

# **BUSINESS VIABILITY: A COMPARISON BETWEEN FRANCHISES AND INDEPENDENT BUSINESSES**

by

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## **PREFACE**

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## ABSTRACT

The study is based on a comparison between franchises and independent businesses.

The purpose of the study is to have a clear understanding of the advantages and disadvantages of SMEs and franchise businesses in Rustenburg (North West Province) and its environs.

A number of textbooks, published works and web articles on SMEs and franchise businesses were used in determining definitions and advantages and disadvantages that are experienced by the entrepreneur.

A survey research design was used with a questionnaire as data-gathering instrument. The purpose of the questionnaire was to determine the experience and viewpoints of the entrepreneurs towards SMEs and franchise businesses. The study population consisted of 71 entrepreneurs who operate in the business environment of Rustenburg (North West Province) and its environs.

Limitations in the research were identified and several recommendations were made in order to guide the entrepreneur in choosing a business that will suit his/her needs.

The findings of the study offer advantages and disadvantages for both the franchise and independent businesses. The research results lead the entrepreneur to seek for a good business opportunity that will add value in terms of enterprise development, ownership, and financial benefits.

**Key terms:** Entrepreneur, franchise, small or medium enterprises (SMEs), advantage, disadvantage, satisfaction, value

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## ABBREVIATIONS

SMEs                      Small or medium enterprises; in this dissertation a small or medium enterprise refers to an independent business.

## CHAPTER 1

### NATURE AND SCOPE OF THE STUDY

#### 1.1 Introduction

This mini-dissertation focuses on a comparison between franchises and independent businesses.

In Chapter 1, the problem statement is identified and the problem of the study addressed. Many people fantasize about self-employment and a business of their own at some stage of their lives. For most, this dream never becomes a reality. They don't really know the risks involved and feel very uncomfortable with the uncertainty associated with taking the initial step. In addition, they don't really understand the tasks required to get a new business venture off the ground successfully.

Entrepreneurship is considered as the driving force behind changes in the economy as well as in the business environment. The term 'entrepreneur' has evolved over the years and is now used to mean an individual (or group of individuals) who has the ability to see and evaluate the business opportunity existing in the environment and to take advantage of it. Richard de Cantillon (Overton, 2004:2) defined that entrepreneurialism is about taking risks, being passionate about the business, continually articulating the vision and recognising and then maximising new opportunities. The very nature of entrepreneurialism ensures that some individuals and companies will fail. To grow an entrepreneurial company requires constant adjustments to meet the marketplace and competition. The question of success becomes the axis mundi here and the prime goal and vision of every entrepreneur.

The nature of an entrepreneur is to seek for a good business opportunity. Business opportunities can mean different things to different people. While all franchise and independent businesses for sale are business opportunities, not

all business opportunities meet the requirements for being franchises, nor are they in the strictest sense independent businesses.

In this study, SMEs refer to independent small or medium enterprises. An SME can take a number of forms. A person can, for instance,

- start his/her own business from scratch;
- buy an existing business; or
- buy a franchise.

Robert T. Justis (Bygrave, 1994:353) defines franchising in general as

a business opportunity by which the owner, producer, or distributor (franchisor) of a service or trademarked product grants exclusive rights to an individual (franchisee) for the local distribution of the product or service, and in return receives a payment or royalty and conformance to quality standards.

The objective of this study is to investigate the advantages and disadvantages that are experienced by the entrepreneur as the owner of an independent small or medium enterprise, or franchise business. A survey design has been used with a questionnaire as data-gathering instrument.

## **1.2 Problem statement**

Downturns in an economy are times of uncertainty; firms will be distracted by nonvalue-adding activities, such as layoffs, restructuring and cost cutting. Many employees face the fear of being unemployed. Most people will shy away from launching a start-up during a recession, but it is exactly that fear that opens the door of opportunity for the entrepreneur to establish the foundations of a new profitable, powerful enterprise.

'Opportunity entrepreneurs' choose to start a business as one of several possible career options. 'Necessity entrepreneurs' regard entrepreneurship as their last resort: They feel compelled to start their own business, because all

other options for work are either absent or unsatisfactory (Legge & Hindle, 2004:384-385).

One of the most powerful things an entrepreneur can contemplate in launching a business is to decide what businesses will suite his/her needs.

### **1.3 Objectives of the study**

The research objectives are divided into a main objective and two sub-objectives.

#### **1.3.1 Main objective**

The objective of this research is to determine the advantages and disadvantages of SMEs and franchise businesses.

#### **1.3.2 Sub-objectives**

The specific objectives of this research are

- to describe the experiences and viewpoints of entrepreneurs towards SMEs; and
- to describe the experiences and viewpoints of entrepreneurs towards franchise businesses.

### **1.4 Scope of the study**

The sample has been obtained from SMEs and franchise businesses in Rustenburg (North West Province) and its environs, and this has been taken as the area of study. The geographical area consists of a wide range of different businesses in different industries. Rustenburg is surrounded by various mine houses that produce chrome and platinum, securing the city of a healthy income.

While Rustenburg is currently well-known for producing some 75% of the world's platinum products and other strategic metals, there are huge opportunities in other sectors which cannot afford to be neglected: mining output beneficiation clusters; the services industry; sports and tourism; agriculture; and SME development.

The 2010 FIFA World Cup is around the corner. The Rustenburg Municipal Council has adopted numerous policies and projects related to the Soccer World Cup, particularly in the light of the fact that Rustenburg has been selected as one of the host cities. The Royal Bafokeng Nation who owns the Royal Bafokeng stadium will manage Treasury funds for the upgrading of the stadium and relevant services in cooperation with the Local Municipality. Other projects related to the 2010 World Cup include waste management, environmental management, the improving of lighting, roads power services, CCTV network to bolster security and an amended town-planning scheme.

By 2025, Rustenburg will have experienced more than 30 years of sustained economic growth, which will transform this formerly medium-sized mining town into a dynamic, midsized metropolis. The City Development Strategy is being implemented to realise this ambition, together with the formation of the Rustenburg Development Agency, which will help in the coordination of economic development.

## **1.5 Research methodology**

The research method consists of a literature review and an empirical study.

### **1.5.1 Literature review**

The literature review focuses on the entrepreneur's experience and viewpoint of the advantages and disadvantages in the business environment towards normal SMEs and franchise businesses.



Sources that have been used, include the following:

- Collected published and unpublished texts;
- dissertation and thesis reports from research institutions, conference papers, textbooks and library reference services;
- internet; and
- journals, scientific articles, books and other printed media.

Subjects to be addressed in the research are the following:

- Wealth creation;
- sustainable growth;
- entrepreneurial skills;
- creative thinking;
- training;
- support; and
- identifying risks and problems.

#### 1.5.2 Empirical study

The empirical study consists of information that was obtained from entrepreneurs of the small and medium business industry in Rustenburg (North-West Province) and its environs. For this reason, questionnaires have been the main method of data collection. A structured questionnaire that includes Likert-type questions has been used during the data collection.

### 1.6 Limitations of the study

Like many other empirical studies, this research might also have some limitations in references to sampling, data collection and generalisation of the findings. The samples that have been drawn for the study may not be enough to generalise the study results.

## **1.7 Layout of the study**

The chapters in this mini-dissertation are presented as follows:

Chapter 1: Introduction, problem statement and objectives

Chapter 2: Literature review

Chapter 3: Empirical study

Chapter 4: Conclusions and recommendations

## **1.8 Conclusion**

In this chapter, the problem statement, research objectives and research methods have been discussed.

## CHAPTER 2

### LITERATURE STUDY

#### 2.1 Introduction

Entrepreneurship is an important determining factor in the creation and development of economic wealth in a society. The enhancement of SMEs and franchise businesses is almost exclusively dependent on the identification of the development of entrepreneurial skills.

The literature study starts with a definition of an entrepreneur who has decided to take control of his or her future and become self-employed, whether by creating his or her own unique business or working as member of a team.

The continued growth of South Africa's economy depends on the creation of sustainable SMEs. Entrepreneurs are a critical force for change in developed capitalist economies and that capitalism, as we now experience it, would be impossible without them. The creation of a new enterprise implies the assembly of resources, people, equipment and money. In the general sense, an entrepreneur cannot assume that any of these resources are currently unemployed, so the entrepreneur must bid them away from their current uses. The entrepreneur's specific situation, concerns and desires will dictate the choice of legal entity.

'Own your own business!' 'Be your own boss!' These kinds of headlines appear in business magazines, newspapers, classified advertisements and books every day. While the advertisements make franchising sound appealing, they may also be misleading.

Franchising is important in terms of enterprise development, employment equity and ownership. The franchising industry offers massive potential for enterprise development and job creation.

Many different definitions of franchising have been offered by different authors over the years. This diversity is due in part to the fact that franchising covers a very broad range of businesses. Some definitions are very general and try to include all possible types of franchises, while others are more specific and give a much more precise definition of a particular type of franchise, but will not necessarily be broad enough to cover all aspects of the franchise industry.

SMEs and franchising both offer advantages and disadvantages to the entrepreneur, who must weigh their advantages against the accompanying disadvantages. Understanding these concepts will assist the entrepreneur in making a decision to move forward.

A summary follows, with a brief overview of the entrepreneur choosing a business that's right for the specific businessperson.

## **2.2 Definition of an entrepreneur**

The world is full of opportunities, but only those who identify an opportunity and generate an enterprise to realise it are entrepreneurs.

Entrepreneurialism is about taking risks, being passionate about the business, continually articulating the vision and recognising and then maximising new opportunities. The very nature of entrepreneurialism ensures that some individuals and companies will fail. To grow an entrepreneurial company requires constant adjustments to meet the marketplace and competition (Overton, 2004:2).

Overton (2004:2) also explains a more recent definition of an entrepreneur:

One who reforms or revolutionises the pattern of production by exploiting an intervention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products by reorganising an industry.

Timmons & Spinelli (2004:47) define entrepreneurship as follows:

Entrepreneurship is a way of thinking, reasoning and acting that is opportunity obsessed, holistic in approach, and leadership balanced. Entrepreneurship results in the creation, enhancement, realization, and renewal of value, not just for owners, but for all participants and stakeholders. At the heart of the process are the creation and/or recognition of opportunities, followed by the will and initiative to seize these opportunities. It requires a willingness to take risks – both personal and financial – but in a very calculated fashion in order to constantly shift the odds of success, balancing the risk with the potential reward.

There are many different views on the factors that make someone an entrepreneur and on what an entrepreneurial venture is. In a sense, the definitions are evolving as the field itself comes into the business mainstream.

Overton (2004:2) states:

An entrepreneur is a risk taker, risking not only time, effort and business reputation, but their invested funds and those of associates or stockholders.

In some ways, this is quite true: An entrepreneur who cashes out life savings or a retirement account to fund a new start-up is definitely moving away from security and towards risk. Even the budding entrepreneur who quits his day job to pursue a new idea for a business is taking a risk. But what does one risk by not taking advantage of a unique opportunity and staying in the same job? And what about relying on someone else for income? Isn't it 'risky' to count on one's employer for raises and greater opportunities?

*If an idea is not an opportunity, what is an opportunity? An opportunity has the qualities of being attractive, durable and timely, and is anchored in a product or service which creates or adds value for its buyer or end user (Timmons & Spinelli, 2004:82).*

According to Longman's Dictionary (2003:1156), an opportunity is defined as 'a chance to do something or an occasion when it is easy for you to do something or a chance to get a job or improve your situation at work'. An opportunity can be described as the chance for the entrepreneur to meet market needs through a creative combination of resources, whereby exceptional value is generated.

Building a business requires some ideas. It might be planning to offer a certain product or a service. The demand for the service or product needs to be determined in the marketplace before it is offered to the market.

When an entrepreneur introduces a new service or product to the market, there should always be a demand, market or people willing to buy it. Otherwise, the capitalist will not be able to make a sale and earn profits.

These are some of the things that the entrepreneur needs to answer and discover to determine if the business opportunity can compete in the market. Setting up a business will require money and a lot of the entrepreneur's time.

An entrepreneur's aim is to make money and, as much as possible, he/she wants to stay away from business loss; the main purpose is to sell those things that the market demands.

Studying the market demand is very important in determining if the chosen entrepreneur business opportunity is viable or not. Choosing the right business opportunity should always be done with an analysis of market demand.

Every successful entrepreneur will be adding value through the following:

- Enormous personal financial gain;
- self-employment, being their own boss, offering more job satisfaction, and flexibility of the work force;

- employment for others, often in better jobs;
- development of more industries, especially in rural areas or regions disadvantaged by economic changes, for example due to globalization effects;
- encouragement of the processing of local materials into finished goods for domestic consumption as well as for export;
- income generation and increased economic growth;
- healthy competition, thus encouraging higher quality products;
- more goods and services available;
- development of new markets;
- promotion of the use of modern technology in small-scale manufacturing to enhance higher productivity;
- encouragement of more researches/studies and development of modern machines and equipment for domestic consumption;
- development of entrepreneurial qualities and attitudes among potential entrepreneurs to bring about significant changes in the rural areas;
- freedom from the dependency on jobs offered by others;
- ability to have great accomplishments;
- reduction of the informal economy;
- the possible stopping of emigration of talent by a better domestic entrepreneurship climate; and
- serious tax advantages.

### **2.3 The definition of a small or medium enterprise**

The Small Business Administration Act of 1953 defines a small business as 'one which is independently owned and operated and not dominant in its field of operation'. For statistical purposes, the SBAA defines a small business as one with fewer than 500 employees. For business development assistance, loans and other services, the SBAA defines eligibility either by 'employment size or annual revenue criteria that vary by industry and change periodically'. The aim of SME business development is to facilitate sustainable small and medium enterprises (SMEs), and subsequently to generate employment opportunities.

In South Africa, small enterprises are defined according to the National Small Business Amendment Act No. 29 of 2004 and they are classified as indicated in table 2.1 below.

**Table 2.1 South African definition of SMMEs**

Sector or sub-sector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very small	10	R0,50m	R0,50m
	Micro	5	R0,20m	R0,10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very small	20	R4m	R2m
	Micro	5	R0,20m	R0,10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very small	20	R5m	R2m
	Micro	5	R0,20m	R0,10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5,10m	R1,90m
	Micro	5	R0,20m	R0,10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very small	20	R3m	R0,50m
	Micro	5	R0,20m	R0,10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very small	20	R4m	R0,60m
	Micro	5	R0,20m	R0,10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very small	20	R6m	R0,60m
	Micro	5	R0,20m	R0,10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m



	Small	50	R6m	R1m
	Very small	20	R5,10m	R1,90m
	Micro	5	R0,20m	R0,10m
Transport, Storage and Communication	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very small	20	R3m	R0,60m
	Micro	5	R0,20m	R0,10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very small	20	R3m	R0,50m
	Micro	5	R0,20m	R0,10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very small	20	R1m	R0,60m
	Micro	5	R0,20m	R0,10m

Adopted from National Small Business Amendment Act (29/2004)

SME development consists of the identification and securing of business ideas and funding opportunities, the improving of entrepreneurial, organisational and market capacity, as well as the provision of ongoing business support.

Franchise businesses are also included in SMEs, but for this study an SME refers to an independent business. The purpose of this study is to determine the advantages and disadvantages between franchise and independent businesses. This will assist and lead the entrepreneur to make a decision to choose a business that suits his or her needs.

SMEs account for the vast majority of organisations in most developed economies. Further more, SMEs contribute significantly to a country's gross domestic product, national employment, and export performance (Culkin & Smith, 2000:146). Legge & Hindle (2004:386) have indicated that the majority of employment growth in developed nations comes from a minority of high-

growth, small- and medium-sized entrepreneurial firms as they expand on their way to become the large corporations of tomorrow.

SMEs can optimise and use sustainability to create competitive advantages. They can

- become valuable sustainable investment targets for larger firms;
- create networking SMEs in sustainable market spaces; and
- become sustainable suppliers in global supply chains.

Outsourcing can also be an option for SMEs, as it can result in cost reduction and growth in revenue. The benefit of outsourcing will be the saving of resources and the fact that it allows SMEs to focus on core competencies; it may also realise quality improvements, as the owners can choose suppliers whose products or services are considered to be among the best in the world. They can, therefore, take advantage of suppliers' 'skills'. Customer needs and demands are changing so quickly that it has become imperative for firms to be alert and active. Firms cannot take a long time to provide the service, since there are competitors who are willing to provide the same service to the customers. In such a case, firms try to keep their organisation as lean and flexible as possible. Furthermore, outsourcing can decrease the product/process design cycle time if the client uses multiple best-in-class suppliers who work simultaneously on the individual components of the process (Chase, Jacobs & Aquilano, 2006:413-416).

SMEs tend to be entrepreneurial, flexible, and innovative; this fact makes them adept at serving specialist or niche markets and remaining responsive to customers needs (Caskey *et al*, 2001:548).

The intention to become an entrepreneur and start up a business is characterised as a risky behaviour compared to establishing an employment career with a predictable and steady flow of income. Due to the little separation between business and personal risk in an entrepreneurial venture, the fear of failure is a critical issue for entrepreneurs. Entrepreneurship can be

characterised as requiring fair tolerance of ambiguity, locus of control that is more internal than external, as well as willingness to take risks that are relatively well calculated (Pitt & Kannemeyer, 2000:146). Uncertainty avoidance turns out to be anathema to innovation, as the latter tends to introduce unanticipated changes and cause uncertainty, which in turn leads to resistance to innovation (Erumban & de Jong, 2006:8). Hofstede (1983:390) noted that in uncertainty avoidance societies, there is greater fear of failure, lower willingness to take risks, lower levels of ambition, and lower tolerance of ambiguity. These values tend to contradict the entrepreneurial values of proactiveness, innovation and risk taking. The three components comprise a basic, unidimensional strategic orientation (Naldi *et al*, 2007:34).

The SME owner-manager is often the key decision-maker and responsible for managing and attending too many of the functions performed within the organisation, such as banking, advertising, recruitment, or even stationery purchases. The use of specialists, such as advertising or recruitment agencies, is rare (Culkin & Smith, 2000:149). As such, the management style within SMEs is one that is very unique and personal to each firm (Culkin & Smith, 2000:148). This introduces two controllable risks. Firstly, the growth of the business may place increasing and eventually impossible demands on the key person's time. Secondly, an accident (in the general sense of an unplanned event) may temporarily or permanently deprive the venture of the contribution of a key person (Kuratko & Hodgetts, 2004:523;661).

Before deciding on the way in which to organise an operation, prospective entrepreneurs need to identify the legal structure that will suit the demand of the venture. The necessity for this derives from changing tax laws, liability situations, the availability of capital, and the complexity of business formation. Mariotti, DeSalvo & Towle (2000:223-236) have indicated that SMEs may take one of the following forms:

- A private company, limited by shares;
- a public limited company;
- a closed corporation;
- a partnership/firm;
- a sole proprietorship; and
- a non-profit corporation.

## **2.4 The definition of a franchise business**

Hindman (Timmons & Spinelli, 2004:221) states the following:

Franchising is sharing an entrepreneurial vision and working together to make it a reality. Franchisees and the franchisor must believe in their business, but, more importantly, they must believe in each other. The power of focused and dedicated partners creates a momentum of personal, business and financial growth that is limitless. It's also a lot of fun.

Hall & Dixon (1991:1) describes franchising as follows:

Franchising can best be described as a system of distribution whereby one party (the franchisor) grants to a second party (the franchisee) the right to distribute products, or perform services, and to operate a business in accordance with an established marketing system. The franchisor provides the franchisee with expertise, trade marks, the corporate image, and both initial and ongoing support, in return for which the franchisee pays to the franchisor certain fees.

Good (1989:67) indicates that all definitions for franchising contain the following elements:

- A continuing relationship between two parties;
- a legal contract which describes the responsibilities and obligations of each party;

- tangible and intangible assets (such as services, trademarks and expertise, provided by the franchisor for a fee); and
- the operation of the business by the franchisee under the franchisor's trade name and managerial guidance.

#### 2.4.1 The franchisee

The franchisee buys the right to run the business by using the trademark and trading system. The business is run according to the procedures set out in the franchise operating manual and under the terms of the franchise agreement. Franchisees are outlet owners who can be trusted to self-monitor with less intervention (Bradach, 1997:283). Thus, franchising furnishes partial relief from moral hazard by offering local managers strong performance incentives.

Hall & Dixon (1991:1) refer to the benefits to the franchisee as

- the substantial efficiencies in promotion and advertising by leveraging the value of a trademark and brand image that the franchisor has developed;
- the permission of the franchisee to operate, under control of the franchisor, under the branding;
- the benefit from the goodwill associated with the business systems that have been developed and are owned by the franchisor; and
- bulk buying and inventory control.

#### 2.4.2 The franchisor

The franchisor owns the business system and associated trademarks or trade names. Franchisors allow franchisees to use these under licence in a designated area. They support their franchisees both in starting their businesses and in helping to make them work.

Hall & Dixon (1991:1) indicate that the franchisor benefits from the following aspects:

- The franchisee has invested his/her own capital and is motivated to work hard for profitability;
- the franchisee converts profitable franchise locations into company-owned operations;
- the franchisee makes capital investment from own resources; and
- the franchisee has intimate knowledge of the local market.

Franchisees, therefore, are important ingredients in their franchisors' success (Combs & Ketchen, 1999:198). Within established franchised chains, franchisees absorb much of the risk of expansion (Rajagopal, 2007:343) and furnish many of the entrepreneurial innovation franchisors' need to adapt to changing market conditions (Kaufmann & Eroglu, 1999:78).

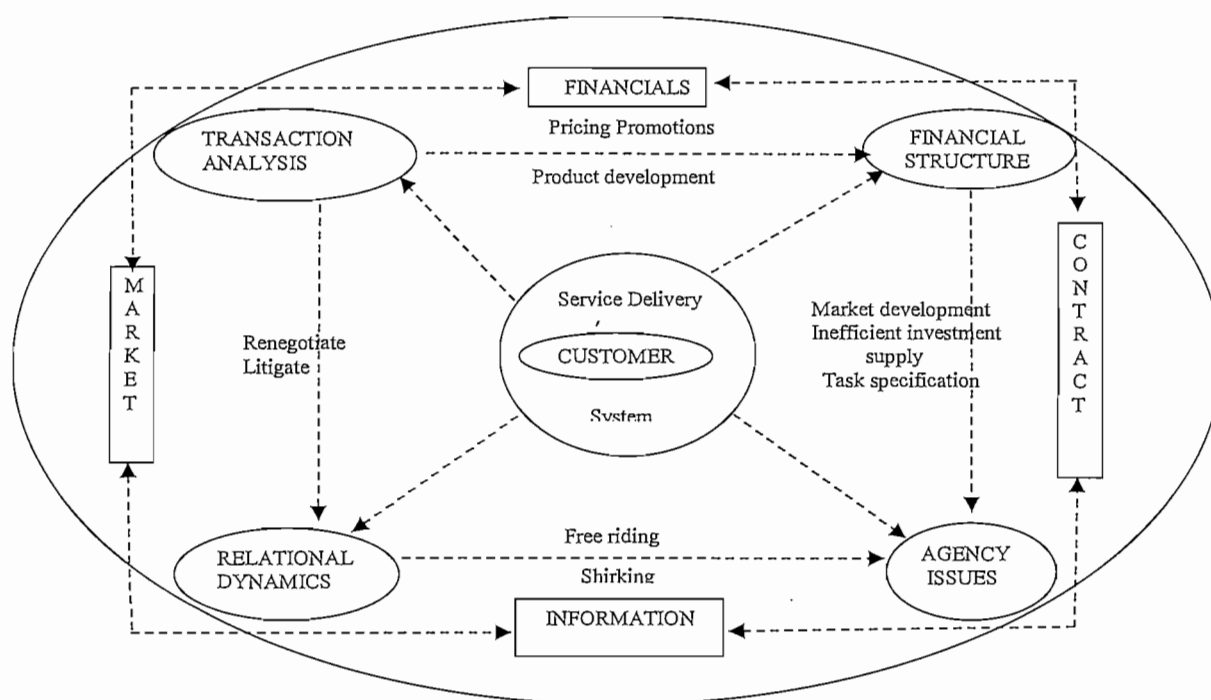
The Franchise Relationship Model (FRM) (figure 2.1) illustrates the most efficient ways in which a franchisor can construct a franchising company and a franchisee can determine which company to join. The FRM also helps in distinguishing between the tasks that need to be carried out under a corporate umbrella and those that should be executed by the individual franchisee. It is a tool that can be used by both the franchisor and franchisee to judge the success potential of a franchise opportunity.

The FRM consists of a series of franchise principles, each of which, when joined together, form an interlocking business concept that fixes itself when the links are implemented efficiently. The process begins in the centre with the customer and moves to the service delivery system. The other major areas of concern are transaction analysis, financial structure, agency issues and relational dynamics.

According to Timmons & Spinelli (Williamson, 1991:281-283), transaction analysis considers which transactions are better served by the franchisor at a national level and which are better served by the franchisee at a local level. The financial structure flows from analysis of customer demand and the cost

associated with development and execution of the service delivery system. The authors (Lafontaine, 1992:265) state that agency issues concern delegating responsibility to a partner. Timmons & Spinelli (Mcneil, 1980:1025) regard relational dynamics as the area which allows the partnership between franchisor and franchisee to grow and develop continually as the business continues to expand.

**Figure 2.1: Franchise Relationship Model**



Source: Adopted from Timmons & Spinelli (2007:373).

The FRM in figure 2.1 above illustrates how a franchisor can construct a franchising company and pathway for implementing it in the best entrepreneurial way.

## 2.5 Advantages and disadvantages

### 2.5.1 Advantages of SMEs

- The owners/founders lay down the rules for the way in which the businesses are to be run, including opening hours, pricing policy, quality of service, sources of supply and hiring and training practices.
- Entrepreneurs have more freedom of choice in defining the nature of businesses that were started by themselves.
- Entrepreneurs have more opportunity to get close to their customers and obtain valuable advice, which can then be used to provide them with a customized, value-added service (Karjalainen & Kempainen, 2008:232).
- Entrepreneurial SMEs have an ability to leverage marketing strategies for entering new product markets and coping with complex environments (Knight, 2000:16).
- SMEs have the ability to connect unaligned opportunities by becoming sustainable suppliers in global supply chains (Moore & Manning, 2009:279).
- Outsourcing makes it possible for owners to focus on its core competencies. Chase, Jacobs & Aquilano (2006:413) stated that 'Outsourcing is the act of moving some of the firm's internal activities and decision responsibility to outside providers'.

### 2.5.2 Disadvantages of SMEs

- If key staff leaves, they often pose a high risk to the business.
- Due to budget restrictions, freedom in SMEs to offer employees a framework which encourages them to find and present suggestions, ideas and new ways of tackling problems are often limited or not granted. This prevents employees from developing their own ideas. They have to deliberate between the extra effort added to their normal workload and the potential advantages for themselves and the



business. They often choose the safe path, namely to forgo any additional work.

- SMEs do not have the same bargaining power as a large corporation.
- SMEs often face resource constraints, both in terms of time and money, which results in many owner-managers adopting what could be described as a 'survival mentality'. This is perhaps exacerbated by the fact that strategic planning within SMEs is often limited (Huang & Brown, 1999:78).
- Limiting factors are often funds and the frequently limited access to suitable sources of financing. The budget that is available to fund innovations tends to be too small, resulting in a lack of stamina for projects with a long preparatory phase.
- SMEs experience problems in marketing, human resource management and general business planning (Axman, 2003:11).

### 2.5.3 Advantages of franchise businesses

- The franchise business concept is established and proven – many well-known franchises have national brand-name recognition. Buying a franchise can be like buying a business with built-in customers (Kuratko & Hodgetts, 2004:441).
- There is a lower failure risk – investment in any business or business opportunity involves risk of failure or being disappointed with the return on investment. With a franchise, the risk is reduced, albeit not completely eliminated. The lower risk is mostly attributable to the proven franchise concept and the expertise of the franchisor (Good, 1989:68).
- Help is given with the start-up and beyond – many franchises are turnkey operations. This helps the entrepreneur with the start-up of the business and in running it afterwards, including the equipment, supplies and instruction or training needed to start the business, as well as ongoing training and help with management and marketing (Axman, 2003:148).

- Buying power – the business will benefit from the collective buying power of the parent company, as the franchisor can afford to buy in bulk and pass the savings along to franchisees. Inventory and supplies will cost less than when running an independent company (Izraeli, 1972:220).
- Profits – a franchise business can be immensely profitable (Peterson & Dant, 1990:47).
- Business finance – financial institutions are normally prepared to finance a franchise more easily and on better terms (Hall & Dixon, 1989:34).
- Experience – franchises contribute greatly to self-employment in South Africa by allowing people with no previous experience to enter the market by owning their own business (Combs & Ketchen, 1999:107). The franchisee will become part of a larger business group that collectively benefit from business strategy and operational best practice.
- Exclusivity – the franchisee will normally be granted exclusivity in a certain geographical area. This offers protection from competition by other franchisees of the same group, albeit not protection from other franchisee groups or small businesses.
- Independence – franchisees enjoy some degree of independence. They work for themselves, but are not in business by themselves (Timmons & Spinelli, 2007:364).

#### 2.5.4 Disadvantages of franchises

- Loss of control – a franchisee is the legal owner of the franchise. The ownership is limited by the terms and conditions of the franchise agreement. Franchisors normally retain control over the presentation and selling of the franchise product, as well as the manner in which the business is run (Kuratko & Hodgetts, 2004:441).
- Capital outlay – the capital outlay is immediate; royalties and percentages of the franchise's business revenue will have to be paid to

the franchisor each month. The franchisor may also charge additional fees for services provided, like the cost of advertising.

- Limited flexibility – the business systems that are imposed by most franchisors are normally not very flexible. These systems are often part of the reason for the business success of a franchise. They may, however, hamper the ability of the franchise business to adapt to changes in the business environment.
- Restrictions on termination – the master franchise agreement will almost always restrict the franchisee's abilities to compete freely on termination of the franchise (Axman, 2003:149).
- Cost – buying into a well-known franchise is very expensive (Axman, 2003:149).
- Shark-Infested waters – franchising can be the main business of the franchisor, who is only interested in selling more franchises. Whether or not the individual franchises are successful is irrelevant to him/her.

## **2.6 Summary**

Whilst many people are attracted to self-employment as a means of escaping the frustrations of employee status, other less fortunate individuals are forced to consider starting their own business because there seems to be little prospect of securing any other form of employment. During the recent economic recession many people have been made redundant, only to discover that, for whatever reason, they are unable to find further employment. Many of these people have therefore turned to self-employment, possibly using their redundancy payment as capital. SMEs and franchising may be an alternative for many of these people. Unfortunately, most of these would-be entrepreneurs lack either the necessary skills or the confidence to set up a totally independent business.

A review of business cases indicates that SMEs can bring skill sets to bear on disruptive opportunities quickly and more competitively than existing firms (Seuring & Muller, 2008:1706). SMEs, founded and structured by using a lens

of sustainability, can focus on new innovations without the distractions of having to 'fix' the existing operations. These SMEs, focused on sustainable opportunities, do not have an existing history of 'compliance-only' investment and infrastructure to overcome. SMEs can invest in leading-edge efforts in sustainable enterprise without risking or dealing with entrenched expectations internally or externally.

Outsourcing is strategic in nature, and small and medium enterprises do not outsource for short-term or immediate financial gains, but for long-term gains and improving upon such suppliers' skills and flexibility.

However, the franchising system overcomes many of the problems that are commonly associated with starting a business and thereby provides a much easier route to self-employment and the social esteem that goes with it, although there are doubts as to whether or not they make the best franchisees (Hall & Dixon, 1991:9).

An entrepreneur with general management skills might confidently purchase a franchise that requires considerable industry-specific skills and subsequently be unable to furnish the level of effort and ability required. Franchising is an essential ingredient in successful franchise chains and is important in today's economy. Knowledge of factors affecting franchisee performance could help franchisors adopt more supportive policies and could also help potential franchisees in selecting a franchise among competing franchise opportunities.

The next chapter conducts an empirical study of SMEs and franchise businesses in Rustenburg (North West Province) and its environs by means of a questionnaire. The study was conducted in 37 franchise businesses and 34 SMEs.

## CHAPTER 3

### EMPIRICAL RESEARCH RESULTS AND DISCUSSION

#### 3.1 Introduction

Empirical research is research that is based on experimentation or observation that is evidence. Such research is often conducted to answer a specific question or to test a hypothesis (or an educated guess).

In this chapter, the empirical research for the study was conducted in order to evaluate the current experience among entrepreneurs in the business environment of SMEs and franchise businesses.

The objectives of the research have been to determine the advantages and disadvantages of SMEs and franchise businesses, while the goals have been to explore and analyse the data gathered.

The researcher has relied on in-depth interviewing, using interviews as a field-research technique to complete a structured questionnaire and obtain data for this research study. The first step in the data-analysis exercise was to capture and summarise all data. The data were then presented in graphical form, such as pie charts and column charts, to present a visual interpretation of the results.

Information was gathered in the form of a questionnaire, which was presented in an interview format. It gives a better picture regarding the economic situation, as well as insight in the entrepreneur's choice of business that suits him/her best.

## 3.2 Gathering of data

### 3.2.1 Objectives

The objectives of the empirical study have been to:

- determine the advantages and disadvantages of SMEs and franchise businesses;
- investigate the experience and viewpoint of entrepreneurs towards SMEs; and
- investigate the experience and viewpoint of entrepreneurs towards franchise businesses.

### 3.2.2 Sample and procedure

Both probability and non-probability sampling methods have been used in the study. The empirical research has been aimed at the sample of business entities in Rustenburg (North West Province) and its environs. A sample was taken of 71 entrepreneurs who were interviewed in SMEs and franchise businesses. The sampling procedure focused on the principle of randomness and the terms that had been selected, constituted the elements of the target population. Quantitative data have been employed for the final analysis.

Convenience sampling was used in this study. The participants were selected, in part or in whole, at the convenience of the researcher. Participants were approached by the researcher in such a manner that businesses from all the different sectors were represented. The ideal sampling procedure would probably be random sampling, but in this case there was a chance that one or more of the business enterprises would not have been represented.

Entrepreneurs were approached in such a manner that the following categories of enterprises were included in the research:

- Wholesale and retail trade companies; repair of motor vehicles, motor cycles and personal and household goods; hotels and restaurants;
- manufacturing companies;
- electricity, gas and water supply companies;
- mining activities;
- construction companies;
- transport, storage and communication companies; and
- financial intermediation, insurance, real estate and business services.

The data on entrepreneurs who operate in the business environment have been collected from outlets that fall into two categories, including normal SMEs and franchise businesses in Rustenburg (North West Province) and its environs.

**Table 3.1    Number of participants**

<b>Sample</b>	<b>Size</b>
SMEs	34
Franchise businesses	37
<b>Total</b>	<b>71</b>

### 3.2.3 Research instruments and design

The quantitative empirical research was done by the analysis of quantitative data which were collected by using a primary data-collection method. Data were collected from entrepreneurs in Rustenburg (North West Province) and its environs by means of an interview and questionnaire.

The emphasis of the study has been on discovering the experience and viewpoint of entrepreneurs towards businesses.

#### 3.2.3.1 The design of the questionnaire

A five-point, Likert-type scale was used as part of the questionnaire for the empirical study. The questions were formulated according to a model that was established during the literature study. Permission was obtained from the respondents to indicate their willingness to participate in this research project. Respondents were assured that the information that was obtained would be treated as confidential and that the results would be used for research purposes only.

#### 3.2.3.2 The structure of the questionnaire

Section A: General information about the business owner

Section B: Advantages and disadvantages of SMEs and franchise businesses

A sample of the explanatory research questionnaire is attached to this study in Appendix A.

### **3.3 General information of the business owner**

The quantitative research results of the study are summarised as follows (please refer to Appendix A for the structure of the questionnaire):

#### 3.3.1 Personal details of the participant

Question A1 gave the owner the freedom to choose whether or not to complete it, as the information of this question would not be used. As mentioned in 3.2.3.1, respondents were assured that the information that was obtained would be treated as confidential and that the results would be used for research purposes only.



### 3.3.2 Number of years in business

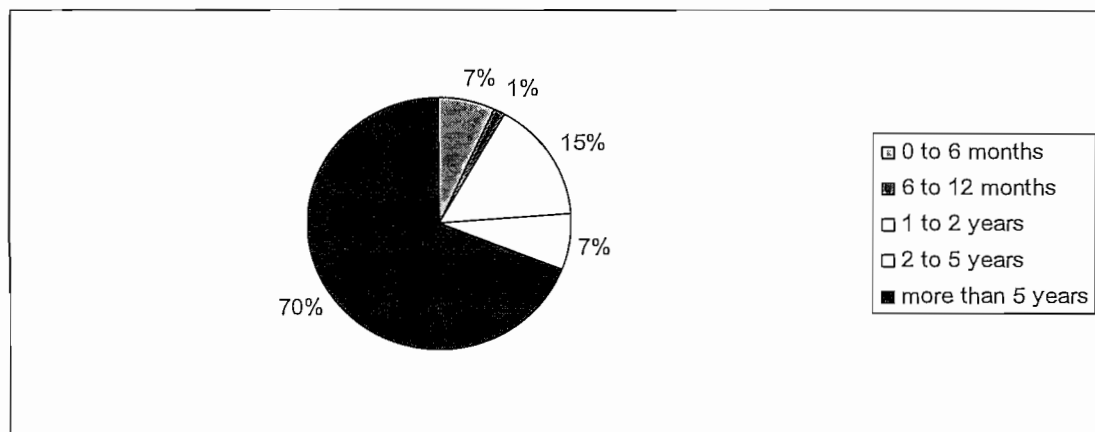
#### *Purpose of the question*

The purpose of question A2 (Appendix A) was to determine how long the business owner has been in business. Respondents were asked to select an answer from a group of categories in the questionnaire.

#### *Results obtained*

The number of years experienced by the entrepreneur in business, as selected by the participants, are indicated in figure 3.1.

**Figure 3.1 Entrepreneur's number of years in business**



#### *Analysis of the results*

Figure 3.1 indicates that 70% of the participants have been in business for more than 5 years.

### 3.3.3 Nature of the business

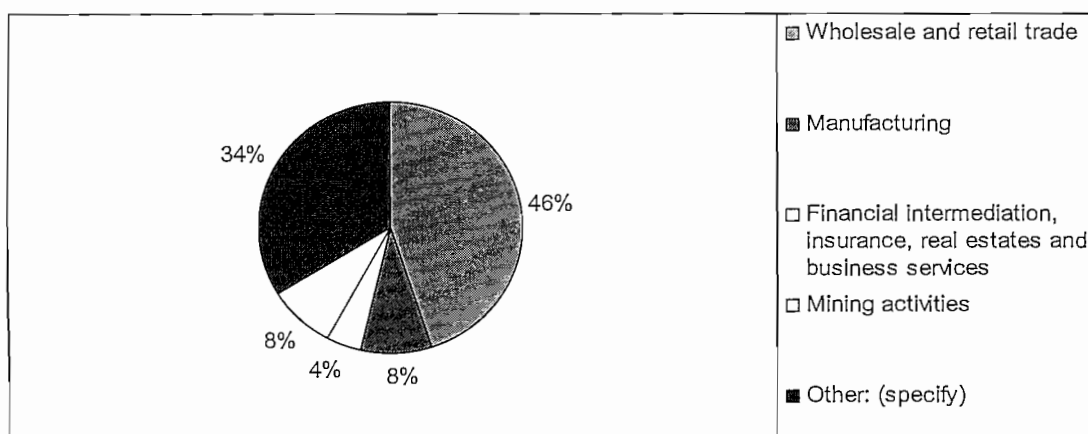
#### *Purpose of the question*

The purpose of question A3 (Appendix A) was to determine the nature of the business. Participants were asked to indicate their nature of business from a list of suggested groups in the questionnaire.

#### *Results obtained*

The nature of business of the participants is presented in figure 3.2.

**Figure 3.2 Nature of the business**



#### *Analysis of the results*

Figure 3.2 indicates that 46% of the participating businesses are in the wholesale and retail trade and 34% have been specified as 'other'.

### 3.3.4 Entity

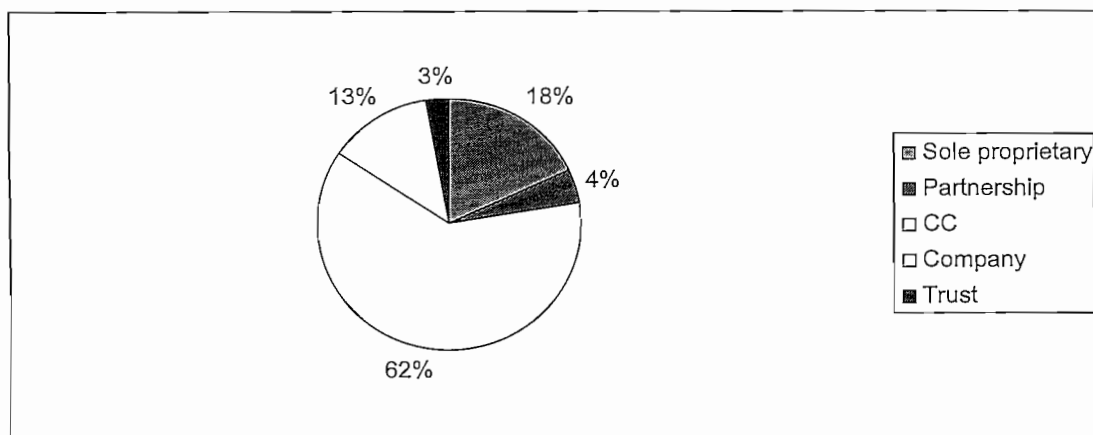
#### *Purpose of the question*

The purpose of question A4 (Appendix A) was to establish the entity of the business. The entity can give an indication of the legal rights of the owners. Participants were asked to indicate their legal entity by selecting one of the five categories in the questionnaire.

#### *Results obtained*

The different legal entities, as selected by the participants, are indicated in figure 3.3.

**Figure 3.3 Legal entity of the business**



#### *Analysis of the results*

It is clear from figure 3.3 that the majority of participating businesses (62%) trade under the legal entity of a CC.

### 3.3.5 Type of business

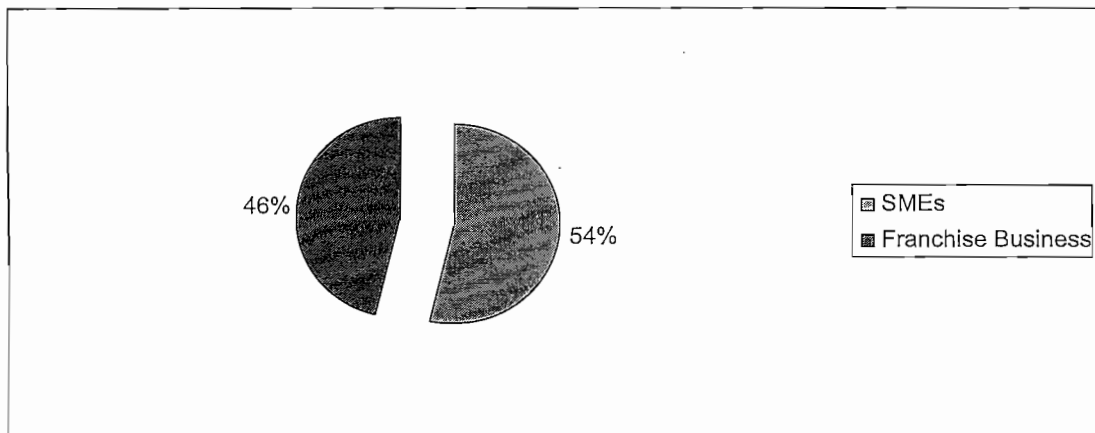
#### *Purpose of the question*

The purpose of question A5 (Appendix A) was to determine whether the business is an SME or a franchise. This allowed us to compare the advantages and disadvantages of the two mentioned types of businesses. Respondents were asked to indicate their type of business by selecting either the SME or the franchise category that was defined in the questionnaire.

#### *Results obtained*

Figure 3.4 indicates the type of business.

**Figure 3.4 Type of business**



#### *Analysis of the results*

It is evident from the results displayed in figure 3.4 that 54% of the owners' businesses are SMEs and 46% are franchises.

### 3.3.6 Age group

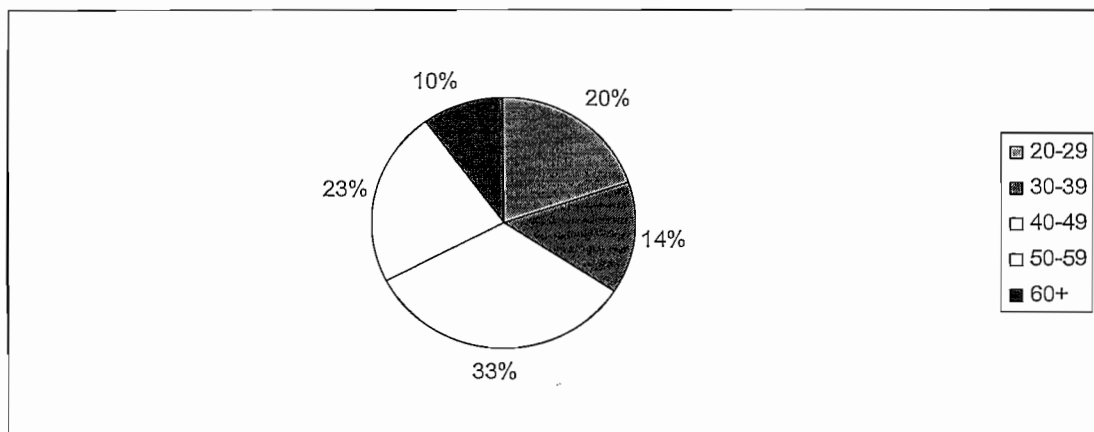
#### *Purpose of the question*

The purpose of question A6 (Appendix A) was to determine the age groups of participants. Participants were asked to indicate their ages by selecting one of the six predefined age groups in the questionnaire.

#### *Results obtained*

The age groups of the interviewed entrepreneurs are displayed in figure 3.5.

**Figure 3.5 Age group of the business owner**



#### *Analysis of the results*

Results from figure 3.5 indicate that 20% of participants are between the ages of 20 and 29 years. Another 14% are between 30 and 39, 33% between 40 and 49 and 23% between 50 and 59 years. Lastly, 10% of participants are older than 60 years. No participants are younger than 20 years.

### 3.3.7 Marital status

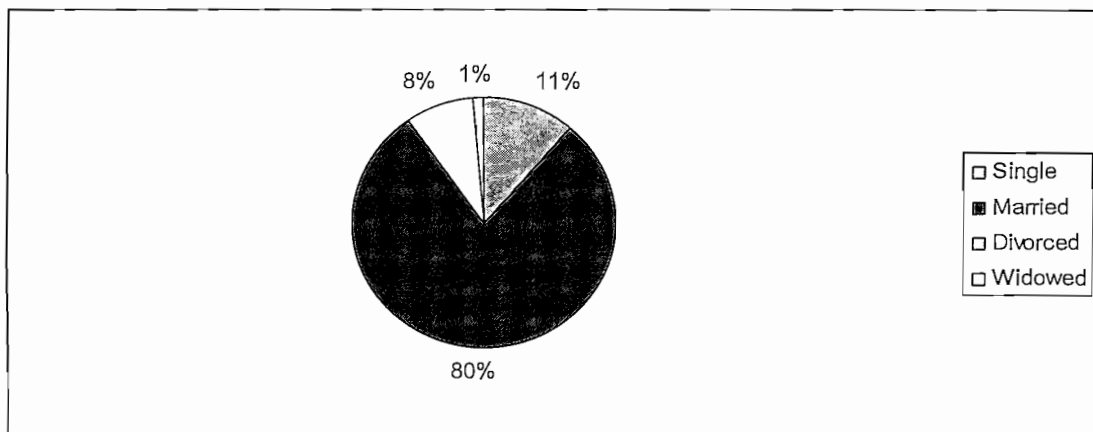
#### *Purpose of the question*

The purpose of question A7 (Appendix A) was to determine the marital status of the participants. Participants were asked to select their status from the relevant list in the questionnaire.

#### *Results obtained*

The marital status of the interviewed entrepreneurs is displayed in figure 3.6.

**Figure 3.6 Marital status of the business owner**



#### *Analysis of the results*

The results displayed in figure 3.6 indicate that the majority of participants (80%) are married.

### 3.3.8 Gender

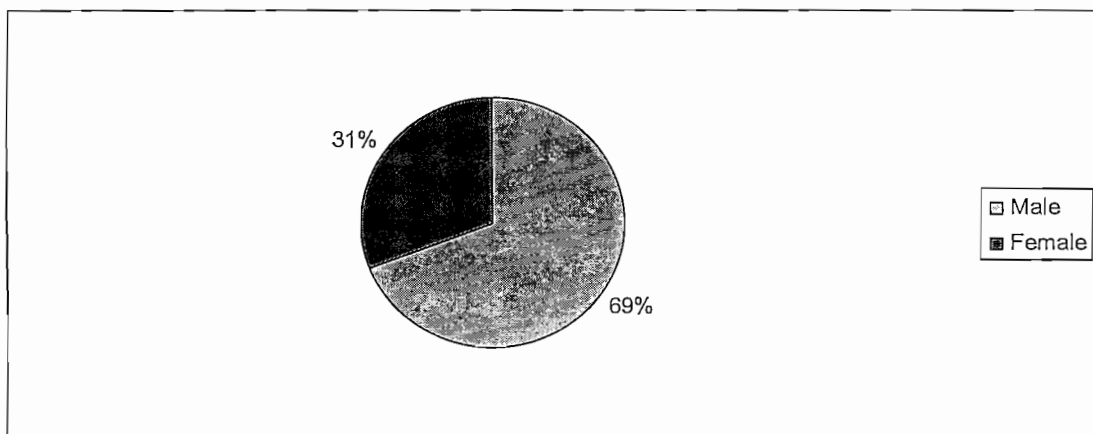
#### *Purpose of the question*

The purpose of question A8 (Appendix A) was to determine and distinguish between the number of male and female respondents. Respondents were asked to indicate their gender by selecting either the male or female category defined in the questionnaire.

#### *Results obtained*

Figure 3.7 indicates the gender of the business owner.

**Figure 3.7 Gender of the business owner**



#### *Analysis of the results*

It is evident from the results displayed in figure 3.7 that 69% of business owners are male and 31% female.

### 3.3.9 Academic qualification

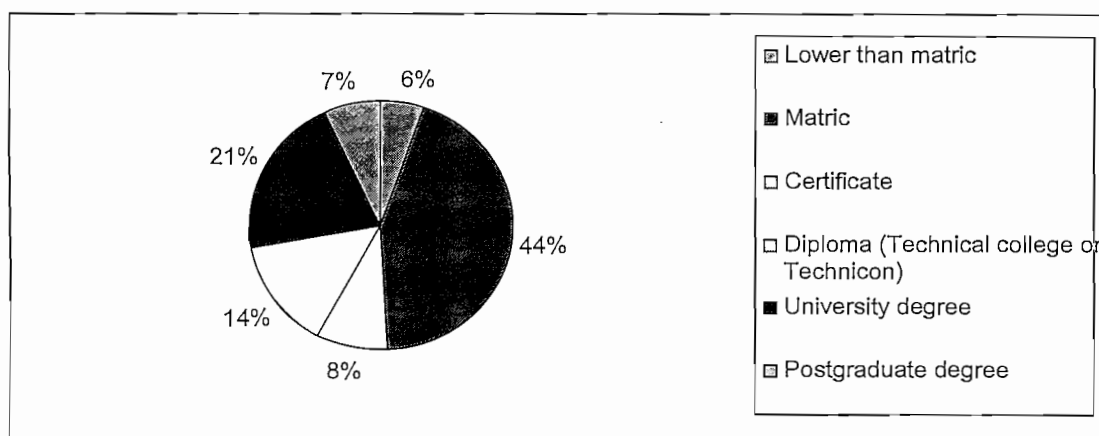
#### *Purpose of the question*

The purpose of question A9 (Appendix A) was to determine the level of education of each participant, as this level has an impact on the way the business is managed and can influence development, performance and profitability. Various educational level groups were defined. Participants were asked to indicate their highest level of education on the questionnaire.

#### *Results obtained*

The educational level of the participants is presented in figure 3.8.

**Figure 3.8 Educational level of the business owner**



#### *Analysis of the results*

Six percent of the participants have an educational level lower than grade 12. The highest portion of qualification falls in the matriculation group (44%), while the participants with a university degree are 21%.



### 3.3.10 The path to business ownership

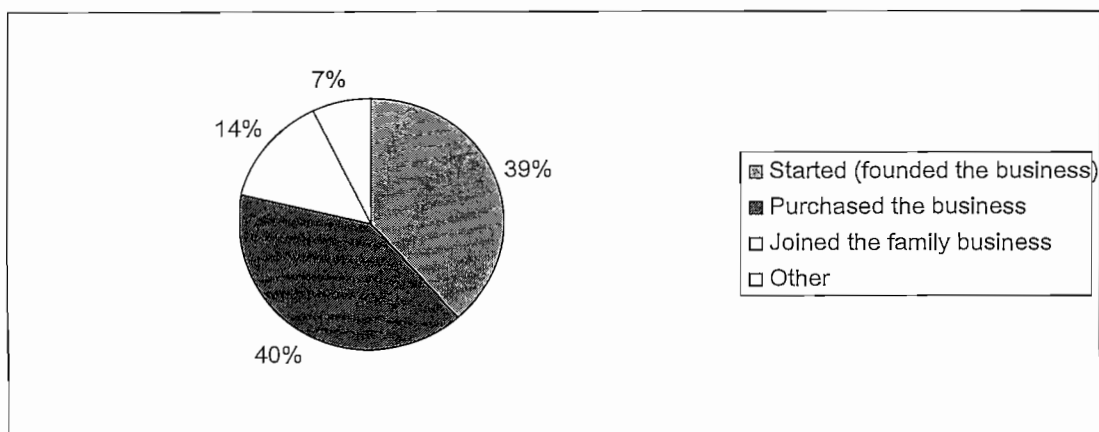
#### *Purpose of the question*

The purpose of question A10 (Appendix A) was to establish the course to business ownership. Participants were asked to choose from various options provided in the questionnaire.

#### *Results obtained*

Figure 3.9 indicates the path to business ownership.

**Figure 3.9 The path to business ownership**



#### *Analysis of the results*

It is evident from the results displayed in figure 3.9 that 39% of the owners started their businesses and 40% purchased their businesses.

### 3.3.11 The source of start-up funding

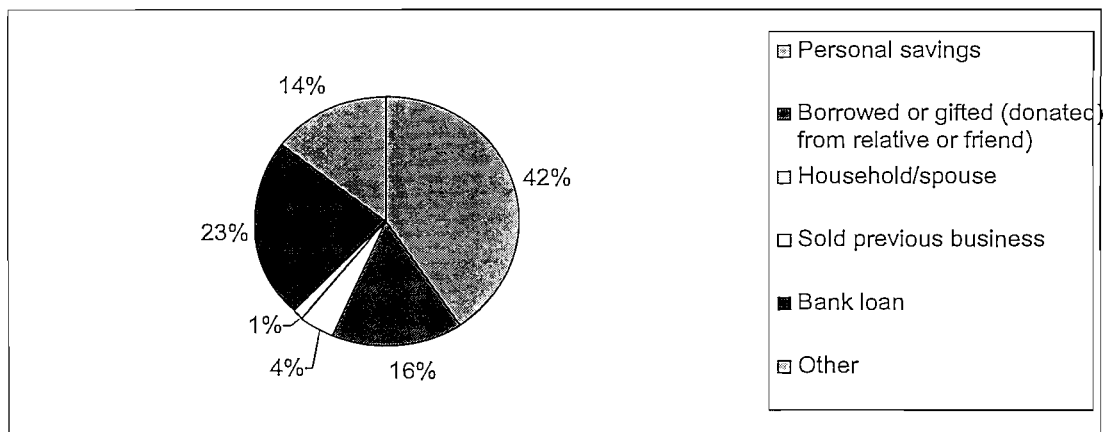
#### *Purpose of the question*

The purpose of question A11 (Appendix A) was to determine the impact of start-up funding as a source of the entrepreneur. Participants had to select the applicable option.

#### *Results obtained*

The source of start-up funding as selected by the participants is indicated in figure 3.10.

**Figure 3.10 Start-up funding source**



#### *Analysis of the results*

The results displayed in figure 3.10 indicate that 42% of the participants used their personal savings and 23% used a bank loan as source of start-up funding.

### 3.4 Advantages and disadvantages of SMEs and franchise businesses

#### 3.4.1 Freedom of the entrepreneur

##### 3.4.1.1 Opening hours

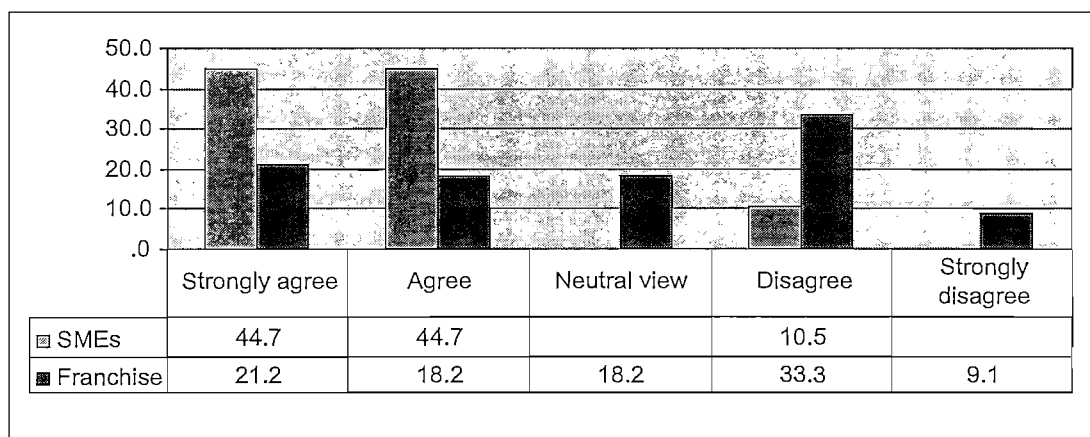
###### *Purpose of the question*

The purpose of question B1 (Appendix A) was to determine what the experience of the entrepreneurs is regarding their freedom of opening hours. Participants were asked to indicate to what extent they agreed or disagreed with this statement.

###### *Results obtained*

Figure 3.11 presents the results of question B1 in the column chart.

**Figure 3.11 The entrepreneur has freedom in choosing opening hours**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	89.4	10.5
Franchise	39.4	42.4

### *Analysis of the results*

Figure 3.11 indicates that the SMEs (89,40%) have freedom in choosing opening hours. The respondents of franchises indicated that they have a 39,40% freedom in choosing opening hours, but 42,40% indicated that they do not have freedom in the matter.

#### 3.4.1.2 Pricing policy

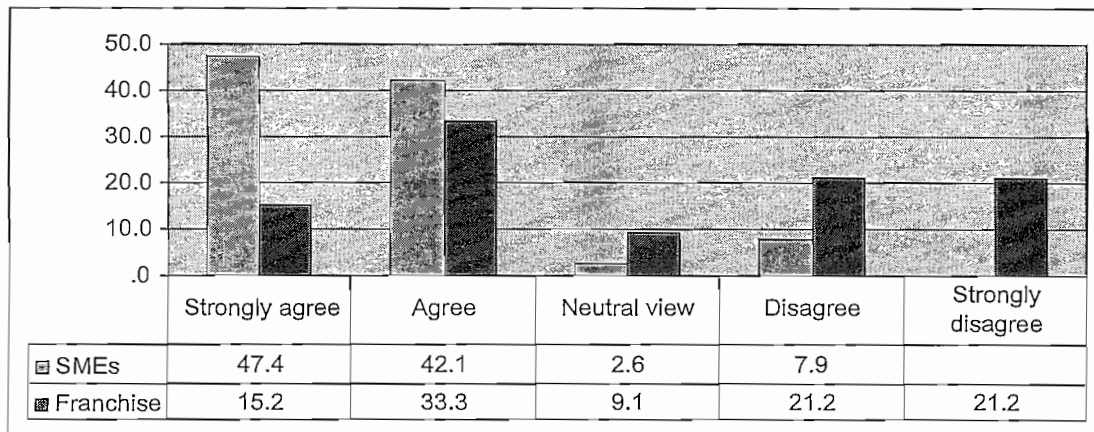
##### *Purpose of the question*

The purpose of question B2 (Appendix A) was to determine what the experience of the entrepreneur is regarding freedom in pricing policy. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Results obtained from question B2 are graphically presented in figure 3.12.

**Figure 3.12 The entrepreneur has freedom in pricing policy**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	89.5	7.9
Franchise	48.5	42.4

#### *Analysis of the results*

Figure 3.12 indicates that SMEs (89,50%) and franchise businesses (48,50%) have freedom in pricing policy, but 42,40% of the franchise businesses indicated that they do not have freedom in pricing policy.

#### 3.4.1.3 Quality of service

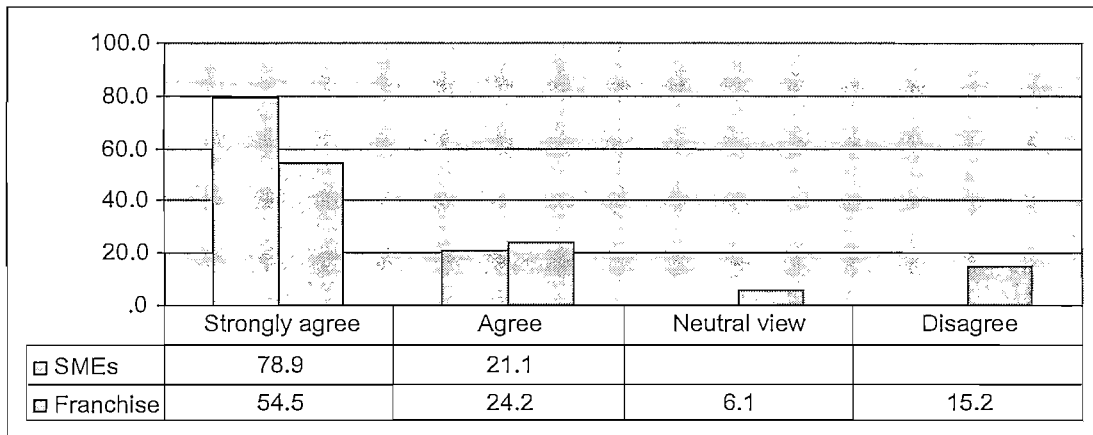
##### *Purpose of the question*

The purpose of question B3 (Appendix A) was to determine what the experience of the entrepreneur is regarding freedom in quality of service. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

The results of question B3 are graphically displayed in the column chart (refer figure 3.13).

**Figure 3.13 The entrepreneur has freedom in quality of service**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	100	
Franchise	78.7	15.2

### Analysis of the results

The majority responses of both the SMEs (100%) and franchises (78,7%) indicated that they have freedom in quality of service. A small 21,3% (including a 6,1% neutral view) of the franchise businesses indicated that they do not have freedom in quality of service.

#### 3.4.1.4 Source of supply

### Purpose of the question

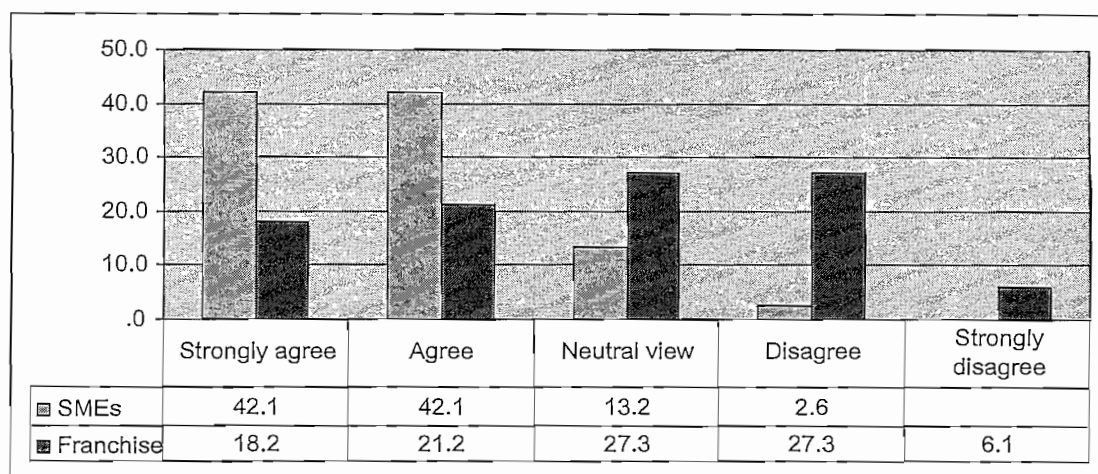
The purpose of question B4 (Appendix A) was to determine what the experience of the entrepreneur is regarding freedom of supply source.

Participants were asked to indicate to what extent they agree or disagree with this statement.

### *Results obtained*

The results from question B4 are graphically displayed in a column chart as shown in figure 3.14.

**Figure 3.14 The entrepreneur has freedom of supply source**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	84.2	2.6
Franchise	39.4	33.4

### *Analysis of the results*

The results displayed in figure 3.14 present that participants indicated that SMEs (84,2%) have freedom of supply source. The franchise businesses specify that 39,4% have freedom and 33,4% do not have freedom of supply source.

### 3.4.1.5 Hiring and training practices

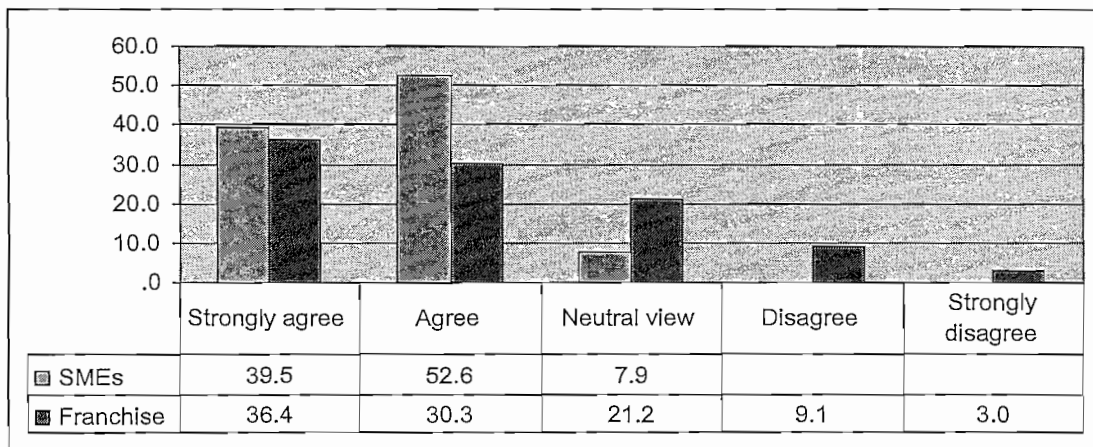
#### *Purpose of the question*

The purpose of question B5 (Appendix A) was to determine what the experience of the entrepreneur is regarding freedom in hiring and training practices. Participants were asked to indicate to what extent they agree or disagree with this statement.

#### *Results obtained*

Figure 3.15 graphically displays the results from question B5 in the form of a column chart.

**Figure 3.15 The entrepreneur has freedom in hiring and training practices**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	92.1	
Franchise	66.7	12.1



### *Analysis of the results*

From figure 3.15 it is clear that the majority of SMEs (92,1%) and franchise businesses (66,7%) have freedom in hiring and training practices. As of the respondents, 25,4% of the SMEs indicated that they have more freedom than the franchise businesses.

#### 3.4.1.6 Choice in defining the nature of the business

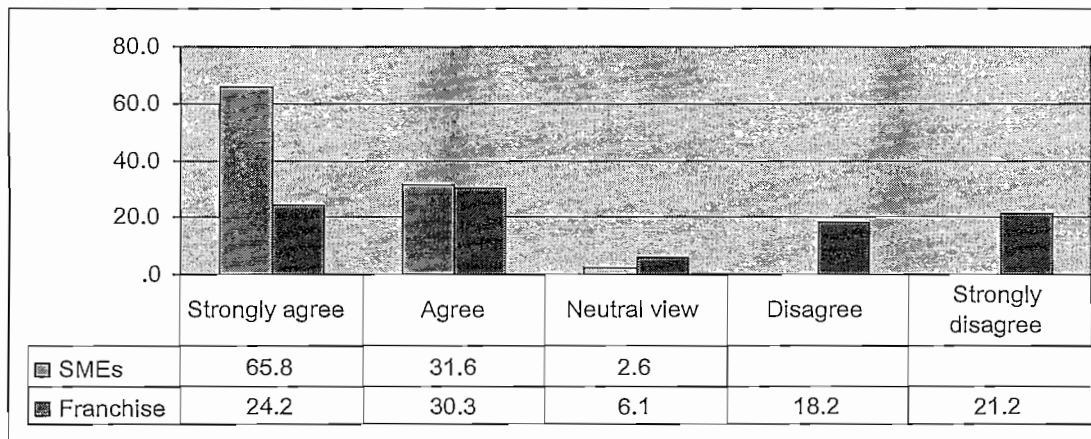
##### *Purpose of the question*

The purpose of question B6 (Appendix A) was to determine what the experience of the entrepreneur is regarding the freedom of choice in defining the nature of the business. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Results from question B6 are graphically displayed in the column chart of figure 3.16.

**Figure 3.16 The entrepreneur has the freedom of choice in defining the nature of the business**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	97.4	
Franchise	54.5	39.4

#### *Analysis of the results*

It is evident from the results displayed in figure 3.16 that the experience of the SMEs (97,4%) is that they have the freedom of choice in defining the nature of the business. The franchises indicated that 54,5% have choice and 39,4% do not have choice in defining the nature of the business.

### 3.4.2 Experience of the entrepreneur regarding the start-up of the business

#### 3.4.2.1 Limited ownership

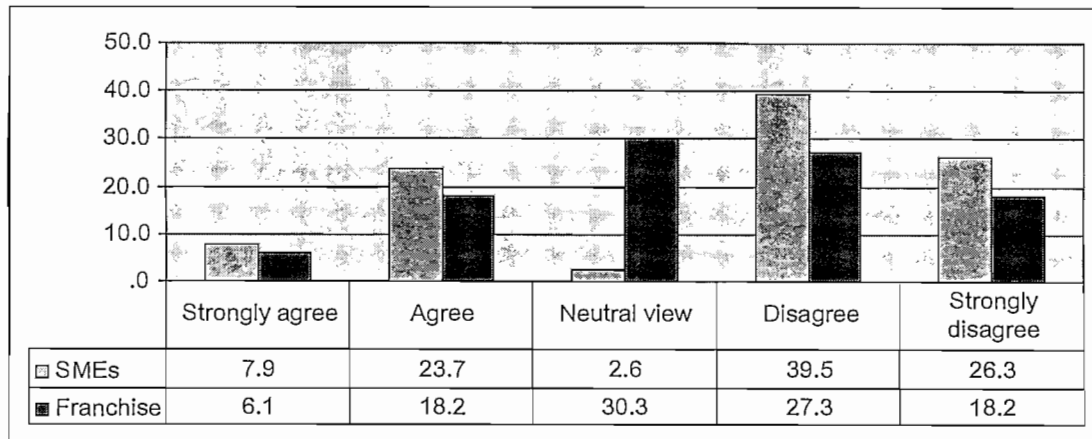
##### *Purpose of the question*

The purpose of question B7 (Appendix A) was to determine what the experience of the entrepreneur is regarding ownership. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

Figure 3.17 presents the results of question B7 in the column chart.

**Figure 3.17 Limited ownership experienced by the entrepreneur with the start-up of the business**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	31.6	65.8
Franchise	24.3	45.5

### Analysis of the results

In figure 3.17 the majority SMEs (65,8%) feel that they were not limited in ownership. Of the franchise owners, 30,3% have a neutral view and 45,5% experience that they were not limited in ownership with the start-up of the business.

#### 3.4.2.2 The hugeness of the immediate capital outlay

##### *Purpose of the question*

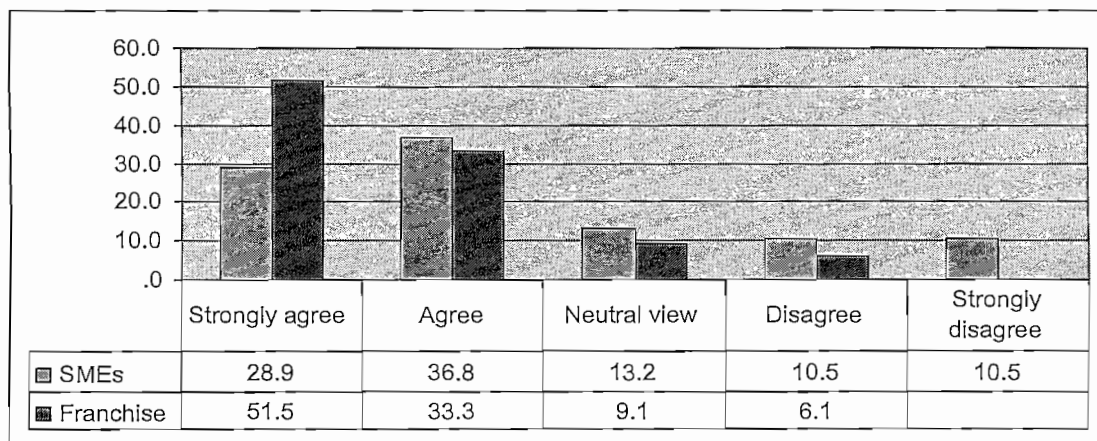
The purpose of question B8 (Appendix A) was to determine what the experience of the entrepreneur is regarding immediate capital outlay.

Participants were asked to indicate to what extent they agree or disagree with this statement.

### *Results obtained*

Results obtained from question B8 are graphically presented in figure 3.18.

**Figure 3.18 Start-up of a business: The immediate capital outlay is huge**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	65.7	21.0
Franchise	84.8	6.1

### *Analysis of the results*

Figure 3.18 indicates that 84,8% of the franchisees and 65,7% of the SMEs feel that the immediate capital outlay was huge.

### 3.4.2.3 The expensiveness of the royalty fee that is payable on a monthly basis

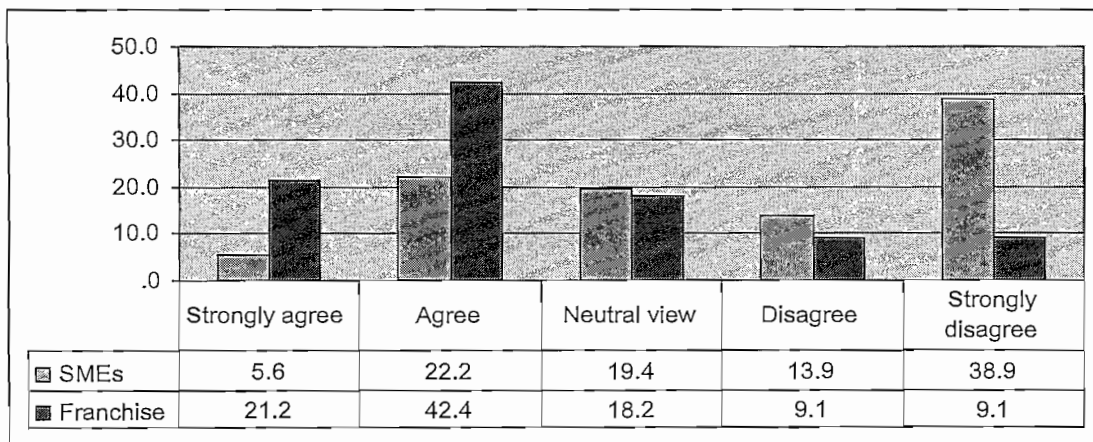
#### *Purpose of the question*

The purpose of question B9 (Appendix A) was to obtain information on the expensiveness of the royalty fee that is payable on a monthly basis. Participants were asked to indicate to what extent they agree or disagree with this statement.

#### *Results obtained*

The results of question B9 are graphically displayed in the column chart (refer figure 3.19).

**Figure 3.19 Start-up of a business: The royalty fee that is payable on a monthly basis is expensive**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	27.8	52.8
Franchise	63.6	18.2

### *Analysis of the results*

The responses of the franchisees (63,6%) indicated that the monthly royalty fee that is payable is expensive, whilst the SMEs (52,8%) indicated the opposite.

#### 3.4.2.4 The expensiveness of buying/starting a business

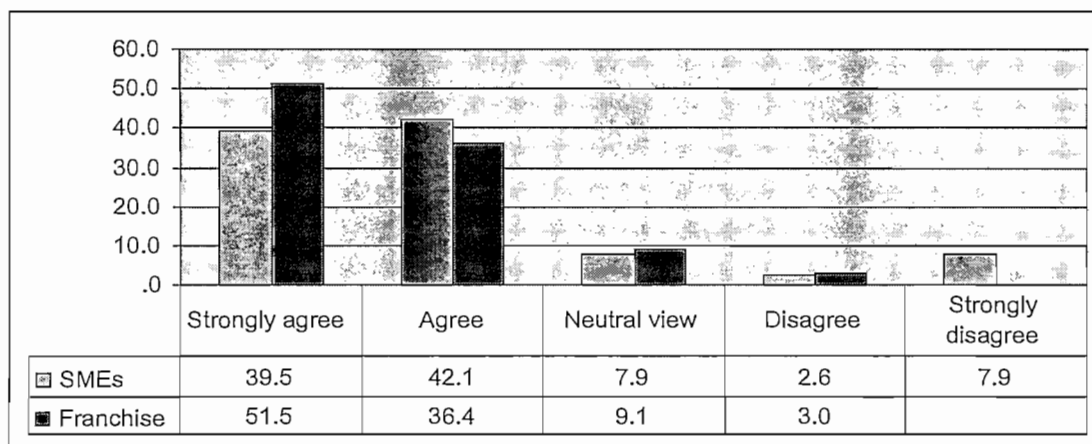
##### *Purpose of the question*

The purpose of question B10 (Appendix A) was to determine if the experience of the entrepreneur is that buying/starting a business is very expensive. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

The results from question B10 are graphically displayed in a column chart as shown in figure 3.20.

**Figure 3.20 Buying/starting a business is very expensive**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	81.6	10.5
Franchise	87.9	3.0

### *Analysis of the results*

The results displayed in figure 3.20 present that participants indicated that both SMEs (81,6%) and franchise businesses (87,9%) are very expensive to start or purchase.

### 3.4.3 General experiences of the entrepreneur

#### 3.4.3.1 Cost and lending rates – a fair deal?

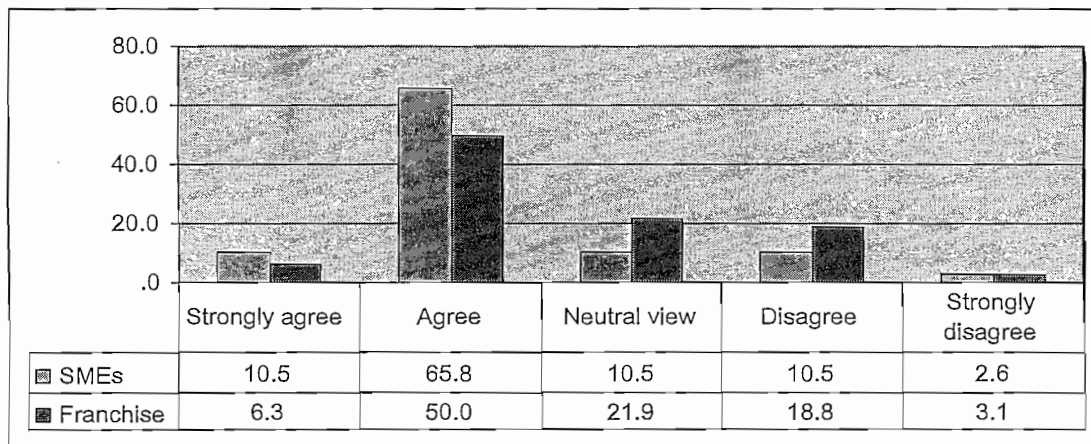
#### *Purpose of the question*

The purpose of question B11 (Appendix A) was to determine whether the entrepreneur experiences a fair deal regarding cost and lending rates. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

Figure 3.21 presents the results of question B11 in the column chart.

**Figure 3.21 The entrepreneur experiences a fair deal regarding cost and lending rates**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	76.3	13.1
Franchise	56.3	21.9

### Analysis of the results

In figure 3.21, the majority respondents – both SMEs (76,3%) and franchise businesses (56,3%) – indicated that they have a fair deal regarding cost and lending rates.



### 3.4.3.2 Help and assistance with the start-up of the business and running it afterwards

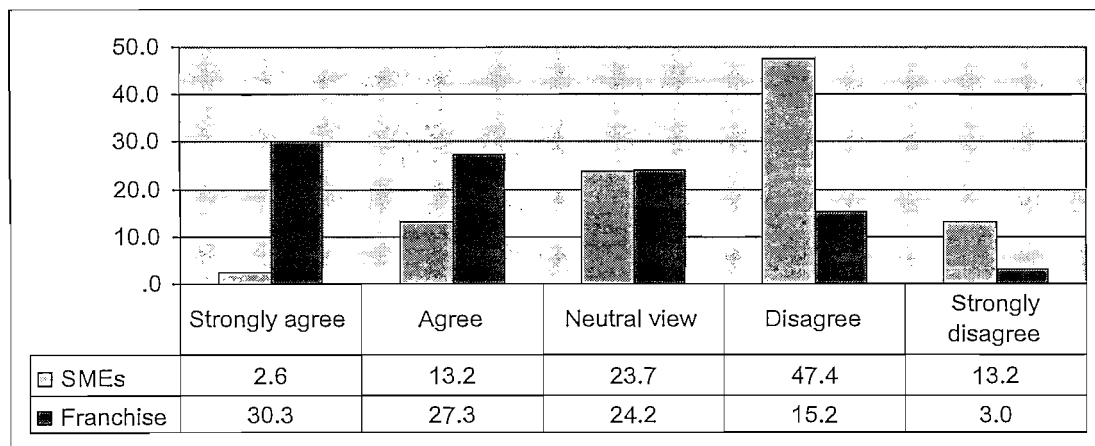
#### *Purpose of the question*

The purpose of question B12 (Appendix A) was to obtain information regarding the help and assistance that the entrepreneur experiences. Participants were asked to indicate to what extent they agree or disagree with this statement.

#### *Results obtained*

Results obtained from question B12 are graphically presented in figure 3.22.

**Figure 3.22 Help and assistance experienced by the entrepreneur**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	15.8	60.6
Franchise	57.6	18.2

### *Analysis of the results*

Figure 3.22 indicates that 57,6% of the franchisees experienced help and assistance with the start-up of the business and running it afterwards, while 60,6% of the SMEs experienced the contrary. In both categories there is a neutral view of 24%.

#### 3.4.3.3 Support in terms of hiring and training practices

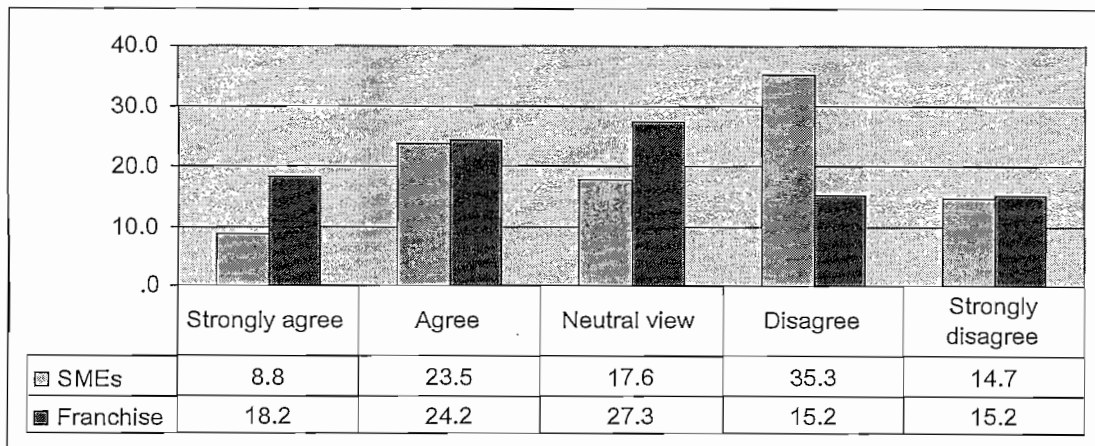
##### *Purpose of the question*

The purpose of question B13 (Appendix A) was to determine what the support is in terms of hiring and training practices in the business environment. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

The results of question B13 are graphically displayed in the column chart (refer figure 3.23).

**Figure 3.23 Support in terms of hiring and training practices**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	32.3	50.0
Franchise	42.4	30.4

#### *Analysis of the results*

In terms of hiring and training practices, the franchise businesses (42,4%) experience more support than the SMEs (32,2%).

#### 3.4.3.4 The profitability of the business

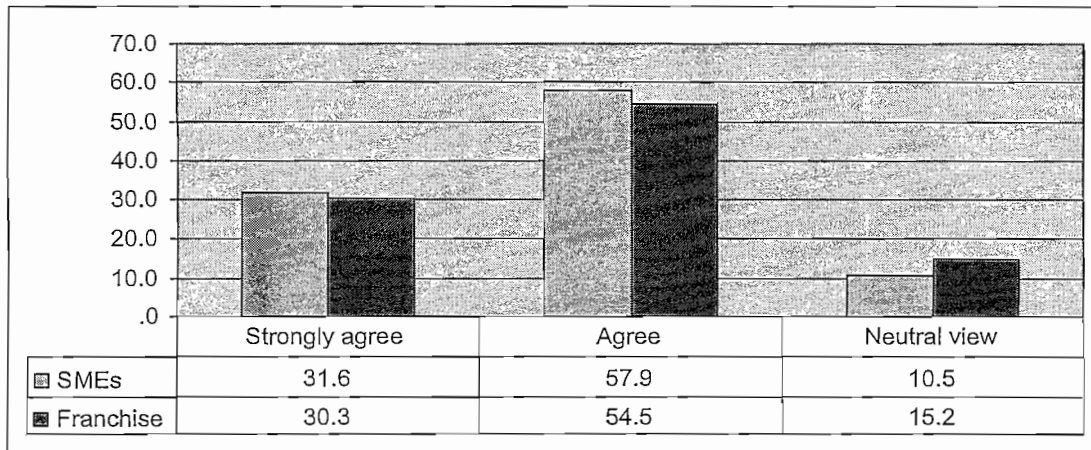
##### *Purpose of the question*

The purpose of question B14 (Appendix A) was to determine whether the business is profitable for the entrepreneur. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

The results from question B14 are graphically displayed in a column chart as shown in figure 3.24.

**Figure 3.24 The business is profitable**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	89.5	
Franchise	84.8	

#### *Analysis of the results*

The results displayed in figure 3.24 present that both the SMEs (89,5%) and franchisers (84,8%) indicated that their businesses are profitable.

#### 3.4.3.5 Marketing problems

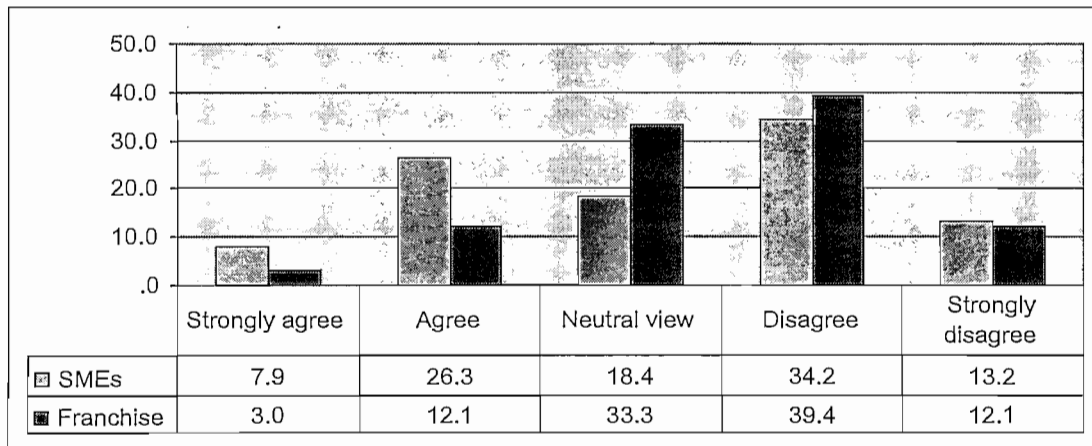
##### *Purpose of the question*

The purpose of question B15 (Appendix A) was to determine whether the entrepreneur experiences problems in marketing. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Figure 3.25 graphically displays the results from question B15 in the form of a column chart.

**Figure 3.25 Marketing problems**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	34.2	47.4
Franchise	15.1	51.5

#### *Analysis of the results*

From figure 3.25, 51.5% of the franchise businesses indicated that marketing is not a problem and 33,3% had a neutral view. Of the SMEs, 47,4% indicated that marketing is not a problem and 18,4% had a neutral view. As a result, the franchise businesses experience fewer problems in marketing as the SMEs.

#### 3.4.3.6 Human resource management problems

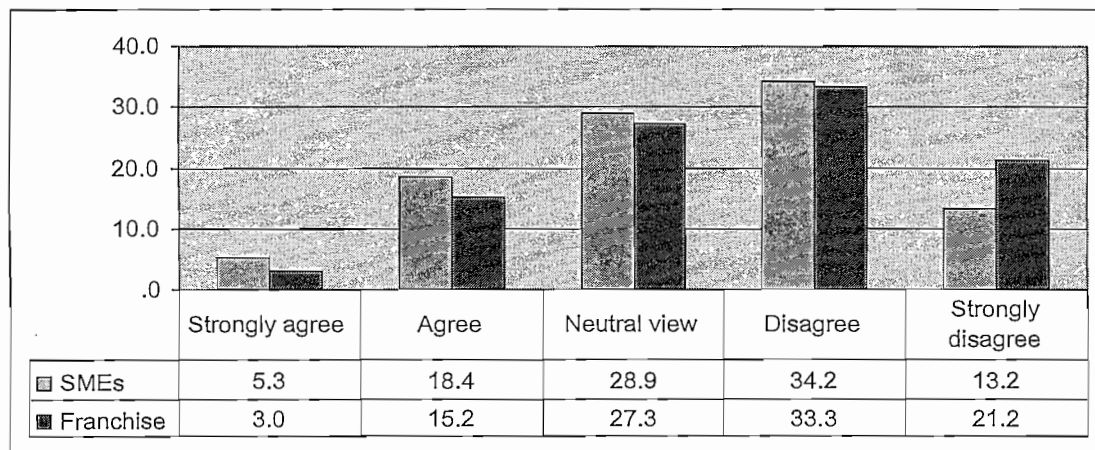
##### *Purpose of the question*

The purpose of question B16 (Appendix A) was to determine the experience of the entrepreneur regarding human resource management. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

Responses from the entrepreneurs regarding question B16 are graphically illustrated in the column chart of figure 3.26.

**Figure 3.26 Problems in human resource management**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	23.7	47.4
Franchise	18.2	54.5

### Analysis of the results

In figure 3.26, the SMEs (47,4%) and franchise owners (54,5%) indicated that they don't have problems in human resource management.

#### 3.4.3.7 General business-planning problems

### Purpose of the question

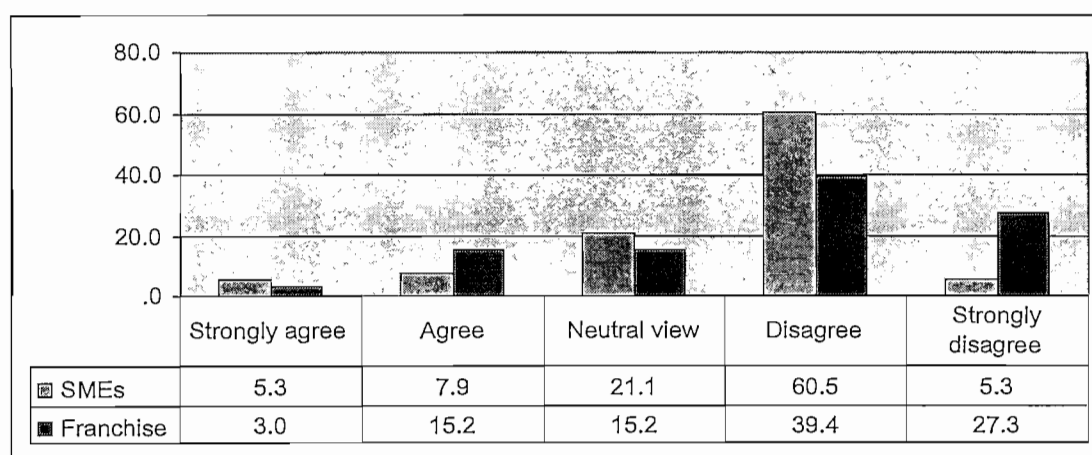
The purpose of question B17 (Appendix A) was to determine what the entrepreneur experiences regarding problems in general business planning.

Participants were asked to indicate to what extent they agree or disagree with this statement.

### *Results obtained*

Results from question B17 are graphically displayed in the column chart of figure 3.27.

**Figure 3.27 Experiencing of problems in general business planning**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	13.2	65.8
Franchise	18.2	66.7

### *Analysis of the results*

It is evident from the results displayed in figure 3.27 that the respondents – SMEs (65,8%) and franchise businesses (66,7%) – do not experience substantial problems in general business planning.

### 3.4.4 The business

#### 3.4.4.1 Financing is a streamlined process

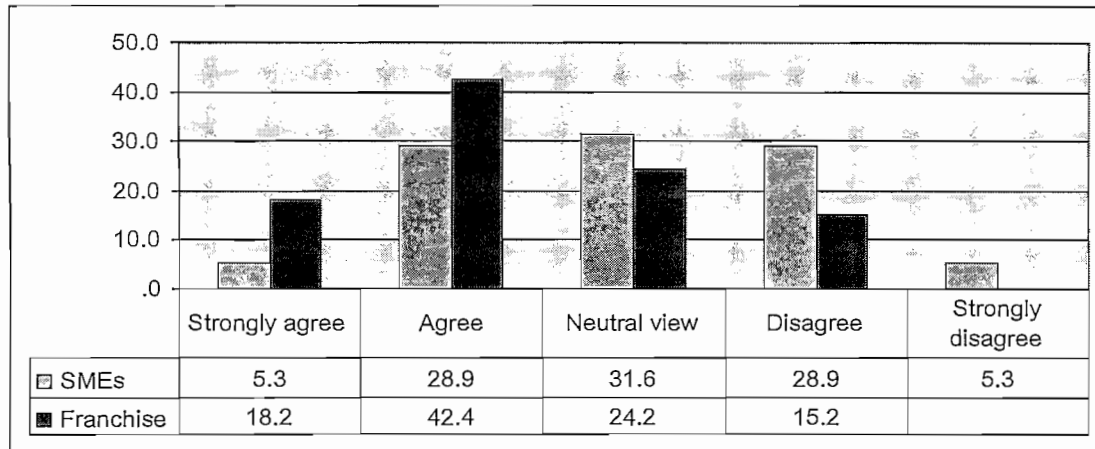
##### *Purpose of the question*

The purpose of question B18 (Appendix A) in the questionnaire was to determine whether financing is a streamlined process. Participants were asked to indicate to what extent they agree or disagree with the question.

##### *Results obtained*

Figure 3.28 presents the results of question B18 in the column chart.

**Figure 3.28 Financing is a streamlined process**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	34.2	34.2
Franchise	60.6	15.2



### *Analysis of the results*

In figure 3.28, the franchisees (60,6%) indicated that financing is a streamlined process. Of the SME owners, 50% indicated that financing is a streamlined process, while 31,6% had a neutral view.

#### 3.4.4.2 Limitation of access to suitable sources of financing

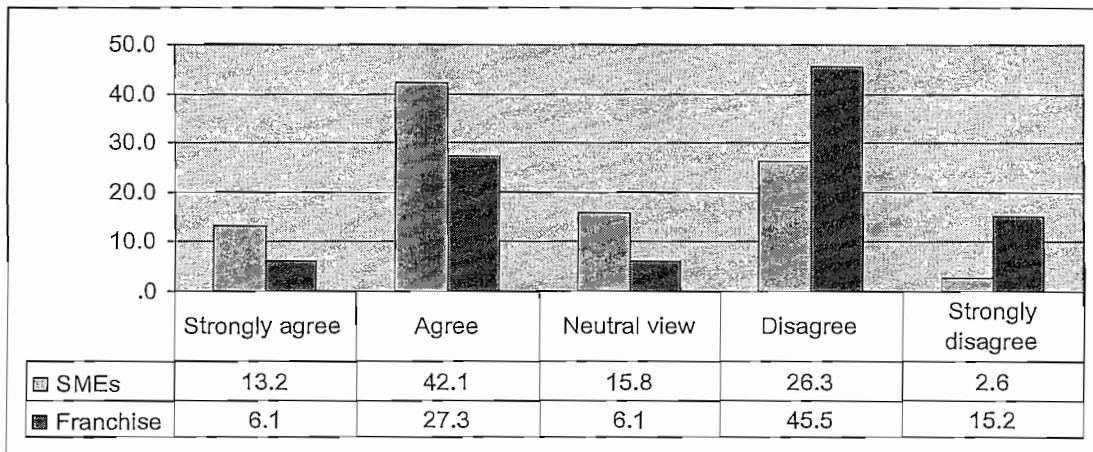
##### *Purpose of the question*

The purpose of question B19 (Appendix A) was to establish if the business owner experiences limited access to suitable sources of finance. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Results obtained from question B19 are graphically presented in figure 3.29.

**Figure 3.29 Limited access to suitable sources of financing**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	55.3	28.9
Franchise	33.4	60.7

#### *Analysis of the results*

Figure 3.29 indicates that SMEs (55,3%) experience limited access to suitable sources of financing, while franchise businesses (60,7%) experience access to suitable sources of financing.

#### 3.4.4.3 Difficulty in establishing brand awareness

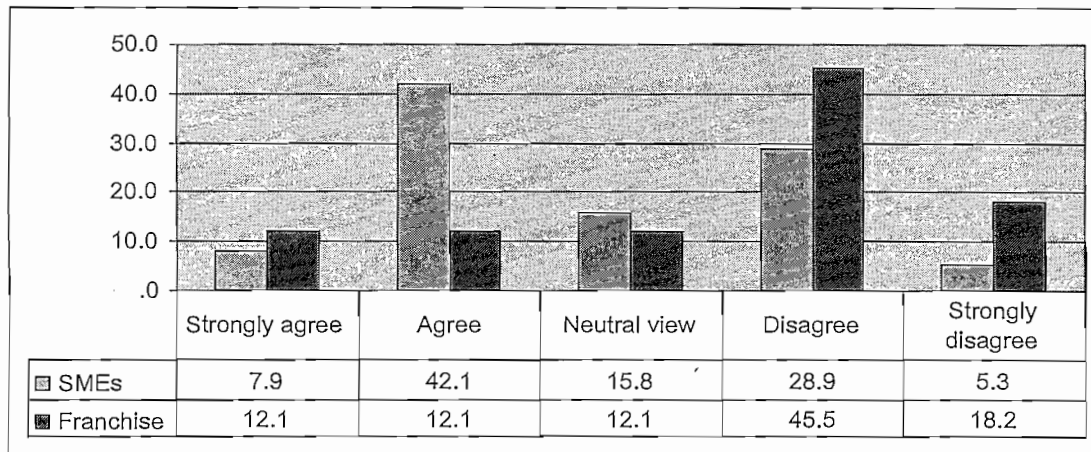
##### *Purpose of the question*

The purpose of question B20 (Appendix A) was to find out whether it was difficult to establish brand awareness. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

The results of question B20 are graphically displayed in the column chart (refer figure 3.30).

**Figure 3.30 Difficulty in establishing brand awareness**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	50.0	34.2
Franchise	24.2	63.7

### Analysis of the results

From figure 3.30, 50% of SMEs pointed out that it was difficult to establish brand awareness, while 63,7% of franchise businesses indicated that it was not.

### 3.4.4.4 Adaptation of the service according to the needs of the customer

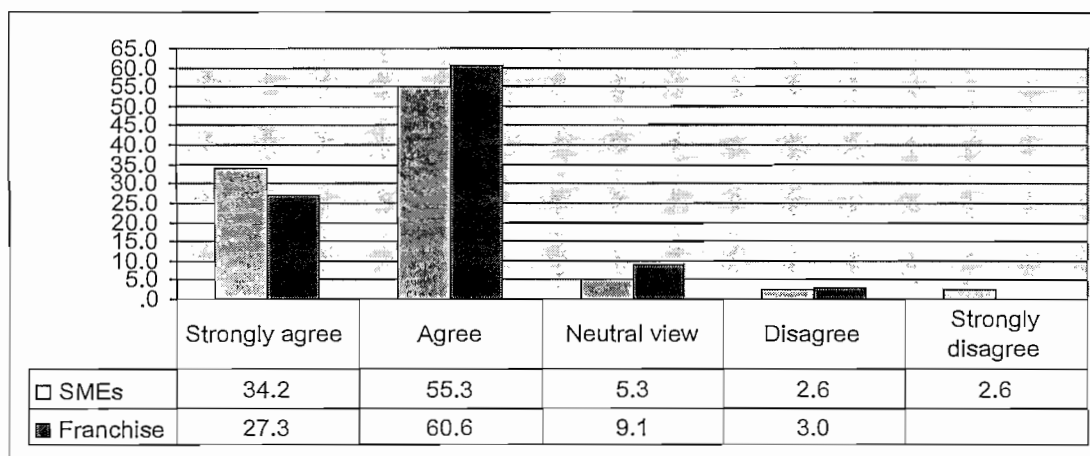
#### *Purpose of the question*

The purpose of question B21 (Appendix A) was to determine the flexibility of adaptation according to the need of the customer. Participants were asked to select from the extent they agree or disagree with this statement.

#### *Results obtained*

The results from question B21 are graphically displayed in a column chart as shown in figure 3.31.

**Figure 3.31 Adaptation of the service according to the needs of the customer**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	89.5	5.2
Franchise	87.9	3.0

### *Analysis of the results*

The participants in SMEs (89,5%) and franchises (87,9%) sense that they can adapt the service according to the need of the customer.

#### 3.4.4.5 The ability of the entrepreneur to leverage marketing strategies

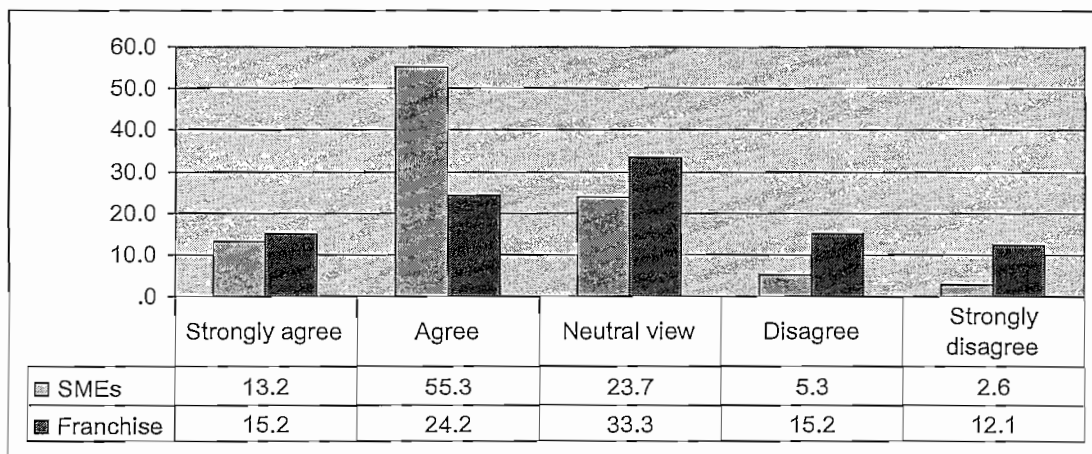
### *Purpose of the question*

The purpose of question B22 (Appendix A) was to determine what the ability of participants to leverage marketing strategies is. Participants were asked to indicate to what extent they agree or disagree with this statement.

### *Results obtained*

Figure 3.32 graphically displays the results from question B22 in the form of a column chart.

**Figure 3.32 Ability to leverage marketing strategies**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	68.5	7.9
Franchise	39.4	27.3

### *Analysis of the results*

From figure 3.32, it is observable that the majority of SMEs (68,5%) indicated that they have the ability to leverage marketing strategies. The franchisees indicated that they have a 39,4% ability to leverage marketing strategies.

#### 3.4.4.6 The flexibility to enter new products and markets

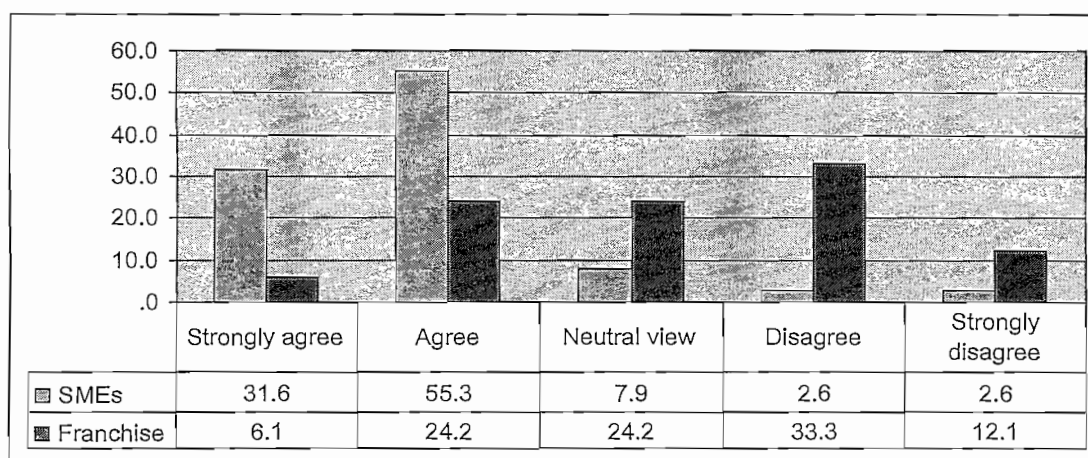
##### *Purpose of the question*

The purpose of question B23 (Appendix A) was to determine and distinguish the flexibility to enter new products and markets. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Responses from the entrepreneurs regarding question B23 are graphically illustrated in the column chart of figure 3.33.

**Figure 3.33 Flexibility to enter new products and markets**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	86.9	5.2
Franchise	30.3	45.4

#### *Analysis of the results*

The participants in the SMEs (86,9%) indicated that they have the flexibility to enter new products and markets. The franchisees (30,3%) pointed out that the flexibility to enter new products and markets are not so favourable in their environment.

#### 3.4.4.7 The possibility to focus on core competencies due to outsourcing

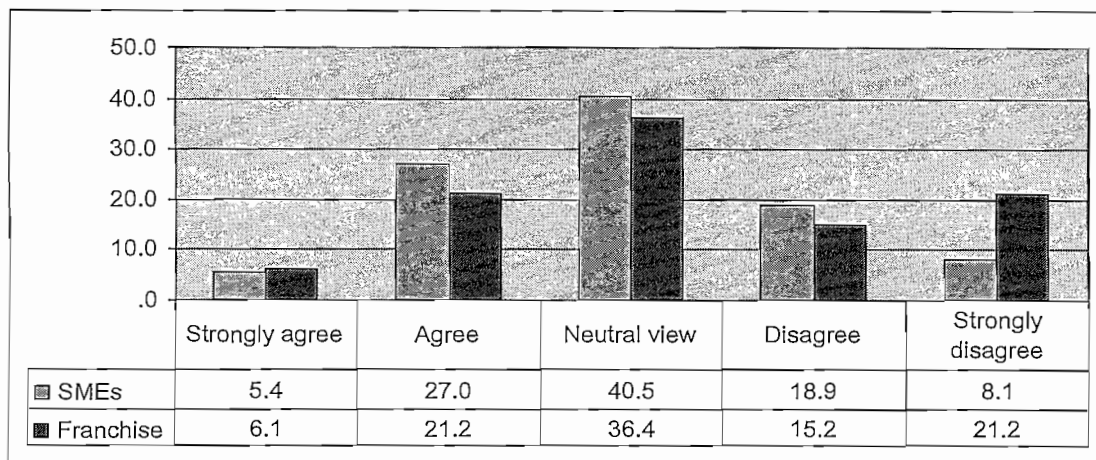
##### *Purpose of the question*

The purpose of question B24 (Appendix A) was to obtain information to determine whether outsourcing makes it possible to focus on core competencies. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

Results from question B24 are graphically displayed in the column chart of figure 3.34.

**Figure 3.34 Outsourcing makes it possible to focus on core competencies**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	32.4	27.0
Franchise	27.3	36.4

### Analysis of the results

It is evident from the results displayed in figure 3.34 that SMEs and franchise businesses have a strong neutral view regarding outsourcing.



### 3.4.4.8 The benefit experienced from collective buying power

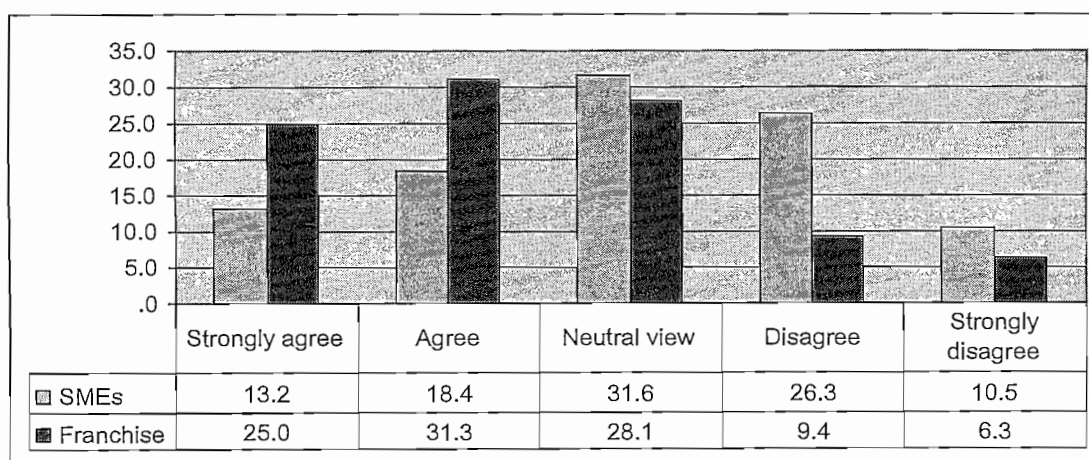
#### *Purpose of the question*

The purpose of question B25 (Appendix A) in the questionnaire was to determine the benefit from collective buying power. Participants were asked to select from the extent they agree or disagree with this statement.

#### *Results obtained*

The results from question B25 are graphically displayed in a column chart as shown in figure 3.35.

**Figure 3.35 The benefit experienced from collective buying power**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	31.6	36.8
Franchise	56.3	15.7

#### *Analysis of the results*

In the franchise environment, 56,3% of the participants indicated that they benefit from collective buying power, while 31,6% of the SMEs indicated that

they experience a more neutral view and 36,8% indicated that they do not benefit from collective buying power.

#### 3.4.4.9 The reduction, albeit not the complete elimination of risk

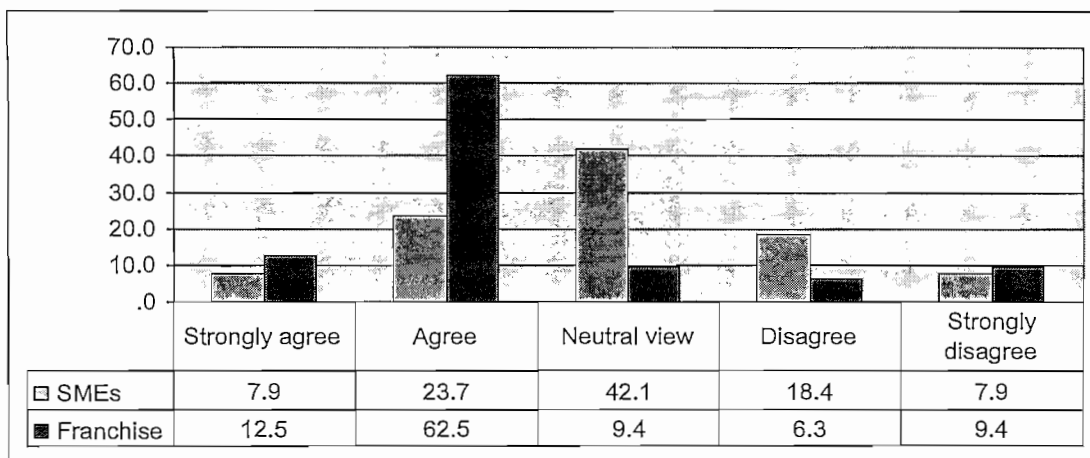
##### *Purpose of the question*

The purpose of question B26 (Appendix A) in the questionnaire was to determine whether business risk is reduced, albeit not completely eliminated. Participants were asked to indicate to what extent they agree or disagree with the question.

##### *Results obtained*

Figure 3.36 presents the results of question B26 in the column chart.

**Figure 3.36 Business risk is reduced, albeit not completely eliminated**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	31.6	26.3
Franchise	75.0	15.7

### Analysis of the results

In figure 3.36, 75% of the franchisees and 31,6% of the SMEs were of the same opinion, namely that the business risk is reduced, albeit not completely eliminated. Of the SMEs, 42,1% indicated that they have a neutral view.

#### 3.4.4.10 Protection of entrepreneurs in their geographical area

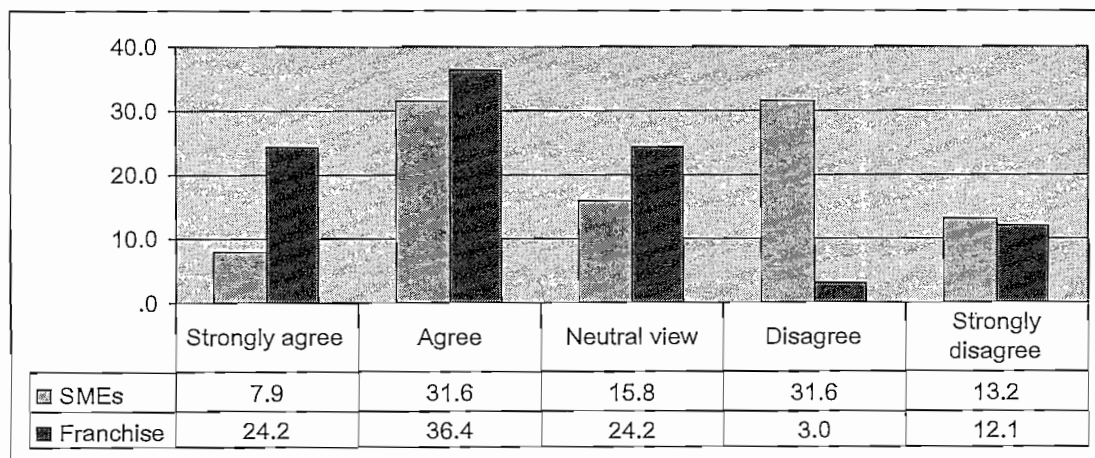
##### *Purpose of the question*

The purpose of question B27 (Appendix A) was to establish whether the business owners feel protected in their geographical area. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

Results obtained from question B27 are graphically presented in figure 3.37.

**Figure 3.37 Protected in a geographical area**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	39.5	44.8
Franchise	60.6	15.1

### *Analysis of the results*

Figure 3.37 indicates that 44,8% of the SMEs do not feel protected in a geographical area, while 60,6% of the franchisees feel protected in a geographical area.

#### 3.4.4.11 Understanding the risk of losing key staff

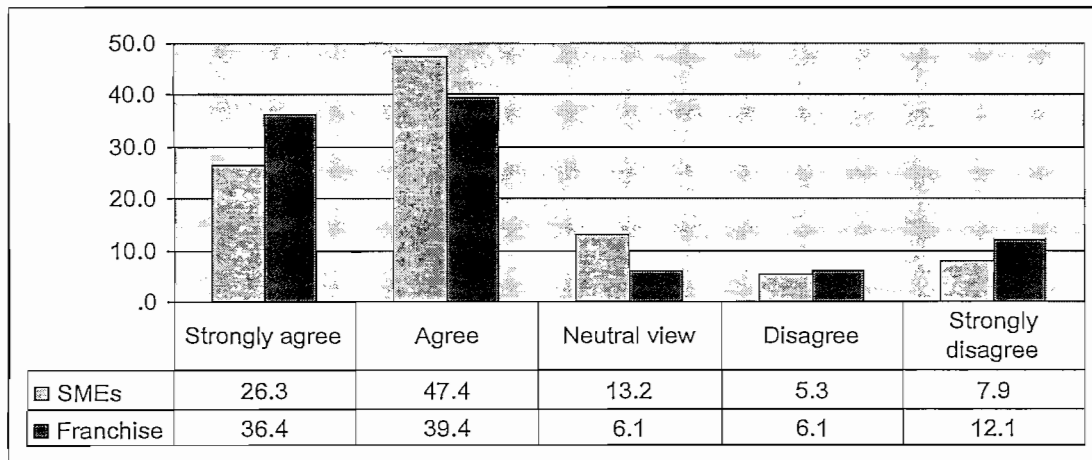
##### *Purpose of the question*

The purpose of question B28 (Appendix A) was to find out whether the entrepreneurs understand the risk of losing key staff. Participants were asked to indicate to what extent they agree or disagree with this statement.

##### *Results obtained*

The results of question B28 are graphically displayed in the column chart (refer figure 3.38).

**Figure 3.38 Understanding the risk of losing key staff in a business**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	73.7	13.2
Franchise	75.8	18.2

#### *Analysis of the results*

From figure 3.38 it is clear that the majority of SMEs (73, 7%) and franchise businesses (75, 8%) understand the risk of losing key staff.

#### 3.4.4.12 Resource constraints, both in terms of time and money

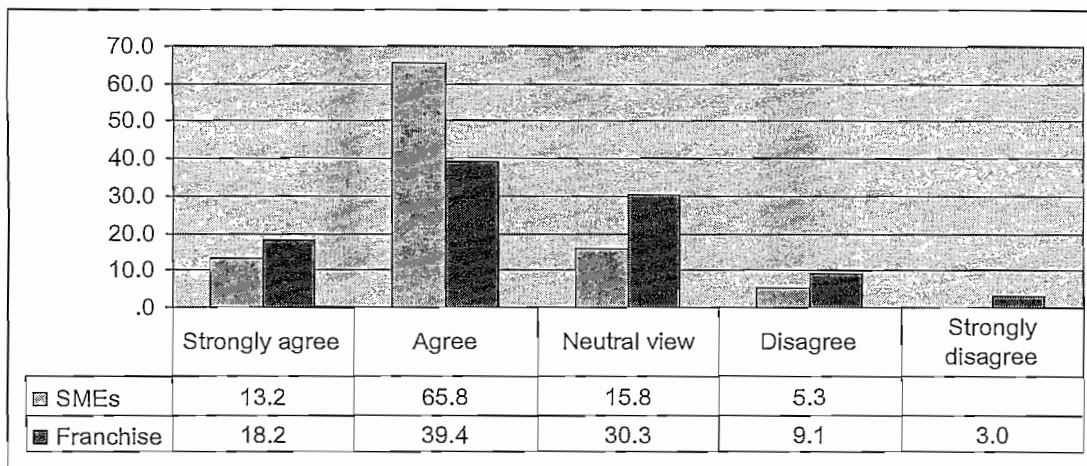
##### *Purpose of the question*

The purpose of question B29 (Appendix A) in the questionnaire was to obtain information about resource constraint, both in terms of time and money. Participants were asked to select from the extent they agree or disagree with this statement.

##### *Results obtained*

The results from question B29 are graphically displayed in a column chart as shown in figure 3.39.

**Figure 3.39 The owner experiences resource constraints, both in terms of time and money**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	79.0	5.3
Franchise	57.6	12.1

#### *Analysis of the results*

The majority of the participants – both in SMEs (79%) and franchises (57,6%) – feel resource constraints, both in terms of time and money. The results indicate that the SMEs experience a higher level of resource constraints in terms of time and money.

#### **3.4.4.13 The business system as part of the business success**

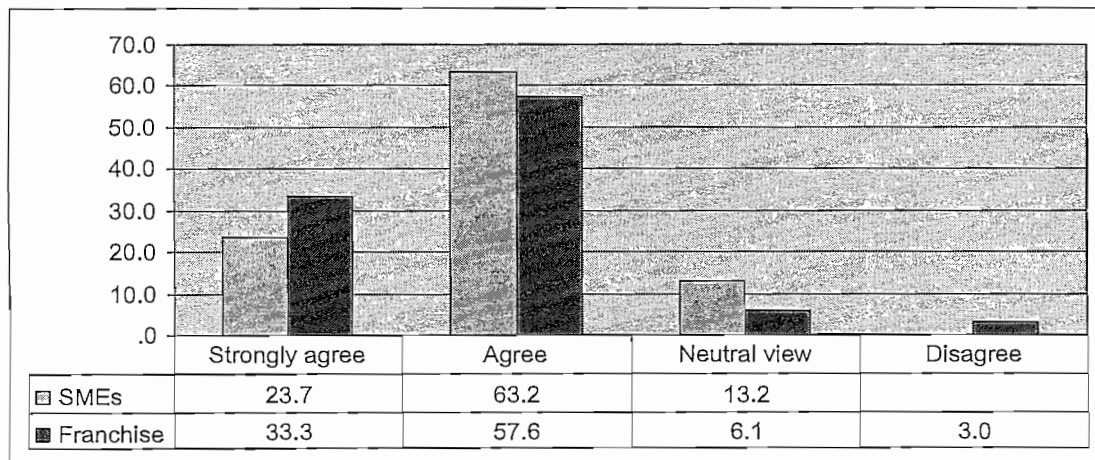
##### *Purpose of the question*

The purpose of question B30 (Appendix A) was to determine whether the business system is part of the business success. Participants were asked to indicate to what extent they agree or disagree with this statement.

### Results obtained

Figure 3.40 graphically displays the results from question B30 in the form of a column chart.

**Figure 3.40 The business system is part of the business success**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	86.9	
Franchise	90.9	3.0

### Analysis of the results

From figure 3.40, it is clear that the majority of respondents – both in the SME (86,9%) and franchise (90,9%) environment – are of the same opinion, namely that the business system is part of the success.

### 3.4.4.14 The flexibility of the system

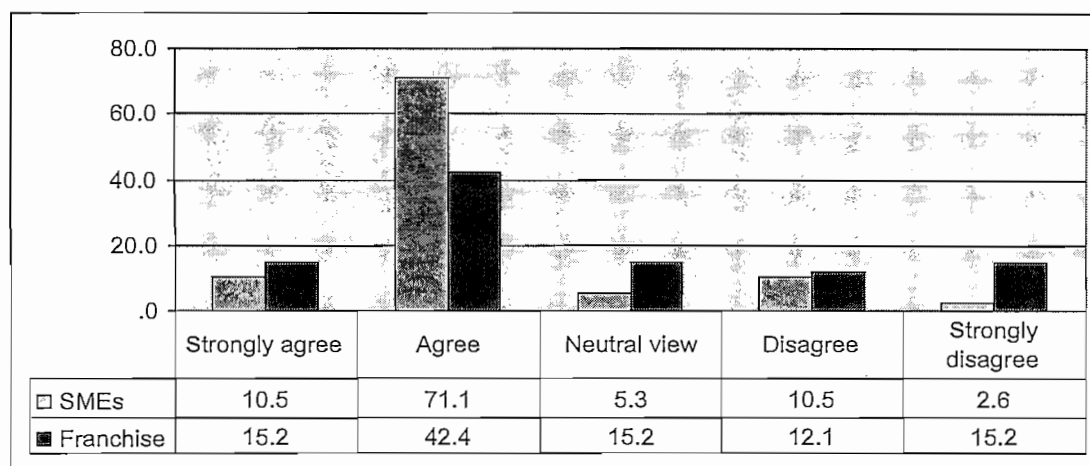
#### *Purpose of the question*

The purpose of question B31 (Appendix A) was to determine and distinguish the flexibility of the system. Participants were asked to indicate to what extent they agree or disagree with this statement.

#### *Results obtained*

Responses from the entrepreneurs regarding question B31 are graphically illustrated in the column chart of figure 3.41.

**Figure 3.41 The business system is flexible**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	81.6	13.1
Franchise	57.6	27.3

#### *Analysis of the results*

The participants in the SMEs (81,6%) and franchises (57,6%) indicated that the business system is flexible.



### 3.4.5 The entrepreneur has the ability to connect unaligned opportunities by becoming a sustainable supplier in global supply chains

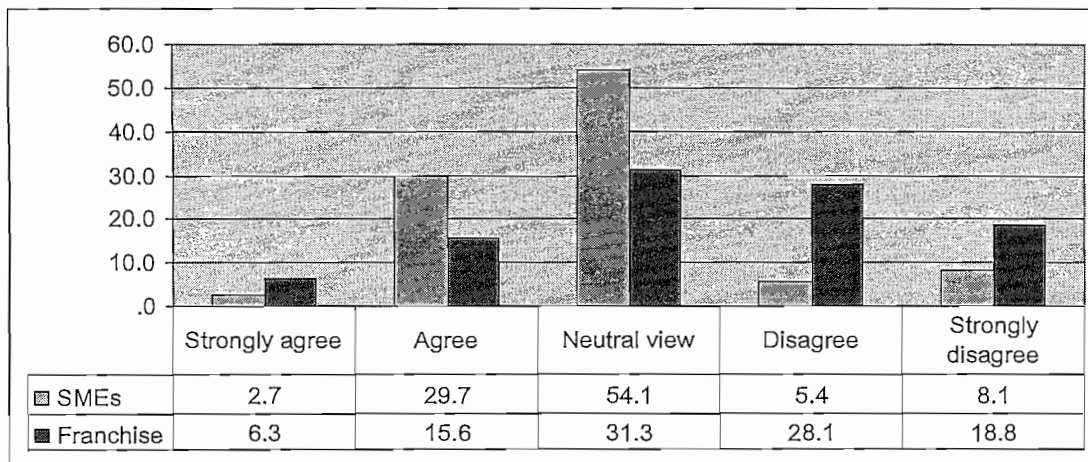
#### *Purpose of the question*

The purpose of question B32 (Appendix A) in the questionnaire was to determine the ability of a business to connect unaligned opportunities by becoming sustainable suppliers in global supply chains. Participants were asked to indicate to what extent they agree or disagree with the question.

#### *Results obtained*

Figure 3.42 presents the results of question B32 in the column chart.

**Figure 3.42 The ability to connect unaligned opportunities by becoming sustainable suppliers in global supply chains**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	32.4	13.5
Franchise	21.9	46.9

### *Analysis of the results*

In figure 3.42, the SMEs (54,1%) indicated that they have a neutral view regarding the ability, whereas the franchisees (46,9%) indicated that they do not have the ability to connect unaligned opportunities by becoming sustainable suppliers in a global supply chain.

#### 3.4.6 The entrepreneur has the opportunity to get close to the customer

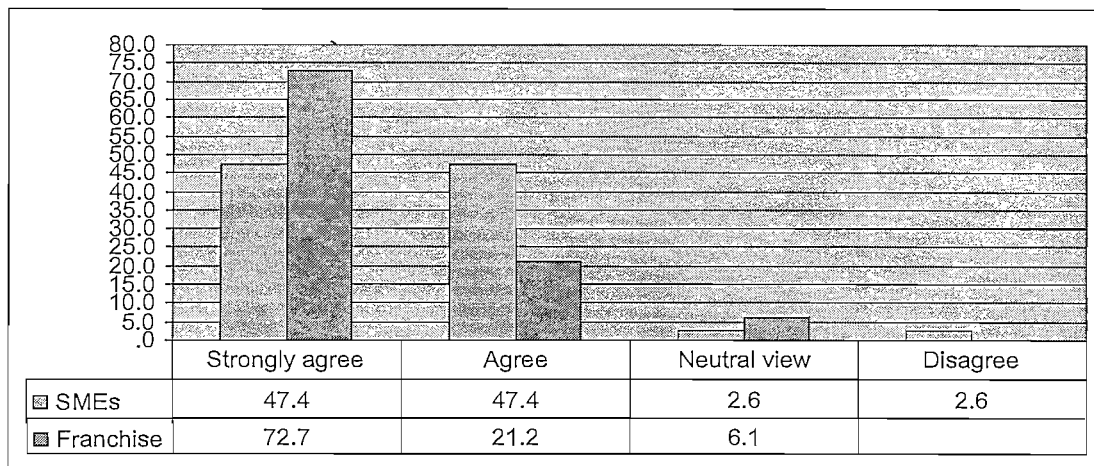
### *Purpose of the question*

The purpose of question B33 (Appendix A) was to obtain information to determine the opportunity for the entrepreneur to get close to the customer. Participants were asked to indicate to what extent they agree or disagree with this statement.

### *Results obtained*

Results from question B33 are graphically displayed in the column chart of figure 3.43.

**Figure 3.43 The entrepreneur has the opportunity to get close to the customer**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	94.8	2.6
Franchise	93.9	

#### *Analysis of the results*

It is evident from the results displayed in figure 3.43 that the responses of both the SMEs (94,8%) and franchisers (93,9%) were that they have a strong opportunity to get close to the customer.

#### 3.4.7 The entrepreneur has the same bargaining power as a large corporation

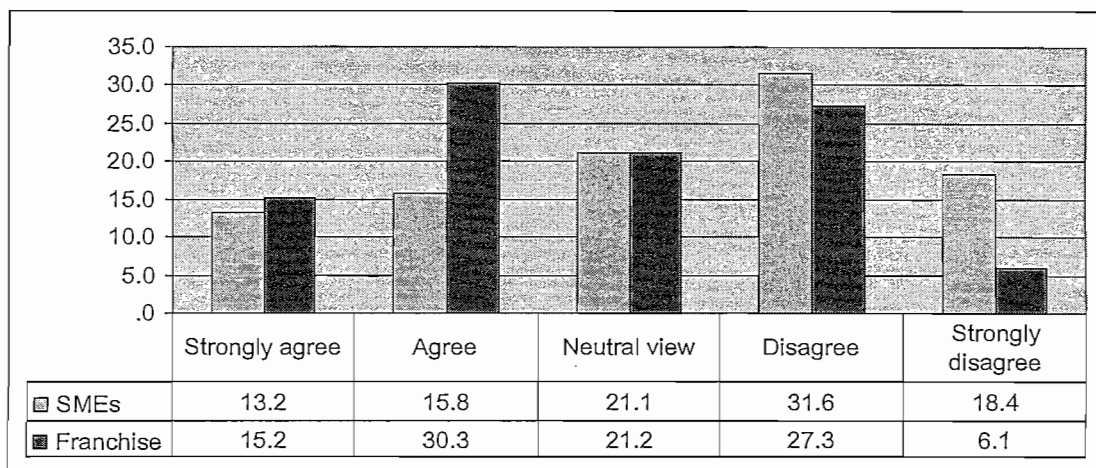
##### *Purpose of the question*

The purpose of question B34 (Appendix A) in the questionnaire was to determine whether an SME or franchise business has the same bargaining power as a large corporation. Participants were asked to select from the possibilities to what extent they agree or disagree with this statement.

### Results obtained

The results from question B34 are graphically displayed in a column chart as shown in figure 3.44.

**Figure 3.44 The SMEs and franchise businesses have the same bargaining power as a large corporation**



	Total = strongly agree + agree	Total = disagree + strongly disagree
SMEs	29.0	50.0
Franchise	45.5	33.4

### Analysis of the results

The participants in the franchise environment (45,5%) indicated that they have the same bargaining power as a large corporation. The SMEs (50%) indicated that a large corporation has more bargaining power.

### **3.5 Summary**

In this chapter, theoretical research from Chapter 2 was compiled in the form of a questionnaire. The information that was gathered, helped in drawing a profile of the typical entrepreneur in Rustenburg (North West Province) and its environs.

Items that have been used in the questionnaire were based upon the 5-point agreement-disagreement Likert format, varying from strong agreement to strong disagreement.

Participants were asked to complete the questionnaire, which consisted of questions regarding biographical information of the business owner, the structure of the business and the current experience of the entrepreneur.

The results from the questionnaire have been analysed and graphically displayed in this chapter. Conclusions and recommendations have been given in chapter four.

## CHAPTER 4

### CONCLUSION AND RECOMMENDATION

#### 4.3 Introduction

The purpose of this dissertation was to do a comparison between franchise and independent businesses in Rustenburg (North West Province of South Africa) and its environs. The study surveyed the literature on the advantages and disadvantages of SMEs and franchise businesses and used empirical methods to identify these comparisons.

The study consists of four chapters: In Chapter 1, the problem statement with the goal and objectives were outlined. In Chapter 2, the literature study was discussed, with the focus on empirical research results and discussion of the questionnaire that was utilised in Chapter 3. In this chapter, conclusions and recommendations are given.

Evaluations have been done to determine whether the primary and secondary objectives, as identified in Chapter 1, have been realised. Recommendations for future research have been made and the study has been concluded with a summary of the study.

#### 4.4 General Information

General information was obtained to help with the statistical analysis of the data for comparisons among different businesses.

#### **4.4.1 Discussion of general information**

##### **4.2.1.1 Number of years in business**

The majority of interviewed entrepreneurs have been in business for more than five years. Only one percent of the respondents have been in business between six and twelve months, whereas seven percent have been in business between zero and six months and two to five years.

##### **4.2.1.2 Nature of business**

In Rustenburg (North West Province) and its environs, the nature of business, as indicated by the entrepreneurs, is largely the wholesale and retail trade.

##### **4.2.1.3 Entity**

The result of this question reflects that 62% of the participants trade under the legal entity of a CC. The reason for this could be that 70% of the participants have been in business for more than five years. The entrepreneurs view their businesses as business structures which create entities that are separate from their owners and managers.

##### **4.2.1.4 Type of business**

Of the respondents, 38 SMEs and 33 franchise businesses allowed us to compare the advantages and disadvantages of the two types of businesses.

##### **4.2.1.5 Age group of the entrepreneur**

Results from this survey have shown that the majority of the interviewed entrepreneurs are between the ages of 40 and 59. The age and educational experience of the entrepreneurs are essential to the management of growth.

#### 4.2.1.6 Marital Status

The majority of participants are between the ages of 40 and 59 and the result of this question reflects that 80% of the interviewed entrepreneurs are married.

#### 4.2.1.7 Gender

Of the 71 respondents, 49 are male and 22 female. The males, therefore, represent 69% and the females 31% of the respondents.

#### 4.2.1.8 Academic qualification

The majority of respondents (44%) are in possession of a matriculation certificate, while 21% are in possession of a university degree. Only six percent have an educational level lower than grade 12 and seven percent a postgraduate degree.

#### 4.2.1.9 The path to business ownership

Of the 71 participants, 27 respondents started and 28 purchased their businesses. This is typical of the entrepreneur's character as an individual who recognises opportunities where others see chaos or confusion.

#### 4.2.1.10 The source of start-up funding

Most of the entrepreneurs used their own personal savings as source of start-up funding; the second option was a bank loan.



## **4.5 Conclusion and comparison**

The conclusions and comparison that have been made from the study are covered under the experience and viewpoint of the entrepreneurs (as business owners), the advantages and disadvantages of SMEs and franchise businesses, as well as the reliability and assessment of the questionnaire.

An empirical study was undertaken, using 71 entrepreneurs in Rustenburg (North West Province) and its environs. The conclusions and comparison that are drawn are based on the findings as analysed in Chapter 3.

### **4.5.1 Advantages and disadvantages of SMEs and franchise businesses**

#### **4.3.1.1 The freedom of the entrepreneur**

Many freedom factors have an influence on the business decision and performance of the entrepreneur, such as

- opening hours;
- pricing policy;
- quality of service;
- source of supply;
- hiring and training practices; and
- choice in defining the nature of the business.

To determine the freedom of the entrepreneur, the question was divided into six different aspects. The results of this question indicate that the SMEs experience freedom in the aspects mentioned above; on each aspect, between 84% and 100% of the participants in the SMEs experience that they have the freedom of and control over their own activities in their businesses.

The franchisees indicated that they experience less than 50% freedom in opening hours, pricing policy and source of supply. The highest freedom experienced by the franchisees is in quality of service (78,7%), followed by hiring and training practices (66,7%); the lowest freedom is experienced in the choice of defining the nature of their business (54,5%). The results indicate that the franchisor generally exercises a fair amount of control over the operation in order to achieve a degree of uniformity.

#### 4.3.1.2 The experience of the entrepreneur at the start-up of the business

##### a) Limited ownership

The SME entrepreneurs have ownership when they start-up a business. In the franchise environment, 15 of the 37 franchisees indicated that they are not limited to ownership. Almost a third of the franchisees indicated that they have a neutral view regarding limited ownership. Restrictions on limited ownership may be a problem for some franchisees. Franchise businesses have policies and procedures that must be followed to maintain the agreement. The size of the market will be limited by territorial restrictions. Some of the products, promotions or policies may be appropriate in same areas, but will have little recourse after the franchise agreement has been signed.

##### b) The problem of the immediate capital outlay

The results of this question showed that the majority of the franchisees indicated that the immediate capital outlay is huge. The service, assistance and assurance in buying a franchise come at a price. Every franchisor will charge a fee and/or a specified percentage of sales revenue. The disadvantage to the franchisees is that they are usually required to raise more of the capital before they begin operations.

Although the SMEs indicated a lower percentage of 65,7%, it is still an indication that all the entrepreneurs experience that the immediate capital outlay are huge when they start up a business.

c) The expensiveness of the royalty fee, payable on a monthly basis

It is clear from the research that the franchisees agree in their responses that the monthly royalty fee is expensive, whereas the SMEs feel the opposite. Nevertheless, the entrepreneurs, deciding whether or not to take the franchise route into small business, should weigh the royalty fee against the return they would possibly get when investing their money in another type of business.

d) The expensiveness of buying/starting a business

As indicated by the participants in both SMEs and franchise businesses, it is expensive to start or buy a business. The entrepreneur has to

- identify the resource that are needed and the decisions that are required for a new venture and existing business;
- understand the requirements of forming or taking over an organisation;
- identify the various sources of finance and the criteria that will affect the suitability of a particular source for the organisation;
- identify, develop and recruit a team of staff that will contribute to the achievement of a sustainable operation; and
- understand the marketing and sales that are needed to win over customers and maintain their satisfaction with the business offerings.

#### 4.3.1.3 The experience of the entrepreneur in his/her business

a) A fair deal regarding cost and lending rates

The SMEs (76,3%) and franchisees (56,3%) indicated that they experience a fair deal regarding cost and lending rates, with the SMEs experiencing a fairer deal (20% more than the franchisees). In today's modern living, the financial institutions regard their clients as partners in a business. They focus on client relationship and add value through services and specialised skills.

- b) Help and assistance with the start-up of the business and running it afterwards

The majority of franchisees indicated that they experience help and assistance with the start-up of the business and running it afterwards. A franchisor can provide a source of managerial and technical assistance to the franchisee that are not available to the owner of an independent business. The entrepreneur can benefit from the accumulated years of experience and knowledge of the franchisor. Most franchisors provide training, both as preparation for running the business and as instruction when the business is running already. This training can allow a person without prior experience to be successful in owning a franchise. A good franchisor is available to provide day to day assistance and give the entrepreneur someone to turn to in times of crisis. In addition, franchisees can receive a great deal of technical assistance, such as store layout and design, location, purchasing and equipment.

- c) Support in terms of hiring and training practices

Of the 71 participants, six SMEs and 19 franchisees have a positive view towards support in terms of hiring and training practices. The respondents in both the SMEs (17,6%) and franchises (27,3%) indicated a neutral view. Perhaps the greatest advantage of buying a franchise (as compared to starting a new business or buying an existing one) is that the franchisor will usually provide both training and guidance to the franchisee. As a result, the likelihood of success is much greater for national franchisees who have received assistance than for small business owners in general.

- d) The profitability of the business

More than 85% of the respondents indicated that their businesses are profitable. The conclusion that is made for the success that is required in each situation is that it depends on the mix and match of the key players and how

promising and forgiving the opportunity is, given the founder's strengths and shortcomings.

e) Problems in marketing and human resource management

The results from the questionnaire indicate that the entrepreneurs in both the SMEs and franchise environment do not experience a high percentage of problems towards marketing and human resource management.

f) Problems in general business planning

Results from this survey showed that the majority of the interviewed entrepreneurs in both SMEs (65,8%) and franchise businesses (66,7%) have a good sense of general business planning.

#### 4.3.1.4 The entrepreneur's business

a) Financing is a streamlined process

Research from this study showed that 60,6% of the franchisees experience financing as a streamlined process, in contrast with only 34,2% of the SMEs. The franchisor may be able to help the new owner and secure the financial assistance to run the operations. Buying a franchise is often an ideal way to ensure assistance from the financial community.

b) Limited access to suitable sources of financing

Most of the SME entrepreneurs experience problems raising finance for their operations, in contrast with the franchisees, who experience a 60,7% access to suitable sources of finance.

c) Difficulties in establishing brand awareness

The results of this research show that the establishing of brand awareness is more difficult for SMEs than for franchise businesses. An individual who buys a well-known national franchise, especially a big-name one, has a good chance to succeed. The franchisor's name is a drawing card for the establishment. People are often more aware of the product or service that is offered by a national franchise and prefer it to those offered by lesser-known outlets.

d) Adaptation of the service according to the need of the customer

The participants in both SMEs and franchise businesses strive for flexibility, creativity and closeness to the customer; they want customer satisfaction as well as quality products and services. The business owners get to know their customers and neighbourhood on a personal level. Their closeness allows them to provide individual service and give them firsthand knowledge of customers' needs. Knowing customers personally can allow businesses to build a competitive advantage, based on speciality products, personalised service and quality. The results indicate that the entrepreneurs are able to build a strong rapport with the customers that will make them come back again and again.

e) The entrepreneur has an ability to leverage marketing strategies

The majority of SMEs (68,5%) indicated that they have the ability to leverage marketing strategies. The franchisees indicated that they have a 39,4% ability to leverage marketing strategies. The SME owners are likely to be involved in all aspects of the management of their businesses. They have the opportunity to concentrate more on internal and external factors which concern their businesses and on the road ahead.

f) The flexibility to enter new products and services

The SME participants indicated that they have an 86,9% flexibility to enter new products and markets in their environment, in contrast with the franchisees, who experience a 30,3% flexibility. SMEs are flexible organisations that are able to respond quickly to customer and market demand. Flexibility, the ability to adapt to changing circumstances, is a key characteristic of SMEs. The latter tend to have small product runs; this makes it easier for them to be flexible.

g) Outsourcing makes it possible to focus on core competencies

Both the SMEs and franchise businesses experience a neutral view regarding outsourcing. The possibility of the franchisor handling the outsourcing aspect might be a reason for the neutral view. Today, many SME businesses perform the outsourcing task for large businesses. Small business owners are turning increasingly to other companies for needed goods and services. Small business owners outsource their payroll responsibilities by hiring a business to handle their tax compliance, employee benefits and claims administration.

h) The benefit from collective buying power

The franchisees indicated that they benefit from collective buying power in their environment, while the SMEs have a more neutral view and indicated that they do not benefit from collective buying power. Centralised purchasing of products and suppliers allows franchisors to take advantage of volume discounts, since they are buying for all the franchise locations. This increases profits margins and holds down cost for the franchisees.

i) Risk is reduced, albeit not completely eliminated

Risk is reduced for the franchise, as an individually owned business is part of a larger chain. Through the franchise agreement, the franchisee gains the

benefit of the parent company's expertise, experience, management systems, marketing and financial help.

j) Protection felt in the geographical area

The franchisees (60,6%) experience protection in a geographical area. The franchisee will normally be granted exclusive rights in a certain geographical area. This offers protection from competition by other franchisees of the same group, albeit not from other franchisee groups or small businesses. Of the SMEs participants, 39,5% feel protected in their geographical area.

k) Understanding the risk of losing key staff

The majority of participants in both SMEs and franchise businesses understand the risk of losing key staff. Maintaining a capable work force is a never-ending task for the entrepreneurs. Frequently, business owners get caught up in urgency to fill positions with 'warm bodies' before spending enough time on the selection process. The business owner should hire, train and motivate the employees before opening for business. Once established, the entrepreneur must understand that his most valuable assets walk out the door at closing time. The employees are valuable assets, because it is their skill, knowledge and information that make the business successful. These intangible assets are called intellectual capital.

l) Resource constraints, both in terms of time and money

The majority of participants in SMEs (79%) and more than 50% of participants in franchisees experience resource constraints, both in terms of time and money. SMEs and franchise businesses have different managerial and organisational requirements at different stages of their growth. They move from relatively unstructured organisations at start-up, led by owner-managers, to more formal structures as the firms grow. Initially, all members of the staff report to the owner of a business. As the firm grows and moves into survival mode, more staff is employed. The organisational structure still tends to be



fairly flat – there may be a small management team, but only when the business grows. While a managerial or supervisory structure is in place, members of the staff often circumvent it and refer decisions directly to the owner, who is still dominant in the hierarchy. This causes the owner to experience resource constraints, both in terms of time and money.

m) The business system is part of the business success

It is evident that the entrepreneurs believe strongly that the business system is part of the business success. Owners need to update and upgrade the system according to client needs and requirements. To stay competitive and add value to their businesses, they invest in the business system.

n) The flexibility of the system

SMEs are more flexible than the franchise businesses. To be competitive, the systems of the SMEs are flexible and adapt to change in the business environment. In general, the business systems that are imposed by most franchisors are not very flexible.

#### 4.3.1.5 The advantages of the entrepreneur

a) The ability to connect unaligned opportunities by becoming sustainable suppliers in global supply chains

Research from this study shows that a small percentage of the entrepreneurs in both the SME and franchise business environments have the capacity to connect unaligned opportunities by becoming sustainable suppliers in global supply chains.

b) The opportunity to get close to the customer

The results of this question show that both owners of SMEs and franchise businesses have the opportunity to get close to customers and obtain

valuable advice, which can then be used to provide them with a customised value-added service.

c) The same bargaining power as a large corporation

Only 29% of the SME respondents and 45,5% of the franchise respondents indicated that they have the same bargaining power as a large corporation. The centralised purchasing of goods and suppliers allows franchisors to benefit from quantity discount, since they are buying for all the franchise locations. This can increase profit margins and hold down costs for franchisees.

#### **4.4 Recommendations for future research**

Every empirical study has certain limitations that restrict the generalisation of the findings. In this case it is possible that if the study was conducted in other regions and countries in the world, the magnitude and direction of the relationships might have been different. The degree of economic development may account for the distinct independent behaviour of business owners and franchisees.

It may be of value to explore on new advantages and disadvantage experience by the entrepreneur that will contribute to future research.

#### **4.5 Achievement of the study's objectives**

The measurement of success of this study is based upon the achievement of the primary and secondary objectives as indicated in Section 1.3 of this study.

##### **4.5.1 Primary objective**

The primary objective of this study has been to determine the advantages and disadvantages of SMEs and franchise businesses.

The achievement of the primary objective was dependent upon the realising of the secondary objectives.

#### 4.5.2 Secondary objectives

As indicated in Section 1.3, the secondary objectives had to be met to be able to achieve the primary objectives. The following are the secondary objectives:

- To describe the experience and viewpoint of entrepreneurs towards SMEs; and
- to describe the experience and viewpoint of entrepreneurs towards franchise businesses.

The objectives were met through theoretical and quantitative research in the form of a questionnaire and interviews. Furthermore, the secondary objectives have been met during this chapter and a conclusion and recommendation conclude the picture.

### **4.6 Hints guidelines and benefits for the entrepreneur that seeks a business that will suit his/her needs**

#### 4.6.1 Franchising

##### a) Benefits

Franchising is an inherently entrepreneurial endeavour. The concept shares profits, risk and strategy between the franchisor and the franchisee. A unique aspect of franchising as entrepreneurship is the wide spectrum of opportunity that exists and the matching of scale to appetite for a broad spectrum of entrepreneurs.

##### b) Guidelines

For the entrepreneur that is interested in creating a franchise, the franchise relationship model discussed in Chapter 2 articulates the dynamic construction of the franchisor-franchisee alliance. For the prospective franchisee, the franchise risk profile helps budding entrepreneur assess the risk-return scenario for any given opportunity

c) Hints

- Examine what franchising is and the nature of the role of the franchisor and the franchisee
- Learn about the criteria for becoming a franchisee of an existing system and the criteria for becoming a franchisor
- Review a basic screening method for evaluating franchisees with a higher success probability
- Analyse the Franchise Relationship Model and use it as a guide for developing a franchise high potential venture
- Analyse the franchise growth strategy of a young start-up company and apply the franchise risk profile.

#### 4.6.2 Independent businesses

a) Benefits

People in the formal sector are often forced to spend years of their lives in meetings, trying to convince others of the merits of an idea they know will work. And should they succeed, someone else might take the credit. This can be most frustrating for someone who wants to get things done

Being your own boss means that you can put your ideas into action. No need to convince anyone else of its merits. No need to waste your time trying to win over a committee or persuade the person who holds the

purse strings. You decide how your idea will be implemented and at the end of the day, the glory is yours

## b) Guidelines

### Start-up venture

This means that you start a business from scratch. Most people start out this way. You need to consider the following:

- For a true entrepreneur, the prospect of having total control over the way the business is established thrilling. The chance of succeed is there, but many danger lurk along the way.
- If you are sure that you have a business idea, enough funding and the will to succeed, this is the avenue for you. Ten years from now, you could be looking back with pride at what you have achieved.
- With a proper plan, the determination to work hard and the courage to take calculated risks, you will soon be on your way.

### Buying an established business

There are a number of advantages to buying an established business:

- The business has a traceable performance record and an established pool of customers. This simplifies the task of projecting its future performance
- Tried and tested systems and procedures will be in place. You can focus your attention on building the business from day one.
- You might be able to take over a team of competent and experienced employees
- Although the start-up cost may be higher because the business is operational and has goodwill attached to it, obtaining funding should be easier. Bankers offer finance to purchase an established business more readily because it has a track record. It should also be possible to pay off part of the purchase price over a reasonable period.

Buying an established business can be full of unwanted surprises. To protect yourself as far as possible, follow the guidelines below:

- The asking price set by the seller must be carefully assessed, as he or she might have inflated expectations. Do not believe everything the seller tells you about the business. Take your time to investigate every aspect of it. Trying to take shortcuts at the evaluation stage can turn out to be an expensive mistake
- Let an accountant examine the financial position of the company, and ask his or her opinion on a fair price.
- If the business depends for its survival on the goodwill of a small number of major customers, meet with them. Assess your chances of retaining their custom in future.
- Scrutinise any contracts you take over.
- Interview all staff members and try to assess the extent of their contribution to the well-being of the company
- Scrutinise all stock you are asked to take over. Be aware of the possibility of damaged or redundant stock. This is not always as obvious as it might sound. If in doubt, get advice from a trusted industry insider
- Seek professional advice. If you buy a business as a going concern, you automatically assume existing and contingent liabilities and obligations. The only alternative would be to purchase the assets of the business only, but this would exclude trademarks, customers and staff. In other words, you would no longer purchase a going concern but merely equipment and stock.
- Let an attorney examine not only the purchase contract but also all existing contracts you will be taking over. The seller should sign a warranty to effect that all contractual obligations and potential claims against the business have been disclosed

c) Hints

- Analyse your personality are you satisfied that you can adapt to the challenges that lie ahead
- Identified what your motivations are
- Get to know you local and industry resources
- Draw up a structure business plan
- Choose the right business structure
- Understand the importance of financial discipline
- Even if you think you know what you want to do, it will be wise to take a step back and reassess the pros and cons on implementing your plan
- The role your family will play in operating your business is clear in your mind.
- While there may be pitfalls ahead, these need not overwhelm you. Be aware of what you should watch out for, but do not allow fear to paralyse you.

#### **4.7 Summary**

Research from this study has shown that an individual who buys a franchise or SME, or the founder of a new venture, has a good chance to succeed.

SMEs and franchise businesses are part of a vibrant and growing sector in most economies round the world. For many owners, lifestyle choice is the reason for starting their small businesses. There are also those for whom independence is the prime objective. For others, the entrepreneurs, it is the excitement and risk of possibly growing an empire that drives them. Between these extremes, there are a range of reasons for people wanting their own businesses, not least of which is to provide a pension plan or something to pass on to their children.

The focus of this dissertation has been to guide entrepreneurs in choosing businesses that suit their individual needs.

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## ANNEXURES

"Annexure A"  
number:

Code

Advantages and disadvantages of small or medium enterprises and franchise businesses

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## APPENDIX A : QUESTIONNAIRE

Questionnaire: Advantages and disadvantages of small or medium enterprises (SMEs) and franchise businesses
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**Author:** Joyce Lewis

**Purpose:** Dissertation towards the partial completion of the MBA programme at the North-West University

**Title:** "Business viability: A comparison between franchises and independent businesses"

All information will be treated as **STRICTLY CONFIDENTIAL** and will only be used for academic purposes.

### Instructions for completion:

1. Please answer the questions as objectively and honestly as possible.
2. Each question has several possible answers. Please mark, with a cross in the applicable cell, the answer which reflects your feeling the most accurately. Use the following key: 1 = strongly agree; 2 = agree; 3 = neutral view; 4 = disagree; 5 = strongly disagree.

It is essential that you should indicate your choice clearly with a **pen**.

Please answer all the questions, as this will provide more information to the researcher so that an accurate analysis and interpretation of data can be made.

Thank you for your co-operation. We hope that you will find the questionnaire interesting and stimulating.

## SECTION A: GENERAL INFORMATION

The following information is needed to help us with the statistical analysis of the data for comparisons among different businesses. We appreciate your help in providing this information.

1.

1.1 Name of participant: 1.1.2 Position: 1.1.3 Name of company: 1.1.4 Phone no:
--

Please indicate your selection or preference with an "x" in the appropriate cell; leave all other cells blank.

2. Number of years in business

0 to 6 months	6 to 12 months	1 to 2 years	2 to 5 years	More than 5 years
(01)	(02)	(03)	(04)	(05)

3. Nature of business

Wholesale and retail trade	Manufacturing	Financial intermediation, insurance, real estates and business services	Mining activities	Other: (Specify)
(01)	(02)	(03)	(04)	(05)

4. Entity

Sole Proprietary	Partnership	CC	Company	Trust
(01)	(02)	(03)	(04)	(05)

5. Please indicate your type of business

(SMEs)	Franchise Business
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(01)

(02)

6. In which age group do you fall?

< 19	20-29	30-39	40-49	50-59	60+
(01)	(02)	(03)	(04)	(05)	(06)

7. What is your marital status?

Single	Married	Divorced	Widowed
(01)	(02)	(03)	(04)

8. What is your gender?

Male	Female
(01)	(02)

9. State your highest academic qualification.

Lower than matric	Matric	Certificate	Diploma (Technical College or Technicon)	University degree	Post graduate degree
(01)	(02)	(03)	(04)	(05)	(06)

10. Indicate your path to business ownership.

Started (founded) the business	Purchased the business	Joined the family business	Inherited the business	Other: Specify
(01)	(02)	(03)	(04)	(05)

11. Indicate your source of start-up funding.

Personal savings	Borrowed (or donation) from relative or friend	Household/spouse	Sold previous business	Bank loan	Other: Specify
(01)	(02)	(03)	(04)	(05)	(06)

## SECTION B: ADVANTAGES AND DISADVANTAGES OF SMES AND FRANCHISE BUSINESSES

This section consists of 35 statements. Please indicate to what extent you agree or disagree with each statement.

Strongly agree	Agree	Neutral View	Disagree	Strongly Disagree
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You as the entrepreneur have the freedom of						
B1	opening hours	1	2	3	4	5
B2	pricing policy	1	2	3	4	5
B3	quality of service	1	2	3	4	5
B4	source of supply	1	2	3	4	5
B5	hiring and training practices	1	2	3	4	5
B6	choice in defining the nature of the business	1	2	3	4	5
With the start-up of my business, I felt						
B7	limited ownership	1	2	3	4	5
B8	the immediate capital outlay was huge	1	2	3	4	5
B9	that the royalty fee payable, on a monthly basis, is expensive	1	2	3	4	5
B10	buying/starting the business is very expensive	1	2	3	4	5
In my business, I experience						
B11	a fair deal regarding cost and lending rates	1	2	3	4	5
B12	help and assistance with the start-up of the business and running it afterwards. <b>If you agree</b> , please specify by whom you were helped.	1	2	3	4	5
B13	support in terms of hiring and training practices	1	2	3	4	5
B14	that my business is profitable	1	2	3	4	5
B15	problems in marketing	1	2	3	4	5
B16	problems in human resource management	1	2	3	4	5
B17	problems in general business planning	1	2	3	4	5
In my business,						
B18	financing is a streamlined process	1	2	3	4	5
B19	I experienced limited access to suitable sources of financing	1	2	3	4	5
B20	it was difficult to established brand awareness	1	2	3	4	5
B21	I can adopt to the service according to the need of	1	2	3	4	5



	the customer					
B22	I have an ability to leverage marketing strategies	1	2	3	4	5
B23	I have the flexibility to enter new products and markets	1	2	3	4	5
B24	outsourcing makes it possible to focus on core competencies	1	2	3	4	5
B25	I benefit from collective buying power	1	2	3	4	5
B26	I feel business risk is reduced, albeit not completely eliminated	1	2	3	4	5
B27	I feel protected in my geographical area	1	2	3	4	5
B28	I understand the risk of losing key staff	1	2	3	4	5
B29	I feel resource constraints, both in terms of time and money	1	2	3	4	5
B30	I feel the business system is part of my success	1	2	3	4	5
B31	I feel my business system is very flexible	1	2	3	4	5
<b>You have</b>						
B32	the ability to connect unaligned opportunities by becoming a sustainable supplier in global supply chains	1	2	3	4	5
B33	the opportunity to get close to the customers	1	2	3	4	5
B34	the same bargaining power as a large corporation	1	2	3	4	5

Thank you for the time and effort taken to complete this questionnaire.