often used to cover the day-to-day operations of a microfranchise. These same microfranchises may not be delivering quality products and services, which means that the donor funding is not being used efficiently. Output payments are payments which are made only after a good or service that fulfils a certain standard is delivered. Through this system the efficient use of donor funding can be ensured.

5.3 Suggestions for further research

Microfranchising is a neglected subject in academic literature because it is a relatively new topic. As such it is a topic that has not undergone extensive empirical research. Most of what is known about microfranchising is derived from practitioner reports or is not based on any particular theoretical framework. As such it is difficult to find academic literature on the subject.

Some articles have been written on microfranchising, however, only a limited amount of empirical research can be found. Microfranchising can be a way for companies to deliver goods and services to BOP markets in developing countries where they do not have an existing presence. At the same time these companies can bring about social change in these markets.

In addition, in the course of this study it became evident that there is very little official data available on microfranchises and their performance. This may be due to the fact that the concept is new and to the fact that it can be difficult to collect data from BOP markets. It would be useful to have more comprehensive information on what causes microfranchises to fail from both a microfranchisor and microfranchisee perspective. Additionally, quantitative research on microfranchise performance, including the successes and failures of franchises, could provide valuable information. This type of information would be useful microfranchises that are only starting out.

This thesis has attempted to examine the factors affecting microfranchise performance. There have been few prior studies that have provided information on this. Therefore, it could be recommended that further research be conducted related to microfranchise performance in different BOP markets and industries. It would be interesting to examine how the factors affecting microfranchise performance differ between industries. The results may be somewhat similar as in this thesis; however, it is likely that more complementary information will be discovered. Both qualitative and quantitative studies are required to provide a holistic picture of the factors affecting microfranchise performance. Some qualitative studies have been conducted in the past, but hardly any quantitative studies are available. As microfranchising continues to

solidify its position as a business model, it will be important to have extensive information available to support successful operations.

Due to the nature of a case study and the fact that only one case was included in this study, though the findings of this thesis are generalisable to theoretical propositions, they are not universally applicable. To be able to provide generalisations about the phenomenon, it would be beneficial to conduct an extensive case study relating to the factors affecting microfranchise performance.

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APPENDIX 1 EARLIER RESEARCH ON MICROFRANCHISING

Author(s) and year of publication	Objective and methodology	Main findings
Fairbourne (2006b)	The aim of the article is to provide an overview of microfranchising as a phenomenon.	Overall description of the phenomenon that is microfranchising and how it can alleviate poverty.
Bracken et al. (2006)	The aim of the study was to research the feasibility of microfranchising and microfinance. The research was conducted through personal research in Kenya and Uganda.	Results show that it is feasible for FINCA to pursue partnerships in developing countries to help underemployed youth.
Fairbourne et al. (2007)	The book introduces microfranchising and its uses in creating wealth in a BOP environment.	The book reviews different models of franchising and how microfranchising has succeeded in different parts of the world.
Lehr (2008)	The aim of the study is to view how microfranchise organisations work and what challenges and successes they have encountered. This was done through a qualitative review of case companies.	Microfranchising models work best when they are matched to local needs, are simple enough to be managed without formal business training, and when they are documented and systemised enough to scale so that both the microfranchisor and the microfranchisee can profit. As loan amounts are small, with repayment starting almost immediately, the borrowers are limited in the types of businesses they can pursue.
Christensen et al. (2009)	The aim of the research was to find out the extent to which the microfranchising practice creates employment and enables individual business success. The study was quantitative in nature and it used data from microfranchises.	By noting that microfranchising creates profits and by highlighting its job-creating aspects, this research reveals how business model innovations like microfranchising can create positive results in subsistence markets – particularly for participants at low levels of education and income.
Burand & Koch (2010)	The purpose of this study was to examine whether mainstream commercial franchising practices are relevant for franchising that takes place with those living at the base of the economic	Despite significant differences, commercial franchising can contribute much to microfranchising efforts. According to the results, microfranchising appears to be taking place beneath the radar of any regulatory authority.

	pyramid. The study was conducted as a literature review.	
Chatnani (2010)	This quantitative study examines the role and potential of microfranchising as a tool for women's empowerment.	Microcredit is a proven poverty reduction tool, providing the necessary capital for entrepreneurs to start their own businesses and lift themselves out of poverty. Microfranchising adds value; as a turnkey business, a microfranchise can rely on the franchisor, which reduces the risk of failure by providing high quality initial and ongoing training. The results show that offering proven microfranchise business formats to poor women along with a financing package will be successful and beneficial.
Heinonen (2010)	The purpose of this study was to describe microfranchising as a new business concept. The study was a comparative case study conducted through content analysis.	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 microfranchises employ only the microfranchisee, and therefore the effects of employment are not that remarkable.
Oduor et al. (2010)	The purpose of the research was to examine the impact of microfranchising on malaria mortality. The method used was a survey research.	Malaria morbidity decreased significantly as a result of free provision of Coartem, with 247 fewer cases for each additional outlet providing free Coartem. Using the rate of malaria morbidity as the dependent variable, the authors found that the programme led this indicator to drop by six per cent.
Kistruck et al. (2011)	The aim of this study was to examine what are the institutional challenges to franchising in BOP markets. This was a qualitative study that was done by conducting interviews and site visits in Kenya, United States, India, Iran and Guatemala.	The BOP context presents many significant challenges to the traditional franchising model. These challenges surface primarily from local institutions and not other aspects of the external environment. The traditional franchising model can be adapted to fit the BOP context.

APPENDIX 2 INTERVIEW STRUCTURE

1. Reducing agency concerns
    - What originally prompted you to introduce HealthStore outlets in Kenya specifically?
    - Why did you choose this form/structure for your microfranchise?
    - What are the benefits of your chosen form of microfranchising?
    - How have you been able to benefit from reduced agency concerns?
    - How have you been able to implement an operating manual and a turn-key management system?
    - How easy was it to recruit franchisees? Do you find it has grown easier/harder?
    - Has something limited your ability to recruit franchisees?
2. Overcoming resource scarcity
    - How have you utilised the microfranchise model to overcome resource scarcity?
    - How does this particular form of microfranchising combat the issue of scarce resources? Would another model work better for you?
    - One of the key advantages of franchising is overcoming resource scarcity. As your goal is focused on improving access to healthcare and not necessarily on raising funds, how has this affected the financial situation of your organisation?
    - It is mentioned on your page that you believe that that the resources needed to achieve your mission are abundant. Are there resources that you have at times been lacking?
3. Capitalising on brand and standardising operations
    - How have your operations in Kenya (and elsewhere) benefited from the capitalising on brand and standardising of operations?
    - Has the fact that your organisation originates from another country worked against you? How?
    - How successful has the standardising of operations been in your outlets? Are there things you have not been able to standardise?
4. Condition of labour markets
    - How have the conditions of local labour markets affected your microfranchise operations?
    - How has the lack of formal employment affected your recruitment of microfranchisees?
    - How have you been able to utilise hybrid franchise format to benefit from reduced agency concerns? Do outlets sell other products than the ones distributed by you?
5. Poorly developed formal institutions
    - How have (poorly developed) formal institutions affected your microfranchise operations?
    - How have you managed to execute oversight of your outlets and microfranchisees?
    - Has oversight been a challenge for you? How?
    - Have you utilised social auditors to mitigate the effects of poorly developed formal institutions? If so, how?
6. Inefficient enforcement and legal systems

- How have local enforcement and legal systems affected your operations?
- Have you noticed differences between Kenya and Rwanda? Has one country been easier to operate in than the other?
- How has the partnership with the Ministry of Health in Rwanda influenced the success of your franchise operations? Has it made it enforcement and the navigation of legal systems easier? Or has it been more complicated due to bureaucracy?

7. Underdeveloped financial and human capital markets
    - What effects have the local financial and human capital markets had on your microfranchise operations?
    - What role has donor funding played in overcoming problems with underdeveloped financial and human capital markets?
    - What role has microfinance played in overcoming underdeveloped financial and human capital markets?
    - Have you had cases where microfranchisees have been unable to pay back their initial loan?
8. Low purchasing power and minimal product margins
    - How have low purchasing power and minimal product margins affected your business in Kenya and Rwanda?
    - Has your microfranchise fully counteracted the effects of low purchasing power or is your business still affected?
    - Have minimal product margins posed a problem for your microfranchise operation?
    - Has your central procurement system sufficiently counteracted minimal product margins?
    - How does your third party payment system work?
9. Lack of communication infrastructures
    - What challenges has the lack of communication infrastructures posed on your microfranchise operations?
    - What alternative methods have you found to replace traditional communication infrastructure?
    - Have you relied solely on your own communication structures or have you utilised local cooperatives to overcome problems with the lack of communication infrastructures?
    - Have you transferred marketing responsibilities to other parties? How has this affected your microfranchise operations and your brand?
10. Institutional differences between BOP markets
    - How have the institutional differences between BOP markets challenged your microfranchise operation in Kenya and Rwanda?
    - Has one country been easier to operate in compared to the other?
11. Other
    - What other difficulties or challenges have you faced with your microfranchise?
    - You have successful microfranchise operations in Kenya and Rwanda. What challenges did you face when first expanding? Were there some attempts that failed?
    - Have you tried expanding to a country where you are not now operational?
    - Do you have plans of expanding in the future?