

franchising for social good

- | Active Green + Ross
- | Social Capital Partners
- | Social Franchising
- | Social Hiring

Franchising models can be adapted to address important social issues. Social hiring allows businesses to tap into job-ready and qualified segments of the population through community agencies. The benefits to employees, the corporation, and the community can be substantial. These benefits can be even more significant when social franchising efforts are replicated or scaled-up.

What is Social Franchising?

“How do you successfully integrate a social mission within a profitable business model?”

This was the question that intrigued Social Capital Partners (SCP), a Toronto-based social venture capital organization. A pioneer in incubating social enterprises in Canada, SCP have witnessed first-hand the challenges that social entrepreneurs face in fostering sustainable enterprises. Searching for a sustainable business model with demonstrable social impact, they hypothesized that the franchise model could be modified as a vehicle to create social good.¹

A social franchise uses the structure of a commercial franchise to achieve social goals.² It is structured as a profitable way for the private sector to engage in social enterprise. Franchising is a familiar concept to the private sector, and has proven to be a successful business model. On the other hand, social enterprise – a venture that advances a social mission through entrepreneurial earned income strategies – is still outside the mainstream.³ Bridging the two concepts together, social franchising seeks to build and foster financially-sustainable enterprises with a social mission.

How Does It Work?

SCP’s social franchising strategy combines two elements: “attractively-priced” financing, and the implementation of a social hiring plan. The first component, finance, is an attractive incentive for entrepreneurs who want to buy a franchise. It is usually a struggle to secure “unencumbered capital”, since banks will generally not provide unsecured loans for purchasing a franchise.⁴ SCP provides upto \$300,000 per franchise in subordinated debt to finance most of the non-bank capital required, at below-market interest rates.⁵

The social hiring plan is the second key component: at least half of the franchise’s employees are required to be hired through community programs that help those facing employment barriers. These include groups that are on social assistance or have a disability. For SCP, initially the franchisee is “viewed as a customer” – their human resource needs are articulated, including the skills sets that are required for various positions. SCP then works closely with local community agencies to identify ways in which groups that face employment barriers can acquire these skills.

¹ Social Capital Partners (n.d.) “Background to franchise strategy”, http://www.socialcapitalpartners.ca/franchise_strategy_background.asp

² Social Edge (2006) “Social Franchise: Is It For You?”, <http://www.socialedge.org/discussions/business-models/social-franchise-is-it-for-you-july-2006/>

³ Social Enterprise Alliance (2005) “Social Enterprise Lexicon”, http://www.se-alliance.org/resources_lexicon.cfm

⁴ Social Capital Partners (n.d.) “Background to franchise strategy”, http://www.socialcapitalpartners.ca/franchise_strategy_background.asp

⁵ Ibid.

“The AG+R example has shown that the social hiring model can work for the private sector – and that there are benefits to both franchisors and the community.”

SCP facilitates the link between community agencies and the franchise to develop job-ready pools of applicants that fit the needs of the franchise. By ensuring that job candidates acquire the skills that the business is looking for, there is a higher chance of a successful job placement, and a more streamlined hiring process in place. Once the relationship between the community agencies and the franchise has been developed and a social hiring plan is in place, SCP involvement is no longer required.

An Application: Active Green + Ross

Active Green + Ross (AG+R), one of Southern Ontario’s largest chains of tire and auto care centres, is SCP’s first partner to implement social franchising. Working with a company-owned store in Hamilton, SCP piloted the implementation of a social hiring plan with a community-minded franchisor. Gradually over the course of 18 months, half of the franchisee’s employees were recruited through community employment agencies. SCP worked local employment agencies to identify a pool of qualified candidates, and AG+R recruited candidates from this group and trained candidates in basic automotive service skills.

The success of this pilot encouraged AG+R to replicate the program in other locations. To date, 15 company-owned and 9 franchisee-owned locations are in the process of implementing social hiring plans. SCP continues to act as a liaison between community agencies and franchisors where needed. SCP has also created a customized employment program and services directory for local AG+R dealers to source and hire new employees through community based agencies.⁶

Return on Investment

Social hiring has evolved to become an efficient and cost-effective recruitment method for AG+R. SCP facilitated the identification and development of the talent pool from which

AG+R recruited, ensuring that the skills and calibre of employees fit the profile that AG+R was looking for. There can be cost savings to the business in terms of wage subsidies that are usually available when hiring from these groups. Together, this can result in substantial cost and time savings for hiring, and allows business owners to focus on other elements of managing the enterprise.

Social hiring within AG+R has gained traction, and the model has been easily replicated to other locations. In addition, there has been positive publicity for AG+R through their demonstrable commitment to community. The AG+R example has shown that the social hiring model can work for the private sector – and that there are benefits to both franchisors and the community. This is also a sustainable approach since there is an exit strategy for SCP once a social hiring plan is functional.

Key Benefits to Franchisors ⁷

- Help franchisors expand their network while ensuring that a franchise is fully supported and appropriately capitalized.
- Financing allows franchisors to grant franchises to individuals who have the necessary business and personal qualities but lack the unencumbered capital.
- Partnerships with community organizations ensure that job candidates are properly screened, trained and supported.
- Ongoing strategic and management support from SCP
- Positive public sentiment from social hiring

Interested in Social Franchising?

Social Capital Partners has reflected on its recent experience with social franchising, and identified some key criteria that they believe are necessary elements for success. Finding the right partner was crucial, and working with an

⁶ Social Capital Partners (2007) “SCP Portfolio”, www.socialcapitalpartners.ca/print/portfolio.pdf

⁷ Social Capital Partners (n.d.) “Background to franchise strategy”, http://www.socialcapitalpartners.ca/franchise_strategy_background.asp

established franchise with established systems meant that SCP had to get less involved in the business side and focus on developing and implementing the social hiring plan.

In targeting potential franchisees, SCP has identified two target groups that hold much promise. The first group is entrepreneurs who already have the necessary management skills to operate a franchise but need help financing the acquisition, and are willing to embrace the social mission.⁸ The second group is recent immigrants to Canada who have displayed entrepreneurial and management capabilities in their homeland before arriving in Canada.⁹ SCP's financing program seeks to eliminate the structural barriers that new immigrants face because they lack the credit history, networks, or access to capital that would allow them to qualify as franchisees.¹⁰

Social franchising opportunities should provide quality job opportunities and remuneration for employees, as well as the potential for professional development over the long-term. At AG+R, employees can start by learning the basics of performing oil changes, and over time can build their skills and capacity on the job and progress to becoming a licensed mechanic. Prospects for career development can also be good in sectors such as higher-end restaurants and home-care. There is also a demand for transition job skills to help people to get started in the workplace, or back on their feet. These basic job skills, such as being on time and assuming responsibility for tasks, are important transferable skills that are vital to any job.

Lessons Learned

The concept of social franchising is a relatively new one, particularly in Canada. Social franchising is an approach to encourage private sector businesses to achieve positive social impact. The franchise model reduces

some of the risks involved in starting a new business, and there is significant value that an established brand name, proven operating system, ongoing support and, in certain cases, national purchasing power can provide.¹¹ SCP has realized that an untapped human resource recruitment avenue exists, and believes it could be applied on a wider basis to the private sector.

By identifying an established and profitable franchise, SCP was able to partner with AG+R to provide employment to people that face employment barriers. The partnership has shown that there are job-ready and able segments of the population available – all they need is “a second chance”. The positive social benefits of social franchising to newly-hired employees are obvious by providing employment opportunities that they may not had had access to previously. This can yield benefits in terms of employee recruitment and retention. In addition, the franchisor also benefits by getting qualified job-ready candidates.

There is great potential to innovate around the existing model, and to adapt it to other organizations and job sectors. Finding the right partner was critical to success, and the value alignment and commitment of both the franchisee and individual franchisor are important. Both franchisee and franchisor must demonstrate a commitment to community, and must want to implement social franchising for the right reasons – to create a positive social impact on marginalized groups, not simply access to finance. AG+ R has proven to be an outstanding partner for SCP in this regard.

Selected Resources

Social Capital Partners:
www.socialcapitalpartners.ca

Active Green + Ross:
www.activegreenross.com

“There is great potential to innovate around the existing model, and to adapt it to other organizations and job sectors.”

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

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Carleton Centre for Community Innovation

The Carleton Centre for Community Innovation (3CI) brings together superior academic research and knowledge dissemination to Canadian communities in ways that promote long-term growth and sustainable development. One of Canada's leading sources of expertise in social finance, 3CI has also played a leadership role in grant-making, evaluation and policy analysis in the fields of community economic development and social enterprise. From 1997 to 2008, the Centre managed the Community Economic Development Technical Assistance Program (CEDTAP), with the support of The J.W. McConnell Family Foundation, The Ontario Trillium Foundation, Bell Canada and other partners. Other action-research priorities for 3CI include local governance, community learning and community-university partnerships.

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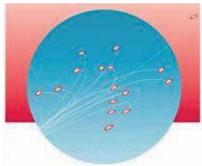
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