

FRANCHISING AND  
ENTREPRENEURSHIP: EXPLORING  
THE PERCEPTIONS AND  
EXPERIENCES OF FIRST-TIME  
BUSINESS OWNERS

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### ***Declaration of originality***

*This dissertation represents original work by the author and has not been submitted in any other form to another University. Where use has been made of the work of others this has been duly acknowledged and referenced in the text.*

Signature..........

Date ..... 07 / 02 / 2008 .....

## *Abstract*

Entrepreneurship is vital to any economy, more so in those looking to develop their small business sectors. Growth of the South African small business sector is being hampered by a lack of entrepreneurs that have the necessary capacity to initiate significant levels of new venture creation. In this study the franchising concept is looked at as means of developing and nurturing such entrepreneurial capacity in those with no entrepreneurial experience. A qualitative investigation is conducted amongst a sample of first-time franchisees with no previous business ownership experience, with the intention of determining the extent of their development as entrepreneurs through the course of their franchise ownership. The results suggest that franchise ownership does result in the enhancement of entrepreneurial capacity in those with no prior experience. This enhanced capacity is also seen to be transferable to environments outside of the franchise system.

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## *Abbreviated Terms*

BEE – Black Economic Empowerment

BOP – Balance of Payments

dti – Department of Trade and Industry

FASA – Franchise Association of South Africa

GDP – Gross Domestic Product

GEM – Global Entrepreneurship Monitor

MBA – Master of Business Administration

NEPAD – New Partnership for Africa's Development

SA – South Africa

SEDA – Small Enterprise Development Association

SMME – Small Medium and Micro Enterprise

TEA – Total Early-stage Entrepreneurial Activity

USA – United States of America

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# *Chapter 1*

## *Introduction*

*It is not bad to be small, but it is bad to be lonely (Trevor Manuel)*

### **1.1 Background**

The small business sector is often looked as a key driver of economic development, by making significant contributions to job creation as well as social and economic upliftment (Ladzani and Van Vuuren, 2002). Since the onset of democracy in 1994, South Africa has been faced with the dual challenge of re-integration into world markets as a modern and competitive economy, while at the same attempting to satisfy the needs of its general and, predominantly, previously marginalized populace to transform into a more broad-based and empowered economy. This is interesting in that it needs to be achieved under the backdrop of South Africa's high levels of unemployment<sup>1</sup>. A robust and growing small business sector that can compete globally while at the same time contributing to employment generation and inequality reduction is hence vital to South Africa's developmental objectives (Berry et al, 2002).

Entrepreneurship has traditionally been regarded as a leading contributor to economic development. Academics, politicians and the popular media have long argued for the dynamic benefits introduced by the increase of entrepreneurship within an economy (Salgado-Banda, 2005). The concepts of entrepreneurship and small business are inextricably linked, and often times one confused for the other (Carland et al, 1984), yet when viewed independently, it becomes clear that entrepreneurship and its associated expertise is crucial in stimulating the kind of new venture creating activity that leads to growth of the small business sector (Orford et al, 2003).

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<sup>1</sup> According to Pollin et al (2006), unemployment in South Africa ranged between 25 and 41 % as recently as 2005. The disparity in this range is due to definitional differences between the official and expanded (including discouraged workers) versions of unemployment. The most recent official unemployment rate announced by Statistics South Africa (2008) was 25.5% in 2007

Franchising is gaining recognition as one of the more successful ways of doing and strengthening business. In both developed countries and emerging markets, franchising has been seen as effective at ensuring business growth through private ownership and skills transfer. It has generated new incomes and additional jobs, therefore contributing to boosting the local economy and to raising standards of living. More specifically, when contextualised through the small business sector, franchising can be viewed as a means of nurturing and developing entrepreneurial talent (Siggel et al, 2003). This is valuable especially to those who have little or no previous business experience, and could serve to prevent such budding entrepreneurs from encountering the kind of situation that South Africa's Minister of Finance, Trevor Manuel was referring to in saying that "It is not bad to be small, but it is bad to be lonely" when opening the President's Second National Conference on Small Business, in Durban 1998.

### ***1.2 Problem Area***

Stimulating the South African small business sector remains paramount to the economy's development. Thus developing this sector has been a feature of South African economic policy since 1994, with the Department of Trade and Industry (the dti) being government's key protagonist in this arena. Promotion of small business is specifically legislated for through the National Small Business Act of 1996. This Act was predominantly based on a 1995 white paper known as the National Strategy for the Development and Promotion of Small Business in South Africa (the dti, 2005a).

The 1995 white paper provided a framework through which the small business sector was envisaged to develop. Although entrepreneurship was conceptually covered within this framework, at the turn of the millennium the dti acknowledged that a specific entrepreneurship promotion strategy was required in order to build up the levels of dynamic entrepreneurship inherent within the South African economy (Bukula, 2000). The result was the commissioning of a National Strategy for Fostering Entrepreneurship Study in 2000. Thus conceptually distinct, the importance of entrepreneurship was being elevated within the dti's policy environment.

2005 saw the drafting of the Integrated Small Enterprise Development Strategy, with the mission in this instance being “Unlocking the potential of South Africa’s Entrepreneurs”. Similarly broad in scope to the 1994 white paper, this strategy is looked at to drive promotion of the South African small business sector between 2005 and 2014. Based on a three pillar strategic design, the first pillar is explicitly stated as “Promoting Entrepreneurship”. It is envisaged that by 2014 South Africa would be regarded as an “entrepreneurial nation that rewards and recognises those who recognise a business opportunity and pursue it, a South Africa with a vibrant and competitive small enterprise sector with enterprises that grow in both size and success” (the dti, 2005a: 6).

The policy environment described above makes it clear that the post 1994 South African government has prioritised the development of the small business sector. Entrepreneurship is distinctly recognised as key to this development. With this in mind it becomes important to gain an understanding of the state of entrepreneurship prevalent in the country.

The Global Entrepreneurship Monitor (GEM) is an ongoing research project that examines, compares and reports on entrepreneurship levels across the globe. Total Early-stage Entrepreneurial Activity (TEA) is the basic rating used by GEM researchers in measuring new entrepreneurial activity within a country. This measures the percentage of individuals between the ages of 18 and 64 that are involved in creating a new businesses i.e. those businesses not more than 3.5 years old. The measure does not account for the creation of further establishments or extensions of existing companies (greater than 3.5 years old) – hence the term early-stage. In this way it is only new firms that are tracked as entrepreneurial activities. The range of countries participating in the GEM research includes those from the developed and developing world. The reliability of the GEM entrepreneurial activity tracking has been tested and found to be of academic acceptability (Maas and Herrington, 2006). Figure 1 provides a snapshot of South Africa’s TEA performance for the period 2001-2006.

**Figure 1: South African TEA (2001-2006)**

South Africa's TEA ranking	2001 14 <sup>th</sup> out of 28 countries	2002 20 <sup>th</sup> out of 37 countries	2003 22 <sup>nd</sup> out of 31 countries
South Africa's TEA rate	9.4	6.3	4.3
Median	14	19	16
Number of positions below the median	0	1	6
South Africa's TEA ranking	2004 20 <sup>th</sup> out of 34 countries	2005 25 <sup>th</sup> out of 34 countries	2006 30 <sup>th</sup> out of 42 countries
South Africa's TEA rate	5.4	5.15	5.29
Median	17	17	21
Number of positions below the median	3	8	9

Source: Maas and Herrington (2006:17)

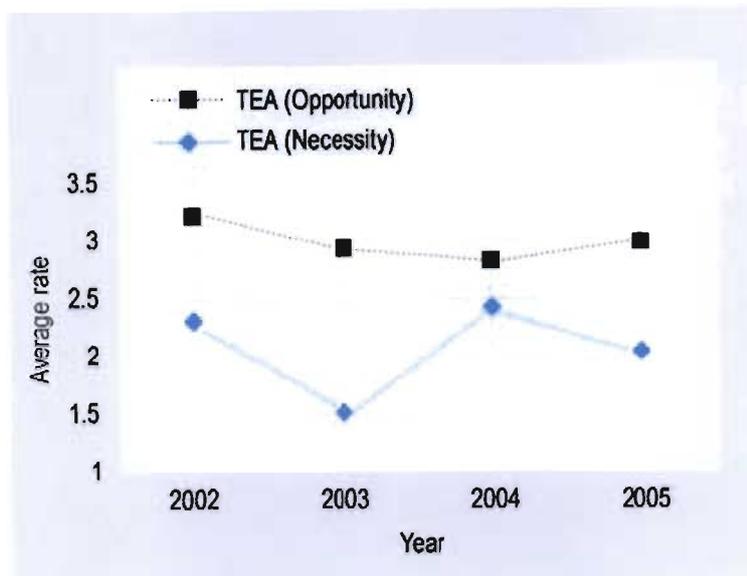
It is apparent that South Africa's position has not improved since 2001. From being the middle ranked in 2001 the country has progressively slipped to 9 places below the median. In 2004, 9.4 percent of the adult South African population were involved in the creation of new businesses. This percentage has since dropped to 5.29 (Maas and Herrington, 2006).

Of further interest is the motivation of individuals to embark on entrepreneurial endeavours. GEM is able to distinguish between opportunity driven entrepreneurs and necessity entrepreneurs. Opportunity entrepreneurs pro-actively exploit an economically viable opportunity while necessity entrepreneurs are people who have no option but to look at self-employment as a means of survival<sup>2</sup>. It was made clear in the South African

<sup>2</sup> This dissertation is focused on the kind of entrepreneurship that is opportunity exploiting in nature. References made to entrepreneurship stimulation etc going forward should be deemed of the opportunistic type unless otherwise stated.

policy framework that the government intends to grow the levels of opportunity driven entrepreneurship. Unfortunately such growth is not corroborated by the GEM research.

**Figure 2: Opportunity versus Necessity Entrepreneurship in SA (2002-2005)**



Source: Von Broembsen et al (2005:22)

Figure 2 makes it clear that although not significant, there has been a decrease in the number of South Africans embarking on opportunity driven entrepreneurship during the period 2002-2005. Though the decrease is deemed insignificant, it is of concern that there was no growth of such entrepreneurship, given that it is a decided goal of government policy. Of further concern is that when compared with the other developing countries in the sample, South Africa was found to be the lowest in terms of opportunity driven entrepreneurial rates (Von Broembsen et al, 2005).

The discussions up till this point allow for the deduction that despite the best intentions of the South African government, the levels of entrepreneurship do not appear to be growing satisfactorily. Several factors are highlighted in the GEM 2006 report as constraining the growth of entrepreneurship in South Africa. Prominent amongst these was that South Africans in general lacked a sufficient level of entrepreneurial capacity as potential and

even certain existing entrepreneurs are deemed as having insufficient skill<sup>3</sup> levels in order to exploit opportunities. This was in spite of South Africa being regarded as having sufficient infrastructure to support entrepreneurship or the existence of a surfeit of opportunities available for exploitation (Maas and Herrington, 2006).

Thus in summarising the problem area so far one could borrow from the work of Von Broembsen et al (2005:5) and state that:

*New business creation is fundamental to the growth of the South African economy and to our future socio-political stability. Education and experience are key elements in successful venture creation. South Africa needs a growing pool of potential entrepreneurs who have the motivation and the ability to identify and to realise new business opportunities.*

The challenge would then be to identify suitable mechanisms through which such entrepreneurial capacity amongst potential and existing South African entrepreneurs could be enhanced so that levels of new business creation are improved.

Authors such as Siggel et al (2003) and Alon (2004) make reference to the ability of franchise ownership to enhance entrepreneurial capacity amongst those of low or non-existent skill levels and in doing so transfer the benefits of increased entrepreneurial capacity through the wider economy. Yet they do not practically investigate how this is deemed to happen at an individual franchisee level. That theoretical deficiency is in some respects a reflection of the state of franchise specific academic research. Franchising as a business form has enjoyed unprecedented growth worldwide since the final quarter of the twentieth century. Yet equivalent levels of rigorous academic research have not accompanied this (Stanworth et al, 1995). Of that which is complete the bulk of it examines franchising from the point of view of the franchisor, and how it can be used as a business growth strategy (Chaudhry and Crick, 2005). As a result there exists a need to

need for  
research

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<sup>3</sup> The GEM report refers to skills in this sense as the knowledge and experience required for successful entrepreneurship (Maas and Herrington, 2006)

understand aspects of the franchise phenomenon from the point of view of the franchisee, In this instance specifically, there is a need to understand if franchise ownership is a suitable mechanism through which the entrepreneurial capacity of inexperienced South African entrepreneurs can be enhanced, allowing for the development of the kind of attributes which aids opportunity exploitation and the creation of new businesses.

### ***1.3 Aims and objectives of the study:***

This dissertation aims to contribute to the body of knowledge regarding the role of franchising in economic development and more specifically whether it can enhance the entrepreneurial capacity of entrepreneurially inexperienced franchisees. This is done with a view that enhancement of such capacity could have a positive growth impact on the South African small business sector. The subjective experiences of franchisees, who are first-time business owners, are investigated to determine the extent of their entrepreneurial capacity enhancement, and whether this in any way has impacted on their readiness and ability to undertake future small business activity. The primary set of objectives can be stated as follows:

- To investigate the impact of franchise ownership on the entrepreneurial development of first-time business owners.
- To understand whether the skills and knowledge gained through franchise ownership allow for entrepreneurship outside of the franchise system.
- To establish whether franchise ownership prepares a first-time business owner to exploit economic opportunities outside the franchise system.

The secondary objectives are determined as:

- To lay a foundation for further research that is able to definitively investigate whether initial franchise ownership amongst those of entrepreneurial inexperience can be positively and absolutely correlated with entrepreneurship capacity enhancement.
- To gain an indicative understanding of whether the franchising concept warrants support as a tool of entrepreneurial development in South Africa.

## ***1.4 Thesis Statement***

In light of the discussions presented above, this dissertation is based on the following thesis:

*Franchise ownership allows for the development of entrepreneurial capacity in a novice entrepreneur, which aids the creation of new businesses by enhancing the entrepreneur's ability to exploit independent economic opportunities.*

In attempting to determine the applicability of this statement, the following questions will need to be answered:

- How entrepreneurial are first-time franchisees when initially embarking on franchise ownership?
- What entrepreneurial skills and competencies are developed by or grown in first-time franchisees as a result of the franchise experience?
- Are these skills and competencies gained in the franchise experience transferable outside of the franchise environment?
- Does franchise ownership prepare first-time business owners for the exploitation of independent business opportunities?

## ***1.5 Overview of Methodology***

This dissertation is based on a qualitative research design. Secondary research is conducted through a detailed review of relevant literature. Primary research is initially conducted on a purposely-selected sample group of first-time franchisees, who have had no previous entrepreneurial experience. This is accomplished through a structured interview process and is restricted to the greater Durban metropolitan area<sup>4</sup>. A focus group comprising of a panel of experts is then conducted as a means of triangulation. The results are presented after a thematic analysis technique is applied to the data.

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<sup>4</sup> Although the official name of the municipality is Ethekewini, the city itself is commonly known as Durban and will be referred to as such during the course of this paper.

### *1.6 Delineations, Assumptions and Limitations*

This dissertation is an investigation of how entrepreneurship can be enhanced in those with insufficient skills. Franchise ownership is proposed as a method that can be practically used to enhance such insufficient skill levels. It should be noted that the scope of the study is explicit in that such development is only studied amongst first-time franchisees with no previous business experience. Thus one cannot use this study as a reference on the development of franchisees in general. Neither should it be used in a direct comparison to nascent independent entrepreneurs' rates or areas of development.

Although it is envisaged that the results of this study will be used as indicatory evidence that franchise ownership assists in the development of skills that are known to lead to entrepreneurial new venture creation, it is not an objective of this study to prove that franchise ownership will automatically lead to the secondary creation of new, independent businesses.

It is also noted that this study intends to understand whether the franchise concept and its accompanying mechanisms lead to the development of sufficient entrepreneurial capacity to enable those who were previously incapable of exploiting independent economic opportunities to do so. Situations do exist where dissatisfaction with individual franchise relationships leads franchisees to move out of the system and into independent operations. This study does not explore such issues. It is explicit in its intention to examine the entrepreneurial developmental impact of franchise ownership on those of no previous business experience.

There exists an element of restriction in terms of generalization. This is due to a concern regarding the representivity of all franchise systems in South Africa. This is further expanded on in Chapter 3, but it suffices to say at this point, that the constraints associated with a dissertation of this design and intent did not allow for the generation of a sample that can claim significant representivity of all South African franchise systems.

Thus the results of this study are intended to be suggestive rather than definitive in order to pave the way for future research that may lay claim to higher levels of generalization.

It should also be noted that this dissertation is based on an assumption that entrepreneurship is a concept that can be developed amongst individuals. There are theoretical approaches that argue for and against this assertion and these are outlined in the next chapter. This paper follows an approach that entrepreneurship can indeed be developed and transferred across different settings.

### *1.7 Study Rationale*

A lot of the significance associated with this paper has been alluded to in the preceding discussions. Yet there is worth in succinctly re-iterating and discussing these.

There is an acknowledged shortage of academic research into franchising when compared to other fields of economic study. When viewed specifically from the franchisee viewpoint, this shortage is amplified. Thus any study such as this, which adds to this body of theoretical knowledge, is valuable.

This study is academically original in that it investigates the entrepreneurial capacity derived from initial franchise ownership to an inexperienced business owner. Several studies have analysed franchisees relative to entrepreneurship theory within the franchise relationship, but there were none that could be identified by this author, more so in a South African context, which addresses franchisees' capacity for entrepreneurship outside of the franchise environment, having owned a franchise as their first form of business ownership.

The study's practical significance lies in its potential to inform debate surrounding the concept of entrepreneurship, which appears to be stymieing the growth of the small business sector in South Africa. Further motivation is taken from the content of the previously mentioned Integrated Small **Enterprise Development** Strategy (the dti, 2005a).

As previously mentioned this strategy takes a three pillared approach with the first pillar listing, as a core priority, the need to “Expand franchise opportunities” (the dti, 2005a:7). Yet there is no clear explanation of how this will be done or even the expected output. In a personal discussion with this dissertation’s author Mr Mojalefa Mohoto, Director of Policy and Research at the dti’s Enterprise Development Unit<sup>5</sup> revealed that there are no franchise specific policy interventions currently in place in South Africa through the auspices of the dti. It was his opinion that a study such as this would be of interest in providing direction to future policy decisions.

### ***1.8 Organisation of Dissertation***

This dissertation follows the classic five segment structure described by Hofstee (2006).

*Chapter 1* – Introduction

*Chapter 2: Literature Review* - provides a detailed review of key concepts and studies associated with the fields of small business, entrepreneurship and franchising

*Chapter 3: Methodology* - provides an understanding of the methodological framework under which the study was carried out.

*Chapter 4: Data Presentation and Analysis* - reports back and provides critical commentary on the results of the primary research.

*Chapter 5: Conclusion* – concluding remarks and recommendations are presented

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<sup>5</sup> It is this unit that assumes responsibility for initiatives such as the Integrated Small Enterprise Development Strategy and other small business and entrepreneurial development endeavours

## ***Chapter 2***

### ***Literature Review***

*Most new jobs won't come from our biggest employers. They will come from our smallest. We've got to do everything we can to make entrepreneurial dreams a reality (Ross Perot)*

This chapter provides a detailed review of key concepts and studies associated with the primary fields of investigation. We introduce the important role that the small business sector plays in a development context. Entrepreneurship is identified as a key influencing factor in the spread of small businesses, and a significant portion of the chapter is then dedicated to analysing the concept of entrepreneurship and its constructs. It is this theoretical framework that is used in our attempt to analyse the entrepreneurial capacity enhancing ability of franchise ownership. The review moves on to critically examining the franchising concept with an emphasis on its appeal to inexperienced business owners before appraising the key debates pertaining to the relationship between franchising, economic development and entrepreneurial theory.

#### ***2.1 Small Business in the Global Economy:***

As alluded to earlier, the small business sector is a driver of economic growth and development. This has become increasingly prevalent in the current global environment, which has seen large corporate companies come under pressure to make their structures as competitive as possible with the result often being a generally negative impact on their employment levels. The small business sector has, on the other hand, been broadly looked at as a significant contributor to job creation, economic growth and social stability worldwide (Ladzani and Van Vuuren, 2002).

Wennekers and Thurik (1999) show how, since the globalisation phenomenon began to take hold in the world economy, major Western markets such as the United States of America (USA) and Europe started relying on small businesses for their labour

absorptive capabilities. During the period 1970-1996 the employment share held by the 500 largest firms in America dropped from 20 percent to 8.5 percent, while it is further reported that in Europe small business employment growth rates were much higher than those of their large business counterparts in the years from 1988 to 1998 (Wennekers and Thurik, 1999). This situation seems to have been mirrored in previously command driven (typically communist) economies in their transitions to market based economies. For example China moved from having no privately owned small businesses in 1979 to more than 10 million registered small, medium and micro enterprises (smmes) in 1999, with these firms significantly increasing their contribution to Chinese employment and gross domestic product (GDP) levels at a time of decline in the influence of larger, predominantly state owned enterprises (Anderson et al, 2003). In Poland, another example of an economy in transition, smmes now constitute approximately 99 percent of all private sector enterprises, contribute about 48 percent of national GDP and employ almost 62 percent of the working population (Kornecki, 2006). Further statistical evidence supporting the role of small business in terms of such indicators can be found in the works of Hamilton and Dana (2003), Lin (1998) and Bijmolt and Zwart (1994) in their respective reviews of New Zealand, Taiwan and Holland.

A study by Berry et al (2002) provides a good theoretical understanding of the role that small businesses play in supporting the macroeconomic underpinnings of a developing economy. They explain how small businesses contribute to a country's national product by supplying a range of goods and services to both domestic and foreign customers. The supply to such foreign customers increases export revenue, thus strengthening the country's balance of payments account. Apart from being a source of supply only, the purchasing power of small business stimulates economic activity amongst their suppliers, creating increased demand for industrial and/or consumer goods. This increased demand leads to further investment and development within the economy, both from a demand-side, with regard to expansion and growth among the suppliers of small businesses, and on the supply-side through the potential for new production arising from investment and upgrade in equipment and technology (Berry et al, 2002).

Aside from being vital to a country from a purely economic perspective, the small business sector tends to contribute on the socio-economic and political fronts as well. Amini (2004) highlights the role that small business plays in terms of reducing inequality, especially in countries with underdeveloped welfare systems. Small businesses tend to prove more effective than their larger counterparts in spreading the distribution of income, investment and economic power. Income distribution better takes place in the small business environment due to the small firm's ability to exploit factors of production such as unskilled (mainly poor) labour more efficiently and with greater occurrence than large firms. Smaller staff sizes also induce a greater sensitivity to the social value of the job to both the employer and employee. Small business serves to facilitate a more equitable distribution of investment due in main to relatively lower levels of required capitalisation and the ability to thrive in less established, often niche, markets. Thus small business promotion would prove beneficial in countries looking to create a more balanced dispersion of economic activity between large metropolitan areas and smaller towns as well as rural areas. Finally, a thriving small business sector is indicative of a broader spread of economic power, with the power to control economic resources not concentrated solely in the hands of a few large capitalists. This is politically and socio-economically important, particularly for economies in transition and countries with previously disadvantaged or marginalized population groups (Amini, 2004).

Having highlighted that a vibrant small business sector is vital to a country's economic and other development, it becomes important to outline some of the factors that are key in promoting the sector's expansion. Factors that can be noted in this respect include the compliance and regulatory environment; access to finance and the incentive regime; availability and flexibility of appropriate labour; product market conditions; and levels of entrepreneurship (Mitchell, 2004). An empirical study by Wennekers et al (2005) makes the argument that developed nations should look at promoting small businesses by improving the incentive structures, financial or otherwise, for business-start-ups as well as promoting the commercialisation of scientific findings. Developing nations on the other hand would be better off pursuing the utilization of scale economies, attraction of foreign direct investment and promoting entrepreneurial skills and management

education in their attempts at stimulating the small business sector. The line of thought on entrepreneurial skills and education is further reported on by Lee and Osteryoung (2001) in comparing the determinants of business start-ups in the United States (developed) and Korea (developing). They found that entrepreneurial skills and managerial capability, amongst others, were considered more important to start-ups by aspirant Korean business owners than those in the US.

The preceding paragraph has introduced how the concept of entrepreneurship and its development is seen as key to the growth of the small business sector, even more so within the developing economy setting. Although cognisance is taken of the fact that there are several interconnecting factors that contribute to this growth, this paper narrows into the approach of analysing the abovementioned entrepreneurship factor, with the eventual aim of understanding whether franchising as a concept enhances the capacity for entrepreneurship, with the obvious positive impact on the number of new small businesses.

## 2.2 Entrepreneurship

### 2.2.1 A Conceptual Review

Having identified entrepreneurship as a vital factor in promoting the growth of the small business sector, it is now necessary to critically examine this concept. This is particularly important in an environment like South Africa that seeks to encourage entrepreneurship (Bukula, 2000), hence the value in broadening the understanding of entrepreneurship and how business formation and ownership take place (Cooper and Dunkelberg, 1986).

The extant literature shows that there exist many definitions and interpretations of the entrepreneurship concept, yet a proper definitional acceptance remains key to the objectives of this study as the only real way to know if entrepreneurship is occurring is to define the framework within which it will be measured. It is impractical to attempt to list all known definitions of entrepreneurship, however several accepted ones are presented below in order to demonstrate the joint disparity and similarity in definition:

- *"...the process of conceptualising, organising, launching and - through innovation - nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment"* (Rwigema and Venter, 2004:6)
- *"Entrepreneurship is the manifest ability and willingness of individuals, on their own, in teams within and outside existing organizations, to perceive and create new economic opportunities (new products, new production methods, new organizational schemes and new product/market combinations) and to introduce their ideas in the market, in the face of uncertainty and other obstacles, by making decisions on location, form and the use of resources and institutions"* (Wennekers and Thurik, 1999: 46)
- *"Entrepreneurship is the act of forming a new organisation of value."* (Bateman and Snell, 1996: 208)
- *Entrepreneurship is a way of thinking and acting that is opportunity obsessed, holistic in approach, and leadership balanced - for the purpose of wealth creation"* (Spinelli et al, 2004: 3)

- “ *Entrepreneurship is...about the social construction of inner realities that maximize potential for value creation*” (Karp, 2006: 302)
- “ *...is regarded as a set of qualities and competencies that enable individuals, organizations, communities, societies and cultures to be flexible, creative and adaptable in the face of, and as contributors to, rapid social and economic change*” (Bukula, 2000: 2)

In the face of such multi-dimensional definition to the concept of entrepreneurship, it is of no surprise that there should be similar disparity in the theoretical approaches used to define entrepreneurship or even who constitutes an entrepreneur. Although conceptually important, it is beyond the scope of this study to actively engage in such theoretical debate. Of greater value would be a presentation of these approaches, with the aim of formulating an appropriate definitional framework to be used in this study. Much is borrowed in this respect from the work of Cunningham and Lischeron (1991) in their synthesis of the various approaches to defining entrepreneurship. The table below is an adaptation of their summary of these approaches:

**Table 1: Entrepreneurship Schools of Thought**

ENTREPRENEURIAL MODEL	CENTRAL THEME	ASSUMPTION	BEHAVIOURS & SKILLS
Great Person School	The entrepreneur is born with a necessary intuition, traits and instinct	Without this intuition the individual would lack the will to embark on entrepreneurial initiatives	Intuition, vigour, energy, persistence and self-esteem
Psychological Characteristics School	Entrepreneurs have unique values, attitudes, and needs which drive them	People behave in accordance with their values; entrepreneurial behaviour results from attempts to satisfy needs	Personal values such as ambition, risk taking, need for achievement and control of own destiny
Classical School	The central characteristic of entrepreneurial behaviour is innovation and change management	The critical aspect of entrepreneurship is the process of doing rather than owning	Innovation, creativity and discovery
Management School	Entrepreneurs are organizers of an economic venture, they are people who own, co-ordinate, and manage, while assuming risk	Entrepreneurs can be developed or trained in the technical functions of management	Production planning, people organizing, capitalization, and budgeting

Leadership School	Entrepreneurs are leaders of people; they can adapt their style to the needs of people	An entrepreneur cannot accomplish goals alone, but depends on and delegates to others	Motivating, directing and leading
Intrapreneurship School	Entrepreneurial skills can be useful in complex organizations; intrapreneurship is the development of independent business units within the firm to create, market and expand product and service lines	Large organizations need to adapt to survive; entrepreneurial activity leads to organizational building and entrepreneurs becoming managers and vice versa	Alertness to opportunities within the corporate environment, maximizing decisions.

(Cunningham and Lischeron, 1991: 47)

In taking note of the different approaches presented above, one could propose that rather than using the kind of unilateral structures that proponents of each school purport, it is prudent to set out a holistic definitional framework, where evidence of support for one school of thought need not eliminate the incorporation of characteristics associated with other schools. It is necessary to explicitly exclude the Intrapreneurship and Great Person schools of thought from such a framework as this study is focused predominantly on entrepreneurship and its relationship to expansion of the small business sector, and intrapreneurship is a concept better suited to the research of large corporate firms, while the Great Person school is based on an assumption that entrepreneurship is a birth right and cannot be developed, hence there would appear to be no practical use to its studious analysis. Further to this, this dissertation is grounded on the notion that entrepreneurship can be developed, making it contradictory to the thesis of the Great Person school of thought.

In following the line of thought demonstrated by Zimmerer and Scarborough, (2005) we see fit to define entrepreneurship as the capacity to create a new business venture in the face of risk and uncertainty by seeking out and exploiting significant opportunities. Setting out this definition is key because as Ajayi-Obe et al (2005:8) state: "In the absence of a universally accepted definition, it is necessary for every author to state clearly what is meant when the term entrepreneurship is used". The definition set out above is narrow enough in the sense that it sees new venture creation as a primary

function of entrepreneurship and supports the previously discussed assertion of the positive role played by entrepreneurship in expanding the small business sector, yet is also broad enough that the explanatory characteristics of any one or a combination of the Psychological, Classical, Management and Leadership schools of thought may be incorporated into its analysis. This is in accordance with the thinking of Cunningham and Lischeron (1991: 58) who believed that it was unwise to expect "...our knowledge of entrepreneurs can be obtained by focusing on the criteria of only one school of thought". It is noted at this point that the literature does make reference to the difference between "small business owners" and "entrepreneurs". This is based predominantly on the premise that a small business owner will create and manage a business with the main aim of satisfying personal objectives, while entrepreneurs will establish and manage a business with the main driver being an exploitation of economic opportunity resulting in growth and profit (Carland et al, 1984). Without making too much of this notional difference, its value is recognised when thinking about continuous entrepreneurship in the form of further venture creation, i.e. the difference between being satisfied with partaking in just one venture versus looking to participate in further ventures.

### **2.2.2 Entrepreneurial Influences:**

Following on from the definitional discussion it becomes important to identify the factors that contribute to the development of entrepreneurship. Muhanna (2007) classifies these factors into three broad categories: institutional, sociological and personal.

Institutional factors tend to be influenced by the economic and political environment within which entrepreneurship is expected to develop (Muhanna, 2007). In economic terms these would include issues such as access to start up capital and concomitantly the understanding that the financial sector has of entrepreneurs (Orford et al, 2004), general management of the nation's economy as demonstrated by aggregate economic indicators, the global business cycle as well as the nature of the domestic labour market (Mazzarol et al, 1999). Politically one is able to see the influence of the national legislative, regulatory and policy environment on entrepreneurship, as well as the impact of government - or

other – programmes and structures that are set up in support of entrepreneurship (Orford et al, 2004). These are typically seen to include functions such as business incubation and access to information (Mazzarol et al, 1999). A further institutional factor that is often shown as having an impact on entrepreneurship is that of education<sup>6</sup> yet the nature of that impact remains debated. Evans and Leighton (1990) find a positive relationship between venture generating entrepreneurship and increased levels of education, yet there remains sufficient anecdotal evidence that successful entrepreneurship is often generated among those who come from disadvantaged backgrounds, with little or no formal education (Burns, 2001). However, this is less likely to be the case as the global economy becomes increasingly dependent on the roles of knowledge and technology. This is implicitly supported by the work of Ramachandran and Shah (1999) in a pan-African study, which showed how lower educational levels placed African entrepreneurs at a competitive disadvantage to European and Asian entrepreneurs in the current global economic paradigm.

Sociological variables also play a crucial role in shaping entrepreneurship. According to authors such as Reynolds (1991) and Muhanna (2007) factors like common value systems and social networks have been proven to influence entrepreneurial activities. This influence tends to be channelled through the role of family, friends, and the broader community (Muhanna, 2007). Much of this can be described through the existence of an entrepreneurial culture that represents society's positive attitudes towards individual enterprise and commerce in general. Such a culture is seen to be prevalent in many regions and economies that have demonstrated exceptional rates of economic development in the latter half of the twentieth century (Morrison, 2000).

Both of the categories described above are exogenous in nature and important in that they explain the broader entrepreneurship-enabling environment. However of greater interest to this researcher is the category of personal factors. These are essentially those factors

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<sup>6</sup> Attention is drawn at this point to the difference between education in a general, institutional sense, and the learning of entrepreneurial skills, a concept that will be explained in a further section.

that individuals possess or develop which enhance their capacity for entrepreneurship, a concept that is at the core of this paper's investigation.

When beginning to analyse these factors, guidance can be taken from Kiggundu (2002), who introduces us to the concept of entrepreneurial competency. This competency is seen to be comprised of the aggregate of the entrepreneur's psychological and biographical attributes. These attributes would respectively include the entrepreneur's own attitudes, values and behavioural tendencies coupled with knowledge, skills and expertise (Kiggundu, 2002). A discussion of these two groups of attributes follows.

The literature on psychological attributes of entrepreneurs is numerous. Kiggundu (2002) lists the need for achievement, propensity for risk, self confidence and esteem, action oriented personality, desire for autonomy, internal locus of control, hard work and perseverance as being the common behavioural and attitudinal tendencies of entrepreneurs. Zimmerer and Scarborough (2005) add to this a desire for responsibility, desire for immediate feedback, future orientation, tenacity, tolerance of ambiguity and a high degree of commitment. Although each of these have at one point or another been linked with entrepreneurship theory, and their existence and value is acknowledged, it is not practically possible, nor really necessary to explain each one within the realm of this study. Guidance is taken from Cooper and Gascon (1992), who advise focusing on those variables that have received the most attention, when analysing general entrepreneurship theory. Littunen (2000), Van Wyk and Boschhoff (2004), Longenecker et al (2000) and Cooper and Gascon (1992) find the need for achievement, propensity for risk, internal locus of control and self confidence/esteem to be these, either in entirety or as sub-combinations with each other.

The McClelland (1961) theory, as described in Littunen (2000), is one of the earliest accepted and most widely<sup>7</sup> used in entrepreneurial attribute research. The basis of this theory is that entrepreneurs have a much higher need to achieve than non-entrepreneurs, leading to a suggestion that high achievers in other spheres, will tend to gravitate towards

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<sup>7</sup> See for example Burns (2001), Longenecker et al (2000), Vosloo (1994) and Reynolds (1991)

entrepreneurship (Littunen, 2000). This achievement is reflected in several outcomes for an entrepreneur. Financial success and security is often one of the more important outcomes of entrepreneurial achievement (Boone and Kurtz, 2006). Other commonly cited measures of entrepreneurial achievement are recognition and status within society, time freed up in order to pursue other activities and interests – other business ventures included - and a sense of fulfilling ones potential (Zimmerer and Scarborough, 2005).

A second part of McClelland's research found that these high achieving individuals were also associated with a propensity for risk, albeit moderate, calculated risk (Longenecker et al, 2000). Entrepreneurs are not gamblers, but are able to see situations that appear outwardly risky through a perspective that analyses how easy it would be to overcome the variables that make the situation risky, thus turning the situation into an economic opportunity if deemed viable. This is risk taking based upon factors such as market knowledge, resource availability and an acknowledged measure of what can be regarded as successful (Zimmerer and Scarborough, 2005).

Rotter's (1966) theory, again described in Littunen (2000) is another seminal study in the realm of entrepreneurial attribute research. Rotter found that entrepreneurs were more likely to have an internal locus of control. This essentially meant a belief that they were responsible for and in control of their own lives, as compared to an external control focus where a person's actions and success are determined by others, or deemed to be a result of luck or fate (Littunen, 2000). Entrepreneurs would therefore look to be in control of resources at their disposal and use these to achieve their goals or act upon a potentially viable opportunity (Zimmerer and Scarborough, 2005). Entrepreneurship is thus a vocation that is perfectly suited to satisfying this need for internal locus of control. It allows one the independence and opportunity to manage oneself in an economically beneficial activity in a way that is self determined, typically leading to feelings of being one's own boss, or being in control of one's own destiny (Zimmerer and Scarborough, 2005).

The fourth common psychological attribute linked to entrepreneurship is that of high levels of self confidence and esteem. Individuals who possess high levels of self confidence believe that they can overcome the challenges that may face them, displaying almost an element of mastery in their problem solving approach (Longenecker et al, 2000), resulting in an innate optimism about their ability to succeed (Zimmerer and Scarborough, 2005). Without downplaying the role of self confidence in entrepreneurship, attention must also be drawn to the work of Hayward et al (2006). These authors acknowledge the positive role of self confidence in entrepreneurship and especially in creating new start-ups; yet argue that self confidence generated in a sphere outside of business may be harmful to a start-up. This is because such an entrepreneur's (over)optimistic belief in his ability to make something work may deprive the business of the proper resource allocation necessary to make it work (Hayward et al, 2006). This implies that positive experiences gained in areas related to entrepreneurship are of greater value than non-related positive experiences.

In finalising the discussion of important personal entrepreneurial attributes, one must highlight the role of innovation within the entrepreneurship framework. There are many who believe that innovation is the bedrock of entrepreneurship. Indeed, the famed early twentieth century economist Schumpeter declared innovation and creativity rather than founding, ownership, and management of the firm to be the defining entrepreneurial characteristic (Shane, 2003). In keeping with our holistic approach, innovation and creativity are considered key attributes of entrepreneurship. Creativity in a business sense can be seen as the ability to develop new ideas and examine threats and opportunities from non-conventional perspectives. Innovation then becomes the ability to apply such creative thought to these threats and opportunities in the process, solving a particular need (Zimmerer and Scarborough, 2005). Economic outcomes of innovation include: bringing new products or services to market; new forms of competition; and using technology in original ways to generate value for consumers (von Broembsen et al, 2005). Johannessen et al (2001) similarly identify six groups of innovative activity within the entrepreneurial arena viz. new products, new services, new methods of production, opening new markets, new sources of supply, and new ways of organizing resources.

Maisonneuve et al (2003) make a further contribution to the innovation literature. They distinguish between the two different natures of innovation, those of consumer and business-oriented innovations. Consumer innovations tend to be customer centric and are used to increase the satisfaction levels of an entrepreneur's clientele. Business-oriented innovations on the other hand are broader in nature and tend to be sources of positive externalities within the surrounding economy and contributors to productivity growth. Although business-oriented innovations can be seen as having a greater impact within a general economic development framework, consumer innovations are regarded as more widespread when taken in the context of venture generating entrepreneurship (Maisonneuve et al, 2003).

The discussion so far has focussed on the psychological attributes and behavioural tendencies that have frequently been identified as having positive associations with entrepreneurship. However they are not necessarily unique to entrepreneurs, just common to them (Longenecker et al, 2000). As such, simply possessing these attributes alone do not necessarily increase the capacity for entrepreneurship. They need to be complemented by a certain set of skills, expertise and knowledge that form the second half of the entrepreneurial competency concept of Kiggundu (2002).

### **2.2.3 Entrepreneurial Skills:**

According to the management school of entrepreneurial thought, entrepreneurship can be developed through the imparting of certain technical skills and competencies (Cunningham and Lischeron, 1991). Various authors such as Choo and Wong (2006), Robertson et al (2003), Lee and Osteryoung (2001) and Yusuf (1995), point to aspirant entrepreneurs being deterred from embarking on entrepreneurial activity by their perceived lack of business and managerial skills. In one particular GEM survey it was found that individuals who believed they had the necessary business skills to start a business were four to six times more likely to be engaged in entrepreneurial activity than those who did not believe they were sufficiently skilled or knowledgeable. This was in fact a leading influencing factor when compared with factors such as social networks and

market opportunity (Orford et al, 2004). Thus it is apparent that within our holistic view of entrepreneurship, developing these generic business or managerial skills is being seen as crucial in increasing the pool of entrepreneurs. An alternate way of looking at this assertion is to incorporate the argument of Gibb (1996). This author states that there is strong and sufficient evidence of a positive correlation between executive education - Master of Business Administration (MBA) courses - and new business start-ups. This led to calls for further tailoring the syllabi of business courses to the kind of managerial competencies and techniques that accommodate the needs of aspirant entrepreneurs as well as corporate managers (Gibb, 1996). The correlation points to MBA graduates being more confident in their technical ability to run a successful business and hence embarking on entrepreneurial paths.

Brown (2007) explains what the key areas of competency are that any aspirant entrepreneur needs an understanding of when looking to start a new business. These are considered crucial especially during the start-up and business infancy phases, when managerial resources tend to be generalized and centralized, although it must be noted that the entrepreneur need not master all of them as a precondition of business ownership and/or success. In adapting and expanding on the work of Brown (2007) these competencies are explained in further detail below:

1. Finance/Accounting: New business owners need to understand issues such as optimal financing mechanisms, basic tax knowledge and the importance of cash flow management. The ability to read basic financial statements such as a balance sheet and income statement is often core to gaining successful financial knowledge. If one has no real understanding of these concepts, then measurement of business success or troubleshooting of potential failure is often not possible.
2. Human Resource Management: In introducing the concept of human resource management Longenecker et al (2000: 409) refer to staff as "...possibly the most vital of all resources in a firm's operations". This requires that the entrepreneur understand a wide variety of human resource issues including the attraction and

retention of suitable employees, basic labour law, motivation and training of staff and maximizing employee productivity.

3. Operations: This involves controlling the processes that create value and are core to the production of a good or service. Production scheduling, cost monitoring, supply chain management and the creation of efficiencies through the product life cycle are as important as understanding the physical production or service process.
4. Marketing and Sales: The small business marketing and sales functions, though crucial to business success, are often overlooked by many new entrepreneurs who tend to be (over)confident that their product or service is good or unique enough to sell itself. This is seldom the case and new product ideas can be of no value unless backed by sufficient market demand. Thus an aspirant business owner needs to take cognisance of those activities that can identify the target market, determine the significance and potential of that market and deliver the correct mix of product, price, and distribution channel to satisfy the market (Longenecker et al, 2000). Once accomplished it is necessary to raise awareness of the business through branding, advertising and other selling strategies.
5. Customer Service: In a world where competition is rife and it is seldom for products or services to have no competitors, a new firm can distinguish itself by providing exceptional customer service. Thus new business owners should take the lead in instilling a business culture that ensures customers are satisfied in all dealings with the firm.
6. Information management: This is a function of managing the business information resources in order to enhance decision making. The entrepreneur needs to know how the information streams on which the business is run will be organized. The increasing prevalence of computers in business places information technology at the vanguard of information management. Such technologies may include point-of-sale systems, online purchasing tools as well as database and customer information management.
7. Administration: It is a misconception that administration refers to completing 'paperwork'. Business administration in a management sense is essentially a co-

ordination function that ensures all other business areas of activity run smoothly. Typical tasks include property management, security control, clerical functions, communications, legal understanding and project management.

#### **2.2.4 New Venture Creation**

Having undertaken a detailed review of the entrepreneurship concept and its influencing factors both from an environmental and personal attribute perspective it is now important to comment on a key entrepreneurial function identified in the definitional framework, that of new venture creation. If as the definition states, entrepreneurship is about the capability to create a new business venture by seeking out significant opportunities, then one needs to understand what is behind this process. Chrisman (1999) finds it important to analyse venture creation from the point of view of entrepreneurial intentions because not all entrepreneurial ventures are necessarily realised. Thus by identifying and understanding what contributes to strong, wilful intention, one is able to infer on the probability of a new venture being realised (Chrisman, 1999). Such entrepreneurial intentions are derived from perceptions that a new venture would be both desirable and feasible. This would then be coupled with a tendency to respond to and seize new opportunities, which we have identified, as an entrepreneurial defining factor. Previous business-related experiences contribute to these perceptions. Perceptions of desirability are significantly associated with the positiveness of the related experience while perceived feasibility has a strong association with the extent of such experience (Krueger, 1993). Simply put this means that positive and strong previous business exposures are more likely to make opportunities seem viable, and strengthen the venture creator's will to realise the benefits of the opportunity. It is not an implication that previous business experience is necessary for entrepreneurship or venture creation.

Having gleaned a strong understanding of the entrepreneurship concept and its key constructs, the final part of this chapter moves into the franchising realm with the objective of understanding it conceptually and narrowing down the discussion until the concepts of franchising and entrepreneurship can be related theoretically.

## **2.3 Franchising**

This section is essentially a review of franchising as a business organisational and ownership form. Franchising and its main protagonists are introduced and described. The nature of the franchise relationship is then discussed. A brief scan of the global and South African franchise regulatory environments is delineated thereafter and this is followed by a short contextual commentary on the role franchising is seen to play in global economic development, with the final theme presented being a critical analysis of the relationship between franchising and entrepreneurship.

### **2.3.1 A Conceptual Review**

There appears to be common consensus on the broader definition of franchising. Stanworth et al (1995:1) see franchising simply as a “contractual relationship between a franchisee and a franchisor in which the former agrees to produce or market a product or service in accordance with the overall blueprint devised by the franchisor.” This is similar in meaning to the more detailed definitions of Zimmerer and Scarborough (2005:116) who maintain that “franchising is a system of distribution in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchisor) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system” and Caves and Murphy (1976: 572) who see franchising as an “agreement...lasting for a definite or indefinite period of time in which the owner of a protected trademark grants to another person or firm, for some consideration, the right to operate under this trademark for the purpose of producing or distributing a product or service.”

These definitions make it fairly obvious that the franchisor and franchisee are the two main parties in any franchise relationship. Before outlining exactly what these two terms mean it is important to analyse the distinction between two different types of franchise systems.

Product or trademark franchising as the name suggests is focussed specifically on the product and the branding and trademarks associated with that product. In this instance the franchisor only sells the rights to distribute its product or service under the original trademark and corporate identity to a franchisee. The franchisor would control the product range and marketing, while having little or no control over the organisational systems behind that distributional channel, and concomitantly the franchisee typically receives little from the franchisor in terms of business operational guidance and assistance (Parker and Illetschko, 2007). This format is also known as traditional franchising as it is the earliest noted franchising organisational system and is most common in the petroleum, automotive and soft-drink bottling industries (Blair and Lafontaine, 2005).

Business format franchising is similar to product franchising in terms of the franchisee's access to the product or service and its trademark and corporate identity. However added to this the franchisee acquires the right to and contractually agrees to duplicate the franchisor's entire business concept (Parker and Illetschko, 2007). This would include the name, trademarks, copyright, goodwill, operational know how, trade dress and any other associated intellectual properties (FASA, 2006). This format in essence allows the franchisor to provide its franchisees with a complete blueprint for the successful operation of the business, with a stronger positive relationship between the successes of the franchisee and franchisor (Parker and Illetschko, 2007). FASA (2006:63) go as far as defining franchising exclusively within the scope of business format franchising and highlight the importance of the franchisor's knowledge transfer by stating that "a franchise is a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable him or her to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably." Thus it is seen as the franchisor selling a proven method of doing business (Blair and Lafontaine, 2005), and this way of doing business and delivery of product is as important to the brand as the product itself (Spinelli et al, 2004).

Business format franchising has by far become the fastest growing and more prevalent of the two systems in the current global economy (Preble and Hoffman, 1995). It can be found in a myriad of industries including hotels, restaurant and fast-food, car rental, business to business services, construction and maintenance, automotive aftercare and component retail, industrial supplies, personal services as well as education and training. Although there remains a theoretical distinction between product and business format franchising Spinelli et al (2004) believe that this distinction is becoming ever increasingly distorted. Blair and Lafontaine (2005:8) support this by arguing that researchers have “considered both types simultaneously in many studies” This may be the case when conducting statistical economic analyses as in the case of Blair and Lafontaine (2005), but such an approach is ill-suited to this dissertation. Having noted the differences in the two formats, all theoretical references to franchising<sup>8</sup> hence will be taken in the context of business format franchising - an approach adopted by Parker and Illetschko (2007) - as it is the study of the franchisor’s passing over of business know how and methodology to a franchisee that is assumed to determine the influence of franchise ownership on entrepreneurial ability.

The explanation of the two franchise formats was important in that it allows one to explore the roles of franchisors and franchisees within the right context. Franchisors are typically expected to establish and implement product and service standards, take responsibilities for creating economies of scale in areas such as research and development, advertising and purchasing as well as offer product and operational training and support (Castrogiovanni et al 2006). Authors such as Stanworth et al (1995) and Parker and Illetschko (2007) also place great store in the role of the franchisor in acting as a general business advisor and mentor. Franchisees on the other hand, establish and own local outlets for such products and services and are responsible for their management in accordance with the franchisor’s standards and methodology. This gives them the right to all remaining profit after the payment of the business’s expenses

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<sup>8</sup> By juxtaposing the beliefs of Spinelli et al (2004) and Blair and Lafontaine (2005), one can take comfort that referring to franchising in the business format context only will not discredit this paper as a study of franchising as a whole.

including the royalty and/or management fee payment to the franchisor (Castrogiovanni et al 2006).

At this point it is also worth understanding why franchising is being increasingly used as a business growth strategy by the franchisor community. There are two economic theories that have been used to explain the rise to prominence of franchising as an organisational form. These are the theories of resource scarcity and agency. It is beyond the needs of this review to undertake a detailed examination of these theories; so much is borrowed from the synthesis of Combs et al (2004) in summing up the relevance of these two theories to the rise to prominence of franchising as a business growth strategy. The resource scarcity argument proposes that franchising is used by the franchisor as a method of raising capital for expansion outside of the traditional financial markets system, while at the same time developing human capital and local market knowledge through the recruitment of suitable franchisees. The expansion within the system then allows for efficiencies to be created and economies of scale exploited in areas such as group purchasing and advertising. The agency theory on the other hand is used to explain how franchisors use the system to eliminate some of the conflicts of interest that occur between a traditional firm and its outlet or branch managers. Because franchisees are in fact owners in their own right their goals tend to be congruent with those of the franchisor especially in terms of maximising owner wealth (Combs et al, 2006).

The discussions above have provided an introduction to the franchising concept and have highlighted the definitional framework, roles of the key protagonists and reasons for the growth of franchising as an organisational format. The following section provides an insight into dynamics of the franchise relationship, and what makes franchise ownership an attractive form of business ownership, especially to those with scant entrepreneurial experience.

### 2.3.2 Franchising and Inexperienced Business Owners

This section looks to critically analyse the dynamics prevalent within a franchise relationship, with specific attention being paid to the benefits of franchise ownership to an inexperienced business person. There is value to be gained at this point by re-iterating that franchising is a contractual system whereby a franchisee would typically pay an initial upfront franchise fee plus ongoing royalties or management fees to a franchisor in return for the right to become identified with its trademark, to sell its products or services, and to use its business format and processes. The underlying principle is that there exists a transfer of technology, skills and know-how, through various support mechanisms, from franchisor to franchisee, (Zimmerer and Scarborough, 2005), and a common cliché in franchising circles throughout the world is that franchising allows individuals the opportunity of “being in business for themselves but not by themselves” (Parker and Illetschko, 2007: 12).

A composite advantage of franchise ownership to an inexperienced business person will then be this transfer itself. The transfer process is commonly seen to occur through three mechanisms:

1. **Training and Development:** This is often mentioned as one of the main reasons for people to enter into franchising as a form of business ownership and is identified as such by authors such as Kaufmann and Stanworth (1995), Knight (1986) and Frazer (2004). Thus inexperienced business owners are able to enter into industries or business environments in which they have no previous experience with the understanding that the training and development programmes initiated by the franchisor will equip them to succeed (Longenecker et al, 2000). Initial training programmes vary and depending on the franchisor could be anything ranging from spending a few days of practical learning at a company owned store, to spending an extended period at the franchise’s specialist training centre, or varying levels of a combination of such classroom and on-site training (Bernstein, 1969; Zimmerer and Scarborough, 2005). Typical initial training

programmes will cover areas such as product knowledge, operating procedures, merchandising, production scheduling, labour scheduling, advertising and accounting (Kuratko and Welsch, 2004). It is also expected that good and reputable franchisors place an emphasis on ongoing or follow-up training throughout the franchise relationship. This could be reflected through the provision of refresher courses, site visits by the franchisor or a suitable representative – often referred to as field service consultants – to identify areas where assistance may be necessary and then arranging such and updating of any training manuals that may have previously been provided (Longenecker et al, 2000). It can be noted that successful franchisors are often those that regard training as an important input into ensuring individual franchisee success, thus leading to growth and success of the overall franchise system, which in essence is representative of their interests in the business (Parker and Illetschko, 2007).

2. **The Operations Manual:** This is a comprehensive compilation by the franchisor of guidelines and often legally binding instructions that need to be followed in the process of business replication by the franchisee (Parker and Illetschko, 2007). This confidential reference document is regarded as the blueprint to the business and its requisite format, procedures and standards as determined by the franchisor, and as such is often seen as the franchisee's primary source of business support guidelines (FASA 2006). A well established American franchise consultancy, Francdocs (2007) outlines common elements of a well structured franchise operations manual. These include:

- The company's (franchise system) mission statement, values, goals and objectives
- Requirements of administering the franchise
- Legal requirements in day to day operation of the franchise
- Standardised franchise accounting procedures
- Methods of marketing and franchise promotion
- Personnel hiring and complete human resources legal requirements
- Maintaining standards, proficiency and quality of the franchise product

- Pricing policy and suggestions
- Product sales procedures

Knight (1986) found the production of a satisfactory operations manual to be among the foremost initial expectations that franchisees have of their franchisor.

3. **Mentorship:** Mentorship is the coupling of a person with significant levels of skills and experience (a mentor) with one of lesser skill and experience, with the aim of having the latter learn from and develop specific competencies directly through his relationship with the mentor. It has been found that this concept serves as an excellent tool in developing entrepreneurship in those with little or no business experience. Mentors are seen to pass over not only technical business knowledge but also certain nuances and general experiential learnings, and often serve as sounding boards for emerging entrepreneurial ideas from those under their responsibility. The mentorship function must be viewed distinctly from that of training and development, as training is often seen as an absolute, more formalised and technical process, whereas the mentorship relationship is holistic, long-term in nature and imminently flexible to the needs of both parties (Watson, 2004). It was reported in a previous section that authors such as Stanworth et al (1995) and Parker and Illetschko (2007) point to franchisors as playing mentorship roles within the franchise relationship. Du Toit (2004) shows the franchise environment to be ideal in terms of implementing structured and measured mentorship programmes as the (franchise) concept itself is built around shared learnings.

Freyburger and Kuter (2000) attempted to measure and determine the extent of business know-how transfer from franchisor to franchisee. In order to do this, they used the results of a customer satisfaction survey in franchised versus non-franchised businesses in the French car maintenance sector. It was found that in terms of technical competencies there was not much of a difference between the two groups yet the franchised businesses were seen to perform significantly better in customer-oriented procedures such as marketing, sales and service levels. The conclusions drawn from this study support the argument that

franchising enhances the development of certain general business skills in franchisees. This study does come with the stated limitation that the results are not generalisable to all franchises as the survey covered one unique sector. It would thus prove interesting to determine the extent of such transfers among a cross-section of franchise sectors.

The technology and knowledge transfer comes at a cost to the franchisee, with the franchisor recovering its investment in this process through the initial franchise fee, ongoing royalty and other management fees, and possible rebates granted by the franchise system's suppliers for bulk purchases. Nonetheless, the transfer process itself is deemed to be effective through the mechanisms highlighted in the previous paragraphs (Siggel et al, 2003). It is also interesting to note at this point that there are many overlapping competencies<sup>9</sup> deemed relevant to both franchisees and entrepreneurs as defined in the previous section. This allows, by inference, an assertion that because the competencies required of franchisees mirror those required of standard entrepreneurs the development of such competencies by franchisees would imply a development of entrepreneurial competencies.

This implicit transfer of technology and knowledge is a contributing factor to another reason why franchise ownership is a popular choice amongst inexperienced business people. It is commonly acknowledged that franchising represents a low risk entry business strategy, with franchisees seen as having a decreased likelihood of failing compared to independent entrepreneurs (Parker and Illetschko, 2007; Zimmerer and Scarborough, 2005). Although questioned by Bates (1995), there is sufficient evidence to uphold the reputation that franchising has in providing a relatively secure environment for inexperienced business owners. Louw (2004) illustrates this by citing statistical examples. It is shown that in Australia, franchises are 2.5 times more likely to succeed than other small businesses. In the Philippines 95 percent of franchise systems compared to 25 percent independent retailers survived the 1997 Asian economic crisis. It is claimed there is a 90 percent success rate of franchised business in the USA whilst in South

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<sup>9</sup> Compare for example the competencies outlined by Brown (2007) with those outlined in the discussions on training and operation manuals above.

Africa it is acknowledged that about 85 percent of franchised businesses last beyond the initial three year phase, as compared to 20 percent of independent small businesses.

Another often cited advantage of franchise ownership is that of brand-name appeal. Franchises tend to encompass successful brands and trademarks that consumers are fully aware of and often prefer to smaller, less-established independent brands (Kuratko and Welsch, 2004). Peterson and Dant (1990: 47) describe this as the advantage “of belonging to a large chain while, at the same time being an independent businessperson” This allows for competition with other large corporate brands without having to develop one as an individual (Peterson and Dant, 1990). Boone and Kurtz (2006) believe that by utilising an existing brand name, franchisees are in most cases able to begin generating profits faster than an individual business person does when establishing a new brand. Knight (1986) found that the franchisor’s role in developing a distinguished brand or trademark is the most recognised and valued function from the viewpoint of both franchisees and franchisors. Coupled with this advantage of being instantly linked with an established brand, comes the ability of the new business owner to link into established supply chains and business networks, which would often take much longer if one were an inexperienced, independent operator (Parker and Illetschko, 2007).

Selecting of and fitting out a suitable location for the business is another crucial step in creating successful new ventures, franchises included. This is especially true in sectors such as retail, food and other consumer driven industries (typically sectors within which franchises are popular) and inexperienced entrepreneurs could fall into the trap of selecting sites that ill-suit their business needs and customer preferences (Zimmerer and Scarborough, 2005). Support for this assertion comes in the form of studies by Gaskill et al (1993) and O’Neill and Duker (1986) who both find poor site location to be a significant factor in early failure of small businesses. A typical franchise relationship would see the franchisor assist the franchisee in selecting a suitable site for the outlet, even going as far as prescribing the site or purchasing and leasing out suitable sites to franchisees (Longenecker et al, 2000; Bernstein, 1969). Knight’s (1986) survey of common initial services provided by franchisors found site selection, store design, fitting

and improvement as well as lease negotiation to be prominent amongst those provided. This corresponds with the writing of Frazer (2004) who also found site selection and fitting to be among those services to be typically provided by a franchisor as part of the contractual package. An early study by Bernstein (1969) makes the point that franchisor involvement in these processes is intended to help the franchisee start out with a business location and facility that matches the specific needs of that business and goes on to argue that restraints made on the new business owner in these respects serve to protect this person from making the mistakes of improperly located or badly designed facilities.

There is little evidence to argue that one advantage is more critical than the next. The appeal of franchising to a first-time business owner may very well lie in the combination of various factors. Frazer (2004) highlights this in her belief that the comprehensive and packaged nature of a new franchised outlet is what makes it appealing to potential franchisees as they are eased into business.

The benefits described above are those considered the most relevant to inexperienced or first-time business owners. By no means do they represent an exhaustive list of the general benefits of franchise ownership to entrepreneurs of any standing. An example of such an advantage would be the relatively easier access to finance for starting a franchise as compared to an independent operation. Commercial financiers tend to look favourably upon applications for franchise funding based on the understanding that the funds are going to be utilised in a concept that has a proven track record, and the knowledge that the franchisor will predominantly do all that is possible to prevent the failure of franchisees in order to protect the reputation of the brand. Apart from traditional sources of finance there are also certain instances where the franchisors themselves provide funding through appropriate channels, and also have the flexibility to renegotiate terms of payment where deemed necessary (Kuratko and Welsch, 2004). There are other advantages to franchise ownership, and of course, several disadvantages. Franchise ownership can in many cases be expensive. It may also prove restrictive in nature, or the support structures may not pan out to be as valuable as initially perceived (Longenecker

et al, 2000). However a detailed analysis of these factors is not deemed necessary at this time.

### **2.3.3 Franchising and the regulatory environment**

The regulatory environment that franchise systems operate under differs from country to country. These range from countries that have legislated regulatory codes of conduct for franchisors and franchisees, countries that rely on the industry's self regulation and countries that simply expect franchising to fall under the domain of its general business practice legislation. The main role of franchise specific regulation is that franchisors have an environment in which property rights and contract laws are clear-cut with contraventions able to be remedied through an efficient legal system. For franchisees the emphasis is on protection from unscrupulous franchisors who fail to deliver on their promises. Countries with significantly high levels of franchise participation, such as the USA, Brazil, The European Union and Australia are all legislatively regulated in some form, and it is argued that regulation in a franchise environment serves to develop a stable and transparent market place (Maisonneuve et al, 2003).

There is no franchise specific regulation in South Africa at present. The dti has at various stages considered creating and implementing a regulatory framework with the most recent attempt being the drafting of National Strategy for the Development and Support of Franchising in South Africa (Bukula, 2000) which eventually led to a franchise regulatory bill in 2004 but this was never enacted (personal communication: Mohoto, 2007)

Thus the South African franchise environment currently relies on the industry's self regulation. The Franchise Association of South Africa (FASA) is an industry representation body that purports to promote the concept of franchising in South Africa, uphold ethical franchising standards and assist in dispute resolution between franchisors and franchisees. For franchisors, membership of FASA is associated with recognition of being a reputable franchisor. FASA is referred to as being representative of both

franchisees and franchisors (FASA, 2006) but with the bulk of its funding being driven through franchisor subscriptions (franchisees are only granted membership if their franchisor is a paying member), and the majority of its board drawn from the franchisor community there may be reason to question its ability to function without any franchisor vested interest. It should also be noted that that FASA membership is totally voluntary and in the absence of legislation giving it more authority, its role could be deemed more that of a watchdog and facilitator rather than a powerful regulatory organisation.

### **2.3.4 Franchising and Global Economic Development**

The role played by the franchising concept in global economic development tends to be conceptualised within the sphere of business ownership or entry modes. Although the literature studying the role of franchising within such a development context is not as voluminous as studies into other modes such as foreign direct investment, licensing and management contracts (Siggel et al, 2003), there appears to be academic consensus on the results of franchising growth within a developing economy setting.

Alon (2004) is unequivocal in his support of franchising as a generator of employment. He describes the potential of franchising to drive up employment in both direct and indirect terms. Direct employment in this case reflecting the number of people employed at each franchise outlet combined with the franchise administrative and other support staff. Alon believes that the indirect impact on employment is less explicit but more substantial than the contribution of direct employment: “Indirect job creation occurs through industrial linkages, for example to suppliers and customers, and is often measured by economic multipliers...by one estimate every franchise unit creates and maintains an average of thirty-three jobs – thirteen direct jobs and twenty or more indirect...” (Alon, 2004: 158). A pan-African study by Siggel et al (2003) was able to show that a new job was created for every \$5000 spend by a franchisor, with an approximate thirty-two direct jobs created per year by each franchisor.

The contribution to national output and income is another cited benefit associated with the franchise sector. Franchising has been known to contribute to increased productivity levels and assist in the creation of efficient channels of distribution. It is also associated with increases of products, services and markets through the economy. This in turn leads to increases in the tax base and national income (Sanghavi, 1998). There is an argument that the initial entrance of international franchisors into a developing country's economy may lead to a worsening of the balance of payments (BOP) account as new systems are often accompanied by the import of source material and other inputs, but this situation is seen to be corrected over time as the franchisor begins to develop the economies of scale that allow for local sourcing and supply chain development which then has the effect of not only easing the negative BOP effect, but also stimulating local industry (Alon, 2004).

Franchising is also seen as a source of technology transfer and change to developing economies, which have come to be regarded as essential components of the economic development process. On a macro level technology in this sense refers not only to the physical concepts of new machinery and hardware, but also knowledge, skills and know-how development (Stanworth et al, 1995).

Sanghavi (1998) believes that this transfer of technology is a most important developmental impact of franchising in the case of emerging or transitional economies. The managerial skills and technical training imparted by franchisors are seen as extremely important in terms of the positive spill-over effect into the wider economy. Siggel et al (2003) argue that in a developing country setting, especially that found on the African continent, technological change as a tool of economic development will tend to be easier effected through the adaptation of existing technology and human capacity building, as compared to the high end research and development, resulting in new products and processes, found in more developed economies. These authors also believe that the relatively low initial costs associated with franchise ownership – when contrasted with the start up costs involved in setting up new foreign direct investment projects or obtaining licensing agreements – makes the concept a cost effective and accessible form of technology transfer in developing countries.

An adjunct to the positive technology transfer benefits associated with franchising is the development of capacity within the small business sector. Alon (2004) describes how the franchise structures accommodate and encourage multiple unit ownership amongst franchisees and in doing so not only increases the small business pool but also enhances the business skills of the franchisee that embarks on this multiple unit ownership strategy. This author further makes the point that franchise owners can “adapt the skills and routines they see in franchise operations and use them in other businesses” (Alon, 2004: 161). Tangentially, Tuunanen et al (2006) mention that franchises act as incubator organisations by helping inexperienced store employees and managers gain the kind of skills and knowledge that may eventually be transferred into a venture of their own. Siggel et al (2003) also argue that entrepreneurship is enhanced and transferred through the economy by franchise participation. Of interest to this dissertation’s author is that although there appears to be agreement that franchising leads to the kind of technology transfer that enhances entrepreneurship and increases the capacity to grow the small business sector; there is no explicit explanation of how this is transferred into the broader economy at an individual franchisee level. It is understandable that local supply chain development and maintenance, coupled with possible economic clustering effects<sup>10</sup> can lead to positive spill-overs (Siggel, 2003), yet none of the quoted studies conduct a detailed analysis on how the franchisee (as arguably the greatest recipient of technology transfer) is able to utilise the franchise experience outside of their franchise system. Such an investigation would have interesting implications in respect of using the franchising concept to stimulate small business development across the wider economy as compared to expansion within the system only.

The following section begins to address such an issue by further analysing entrepreneurship within a franchising context with a view to understanding the links between franchising and entrepreneurship, which has already been identified as a determining factor in small business development.

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<sup>10</sup> Growth and development of a particular industry through geographic agglomeration. In the most typical franchise scenario, the presence of different franchise outlets within the confines of a shopping mall leads to a growth in the market (for both franchise and related non-franchise product), increase in job availability and seeking and information diffusion within that area (Siggel et al, 2003)

### 2.3.5 Franchising and entrepreneurship

This final part in the review on franchising examines some of the key debates that surround the relationship of franchising and entrepreneurship. Where possible – in terms of applicable sources of reference - the personal entrepreneurship paradigms identified in the previous chapter are linked to the franchising context in order to determine the extent of the relationship between the two, with specific attention being paid to the relationship between franchisees and entrepreneurship, as it is the interrelationship between these two constructs that form the basis of this paper's investigation.

The fundamental concept of successful business replication that underpins franchising has been criticised as anti-entrepreneurial when analysed within the innovation context. By merely replicating an existing successful business, it is argued that there is no new creativity or innovation being displayed even though the franchise system is being developed. (Tuunanen et al, 2006). Hoy and Shane (1998) dispute this by arguing that the franchisor's efforts in expanding the franchise network and exploiting the opportunities created by satisfying the franchisees needs are entrepreneurial in nature. Siggel et al (2003) concur with this view and further highlight that franchising is representative of innovative activity in that it introduces technologies into markets where they did not previously exist.

Tuunanaen and Hyrsky (2001) identify a paradox in how franchisees relate to entrepreneurship and its role within the franchise relationship. They believed that entrepreneurial behaviour is often reflected in risk taking and innovation. When faced with an increasingly competitive environment it is thus necessary for such activity to be stimulated. Yet the nature of the franchise relationship is almost seen as a hindrance to such behaviour, because successful franchise systems are built on standardisation and uniformity, thus excluding innovation and creativity on the part of the franchisee (Price, 1997) and it is found that over time the goals of franchisees and franchisors become incongruent as a franchisee's behaviour becomes more entrepreneurial often leading to a breakdown in the franchise relationship. The implication of this particular finding by

Tuunanen and Hyrsky (2001) is that franchisees risk alienating their franchisor by performing the kind of innovative and creative activities associated with entrepreneurship, and are hence institutionally obstructed from doing so.

Ajayi-Obe et al (2006) contest this. They acknowledge the need for a franchisee to be more innovative and risk-taking in an increasing competitive environment. Yet they argue that many franchisors realise that the systems they originally created cannot remain static in such an environment and this need for flexibility provides opportunities for franchisees to innovate. These authors found that a high proportion of the franchise systems they surveyed reported having successfully running systems that allowed for franchisees to undertake meaningful innovative activities within their outlets. These innovations were seen to include the introduction of new products or services, new methods of operation or production, new supply sources and the opening of new markets – as described by Johannessen et al (2001) previously – within the system. The only reason to be slightly critical of this particular study, if one was to use it solely as a reference point in determining whether franchisees are innovative or not, is that it is based on a survey of franchisors (as representatives of the franchise system as a whole), and not a report back on actual innovative activity as presented by franchisees themselves, which would be the primary reporting line when investigating the ability of franchisees to be innovative within the system. That should not dispute the findings but does leave room for a similar line of questioning amongst a sample of franchisees.

Independence and autonomous control are also seen as defining entrepreneurship factors (see previous discussions on locus of control). Felstead (1994) warns against regarding franchisees as entrepreneurs as they have little or no control over the parameters within which their businesses are organised. He argues that with respect to franchising “economic power is exercised not by directly owning and controlling the physical assets of doing business, but by controlling the use to which the intangible assets, such as the trade mark/idea/format, are put.” (Felstead, 1994:50). This may be the case but one may then question whether there is much conceptual difference between this and the independent entrepreneur in the current global environment whose operating parameters

tends to be governed by global value chain requirements, international quality and operational standards and certification and the other operational impacts of globalisation. This is in line with the thinking of Kaufmann and Dant (1998), who maintain that no entrepreneur acts in an environment of unconstrained independence. Kaufmann and Stanworth (1995) make the very interesting point that independence is relative and that for an aspirant business owner with no previous business experience the perception of independence when compared to the level of control experienced in formal employment is strong. This is supported by the work of Paswan and Johns (2007), who find that paid employees perceive franchisees as being entrepreneurial in nature because of the independence attached to owning a franchise.

Ajayi-Obe et al (2005), attempt to put this issue of independence and control into perspective by introducing the concept of an entrepreneurial team. Thus franchisors and franchisees are regarded as performing two distinct yet related entrepreneurial roles, that of (franchise) concept originator and concept implementer respectively and they conclude that franchising represents a form of entrepreneurship that relies on equal measures of co-operation and effort from both parties to be successful, as opposed to simply being a linear system of control from franchisor to franchisee. The inherent business risks are also shared by both parties in that the franchisor assumes risk when creating and developing the brand, while the franchisee assumes risk in penetrating and developing the previously untried local market (Ajayi-Obe et al, 2005). This then makes the franchise concept indicative of entrepreneurial behaviour when viewed in the context of risk propensity as an entrepreneurial attribute as highlighted in the entrepreneurship literature review.

This concept of risk propensity has received a fair amount of attention in the debates on whether franchisees are entrepreneurial in nature. Tuunanen and Hyrsky (2001) found franchisees to be risk averse and unopportunistic in nature. Anderson et al (1992) do not recognize franchisees as entrepreneurs by virtue of them having a greater need for security than independent entrepreneurs. An empirical study by Sardy and Alon (2007) examines the difference between new franchisees and nascent independent entrepreneurs.

Amongst others they found that the new franchisee group displayed lower levels of confidence in their skills and abilities to make a business successful, as well as a preference for being part of a larger organisation. The conclusion drawn from this is that the franchisee leans heavily on the security of being able to rely on the institutional knowledge and experiences of the franchisor (Sardy and Alon , 2007). Yet Paswan and Johns (2007), in attempting to determine whether franchisees fit the entrepreneur or employee moulds, find that franchisees are perceived to have much lower safety needs than traditional employees. Kaufmann (1999) allows for a rather interesting inference with regards to franchising and risk taking behaviour. He finds that franchisees are more likely than independent small business owners to open businesses in sectors where they have had no previous work experience. In this sense franchisees can be seen as risking more by entering a field in which they have had no previous exposure or development of skills.

This section has made it clear that there is no academic cohesion on whether franchising represents an entrepreneurial activity and more specifically there is no certainty that franchisees are entrepreneurial in nature. That statement in itself is not new.<sup>11</sup> While it is one of the goals of this paper to determine how franchisees relate to the entrepreneurial concept, answering that question on its own is not the main purpose. More important than that is to determine whether franchising assists in the entrepreneurial development of inexperienced business people, and whether this development is significant enough to be transferred outside the franchise environment. Thus although the section reviewed above is a synthesis of the key academic works informing the debate on the relationship between franchising and entrepreneurship, there is a note of concern. All of the studies mentioned above approach the debate from the entrepreneurial characteristics or ability displayed by franchisees either before entering, or within their franchise system. None of these look into what the franchisee's entrepreneurial ability was like after going through the franchise experience or whether their development as entrepreneurs, if any, is applicable outside of a franchising context. A detailed search by the researcher was unsuccessful in locating any paper that answered such questions. The closest was a study

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<sup>11</sup> See for eg Paswan and Johns (2007), Tuunanen et al (2006) and Ajayi-Obe (2005)

by Frazer (2004) who examined whether franchisees who continued operating as independents after exiting the system were, in fact, serious competition to the franchisor. The bulk of her work was devoted to problems that arose out of unhappiness within the franchise relationship. Although she does mention the instance of franchisees that used the franchise experience as a springboard into independent ownership (Frazer, 2004), there is no deeper investigation into how this was done. Herein lies the originality of this dissertation. Although issues of whether franchisees are entrepreneurs are addressed, the investigation goes further to uncover if and how the franchise experience prepares a previously inexperienced business owner for independent entrepreneurial events.

#### **2.4 Chapter Summary**

This chapter has provided a detailed review of the primary concepts analysed in this dissertation. Small business was initially shown to be a key component within the economic development context. Several factors were identified as being important in the promotion of small business, with entrepreneurship prominent amongst these. Entrepreneurship was then examined in detail. A definitional framework was set out and followed by an investigation into the key entrepreneurial constructs. The review focussed specifically on the personal attributes of entrepreneurs. These were found to be a combination of personality and behavioural traits and a set of generic technical entrepreneurial skills. The entrepreneurship segment was rounded off with a description of the process of new venture creation, a necessary entrepreneurial outcome in the context of this paper. The final part of this chapter critically analysed the franchise concept. A thorough introduction to franchising was followed by a review of the factors that make franchising an appealing choice of ownership mode to persons of scant business experience. Discussions centering on the franchise regulatory environment were outlined. The literature encompassing the study of franchising in relation to global economic development was then presented, with the chapter being concluded by a synthesis of the debates surrounding the applicability of franchising when examined within an entrepreneurial context.

## ***Chapter 3***

### ***Methodology***

*If the map shows a different structure from the territory represented...then the map is worse than useless, as it misinforms and leads astray (Alfred Korzybski)*

This chapter provides an understanding of the methodological framework under which the study was carried out. Such an understanding remains crucial when one analyses and interprets the findings and conclusions drawn as a response to the aims, objectives and questions posed of the dissertation.

#### ***3.1 Research Design***

A qualitative research framework was chosen as the most suitable to this study. A qualitative research design essentially collects and interprets non-numerical data, focussing on the meaning of sample participants' beliefs, experiences and perceptions of a particular phenomenon (Welman and Kruger, 2003). The aims, objectives and nature of this study lent itself to following a qualitative type research approach as it strove to explore and understand the problem through the accumulation and assimilation of knowledge (Maykut and Morehouse, 1994).

A scarcity of formal academic studies into the area of research relating to the entrepreneurial development of first-time franchisees and/or the transferability of such development into the broader economy was identified in the previous chapter. This scarcity, especially in a South African context means that value can be gained by restricting the scope and width of the research sample and delving deeper into the franchisees' experiences and perceptions, laying the groundwork for future theoretical and empirical investigation, which is an objective of this dissertation. According to Ritchie's (2003) research guidelines this is achieved more practically within a qualitative framework. The exploratory underpinnings of this dissertation means that results will be more process rather than final outcomes based, for example why events happened or

decisions made and the implications thereof, and qualitative research is better able to unearth these results in comparison to stricter quantitative methods (Chaudhry and Crick, 2005).

It is apparent that an advantage of qualitative designs to the researcher is that the data represents in-depth descriptions and understandings of events or actions, helping the researcher gain insight into why and how these events or actions take place rather than just presenting a phenomenon. Qualitative research also allows respondents to express feelings and opinions in their own words, increasing levels of comfort amongst respondents. Yet this type of design is not without its drawbacks. A disadvantage of qualitative research is that it can prove time consuming particularly when it comes to data collection and data analysis. The collection of qualitative research data could involve long periods of conducting fieldwork and this may turn out to be costly to the researcher (Babbie and Mouton, 2001).

A structured interview process was used as the primary source of data collection. Interviews in general are ideal when attempting to understand participants' experiences and perceptions (Denscombe, 2003). The structured interview process is well described by O'Leary (2004:164):

*"...uses pre-established questions, asked in a predetermined order, using a standard mode of delivery. Means for prompting and probing the interviewee are predetermined and used in defined circumstances. Researchers attempt to be objective, neutral, and removed, and try to minimize personal interactions. The goal is standardization without improvisation."*

The key to successful interviews is that questions should remain open-ended in the main, allowing the yield in most cases to be rich and informative (Denscombe, 2003).

It was initially envisaged, under guidance from Kirby and Watson (1999) and Chaudhry and Crick (2005)<sup>12</sup> that a sample size of approximately 10 to 15 respondents for the interview process would be sufficient. These were to be drawn from a sampling frame of

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<sup>12</sup> Studies that were similar in parameter (franchising) and nature (qualitative, exploratory)

first-time franchise owners in the geographically defined research area. A purposive, non-probability sampling technique was used to determine the final selection. This technique is common in qualitative studies where there is a need to identify participants that are uniquely able to provide necessary, detailed and valuable information about a particular event or phenomenon. Thus they are purposely selected as those most relevant to the topic of investigation. There is no element of randomness or equal probability in their selection. (Denscombe, 2003). Purposive sampling is also useful when there is uncertainty over the numbers and availability of suitable respondents. Traditional research has tended to frown on non-probability techniques such as this, as questions may be raised over their ability to be statistically representative or generalisable (O'Leary, 2004). Yet O'Leary (2004) challenges this viewpoint by arguing that there may be cases where representativeness and generalisation are not the most important objectives of a study. It is also argued that non-probability samples may indeed be credibly representative if the selection criteria is focused and well defined. Such stringent selection criteria would also help prevent situations where participants are merely selected because it is convenient to do so, or that reflect a bias to support or confirm that which the researcher has suspected or hypothesized about (O'Leary, 2004).

It can be noted at this point that the design of this dissertation is supportive of the O'Leary (2004) argument. Although representivity and generalisation are lauded concepts in academic research, the exploratory nature of this study means that although they remain ideal, minor question marks on this front should not serve to invalidate results and recommendations put forward by this dissertation. A strict selection criterion was implemented. Also, by using the structured interview technique an attempt is made at introducing some level of standardization in terms of the collection of data. A further attempt to prevent a representivity limitation and enhance generalisation was to draw the sample frame from across various franchised sectors, e.g. retail, food, automotive and business-to-business services. This prevents industry specific idiosyncrasies and biases from creeping in<sup>13</sup>. Restriction of the sample to one geographic location also helped reduce the impact of any major bias that may have occurred due to differences in local

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<sup>13</sup> See critique of Freyburger and Kuter (2000) in Chapter 2

economic operating conditions such as workforce availability, inhabitant earnings per capita, and quality of local bureaucracy.

A significant portion of this dissertation's research design was inspired by the methodology of Chaudhry and Crick (2005). Their study, entitled "An exploratory investigation into the entrepreneurial activities of Asian-owned franchises in the UK" was conceptually similar in terms of parameter and objectives. Guidance was taken in terms of aspects such as the overall qualitative framework, sampling technique and size, the use of an interview process, and the method of data analysis. Yet in criticising their methodology, one is able to recognize the lack of a supplementary data validation source. This dissertation addresses that concern by adopting the principle of triangulation.

The concept of triangulation is often touted as key to a successful qualitative research design. This concept has its origins in the science of land surveying. Land surveyors found that they were able to increase the validity of a map by incorporating measures from different angles (Malterud, 2001). From an academic research perspective triangulation involves the use of more than one data collection technique. In this way one is able to get different kinds of data on the same subject, thus allowing for a more holistic, rounded presentation and evaluation, as compared to having data sourced through just one method (Denscombe, 2003).

In this particular study the focus group technique was used to triangulate the data collected through the interview process. According to Morgan and Spanish (1984:253) "focus groups bring together several participants to discuss a topic of mutual interest to themselves and the researcher." This moderated meeting is typically recorded, ideally consisting of between five and twelve participants and timed to usually last not more than two hours (Morgan and Spanish, 1984). When utilised within an exploratory research framework the focus group technique can be seen as a brief, flexible and cost-effective method that allows the researcher to holistically address and get to grasps with the core issues of a topic (Cooper and Schindler, 2001). Focus groups also tend to produce rich and detailed qualitative data because of the presence of several participants who stimulate

discussions and thoughts among each other and allow for a variety of informed opinions to emerge for deliberation. There may be the risk that the responses of some participants may be influenced by the thinking of others, or that certain individuals attempt to dominate the discussions, or even that certain individuals inhibit themselves because of the group environment (Ajayi-Obe et al, 2006). These risks can be mitigated by careful and correct profiling and selection of participants coupled with effective management or moderation of the discussions. It is essential that the moderator steers the discussion to ensure broad participation and address necessary topics. The use of a topical or interview guide is recommended for this. (Cooper and Schindler, 2001).

In summarizing the discussions above one is able to see that the primary research component of this dissertation was designed through a qualitative framework. Interviews were to be conducted with a sample of purposely-selected participants and this process triangulated with the results of a focus group process. The following section describes in detail specifically how this design was implemented and also gives a practical insight into why an alternative design was deemed unviable at the time. This is followed by a description of the data analysis process.

### ***3.2 Research Methodology Implementation***

#### **3.2.1 Context of Study**

This study was conducted in South Africa, a country of approximately 48 million inhabitants. The most recent review of the small business environment in South Africa by the dti (2005b) estimated the total number of trading small businesses to be between 2.75 million and 3.35 million. Yet these include an estimate of approximately 2.6 million informal businesses. It is stated that a reasonable estimate of the total number of formal small businesses in South Africa total not more than 1.3 million. KwaZulu-Natal, as a province in South Africa, is home to approximately 13 percent of the formally registered businesses in South Africa, the third largest provincial representation of businesses in the

country. Durban, the economic hub of KwaZulu-Natal, is home to the majority of these businesses.

Franchise representation in the country mirrors the small business environment described above. As mentioned previously, at last count in 2004 there were a total of 21 384 franchisees operating in SA<sup>14</sup>. KwaZulu-Natal is currently home to approximately 13 percent of SA's franchised outlets, with the bulk of these found in the greater Durban area (FRAIN, 2004). The greater Durban municipal region was believed to be suitable for the purposes of this paper in that it housed not only a fair number of franchised outlets, but also a wide spread of franchise system representation. It is also the city in which the researcher was based during the course of his studies, so it made logistical sense to locate the study there, thus decreasing the costs involved in conducting the necessary fieldwork.

### **3.2.2 Structured Interviews**

A sample of respondents was drawn from a sampling frame of first-time franchise owners in the greater Durban Metropolitan area. It was at this stage unknown by the researcher how large the suitable population would end up being, emphasizing the appropriateness of using a purposive sampling technique. This frame was drawn up after making contact with franchisees – through publicly available listings of franchises in greater Durban – to enquire if they did fit the required profile and were willing to participate, and also by franchisor referral, after making telephonic/electronic contact with franchisors represented in the area and supplying them with the selection criteria. All franchisor contact details are common knowledge and were traced through Internet searches and/or listings in the FASA and Small Enterprise Development Association (SEDA) franchise directories. As mentioned a, purposive sampling method determined the final selection, the qualifying criteria in this case being that respondents had to be first-time franchisees, with no previous business ownership experience, in operation for at least one year. In taking guidance from the research design of Kirby and Watson (1999) in their qualitative study of operational versus failed franchises in the UK, one year was deemed sufficient in

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<sup>14</sup> Spread across a diverse range of sectors. See description section 2.3.1

order for a new franchisee to understand the systems under which the franchise operated. The sample itself ended up comprising of twelve franchisees drawn from across the franchise sector in order to restrict the industry bias described previously. All those that exactly fit the profile were interviewed, thus eliminating the potential for the researcher to bias the sample group towards those that he believed supported the thesis statement. *Appendix A* presents a profile of the sample group.

A detailed interview schedule, *Appendix B*, was drafted before the interview process began. This was based on key themes identified through a review of relevant literature that was deemed to provide background to, explanations of, and insight into how entrepreneurship could be harnessed through the franchise system. The questions asked were meant to gain as detailed as possible perceptive and experience based responses from the participants and were thus open-ended in the main, although there were a few closed, profile type questions. Question 18 made use of a numerical scale in order to assist respondents accurately describe their responses. There was never an intention for these responses to be used in a way that implies empirical significance. However asking respondents to grade and then substantiate their responses, allowed the researcher to probe into the perceptions and reasoning behind the grading.

It may be reasonable to expect that criticism is raised regarding the line of questioning in Section E of the interview schedule. It should be remembered that a key understanding to be taken out of this dissertation would be a determination of whether the franchise experience has in any way impacted on or influenced an owner's plans for future entrepreneurial endeavours. Most of the questions to the franchisee sample group are asked with the intention of getting them to relate their experiences since coming into the franchise and then analytically comparing them to the entrepreneurship and franchising literature to determine the extent of their development as entrepreneurs. However Section E explicitly asks about their plans for the future; whether they expect to stay in business; will it be independent ownership or will they remain within the franchise environment. Certain readers may express slight concern that the results of such questioning may be somewhat diluted as they are in effect responses to events that have not yet happened.

Comfort in this respect is taken from the methodology of Kaufmann and Stanworth (1995) who examined the franchise purchase decision. This was done with a sample of prospective business owners identified through their participation in a franchise expo. As these were in effect just prospects that had not yet made the purchase decision they were very much in the same perceptive mould as this dissertation's franchisee sample group for the line of investigation in question. That said, it can be noted that these perceptions of the future are not the only result source in this dissertation and, as explained above, are seen as complementary to the exploration of actual experiences in determining the ability of franchise ownership to influence secondary entrepreneurial events.

The first two interviews conducted were used as pilot-tests. According to de Vaus (2002) a pilot-test is run to ensure that the participants understand the intended meaning of the questions and that their answers are logical. This process also helps to detect defects such as ambiguous questions or structural inconsistencies. In both pilot cases the researcher consulted with the respondent after each interview on issues of clarity and ease of understanding. The responses to the actual interview questions were then reviewed. No substantive concerns regarding the questions were identified, although a change was made to the order in which two of them were asked for the rest of the interviews. The lack of critical deficiencies within the interview schedule allowed the responses received from the two pilot-test interviews to be used as part of the final analysis.

All interviews were conducted over a three week period at times and venues of the respondents' choice. In most cases this proved to be at the franchise premises itself. The researcher used this approach as it was easier to convince these business people to participate if the inconvenience to them was kept to a minimum, and also kept them in a sense of comfortable surroundings. Interview durations ranged between 60 and 90 minutes with all discussions digitally recorded. A rather interesting observation on the part of this researcher was that although the nature and purposes of the project were fully and clearly explained to individual participants prior to the interview, during the introductory discussions at interviews disclosure of the researcher's status as employee of

the dti elicited positive responses in the main and created an impression<sup>15</sup> that the participants recognized value in the project, with a possible positive spin-off reflected in the quality, honesty and reliability of answers.

### 3.2.3 Focus Group

The second phase of the primary research fieldwork was the conduct of a focus group. Morgan and Spanish (1984) talk explicitly about using focus groups to increase the effectiveness of other techniques. Ajayi-Obe et al (2006) demonstrate an example of this by using a single focus group that consisted of a panel of academics (experts in their research topic's fields of investigation) in order guide them in generating an interview schedule for their second qualitative data collection technique. Denscombe (2003) advocates the interchangeable use of qualitative techniques in order to corroborate findings of the previously used method. This researcher saw fit to draw on this knowledge and juxtapose the approach of Ajayi-Obe et al (2006) and make use of a single focus group that consisted of a panel of relevant experts who were asked to holistically discuss core issues and themes related to the topic of investigation. This was done post interview stage as a method of corroboration and validation, with the lines of questioning broadly covering the same ground as that of the interview process. The topical guideline, attached as *Appendix C* bears testimony to that.

A purposive sampling technique was again used in sourcing participants for the focus group. This was suitable in that the required data was to be drawn out of expertise that would be deemed unique and specific in nature. The researcher wanted the profile of the group to reflect a balance of expertise across the fields of small business, entrepreneurship and franchising. A panel of seven participants was sourced through internet research and referrals from senior dti officials. Thus a balance was achieved in setting up a focus group that not only reflected a balance in expertise across the three fields mentioned above, but also a cross-section of expertise gained through academic, private practitioner and policy creation and implementation channels. *Appendix D*

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<sup>15</sup> This is a personal opinion of the researcher, and not an intended strength of the research design

presents a profile of this panel of experts. The observed advantage of having panel members of such esteem is that there appeared to be full participation and healthy debate from all members and no one individual was really allowed to dominate discussions. This allowed for a relatively smooth moderation process.

The focus group meeting itself took place on the 16<sup>th</sup> of August 2007 between 3 and 5pm. It was held at a boardroom of the dti offices in Pretoria. It was the researcher's belief that this venue would lend an element of professionalism and legitimacy to the meeting although it should be again noted that all participants were clearly informed about the nature and purpose of the research. The researcher served as moderator, and an assistant took notes. The entire meeting was also digitally recorded.

#### **3.2.4 Alternative Methodological Consideration**

The qualitative, two phase combination of structured interviews with a sample of first time franchisees and a focus group in the form of a panel of experts, as described above, was at the time deemed to be most appropriate in conducting the primary research that allowed one to investigate the ability of franchise ownership to influence venture generating entrepreneurship amongst those with no previous business ownership experience. This should not denote that alternative designs were not considered.

The most attractive alternative was the case study method. This would have also been qualitative and exploratory in nature, and would have looked to identify cases where first time franchisees, who were also first time business owners, went on to set up independent operations either while still operating as a franchisee, or having left the system and now operate solely as independent entrepreneurs. These would have represented a substitute sample group to that used in this study. The advantage of this method is that the results would have been totally based on an actual event (that of moving from franchising to independent ownership) and as Denscombe (2003: 32) points out, a case study approach can be useful when one wants to focus on a "particular phenomenon with a view to providing an in-depth account of events, relationships, experiences or processes occurring

in that particular instance.” The problem faced during the conceptualisation of this study was that there was no guarantee that the desired case profile(s) did exist and if they did there was no assurance that we would have been able to identify such a sample group within the constraints of this study. It is reasonable to assume that if a first-time franchisee did leave the system and open an independent operation there would have been no reason for the original franchisor to maintain contact with this individual, and even if they did, there was no incentive for this information to be disclosed to us. In the case that the franchisee set up an independent operation while still part of the franchise network, there exists the possibility that the franchisor remains unaware of this secondary business, and even if they are, may have been reluctant to identify the franchisee in question as it could have been associated with a connotation that all was not well within the franchise relationship and the success of the franchise system, hence the franchisee was forced to explore other business options. There is also no publicly available information on the background of business owners; be they independent or franchisees. A way around this would have been to contact financial institutions who would have collected such information if they were approached for funding for the post-franchise business desired in our identified profile. Preliminary enquiries to several financial institutions proved unsatisfactory as they were bound by confidentiality requirements. This approach would have also made the assumption that these post-franchise businesses were indeed funded by external finance sources, which may not necessarily have been the case. These very real issues of identification made the choice of a post-event, case study approach unsuitable at the time. That the researcher was coincidentally able to identify suitable cases during the interview process means that this approach becomes viable for further research interventions in this field.

### **3.2.5 Data Analysis**

The data collected out of the two fieldwork stages was fully transcribed from the digital recordings in preparation for analysis. It was at this point that a further data validation

step - respondent validation<sup>16</sup> - was implemented in order to supplement both the triangulation and the analytical process.

This involved the raw data emanating from the focus group session. The concept of using a panel of experts was extremely beneficial but it was not within the researcher's means or interests to run more than one. The breadth and depth of collective expertise within the conducted focus group would have been hard to replicate, and it is doubtful if the results would have differed greatly. However what was necessary was that the researcher fully and correctly captured the essence of the discussions and eliminated any misconceptions or misrepresentation in his interpretation of the data as there were no further groups with which to benchmark or identify areas of commonality and difference. In order to do this the transcript of the focus group was analysed, with the key themes and representations drafted into a report. This report was then emailed to each member of the panel, with a request that they check for factual inaccuracies or misrepresentation. It was specifically requested that no new viewpoints were to be incorporated.<sup>17</sup> Follow up emails and telephone calls to the participants revealed complete satisfaction with the researcher's interpretation of proceedings. This allowed the researcher to confidently commence with the main analysis as per the requirements of this dissertation.

Thematic analysis was considered the most appropriate analytical technique. The data from the structured interviews and the focus group needed to be sorted according to the most prominent and recurring themes and concepts (Ritchie, Spencer and O'Connor, 2003). Though the thematic analysis was a demanding process, it was useful in that it helped the researcher explore the depth of the collected data. This was aided by the relatively small size of the sample, an approach advocated by Chaudhry and Crick (2005:352) who argued that "In terms of data analysis, the relatively small number of firms permitted careful checking for systematic patterns of response, as a means of validating the data, as well as searching for idiosyncrasies requiring further examination and interpretation." When conducting the data analysis process, the researcher found

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<sup>16</sup> As termed by Lewis and Ritchie (2003)

<sup>17</sup> See attached *Appendix E* for copy of this email.

sufficient evidence that the themes and concepts emanating from the data were repeated sufficiently through both data collection phases leading to a belief that an increase in the sample size would not necessarily have been accompanied by a significant change in the findings of this study. ]

### ***3.3 Limitations***

It is acknowledged that there exists an element of limitation regarding the generalisation of this study due to representivity constraints. The relatively small sample population of first-time franchise business owners is not necessarily an accurate representation of all first-time business owners in South Africa. Thus it will not be possible to absolutely prove a causal link between franchise ownership and the proliferation of entrepreneurship. In mitigating this, it can be re-iterated that such generalisation was never the sole objective of this study. More important is the indicatory value of the results.

There was another limiting challenge identified during the course of the sampling process. Although the Durban metropolitan region was at the outset deemed economically large enough to draw the sample from, it was later found that there was comparatively very little representation of first time entrepreneurs to be found within the systems of several larger, well known franchise brands. It was discovered that because the demand for franchise ownership has outgrown the economically viable availability of outlets, larger brands such as KFC and Nandos implement policies that gives preference to new opportunities to their existing franchisee network or already established businesspeople. This is obviously done on the premise that such owners will be better for the brand as their development period is minimal. The Gauteng region hosts a significantly larger number of first-time business owners amongst the franchisee set because the market is large enough to accommodate them. This knowledge emerged through the researcher's contact with both the franchisor and franchisee communities. Thus although the sample profile comprised first-time business owners representing various systems, a claim cannot be made that it is totally representative of South African

franchise systems on a whole. This should not take away from the examination of the franchise concept though.

### ***3.4 Ethical Considerations***

This study was only conducted after approval from the University of KwaZulu-Natal Human Sciences Research Ethics Committee. The principle of informed consent was observed through all stages of the primary research. Following the guidelines of de Vaus (2002), participants were informed about a range of matters relating to the study including its purpose, selection criteria, identity and credentials of the researcher, and how the information obtained would be made available to them. Informed consent is considered crucial in that participants are made fully aware about their rights in respect of voluntary participation (Lewis, 2003). Signed consent was mandatory in order to protect both the participants and the researcher from later repercussions especially with regards to issues of disclosure and confidentiality. Attached *Appendix F1* is an example of the informed consent documents supplied to the interview participants while *Appendix F2* is the signed informed consent document used with the focus group. All participant names and other identifying characteristics were only published upon possession of a fully consenting declaration. Amongst all participants there was just one interviewee who requested limited disclosure and all references to him in this document are done under pseudonym.

### ***3.5 Chapter Summary***

This chapter provided a detailed description of the theory behind and practical implementation of the dissertation's qualitative research design. Mention was made of an alternative design considered and this was followed by an explanation of the thematic method of data analysis. Attention was then drawn to the limiting and ethical considerations associated with the study. The following chapter moves on to present and discuss the findings emanating from the processes described up to this point.

## *Chapter 4*

### *Data Presentation and Analysis*

*Tell me and I'll forget; show me and I'll remember; involve me and I'll understand. (Chinese proverb)*

This chapter reports on and provides critical commentary on the results of the primary research. Key themes are identified from transcripts of both the interviews and the focus group discussion and these are described and analysed below. Selected quotes are presented in order to reveal the richness and depth of the data.

#### *4.1 Context*

In providing a context to the core discussions, the importance of the small business sector to a developing country like South Africa is re-iterated. This was posed to the panel of experts and their response was fairly consistent with the literature. Small business is seen to be a driver of job creation, which in turn increases economic development. It is also a significant contributor to the country's GDP. Transformation within the economy can be fast-tracked with more effectiveness and efficiency in a small business setting. Small enterprises create opportunities for young people to enter the world of business and progress through the ranks at a faster pace than in larger companies. The skills and knowledge transfer occurs more rapidly in small business settings. In small businesses one doesn't necessarily have large numbers of positions in the firm, but there is the advantage of being able to recruit, train and even multi-skill unskilled people, who would often be unsuited to corporate employment.

A second question posed to the panel of experts enquired on the constraints to growth of the small business sector. Capital and access to finance was mentioned as a key constraint. Another restriction discussed was the perceived bureaucracy and compliance issues associated with opening a new business. This was especially seen to be hindering the inclusion of informal business into the mainstream economy. A further obstacle was

found to be the apparent lack of take-up with regards to information available on starting a small business.

Entrepreneurship and its dynamic levels within the economy were mentioned as of great importance to developing the small business sector. This allowed the moderator to probe on whether (aspirant) entrepreneurs in South Africa were sufficiently skilled to make the step over into sustainable venture creation. This issue of skills, or lack thereof, was debated. An anecdotal viewpoint was expressed that people who want to enter business often do not consider themselves insufficiently skilled to make the jump. This was countered by citing the scientific results of GEM research which shows that *“a significant percentage of those interviewed did not believe they had the skills to run a business”*.

The discussions brought about to the question on constraints to growth in the small business sector are valuable. Firstly they are supportive of the broader literature on factors that influence the spread of small business. Secondly the fact that entrepreneurship as a concept was explicitly mentioned as an influencing factor, means there is recognition that small business creation will be stimulated on the back of entrepreneurship enhancement within an economy. Not only is this consistent with the literature, but it also lends support to the aims of this research, which is in effect to investigate ways of developing the kind of entrepreneurship abilities that ultimately could have a positive impact in expanding South Africa’s small business sector.

The introductory discussions presented above allow us to support the literature which finds small business proliferation to be a vital development policy, as well as that which is supportive of the role that entrepreneurship as a distinct concept plays in this proliferation process.

## 4.2 Initial Entrepreneurial Ability

The first real point of interest in investigating the initial entrepreneurial ability of the first time franchisees was to enquire from the respondents in the sample group on what made them embark on a path of business ownership.

An initial scan of the responses reveals much to support the literature on two key personal attributes identified in Chapter 2.

Entrepreneurs have a need to achieve and be rewarded for that achievement:

- *I suppose it has always been a long term goal for me, I don't want to look back when I am 50 and say I should have done this and I should have done that. While I was still young I wanted to give it a bash. (Nick)*
- *I was looking for financial reward ... therefore getting into a business would have allowed me to achieve that in a shorter frame as opposed to being an employee (Ashley)*
- *Because I could sell up one day and I would have an asset. Because I could run it, I am a hard worker and whatever I put into it I could actually sell for a good profit one day (Lilian)*
- *Look no one's going to end up being rich working for someone else ...you going to reap the benefits of it instead of the rewards of the job going to someone else for all your hard work, (Brad)*

Entrepreneurs have a strong internal locus of control:

- *I wanted to be in charge of my own destiny and wanted to be my own boss, did not want to work to make someone else rich. I know I am very hard working and I was working for someone else. But I wanted to do it on my own (Ashton)*
- *it was worrying so for that reason I decided to start my own business and make something for myself...at least now I am controlling my own destiny (Willy)*

- *...to be my own boss, get out of working for someone else, being in charge of your own destiny as such. (Rob)*

The responses quoted above are valuable in that they highlight to us that these first time franchisees came into the business environment spurred on by the kind of attributes typically associated with entrepreneurs as defined in the literature. That on its own is interesting as it initially suggests that the people attracted to the franchise concept may be entrepreneurial in nature before embarking on franchise ownership (before even deciding on the franchise as a vehicle of that ownership). A point of caution must accompany this suggestion though. This suggestion may in turn be affected by the composition of the sample group. The criticism of the sample group as mentioned in Chapter 3 is that it may not necessarily be a complete reflection of the broader franchising community. The restrictions faced by potential first time franchisees in accessing suitable options within the larger, well known franchise groups, especially in Durban, due to those franchises giving preference to their existing franchisee network or already established businesspeople, may have meant that the only franchise options available to them would have been amongst the more emerging, young franchise brands. These emerging brands, and by association the franchisors who developed them, may have during the franchisee selection process been prone to select franchisees based on their entrepreneurial attitudes and tendencies that would serve to grow the overall business as described by Spinelli et al (2004) and Ajayi-Obe et al (2006). Thus the strong entrepreneurial psychological make-up displayed by several of the sample group's members may be a reflection of this. That noted, it could be stated that although the members of this sample group have entered into a business for the first time, some of the inherent psychological attributes that drove them to a path of business ownership are not much different to the "entrepreneur" as defined in Chapter 2.

Of contrasting interest is the response of the expert focus group when questioned about why one would look at moving into the world of business ownership. Although support was given to the attribute constructs: *"... are also the psychological attractions such as being the master of one's own destiny, being your own boss, and not being constrained*

by the 'glass ceiling'," an important point was made with regards to being able to exploit an economic opportunity:

- *An entrepreneur will identify an opportunity and go for it*
- *The pull factors (to entrepreneurship) are the opportunities that are continuously arising out of a growing economy like found in SA*

This is of importance if we consider that exploitation of an economic opportunity was identified within our definitional framework of entrepreneurship. Yet not one of the franchisee respondents spoke of moving into business to exploit an opportunity. Their focus was more to satisfy personal needs and ambitions. Part of this may be explained by the feeling expressed within the focus group that the build up of entrepreneurial skills and experience is often a determinant in the ability to spot an (economically viable) opportunity and start a business.

Thus we are able to see that although the first time franchisees, when questioned about their initial decisions to enter the business world, reflected some of the attributes and behavioural tendencies commonly associated with entrepreneurs, there appeared to be no real evidence to demonstrate their ability and belief in being able to identify and exploit economic opportunities as per the entrepreneur of our definition. This is interesting in that if we refer back to the distinction between small business ownership and entrepreneurship in Carland et al (1984), we see that pre franchise experience, the respondents appear to be more in small business ownership mode rather than an opportunity exploiting entrepreneurial mode. This has important implications when one attempts to describe the initial state of entrepreneurship associated with the franchisee group.

Members of the sample group were also questioned regarding their choice of franchising as their first form of business ownership. Their responses prove useful when attempting to understand their initial entrepreneurial capacity.

More than half the respondents selected franchise ownership because of the perceived security and decreased likelihood of failure due to the nature of the franchise relationship. The knowledge that there were strong support systems in place was seen as a source of comfort and security.

- *I think you know just to venture out, its like falling from the Eiffel towers and you do not know where you going to land, I think franchising give me bit of security... I have done a lot researching on franchising, chances of success is far greater than starting a business on your own and that's the only reason (Willy)*
- *Ok the reason why I chose franchising was mainly I wanted something that I know would work and I was not sure, I was a bit scared to just go on my own (Nellie)*
- *...I saw a number of businesses start and fail, I think lots of this is due to a lack of knowledge of how to run a business properly...(franchising) will hold you in good stead because of the support and training, which would be provided to me, as opposed to finding out on my own (Ashton)*
- *You've got a back up...you can still **go to the franchisor** and ask him if you doing something wrong, or is it **going** right (John)*
- *So it was attractive to be part of **the Famous Brands** franchise system because they're so large and obviously the **support structure**. Also the perceived security that comes with that (Nick)*

Another common response proved to be the **attraction** of the packaged nature of a franchise operation. The fact that a lot of work **was already** or would be done for them was seen as important to certain participants. **Knowing that** the output of this work was correct and proven meant there was less chance **of** mistakes being made if it had to be done on their own.

- *Well the work has been done **for you... everything is sort of set up** for you in terms of the training etc (Rob)*
- *Well its essentially a turnkey **operation, everything is done**, the computer system is done for you, the methodology **is set in place** and you just follow that (Mike)*

Another key reason for selecting franchise ownership was brand association. Respondents believed that buying into an existing and established brand gave them a sense of security in knowing that there was already a market and product acceptance.

- *...people can relate to it; you don't have to do the marketing, research, and advertising that is done for you already. People are very brand oriented in any country, South Africa especially. You get quality products which franchisors have tried and tested you don't have to go and do that now, it's actually very easy (Yvonne)*
- *so I decided it was maybe best if I go under a certain brand (Nellie)*

It was also believed that buying into a franchise would prove easier to finance than embarking on independent ventures. This is due to perceptions of heightened corporate governance within a franchise system, and financiers knowing that the system was tried and tested.

Thus it is apparent that perceptions of increased security in some form or the other, be it the support systems, the association with an established brand or even the greater likelihood of being funded, appears to be the broader premise identified as why these individuals embarked on franchise ownership. It is important to note that this decision was in several cases not mutually exclusive. Respondents spoke of how other options were considered, either as setting up independent operations or purchasing of an existing independent business, but for all them the franchise option proved most attractive in mitigating some or other risk associated with other business forms. It was just one respondent who claimed to be oblivious to the benefits of franchising conceptually, and for her it was the product that was appealing in that it was something she believed in.

The responses presented above are very much in line with the literature, and this standard is further reflected in the response of the focus group when asked about why franchise ownership would be attractive to first-time business owners. These experts believed that franchising represented a tried and tested concept as well as a proven method of running the business. The backup support and training benefits were also mentioned. Key again

was a belief that the early failure rate is lower when compared to independent start-ups. There is also easier access to finance through commercial financiers because of the perceived greater chance of success. Another advantage is that there is an access to knowledge and technologies that one would otherwise have to learn on own. The brand and goodwill that is already built up is seen as an “immediate” asset that can be sold at a profit much quicker.

Except for the comment on a franchise being an immediate saleable asset, all the other benefits can largely be grouped as representing a certain level of security. Coupled with similar data emanating from the interviews, these results allow the researcher to suggest that within the scope of this sample, the perceived association with security in franchise ownership is the predominant theme highlighted in respect of why franchise ownership is attractive to an individual with no previous ownership experience.

The data analysed so far raises an interesting point. It is reflective of a rather mixed response in terms of whether these franchisees can initially be regarded as entrepreneurs or not. Supporting attributes include being achievement driven and having strong internal loci of control. Question marks can be raised about their levels of risk propensity and heightened need for security, while it is apparent that there exists little or no proof of opportunity seeking behaviour.

This classification is important in that if the franchisee sample group can conclusively be initially described as entrepreneurs, then there is no further value to be gained in analysing capacity enhancement through the franchise experience. The results of this research provide inconclusive evidence to argue that the first time franchisees are initially entrepreneurs as per the required definition. The evidence reflected is in line with the incoherence of the literature in classifying franchisees as entrepreneurs.

It can, however, be argued that it is reasonable to describe the franchisee group as initially un-entrepreneurial at worst, and inexperienced or under-capacitated entrepreneurs at best. This is by virtue of the group not comprehensively reflecting the

key principles identified through the entrepreneurial definitional framework of Chapter 2. This is important in that it allows one to report on developments through the franchise ownership experience with an understanding that improvements made in developing attributes or skills identified with entrepreneurship, can be deemed as entrepreneurial capacity enhancing.

### ***4.3 Practical Entrepreneurial Capacity Building through the Franchise Experience***

This section presents and analyses data that demonstrates how practical elements of the franchise relationship outlined in the literature review contribute to the all-round entrepreneurial capacity enhancement of the sample group members. The focus is on highlighting actual experiences that occur through various facets of the franchise relationship, which can be seen as relevant in developing entrepreneurs on the whole.

#### **4.3.1 Setting Up the Business**

One of the first practical experiences that the franchisee has after making the franchise purchase is the process involved in getting the business up and running. The sample group was questioned around their own and the franchisors' involvement in the setting up process. The results reflect a range of differing experiences.

There were two streams of assistance when it came to issues of site selection and fitting out of business premises. In the first stream, three franchisees were recipients of fully turn-key type operations. Their involvement was minimal if any.

- *The franchisor did everything, I paid the money and on opening day I walked into the store and there was milk in the fridge for coffee (Mike)*

For the others there appeared to be varying levels personal input on their part. There were four instances where the franchisees were effectively given carte blanche to find themselves a location, and were then given specifications to which they had to conform,

with the franchisor playing more of an inspecting role to ensure that the requested specifications were adhered to. Besides that there was no further assistance.

- *Basically they gave me some sort of guideline, this is what we think you should look at, but no, they did not choose the premises, I made the decision.* (Willie)

For the remaining franchisees there was a strong element of co-operation between themselves and the franchisor. Assistance was received in areas such as site selection and lease negotiation to the satisfaction of both parties. Shop-fitting and layout was often controlled and franchisors either specified suppliers of these services or advised during the franchisee's negotiations with their own suppliers.

- *They found two suitable locations. The Crescent in Umhlanga and this one, so I settled on this one, then they advised on using their shopfitter as I mentioned, and also dealing with suppliers. I had the option to deal directly with the suppliers; I did not have to go via them, if I wanted. So I got involved in building relationships with the suppliers, even though they introduced me to them.* (Nellie)
- *...assisted with finding premises, together with my staff and with signing of the lease. Everything else was done by me. I had to source the infrastructure the furniture, stock and effectively setting up the business, which they approved of as we went along* (Ashley)

In commenting on this issue of site selection and fitting it is worth referring to the literature review, which identified it as one of the crucial early factors in successful venture creation. Both Knight (1986) and Frazer (2004) found evidence of strong franchisor involvement in these areas. Our results are slightly different. Responses ranged from strong to minimal involvement on the part of franchisors. There are two apparent reasons for this:

- It is possible that the limitation of the sample referred to in Chapter 3 and Section 4.2 regarding the participation of younger, growing franchise systems, may have led to a case where standardised franchisor policy regarding these issues had not yet been decided on and franchisees were left to sort things out as best they could. Both Nick and Yvonne make reference to this when talking about how different

and more structured things are for new franchisees coming into the system in the present day.

- A second reason, and one that crops up in various other issues discussed later, is the lack of legislated franchise regulation in South Africa. Both Knight (1986) and Frazer (2004) completed their studies in countries, Canada and Australia respectively, that have franchise specific regulations (Maisonneuve et al, 2003). In South Africa franchisors are not governed in respect of what they actually provide at start-up and franchisees have little effective recourse, should this provision prove unsatisfactory. FASA does outline areas of assistance that a franchisor should provide (FASA 2006), but again it is noted that they have minimal authority to deal with non-conformers, especially if those are not FASA members.

There is a point of interest to come out of this. All bar one of those franchisees that were involved in the start-up preparations found the learning experience challenging, rewarding and educational.

- *Yes it helped me a lot especially with my own businesses that I opened later. For me it was an absolute learning curve. Very challenging. I enjoyed it. I must say that is not why you buy a franchise. But I then knew logistically what opening a new business would be like (Yvonne)*
- *I think it has prepared me even if I had any business I would know what goes on because in terms of setting up I actually was involved in most of it (Nelli)*

Further learning experiences were gained in processes such as business registration, complying with licensing requirements where applicable, and miscellaneous issues such as utilities connections and getting tax compliant. In most of these instances franchisor assistance was advisory in nature, either up front or when asked for.

The evidence presented so far indicates that two streams of franchisor assistance exist with regards to setting up the business. Where outlets are purchased turn-key, there appears to be very little developmental effect on the franchisee. In cases where there is

joint participation of both franchisee and franchisor in the start-up phase of a business, significant learning may be gained by the franchisee in dealing with the processes of actually starting a business.

#### **4.3.2 Training**

The literature made it clear that one of the major drawbacks of franchise ownership is the emphasis placed on training and development of franchisees. Training is often seen to consist of two phases, initial and ongoing. This investigation built on this by primarily asking members of the sample group to talk about their experiences of initial and ongoing training respectively.

The initial training phase occurs when the franchisee first enters the system. This phase of training is often regarded as obligatory for the franchisor to provide and costs are included as part of the franchise purchase fee (FASA, 2006). The focus group was adamant that this training of franchisees was not only the first, but often the most important stage of knowledge transfer within the franchise relationship because it is at this point that the basic building blocks are set in terms of how to make the business a success.

The franchisee group was asked to describe in detail their experiences of and the outcomes of the initial training.

There is disparity in the results of this line of questioning. This first shows up in terms of the duration of initial training. Four respondents received training of three days or less. Four respondents received training of one week. Three respondents were initially trained for a period of two weeks or more, while one declined to participate in training<sup>18</sup>, although he was aware that it lasted two weeks and was given an outline of what it was meant to cover.

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<sup>18</sup> The reason given was that he took over the franchise in December and there was greater need for him being there during such a busy period. Relied on the operations manual and existing staff to get up to speed.

For those that received the shortest length of training the content was mostly focussed on product and, to a slightly lesser extent, procedural knowledge. Two were trained in an existing franchise outlet and the other two at the franchisor's office. Three franchisees considered this period to be of high intensity while one was distinctly unimpressed. In a trend that is mirrored throughout the sample, the supply of an operations manual is deemed to be part of this training process. The application of this manual during the training period varied. For example, Willie was given the operations manual and told to study it over a two day period, and ask questions when he didn't understand anything. That was the extent of his training. Mike and Brad were supplied with manuals, introduced to the content and proceeded to spend the rest of the time practically learning in an existing outlet. In all four cases there was no real emphasis placed on the development of generic business skills<sup>19</sup>.

One is able to see more holistic content in those whose training period lasted for a week. Although there was still a strong bias towards product and procedural training, focus was also placed on other business skills development issues.

- *They showed us the ins and outs of real estate as well as it showed the operational procedures. Also taught us things like how to get VAT registered, importance of keeping proper accounts (Ashton)*
- *I think it has its own positive contribution. There were a lot of different presenters; people from labour, accountants, people who are actually doing signage, the suppliers of materials, which are used to manufacture signs and to know how to relate to suppliers. It formed a good base for me (Gero)*

Once again all but one of the franchisees found it intensive in nature. Nellie, who spent the bulk of this time being trained at existing outlet found the experience to be motivating. The operations manual and its explanation was part of all training sessions, and Gero touches on the value of this tool by mentioning how *'It's helped me in a lot of*

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<sup>19</sup> These refer to experiences that assist in development of those areas of competency identified by Brown (2007) in section 2.2.3

*places, especially sales and marketing as it has a lot of strategy and even if somebody is coming to market their products I use that operating manual”*

It can be noted at this point that the review in section 2.3.2 separates the operations manual and training as distinct modes of knowledge transfer. This researcher sees no real harm in referring to them jointly in this section as all of the sample group have mentioned this as part of their training. It must be remembered though that the operations manual in this case<sup>20</sup> should be seen as a tool of any training process and not a substitute for the training itself. This is reflected in the dissatisfaction expressed by Willie earlier.

The disparity in training outcomes is clearly apparent when analysing the data of those who received training for two weeks or longer. John described his training as a combination of business and technical knowledge. Because his franchise’s products were very technical in nature a significant amount of time was spent in learning how they operated etc and John believed that although important he would have appreciated greater generic business skills training. However he did receive training in general business issues such as financial and stock control, using the Pastel accounting software package, supplier negotiations and certain labour law issues. Ashley had a similar experience, in that his training was highly specialised with regards to the nature of the service but he also spent a lot of time with the franchisors learning how they worked on financial projections, their strategies for attracting staff of suitable talent and their approach to marketing the service to clients. The most telling and positive initial franchise training experience came from Rob and his self-explanatory description is worth repeating in detail:

- *The training was excellent, it was 2 ½ weeks full time course in Australia, we covered from 8am to 6pm, Mondays to Saturdays, Sundays you had to do a shift in the corporate store in head office, it was actually very intensive and very hands on, it covered every avenue of business from why you here, at the end of it you*

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<sup>20</sup> The literature was distinct in its classification of the operations manual as a mode of knowledge transfer. This section does not dispute this, but does not analyse it separately, as the operations manual itself cannot represent an experience. Its applicability is referred to in various parts of this chapter in playing a role that contributes to a certain experience. This differs from the other two identified modes i.e. training and mentorship, which are described here, as they can be regarded as self-standing experiences.

*have to write a business plan for your store, you have to do a marketing plan for your demographic, what you setting your store up in and they gave you the tools, you had to do a session on rostering, on food, you did a full serve and prepare espresso coffee course, and that ran for a couple of days during the two week period, so you physically have to learn how to make coffee, they had a full kitchen set up within the office, we did a stint on law, like for lease negotiating just to make franchisees aware of the legalities involved, a lot of it was on motivation and how the company has moved forward. You basically walk out of that training feeling like a rock star; it was unbelievable training and it was almost like I wanted to phone some of my past employees and get them to tap into some of the bits that was covered, it was almost like doing a mini MBA and I made that comment, saying "Gee, I've learnt more in the last two weeks than I have doing 7 subjects of an MBA". We were given an operating manual with dividers for every facet of the business and a local store marketing manual as part of our tools of the trade, its almost like a bible that you can refer to it, has everything you need, store reports, there is your local store marketing guide, artwork for doing your posters and your flyers. It's comprehensive. Yes, I believe I was totally equipped through a comprehensive training process (Rob)*

Ongoing training was found to be less common and formalised among the sample group. Just one participant had experiences of regular and structured ongoing training.

- *Those are quite intensive, they try and do lots in a short space of time; they cover things like how to run an office efficiently and how to motivate and get the most out of your agent (Ashton)*

It is noted that Ashton is the also only franchisee who pays a monthly training levy. This is expected to cover the training needs of both him and his staff. Regular assessments are made by the franchisor to determine areas that can be improved upon.

Three participants admitted to receiving no ongoing training. For the remainder training was ad-hoc, with costs in most cases having to be borne by the franchisee. This is regarded as a hindrance. Training also centred mainly on product knowledge and updates

regarding new processes and such occurred either at franchisee meetings or was passed on at outlet level through franchisors or their representatives.

It is noted that pockets of generic business skills development do occur through ongoing training. The experiences of Ashton (quoted previously) allude to this. John talks of an instance where he attended a franchisor sponsored course on financial management through the use of business ratios.

- *Last week Thursday I was up in Jo'burg on financial management development skills...how to read your financials to see if the business is growing or not growing and what you can do about it...this is what they doing now and this is what's helping big time (John)*

This section has highlighted that training processes within the franchise system are indeed a primary source of knowledge transfer within the franchise system. Yet there exists disparity in both the implementation and outcomes of the training. The previous assertion regarding the relatively low regulatory levels in the South African franchise sector leading to differing franchisee experiences is maintained in this finding.

It was found that holistic business skills development can be channelled through the training process but this seems to be positively related with the duration of training periods. It is obvious that a franchisor should ensure that his product and process needs are fully addressed. However, there is appears to be value gained in having comprehensive training programmes in place to ensure the development of all-round business acumen. A thought provoking though empirically insignificant statistic is that Rob, who equated his training to that of a mini-MBA, recorded an annual growth rate of 65% in his previous year of operations.

This discussion has indicated that the training processes typically associated with franchising are predominantly used to impart franchise format specific knowledge. This is clearly evident in the experiences of those who had short initial training periods and in

the general outcomes of ongoing training. That is not a criticism of any sort, and is expected. Yet the comprehensive experiences of selected participants is indicative of the potential of franchise training channels to develop a generic business skill set to complement the requisite franchise specific knowledge amongst those of scant business background.

### 4.3.3 Mentorship

Participants were asked to comment on their experiences of mentorship received from the franchisor. The interviewer clarified the concept of mentorship for those who didn't understand it. This prevented any confusion between mentorship and training processes.

Five participants stated that they had no real experiences of mentorship. Of those, three of them believed that it didn't happen because they were doing reasonably well and the franchisor would have seen no reason to implement it.

- *I haven't really seen it happening. I suppose that could be because I am one of the top performing stores in the country. I do know that there is definitely some sort of a system like that in place for new franchisees, especially those that are coming in on the BEE scheme, and the feedback we get is that it is working well.*  
(Yvonne)
- *No its sad to say, like I said maybe its me, maybe they think that I don't need it*  
(Willie)

The other two expressed a wish for greater mentorship and saw value in having such an experience with their franchisor

- *I really wish they would give me some advice, especially in how they were able to access opportunities... Last month I had to write to the government, I have responses from the minister of finance to metro and the mayor and city manager...but no response from the franchisor, or even just to say this is the approach you should try* (Gero)

The remaining franchisees all expressed a belief that some form of mentorship was happening within their relationship. This was seen to take the form of specific advice on a particular problem, praise and criticism, general business motivation and advice on matters of business and personal development, and discussions on how best to approach unique scenarios that they may occur during the course of business.

- *They are really supportive like that. Even if they in town and not on business, they pop by just to see how I am, how the kids are, yes, they have been wonderful with the business coaching and keeping me motivated when times are bad... they look for ways to help us, if we don't know then they will show us and say this is how you do it, like how to reduce times it takes to do something (Nellie)*
- *...he was right and I was wrong, he brought in a couple of angles that I didn't consider. I learnt a lot from that (Rob)*
- *Yes absolutely, the franchisor has been in business for the last 6-7 years doing this type of business so the mentoring and coaching is around their experiences that they had of situations that I experience in my franchise. And they are available to us at all times (Ashley)*

Interestingly enough, certain of the franchisees believed that the open door policy and approachability of their franchisor was indicative of mentorship, and that because their franchise systems were so large, it was unreasonable to expect the original franchise creator to have a formalised mentorship system in place with all franchisees. Knowing that the avenue was open, and using it when necessary was deemed good enough.

- *You don't really deal hands on with them, ... they've got people to advise us... if we do feel we want to go up to the top we just pick up the phone and speak to them, we won't be put through to the secretary or another department. They're very helpful, we can chat to them directly about anything. (Brad)*

Noteworthy results have emerged from this discussion on mentorship. It is apparent that distinct mentorship within the sample group is not as common as training as a mode of knowledge transfer. This is reflective of the general situation of entrepreneurial mentorship in South Africa (Watson, 2004) even though mentorship is a term associated

with franchising. Situations exist where franchisees would like to see more input on this front. That said, in the cases where it is pro-actively happening, it appears to be working well and to the satisfaction and development of the franchisee. The comments of those in the sample group who agreed that mentorship was occurring successfully lends credence to the Du Toit (2004) finding that the franchise environment was suitable to implement and benefit from stronger modes of mentorship as a tool of entrepreneurial development. This is important in that the mentorship concept has immense potential to develop and polish the entrepreneurial skills of inexperienced individuals (Watson, 2004).

#### **4.3.4 Innovation**

The data emanating from questions regarding the franchisees' innovative ability and allowances within the franchise system is crucially informative when taken in the context of entrepreneurial capacity enhancement.

Ten out the twelve franchisees responded that they were able to apply innovative practices at some point during their franchise experience. Of the other two, Mike explicitly refused to innovate as he believed it was contrary to the spirit of franchising, while Nick was ambivalent and had not seen the need to innovate up until that stage.

The first important point to come out of the discussions with those that did innovate was that all innovation was subject to franchisor approval. There was no instance where a franchisee made significant changes outside of the format and standards of the franchisor and then kept up with that without the franchisor's agreement.

Secondly, franchisors were seen to support the generation of new ideas and concepts from the franchisee. Conduits exist to ensure that innovative ideas are channelled into the system. More often than not this happened at regular meetings called marketing forums or franchisee forums. The regularity of these meetings ranged from monthly, to bi-monthly, quarterly and annually. In cases where there was no such formal channel, the franchisor was considered to have an open-door policy and the franchisee was able to

approach and suggest innovations or creative ideas on an ad-hoc basis. In several instances it was explained that franchisors would try out franchisee suggestions at company-owned stores before taking them through the system. This was seen as advantageous as there was no real risk to the franchisee in the event the innovation was not successful.

- *The other good thing is that they will always test out new things before passing them on to you. They will run it in a company owned store first and then decide if it will work or not (Yvonne)*

Of further interest was the different type of innovative practices that emanated when participants were asked to describe examples of their innovative practices. In using the grouping structure of Johannessen et al (2001), one can clearly see the emergence of various categories of innovation:

- *New products - They never had a veggy line. I found my own supplier, which they approved, and now I am the only store with a veggy line. Its because of the Indian market you see, and now I am also looking at a mutton line (Yvonne)*
- *New services - we are also going to be trying out a few new things, like offering computer training courses in the evening (Nellie)*
- *Opening new markets – The examples of Yvonne above and John who initially began attracting sports enthusiasts to his security shop by offering products such as high-powered pellet guns and sporting knives.*
- *New sources of supply - the supplier walks into the shop...I could look at it and say its not a bad idea and it could pass, and I could say if you could get a hold of this gentleman (the franchisor) he then will evaluate you as a supplier and the product, they then will do the research, they take you to some shops and you would sell and if it is successful they put it into the store for us to buy or they give us the contact details and you buy directly from them (John)*
- *New ways of organizing resources – Gero, Ashley and Brad described how they were able to make some of their processes more effective and efficient. Gero found a method of tracking her machines' utilisation rates and in doing so see where there was excess capacity and then try to fill that specific function. Ashley*

designed a workflow method that gave priority of output to his highest paying customers and Brad was able to implement a system that was able to speed up and fully track his jewellery repairs through their repair process.

Although various categories emerged in terms of Johannessen et al's (2001) grouping, it must be stated that the purpose of the innovations displayed by the sample group was more consumer oriented and were typically implemented to increase the satisfaction levels of the clientele base. Ashley explicitly mentioned this when describing the environment under which he was able to innovate: *the model is pretty rigid because you working within a framework that's pretty regulated* (his franchise's business environment) *and also very highly ethical and disciplined, so innovation can open us up to other risk factors with regards to poor quality of work etc therefore...if you had to look at our innovation it would be purely on the basis of assistance or in terms of customer centricity, those types of innovation that would support the core business but would not change the core business...*

This prevalence of consumer-oriented innovation within the franchise system is exactly as professed by Maisonneuve et al (2003). These authors also mentioned that it was consumer oriented innovation that formed the basis of new venture creation, leading us to suggest that the franchise system is conducive to stimulating the type of innovative behaviour that is prevalent in entrepreneurs.

The focus group agreed that franchise relationships allow for franchisee innovation and creativity. It was stated that franchisees are seen as the customer interface and good systems have marketing forums or other channels where new ideas, product or otherwise are brought to the fore. A common franchising anecdote was mentioned: *"9 out of 10 new products in McDonald's were franchisee ideas"*.

The evidence allows us to contribute to the debate on whether franchising allows for innovation. We find that the majority of our sample practiced valuable and varied

innovative activity. Franchisors did exert control over the process but were also found to be supportive of it in the main.

We concur with the views of authors such as Ajayi-Obe et al (2006), who argue that franchisees are able to undertake meaningful innovative activities within the paradigms they operate in. Our data was obtained through a different reporting line<sup>21</sup>, but the findings are similar. Further to this we find that the franchise system tends to generate the type of innovative activity that is new venture stimulating in nature.

#### **4.3.5 Summary**

Key findings have emanated from this section, which are crucial in the context of this dissertation. Activities that enhance development of entrepreneurial capacity are seen to exist through various facets inherent to the franchise system. This is evidenced by several of the participatory experiences of first time franchisees.

It was shown how franchisees that played a roll in the logistical processes involved in starting their businesses found this to be a learning experience. Such participation is not always the case, as certain franchises are sold as packaged operations, but as evidenced in our sample, there exists no stringent guidelines in terms of what the franchisor provided service needs to be. It can be stated that franchisor guidance as opposed to stipulation during the start-up phase has a developmental impact on the first-time business owners of this sample.

Training is thought of as a fundamental tool of knowledge transfer from franchisor to franchisee, yet there exists notable variance in the duration, content and outcomes of training within the sample. The implications of these variances are reflected in the learning experiences of the franchisees. The important finding in this respect is that in instances where the franchisee training was comprehensive and of a longer duration or in the case of ongoing training, more regular and focussed, both franchise specific and

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<sup>21</sup> See review of their work in section 2.3.5

general business skills were developed. Franchise specific knowledge should always remain core, as this is what drives the system, but there is indicative evidence that training channels within the franchise knowledge can impart learnings of a generic business nature to inexperienced businesspeople.

Of all forms of knowledge transfer inherent to a franchise relationship, the role of mentorship in developing entrepreneurs proves to be the most under-utilised. In the cases where it is occurring, franchisees were found to be recipients of specialised, nuanced advice and feedback that would not have occurred during the course of daily franchise operations. The literature argues that the franchise concept is an ideal setting for the greater implementation of entrepreneurial mentorship, and we find examples that validate this stance. The selected experiences also allow us to suggest that mentorship within the franchise relationship is a key factor in supporting entrepreneurial capacity enhancement.

The most conclusive results of our franchisees embarking on activities that are entrepreneurship stimulating in makeup is apparent when analysed in an innovation context. There is strong evidence to suggest that franchising allows for innovative activities on the franchisee's part. Mechanisms do exist to ensure that ideas, which are innovative in nature, come through controlled channels but these channels are not seen as stymieing innovative practises. Innovative activity amongst franchisees was of a varying nature, yet all of them were seen to serve consumer oriented purposes. Such innovation is most often associated with venture creating entrepreneurship.

The results of this section are suggestive. Based on actual experiences of the sample group members, there is sufficient practical evidence to point to the franchise concept being conducive to the development of entrepreneurial capacity in those with no previous experience.

The following section reports on a line of questioning that attempted to assess how franchise ownership has impacted on the levels of development of the generic business skills that are considered important for entrepreneurs.

#### ***4.4 Entrepreneurial Skills Assessment***

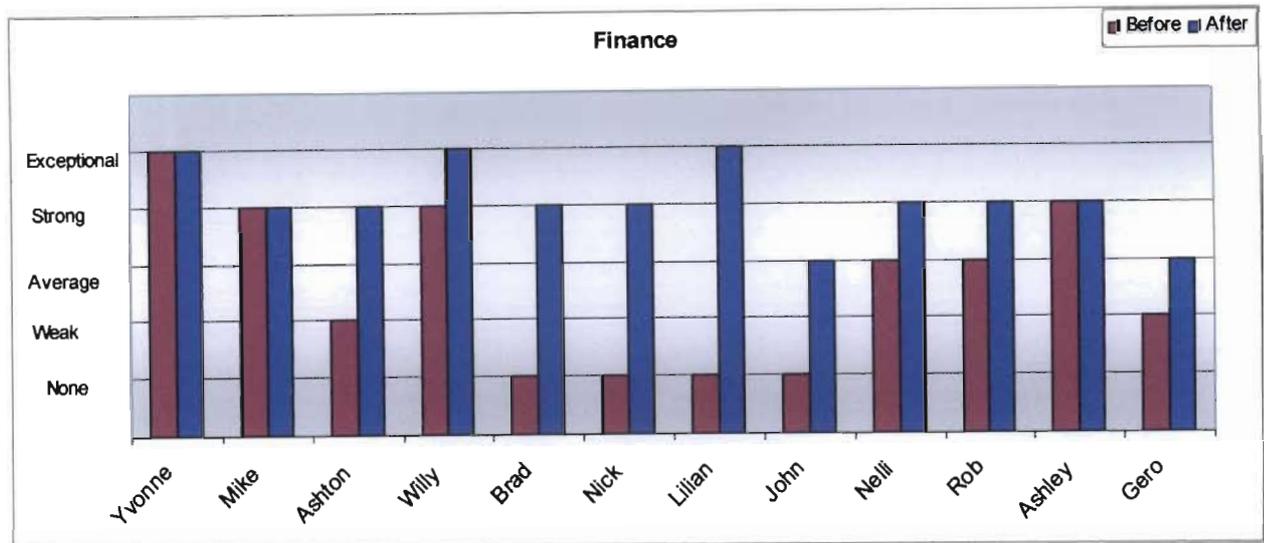
The management school of entrepreneurship believes that entrepreneurs can be developed through the strengthening of their technical management competencies. Brown (2007) identified these as: financial skills, human resource management, operations management, marketing and sales, customer service management, information management and administration. An assertion that there was a link between franchise ownership and proliferation of the management school of thought was put to the expert focus group and they were then asked to identify which of those skills were developed through franchise ownership. The common consensus was that franchising does indeed support the build up of this entrepreneurial management skill set in those with no previous experience, and their identification of the skills matched those suggested by Brown (2007). This validated the investigation of changes in franchisee skill levels in each of these identified skills.

After appropriate definitions were provided for each competency, franchisees were asked to rate themselves in terms of what they thought their levels of strength were before they purchased their franchise and whether this had changed after embarking on the venture. In the event they did change, respondents were asked to explain what they believe led to the change. The levels of strength rating categories for each of the competencies were specified as the following:

1. None
2. Low
3. Average
4. Strong
5. Exceptional

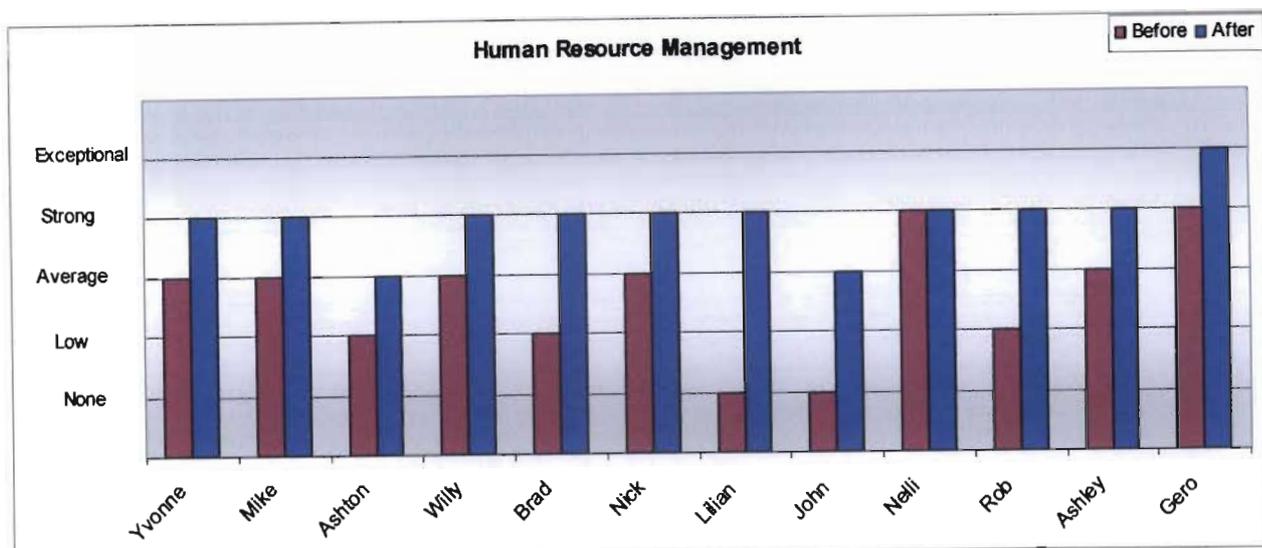
The results are graphically illustrated in the accompanying Figures 3 a to 3g

**Figure 3 a: Financial Skill Levels**



All but three of the respondents believed that their financial skills had improved during the course of their franchise experience. The greatest improvement was shown by Lillian, who considered herself financially illiterate before purchasing the franchise and now believed her skill level was exceptional. Other significant improvements were shown by Brad and Nick, and to a lesser extent Ashton and John. Several participants spoke of using their own initiative to improve their financial skills, such as home study or spending more time with their accountants. Franchisor input in the form of training was seen as another contributor. An important point was made by Nelli, who noted that the process of paying royalties forced her to become more financially astute. Not only did the documents associated with royalty payments require financial understanding, but just having to make that payment made her want to increase her levels of financial knowledge, and she began to draw on many sources, such as getting her franchisor to explain financial concepts that she wasn't familiar with and how they applied to her, as well as engaging with knowledgeable family and friends.

**Figure 3 b: Human Resource Management Skill Levels**



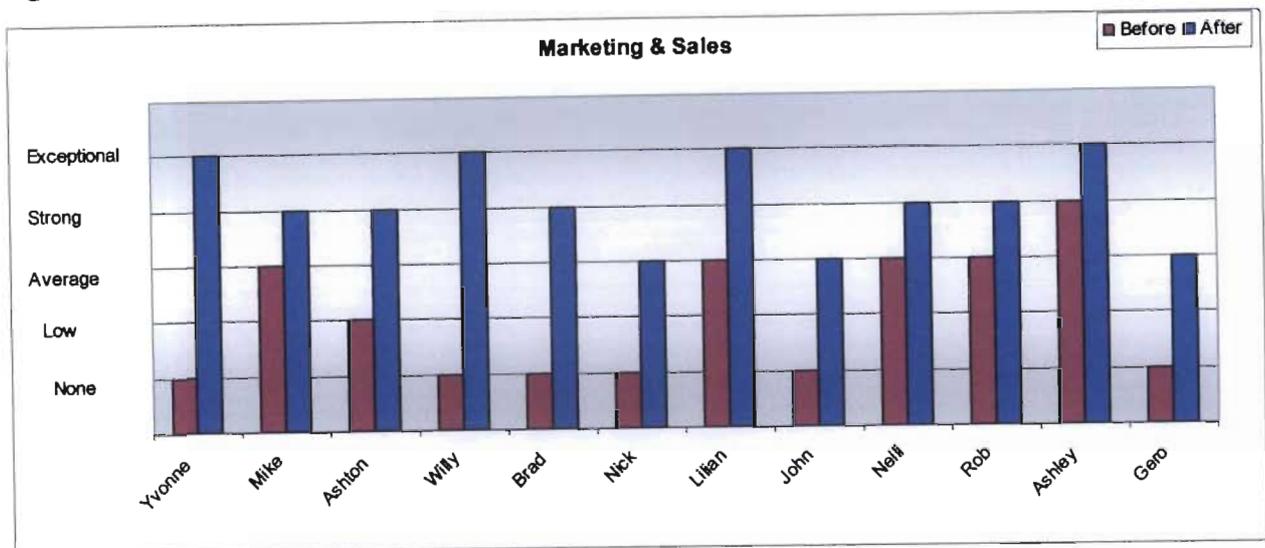
All the respondents except Nelli believed that their skill levels in managing staff had increased. Lilian was again seen to be the greatest improver in this category, stating that she never had to work with others in her previous position and during the course of her franchise ownership had learnt a lot on how to manage staff. Franchisor input was seen to play a strong role in development of this skill. The operations manual was mentioned by three respondents as being vital in providing information pertaining to human resources. Examples of such information included profiles of suitable staff, appropriate levels of remuneration and issues pertaining to labour law. Another source of support was the nuanced advice received from franchisors. Lilian spoke of how she once had a problem retaining sales representatives and after being advised by her franchisor, put in place a strategy to solve this, which she claimed was showing positive results. Nick spoke of a case where his franchisor guided him through his first experience of a labour dispute, which had reached the stage of being referred to the Council for Conciliation, Mediation and Arbitration (CCMA). Training was also seen as a contributing factor. Ashton mentioned a training session that he attended on employee incentivisation, which he maintains was a human resources strategy he had never considered before, and once implemented, resulted in measured gains in staff productivity.

**Figure 3 c: Operations Management Skill Levels**



Increases were seen across the board in this category. Operations manuals were seen as key contributors to franchisee development in this segment. John, one of two respondents who claimed the highest levels of progress, spoke of how he knew nothing about managing a retail operation, but through implementing processes outlined in the manual, his knowledge of concepts such as supply chain management increased. Training was also mentioned by several respondents as assisting in their development. Franchisees such as Yvonne and Brad also spoke of how important immersion in day-to-day operating processes was in allowing them to develop.

**Figure 3 d: Marketing and Sales Skill Levels**

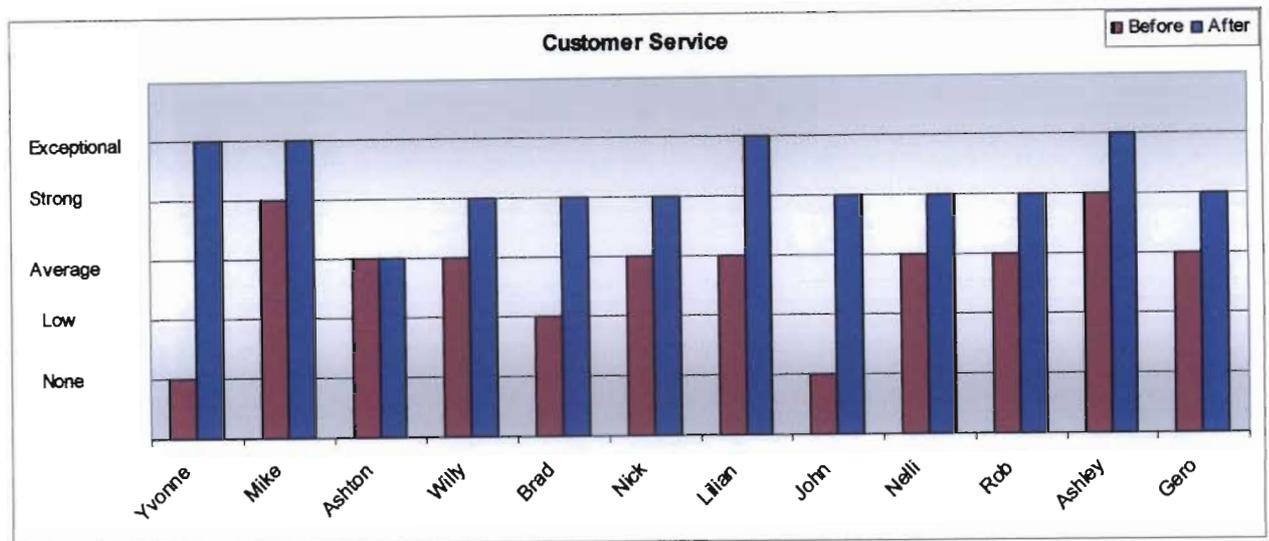


Progress can again be identified in all respondents. Franchisor involvement is seen as key in these developments. Mentorship, training and use of the operations manual are mentioned as leading to these developments:

- *The franchisor and I were discussing ways in which I could grow my business and he would explain to me how I could use the internet for marketing locally, and told me how he was using it to develop the franchise brand (Nelli)*
- *One of the most valuable training sessions I had was the one on prospecting and cold-calling (Ashton)*
- *It's like a cold calling, after you come to the client, you give out marketing brochures, or telemarketing and improve your client numbers and another way it taught us is our presentations. Also emailing our presentations to the client (Gero...in describing the use of the operations manual)*

Although franchisors are ultimately responsible for all broad marketing initiatives, franchisee contributions through local advertising initiatives, marketing forums and individual outlet sales processes are common. The focus group agreed that this competency is the one where franchisees stand to gain significantly as they are constantly exposed to the importance of branding in a business environment. The majority of those interviewed also made monthly contributions to a marketing fund and knowing what this was spent on was a way of learning when different marketing techniques are used.

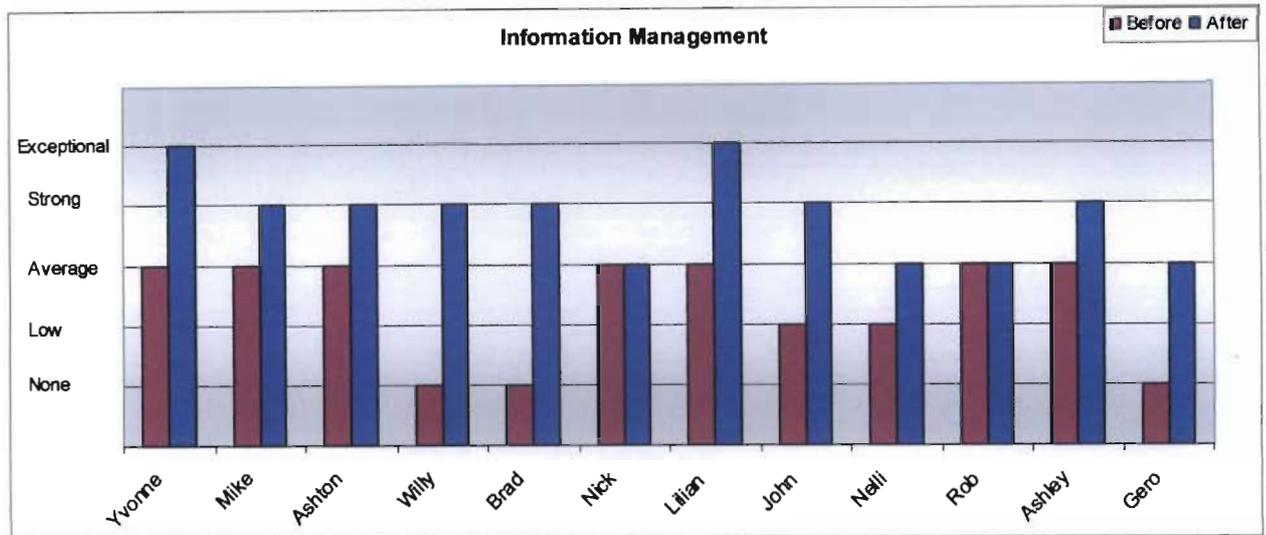
**Figure 3 e: Customer Service Management Skill Levels**



It is again highlighted that all but one of the respondents reported increases in the levels of strength in this competency. Franchisor involvement was important in that training did in several instances cover this aspect and also implementation of the processes outlined in the operations manual formed the basis for most franchisees customer service management strategy. There is also acceptance that simply dealing with customers on a day to day basis is in itself a learning experience:

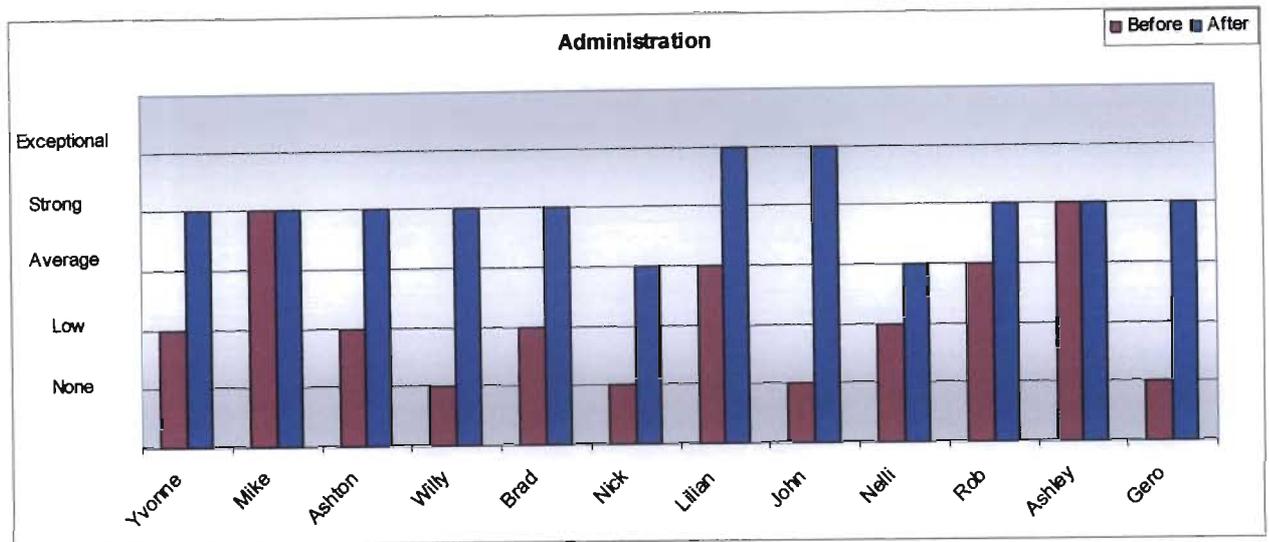
- *I've learnt to be more understanding to the customers requirements, you can get a snotty nose little kid who asks questions and you know that they are not going to buy anything but you have to be polite and try to help, I've never dealt with the public before so now I am comfortable with it, very comfortable with it. (John)*
- *Just the experience of dealing with them. You also realize that without them you don't have a business (Yvonne)*

**Figure 3 f: Information Management Skill Levels**



All respondents except Nick and Rob were of the opinion that their skills at information management had improved. Franchisor input was again highlighted as important in this respect. Except for the oft-mentioned benefit of training – *“As I mentioned before, during the training they showed us ways of how to manage using systems, little tips on how to use the computer to its full effect. I wouldn’t have known all that on my own”* (Ashton) - self initiated learning was seen as a further stimulant of this development. Brad, Gero and Lilian all talk of systems that they implemented which was adding to their decision making capabilities.

**Figure 3 g: Administration Skill Levels**



All except Mike and Ashley reported gains in this competency. Common factors leading to this development included franchisor administrative guidance, training, operations manuals and self initiated development. Franchisees felt that development in this competency was experiential in nature and as expressed by Willie, *“lots of it you learn as you go along. Sure the franchisor will specify the basics, but you soon work out what you need and what works”*

The results presented thus far in this section are indicative of a broader increase in the generic business skills levels in our first-time franchisee group. The most comprehensive gains were made in the fields of marketing/sales and operations management, where all respondents reported increased levels of strength. In the areas of customer service and human resource management all but one of respondents believed they were now better skilled than previous to franchise ownership, and in the areas of finance, administration and information management all but two of the group saw improvement.

Freyburger and Kuter (2000) found that franchisees derive competitive advantage through their strength in customer centric functions, and are hence deemed to be well skilled in these generic business competencies. The gains made by our respondents in the fields of marketing/sales and customer service management support this view. We see

further that other areas of generic business competency are also enhanced through franchise ownership.

A word of caution does accompany these findings. This statistic presentation is not empirically significant. As explained in Chapter 3, a result from the rating mechanism was not the end goal. More important was for the researcher to provide an avenue for the franchisees to measure improvements, if any, in order to determine the reasons for the change. That was achieved.

Franchise ownership on its own is not the only reason that can be put forward as leading to the enhancement of these competencies. There were instances where respondents used their own initiative to develop a particular competency, or believed that the simple build up of day-to-day experience was crucial in their development. In the main however, there were many franchise specific constructs that were seen as aiding this development. The role of training and the operations manual was widespread. Examples of mentorship and the provision of nuanced business advice from franchisors were also seen as important. There were even instances where the design of the franchise concept inadvertently led to learning experiences: the payment of royalties and participation in marketing forums were both examples of franchise unique situations which led to skill enhancements.

Though it is clear that the franchise experience led to the broader development of general business competencies amongst the sample group, it is important to gain a level of understanding of why certain individuals developed in certain competencies and others not.

The use of a numerical scale to indicate what the franchisees believed their before and after franchise experience levels of skill was important. A sincere attempt was made to ensure suitability of the sample in terms of actual entrepreneurial experience by restricting it to those who had never owned a business previously. This unfortunately was unable to control for any related experience that may have been gained through the respondents' previous positions of employment. By asking respondents to rate

themselves before and after, one can, to a certain extent, prevent undue credit being afforded to the developmental role of the franchise experience. This was supplemented by asking respondents to identify and describe their previous roles in formal employment.

The explanatory value of this can be seen in examples such as:

- Ashley and Mike, who were both previously bankers, rated their financial skills as strong both before and after, making it clear that their franchise experiences did not contribute to any development in that field
- On the other hand Rob, a previous engineer, felt that his franchise experience led to noteworthy development in his skill at managing human resources.

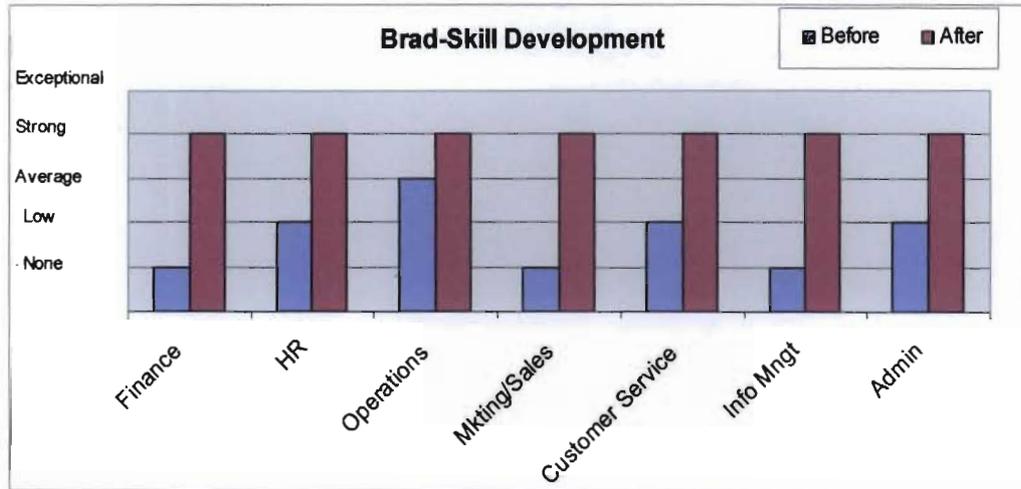
In extending this line of interpretation, there is value gained in analysing the backgrounds of those who reported increasing levels of skill in all competencies. These can be identified as

- Brad – an artisan
- Lilian – a seamstress
- John – an information technology consultant

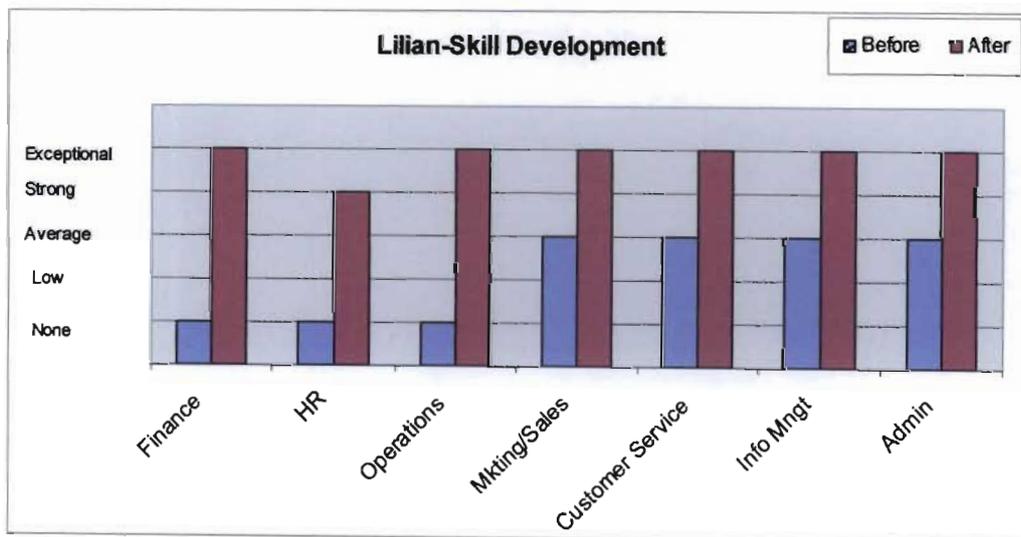
Graphical representations of their individual skills development ratings are presented in figures 4 a to 4 c on the following page.

Based on the franchisees' elaborations and general knowledge, an informed assumption is made that these backgrounds were specialised and technical in nature with little or no exposure to generic areas of business competency. It can be inferred that the franchise experience has had a pervasive developmental impact in terms of generic entrepreneurial skills on those of specialised employment backgrounds, where they will have scant exposure to such skills either individually or as a whole.

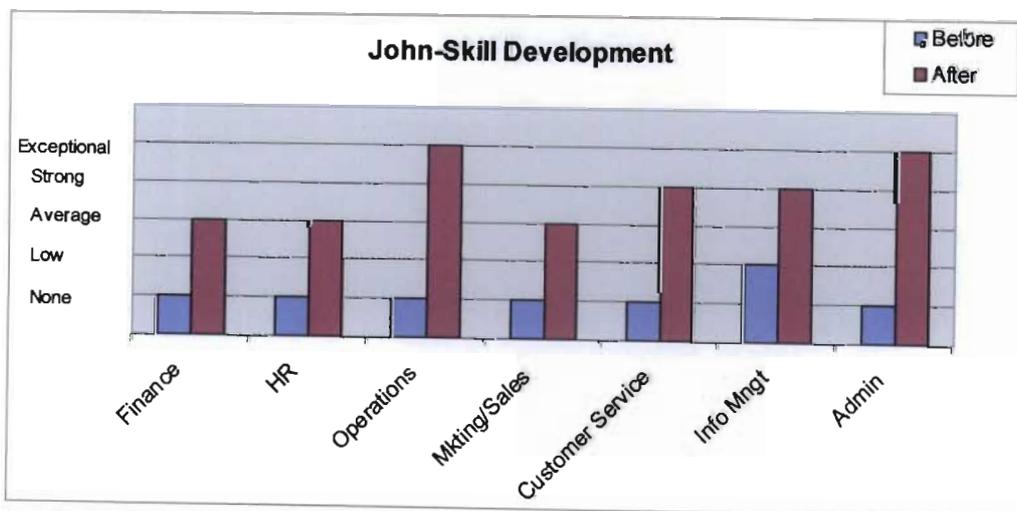
**Figure 4 a: Brad Individual Development Levels**



**Figure 4 b: Lilian Individual Development Levels**

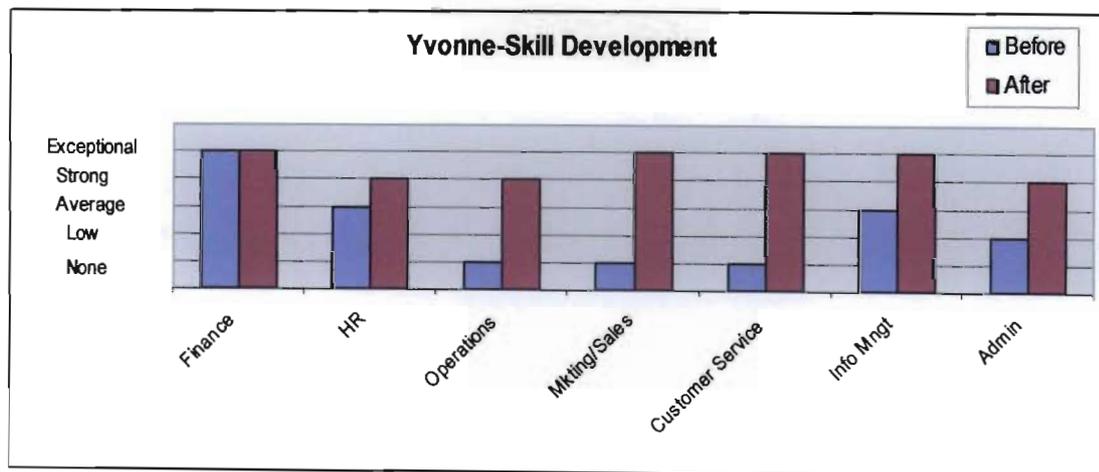


**Figure 4 c: John Individual Development Levels**



The franchise experience can also be seen as helping to develop those other individual entrepreneurial competencies in those who consider themselves well skilled in one or more of a particular competency. This effectively leads to a more rounded entrepreneurial skill set. The example of Yvonne, presented in Figure 4 d, illustrates this. As an ex internal auditor, she believed she was exceptionally skilled in the financial competency. Yet it is clear that she has made progress in developing all other aspects of the entrepreneurial skill set. Her strongest gains were made in the arenas of marketing/sales and customer service. Although not necessary to display, similar outcomes – development of selected competencies – can be seen in other sample group members.

**Figure 4 d: Yvonne Individual Development Levels**



The results presented in this section make it clear that the experiences associated with franchise ownership lead to the development and enhancement of skills deemed necessary for entrepreneurs. It was clearly delineated in Chapter 1 that this study is not intended as a direct comparison with the development of entrepreneurs who embark on independent ownership ventures. Thus we make no claims that franchise ownership enhances skills development at greater rates than other ownership mechanisms. It can be stated, however, that the franchising concept, as studied in this paper, has been seen as effective in aiding the development of the generic technical entrepreneurial skills, which are deemed important for the proliferation of entrepreneurship, in those with no previous business ownership experience.

#### ***4.5 Franchisee Entrepreneurial Futures***

This section reports on the franchisees' perceptions and expectations of their entrepreneurial futures based on their initial experiences. Questions were posed to them on whether they would remain in the business environment, and whether they expected to partake in secondary business ventures. The researcher attempted to gain an understanding of whether they would continue operating within the franchise environment or whether they would consider independently owned operations, with an emphasis being placed on how their franchise experience would contribute to such a decision.

##### **4.5.1 Future in Business**

There was a unanimous response that the franchisees expected to remain in the business environment for the foreseeable future.

- *Absolutely I just want to keep doing it* (Brad)
- *I'm a business woman for life* (Yvonne)
- *I feel very strongly about staying and even expanding in the business environment in the future.* (Ashley)

All franchisees except Mike were of the opinion that they would own further businesses - as opposed to having the one franchise that they were currently operating. Mike's reason for not expecting to own further enterprises was that he was of a retirement age and was satisfied that his goals were being attained through his current operation. Two franchisees found that their franchise businesses were not yielding the financial rewards they anticipated, but still maintained that they would persevere in the world of business until there was no option but to return to formal employment.

#### 4.5.2 Independent versus Franchised Structures

Franchisees were asked to comment on whether they expected future business operations would take the form of independently owned operations or further franchises. Brad, Rob and Lilian were clear that they would want to remain in the franchise system. They believed that the support structures and association with a recognisable brand would be hard to duplicate on their own, and that well run franchises provided sufficient opportunity to satisfy their objectives be it financial or otherwise. Willie, John, Ashley, Nelli, Nick and Gero were of the opinion that they would embark on independently owned operations, while Ashton and Yvonne were ambivalent and maintained that as long as the venture was viable they would pursue it, irrespective of the ownership structure.

Upon enquiry of what franchisees could take out of their franchise experience that would allow them to pursue independent ventures three distinct yet related themes emerged.

##### *i. Skills*

Franchisees were clear that the development of their technical entrepreneurial skills was at a level that would not hinder them in exploiting independent opportunities. Several franchisees described technical competency development as the key learning outcome of their franchise experience, and some provided examples of such:

- *It's the labour relationships they taught me. At the end of the day your core in any business is your staff. You have to look after them, and also dealing with the public. I guess I have learnt to deal with many small business specific problems (Yvonne)*
- *Daily operation of the business, I know now that you have to start from here keeping records, managing human resources, even also with regards to marketing strategy (Gero)*
- *Negotiating skills, the ability to squeeze the last cent out of the supplier, rolling money, rolling credit, the ability to phone the creditors and say he owes you more, It's a huge skill I didn't have before (John)*

- *I've learnt in terms of running a business, the cash flow management, and the customer relations. All of that I am now good at (Nelli)*
- *The experience gained from being in a franchise model equipped me with the basic principles when you move into your own business. All of the things from the advice I got in setting up, the sourcing of staff, marketing my business, all that I learnt from the franchise experience (Ashley)*

## ii. Confidence

Another common response was the feeling that franchisees were now much more confident in their abilities as business people as compared to when they initially purchased their franchises.

- *But because of the business experience I got through Hot Dog Cafe I had the confidence. It really gives you the background that you need to go and open a business of your own (Yvonne)*
- *I think it eliminated the fear of failure, it made me realize that I can actually do this, its like taking the first step...(Willie)*
- *I feel more confident knowing that I can do it. I know all businesses are different, but once you got the basic nuts and bolts you can make it work (Ashton)*

## iii. Opportunity

It was interesting to note that several respondents spoke of now being more receptive to business opportunity.

- *Fortunately I can see certain places where I can make money for myself (John)*
- *You could say I now have a nose for business and the brain to make it happen (Rob)*
- *Also I am able to analyse a business opportunity a lot better than I would have done coming from a corporate background. You definitely have more insight into whether an opportunity can work or not. If the opportunity now looks good, I will have no doubts about taking it (Yvonne)*

The focus group was asked about the role of previous business experience, franchise or otherwise, in stimulating new entrepreneurial ventures. Skills development was seen as crucial. Understanding of technical business principles gained through a previous experience would be carried through to new ventures. It was asserted that except for any skills picked up, such experience also gave one confidence in one's business ability. Networks are also built during previous experiences. Previous business experience was seen to not only serve as a stepping stone to new ventures, but often as a source for new opportunities: *"You find while you are doing a business, you identify other opportunities and begin to explore these. A number of franchisees that I know, for example this guy I know has some other operations outside the franchise because he identified that niche market while he was operating the franchise, therefore it appears that while you are in the field operating, you are able to identify other opportunities."*

It is positive to note that the franchisee group had broadly described experiences and competencies that reflected the experts' opinion on what previous business experiences were valuable in stimulating entrepreneurship. That implies that the franchise environment generates the kind of experience suitable for enhancing entrepreneurial capacity. It is not surprising to this author that the sample group identified skills development as a positive derivative of their time in franchising. That transfer of skills and knowledge has been extensively discussed, and it is known that this is key in attracting first-time owners to the franchise system. The confidence that emanates with this is also expected, as the build up of relevant skills and experience has been described as confidence generating (Hayward et al, 2006). Yet it is interesting for this author to note, that even within the relatively confined franchise environment, participants were able to identify opportunities and in some cases begin to independently exploit them. This is in keeping with the writing of Longenecker et al (2000) who argue that the primary basis for start-up ideas is personal experience. Knowledge obtained through present or recent circumstances leads to the identification of opportunities to exploit, and it is clear that this occurs within a franchise environment as well

The focus group agreed that the developmental gains of franchise ownership were eminently transferable into an independent business environment. The basic principles remained the same, whether inside or outside the franchise environment. It was asserted that those emerging from franchise ownership were at an advantage when moving into the independent environment as they would have been privy to proven business practices. An example was cited with regards to marketing as “*people who were involved in franchising understand the value of branding, which is where many new businesses fall short*”. It was also noted that certain operational skills are imparted that could be used in other contexts or even in direct competition to the franchise brand at a later stage.

Franchisees were also asked to describe what they believe would hinder them in pursuing independent opportunities in future. The two most common responses were:

- i. Finance:
  - o *Finance is the only big obstacle now. (Gero)*
  - o *For me, the obstacle is still the cost. For me I would like to open more businesses but the cost is too high and it is not easy to get a loan (Nelli)*
- ii. Nothing: Several franchisees were confident that there were no real obstacles to them owning further businesses.

It is interesting to note that not one of the franchisees spoke of a lack of skills being a hindrance to any future plans. This is particularly informative if one refers back to the point made in Chapter 2 about entrepreneurship being hampered when people believe they are insufficiently skilled to pursue entrepreneurial ventures. Several respondents had specifically mentioned that the reason they chose franchising as their initial form of ownership was because they did not believe they were skilled enough to undertake any independent ventures. This concern was not apparent in any respondent when asked about potential obstacles to future plans.

Although it was not a specific intention of this paper to identify cases where franchisees had indeed moved on to other business ventures, examples of this did emerge. Rob and Brad had both purchased second franchise stores and were comfortable to stay within the system. Yvonne was outstanding in her expansion. Within a five year period after starting her first franchise she purchased a second franchise outlet, set up an independent biltong retail outlet, as well as bought out and turned around an under-performing clothing boutique. She credited her franchise experience with developing her technically and this led to her having the confidence to find and exploit all of those opportunities Willie and John both set up distribution businesses. The products they were distributing were not in conflict with their franchise products, but they both spoke of being able to identify the need to supply such a market, and having confidence in their business abilities to exploit the opportunity. Ashton set up an independent transport company, and maintains that he is drawing immensely from his franchise experience in managing and growing this company. Considering that the study of such cases was not a design of this paper, it would be slightly unfair to use these examples as key supporting arguments. However it is interesting to bear in mind that there do exist cases where first-time business owners have shown an ability to develop their entrepreneurial capacity within a franchising environment and thereafter embark on secondary business activity.

#### **4.5.3 Summary**

This section has reported on franchisee perceptions of the future, and what the impact of franchise ownership was on those perceptions. It is seen that all franchisees are positive about remaining in business. All but one of the sample group believed they would participate in future entrepreneurial events. Of the remainder, only three insisted that they would remain within the franchise system. The others were either keen on making the step into independent operations, or were ambivalent and were just interested in opportunities that were economically viable. A speculative inference is drawn from this. Considering that the increased security associated with franchise ownership was identified by both the literature and within the sample group as a key reason for choosing franchise ownership by inexperienced entrepreneurs, an increased propensity for

independent operations is now indicative of a cooling off of this need for security, and by inference an increase in risk propensity.

Three factors were seen to emanate from the franchise experience in allowing franchisees to make the transition into secondary independent operations. These were noted as technical business skills development, confidence, and opportunity creating. Finance was noted as the major obstacle to further business participation. It also emerged through the research process that there were indeed participants who had embarked on secondary business ventures after their initial franchise experience and their franchise experiences were seen as contributing to the stimulation of these enterprises.

#### ***4.6 Miscellaneous***

In concluding discussions with the sample group the researcher investigated what the franchisees would like to see being done on the part of government or other organisations of authority in order to assist or promote their future entrepreneurial development or efforts.

Certain franchisees believed that something had to be done to ease the access to finance constraint in South Africa. Borrowing requirements are seen to be onerous and franchisees were of the opinion that government needs to make more funds available especially to people such as themselves who were now properly skilled as a result of their franchise experience and represented low risk borrowers. Although the role of finance in stimulating or constraining entrepreneurship is not necessarily of core interest to this paper, this concept of franchisees having proven entrepreneurial skills and thus being representative of a lower credit risk is worthy of further investigative attention.

The issue of skills development came to the fore. Franchisees believed that although they had indeed developed significantly in terms of business skills, the development could have been fast tracked. It is at this point that the issue of government intervention becomes important. John mentioned that he would like to see much stronger emphasis

placed on franchisee rights and getting franchisors to deliver exactly what they promise to do, especially with regards to training and other support structures. He mooted the idea of a franchisee representative body. Willie and Gero had similar sentiments regarding the role of a stronger regulatory framework and ensuring franchisors are held accountable to their promises. Ashton, Yvonne and Mike also believed in a stronger input from government but they believed that government or other regulatory bodies should ensure that the technical skills associated with business could be supplied by other specialists apart from the franchisor. Yvonne spoke about how it should be mandatory for new franchisees to be given theoretical training in key business competencies before commencing business and believed that FASA could be responsible for such initiatives. Both Ashton and Mike were of the opinion that government could play a role through the provision of workshops and seminars on small business skills to franchisees.

Other recommendations cited included a relaxing of onerous regulations and compliance issues, as well as tax breaks for those who are expanding and operating several employment generating businesses.

The focus group rounded up their discussions by debating whether franchising as a concept needed to be promoted or given stronger exposure and support at a government level as one of the ways of broadening the small business pool.

There was strong and positive consensus in this regard. The discussants again made mention of the role franchises could play in transformation of the economy and were clear that there was a role for government in broadening the franchise system net. This would prove important on several levels. Firstly, there would be more cost effective options available to prospective franchisees, as the upfront costs associated with some of the more common brands are prohibitive. Another reason would be that there exists a tremendous opportunity to export South African franchises abroad (especially into Africa), and in doing so complement, South African government and the New Partnership for Africa's Development (NEPAD) objectives. There is also lack of awareness among emerging (black) entrepreneurs about franchise opportunities outside of the fast-food

sector. Examples of sub sectors that are considered ripe for expanding franchise opportunities are industrial supplies, black hair care, and car washes.

It was mentioned that there exists significant scope to use franchising as a tool to draw informal business into the formal economy, with the following being mentioned as a practical example: *“Take painters for example. There are so many guys putting up ads on street corners. Imagine a big paint company goes and formalizes them. Put them in vans, uniforms, get proper equipment. The consumer then has peace of mind in the “branded” painter who goes to their house, while the big company has an added distribution line for its products.*

Concern was noted at the underdeveloped regulatory framework that franchising in South Africa currently operates under. Amongst others, the role of FASA was interrogated, and it was agreed that with the right regulatory framework, FASA could move away from being a “toothless watchdog” to a quality enforcing and implementation agency.

The role of a franchisee representative body was also discussed, but there appeared to be consensus that not only was this impractical, but also not particularly necessary in the event of the regulatory changes mentioned above.

## ***Chapter 5***

### ***Conclusion***

*Now a whole is that which has a beginning, middle and end. (Aristotle)*

This dissertation has investigated whether franchise ownership stimulates the development of entrepreneurial capacity in persons of no previous business ownership experience. This was done in the context of needing to stimulate growth of South Africa's small business sector. In attempting to provide finality to the investigation this chapter begins by laying out a summary of the key findings emanating from the research. This is followed by the setting out of a concluding argument. Recommendations for future research and policy follow, while the paper is ended with a discussion regarding objective accomplishment.

#### ***5.1 Summary of Key Findings***

Small business proliferation is found to be a vital cog in any country and economy looking to develop itself and entrepreneurship, as a distinct concept, is seen to be a vital component in efforts to stimulate the small business sector.

Franchisees display certain entrepreneurial attributes when entering the franchise relationship. Yet it is difficult to initially classify them as true entrepreneurs as they have heightened security needs and do not display the ability and belief in being able to identify and exploit economic opportunities as per the defined entrepreneur of our study.

In terms of entrepreneurial capacity we saw fit to describe the first time franchisee group as initially un-entrepreneurial at worst and inexperienced or under-capacitated entrepreneurs at best. This is by virtue of the group not comprehensively reflecting the key principles identified through the entrepreneurial definitional framework.

Section 4.3 entitled Practical Entrepreneurial Capacity Building through the Franchise Experience was able to identify and describe activities that enhance development of entrepreneurial capacity through various facets inherent to the franchise system.

It was shown how franchisees that played a role in the processes involved in starting their businesses found this to be a learning experience. Such participation was not common to all, and there exists no stringent guidelines in terms of what the role of the franchisor or franchisee needs to be in this case. For those that did participate, a range of skills pertaining to starting a business such as proper site location, correct fitment, and complying with relevant regulatory frameworks were developed. The evidence points to franchisor guidance as opposed to stipulation during the start-up phase as having a developmental impact on the first-time business owners of this sample.

It was also found that franchise training channels serve as conduits to impart knowledge of generic business skills to inexperienced businesspeople. Yet there are variances in the content and quality of training offered to franchisees. It was important to note that in instances where the initial franchisee training was comprehensive and of a longer duration or in the case of ongoing training, more regular and focussed, both franchise format specific and general business skills were developed.

The use of mentorship as a tool of entrepreneurial knowledge transfer was found to be under-utilised relative to other modes of transfer. Yet in cases where it did occur, nuanced entrepreneurship enhancing advice was being passed onto the franchisee. The selected experiences within our group allow for an assertion that mentorship within the franchise relationship can play a larger role in supporting entrepreneurial capacity enhancement and needs better harnessing.

The literature was inconclusive on whether franchisees could be classified as innovative. We find strong evidence to suggest that franchising allows for innovative activities on the franchisee's part. Innovative activities are controlled through the franchise system, but this was not seen as a constraint. More than anything it was found that mechanisms exist

to harness the benefits of franchisee innovation. Innovative activity amongst franchisees was of a varying nature, yet all of them were seen to serve consumer oriented purposes, which was pointed out in the literature as the type of innovative activity that tends to stimulate new venture creation. We thus agree with the academic authors who argue in favour of franchising being conducive to innovative practices, and suggest that franchising helped develop the innovative capabilities of our sample group.

The practical evidence gathered around the group of activities described above allowed for an initial suggestion that the franchise concept is conducive to the development of entrepreneurial capacity in those with no previous experience.

An attempt was made to assess the rates of development of the commonly accepted generic technical skills associated with entrepreneurship. There was evidence of widespread increases in the skill levels of our franchisee group in the defined skill categories. Having noted methodological concerns, we state with cautious confidence that the franchise concept and some of its unique characteristics can be positively associated with technical skills development of inexperienced business owners. The generic nature of these skills coupled with the informed opinion of the focus group, allow us to find these skills to be eminently transferable into other structures of business ownership.

The following line of investigation concerned the franchisees' perceptions of where their entrepreneurial futures lay, and what impact their franchise experiences could be expected to have on this. The suggestion of many franchisees that they would remain in business but expect to move into independent structures, points to the developmental role of their franchise experience. It was common that many franchisees moved into franchising because they were not confident in their ability to succeed independently. This appeared to have changed during the course of the franchise relationship, and three key factors were noted. Franchisees displayed elements of possessing the right technical entrepreneurial skills, had increased levels of confidence in their business abilities, and were more receptive to opportunity exploitation. The propensity for independent operations allowed for a speculative inference that, in a sample where heightened security

needs were key to initial franchise purchases, the levels of risk propensity were seen to increase. We find that the franchise experience has in this way contributed to strengthening the entrepreneurial capacity in those of entrepreneurial inexperience.

## ***5.2 Concluding Argument***

This study addressed the developmental role that franchise ownership had on inexperienced entrepreneurs. In order to do so, a proper definitional framework for entrepreneurship had to be stipulated. The following definition was settled on:

- *Entrepreneurship is the capacity to create a new business venture in the face of risk and uncertainty by seeking out and exploiting significant opportunities*

Of immense relevance to this study was to determine what contributed to that capacity. Secondary research allowed us to identify core personal characteristics and attributes that were deemed necessary for such entrepreneurial capacity. These included having a need for achievement, a propensity for risk, a strong internal locus of control and self confidence. These personal characteristics needed to be complemented by an ability to be innovative. Apart from simply possessing these attributes, entrepreneurial capacity is shown to include knowledge of a generic business skills set. It is thus the definition and its surrounding constructs that were used as the basis for determining the impact of franchise ownership on entrepreneurship.

It was decided early on in the investigation that the members of the franchisee sample group could not be classified as true entrepreneurs within our framework. It was accepted that participants reflected the entrepreneurial attributes of having a need for achievement and strong internal loci of control. Yet we were unsure about their levels of risk propensity. We were also unable to take a standpoint on whether they were innovative or not. None of the franchisees described the entry into business through the franchise as an exploitation of an economic opportunity but rather as a means of pursuing personal objectives. There was also significant doubt expressed on their part about the level of technical skills that they possessed. This in turn was a contributing factor in franchisees

expressing a lack of confidence in their ability to succeed as independent entrepreneurs, hence the choice of franchising as a route into business. This led us to deduce that our franchisee set ranged between un-entrepreneurial and under-capacitated entrepreneurs.

We do however have reason to believe that the franchise experience contributed to the development of higher levels of entrepreneurship within these individuals.

There is clear evidence to show that franchisees in our sample displayed strong levels of innovative activity. More so this innovation was of the type that the literature points to as being supportive of new venture creation.

Technical skill levels were enhanced. This was achieved through a combination of actual work experience and to a large extent through franchise specific mechanisms such as training and mentorship. It is shown that there exists scope to further harness such mechanisms for even further development of entrepreneurial capacity. These skills are considered eminently transferable into environments outside the franchise relationship.

Franchisees stated confidence in their business abilities to be a key outcome of their franchise experience. There was also sufficient proof of franchising being a mechanism through which franchisees were able to identify other opportunities. Confidence in their business ability was argued to be a factor in being able to exploit such opportunity. A propensity to enter independent ventures post franchising leads to an inference that the heightened need for security had decreased. In fact none of the psychological or personal attribute concerns that accompanied their initial step into business seemed to be a hindrance to the pursuit of future ventures. The franchise experience was broadly seen as eliminating those types of hindrances.

In combining all of the above and relating it to our definitional framework, we are able to conclude that the initial franchise experience did enhance the entrepreneurial capacity of the first-time business owners in our study. This value of this claim lies not in its generalisation due to concerns expressed elsewhere, but rather in its strong indication that

franchising represents a powerful tool of entrepreneurial development. And when contextualised through the literature on the process behind new venture creation and outcomes of entrepreneurship, we suggest that the ultimate beneficiary of these higher levels of entrepreneurship will be an expanded South African small business sector.

### ***5.3 Recommendations***

#### **5.3.1 Future Research**

The exploratory nature of this study coupled with generalisation concerns highlighted previously leads this author to believe that there is value to be gained by further investigations of this paper's thesis. Certain points came to bear during this course of this dissertation that prevents the conclusions drawn in this paper from being declared academically absolute. The issue regarding the composition of the sample from a franchise system perspective is important. The lack of suitably profiled participants, amongst the large, well publicised franchise brands such as Nandos and KFC, within the Durban region means that we have been unable to assess what the entrepreneurial capacity development within such systems is. Although this should not discredit our exploratory study of the broader franchise concept, we suggest that a similar study be conducted in a region that has a suitably representative inexperienced first-time franchisee population amongst all franchise brands.

It may also be worth attempting to draw a sample of first-time franchisees amongst people of a homogenous background. This would prevent the limitation of having to try to account for contrasting levels of development as a result of differing professional backgrounds. As is clear in this paper, even if one comes out of formal employment there is no guarantee that one's business skills are at a level to constrain entrepreneurship. Differing levels of initial entrepreneurial skills are evident in the sample group of this paper. Finding such a sample may prove challenging in a country like South Africa whose franchise sector is not as large as countries such as the USA and Australia, but to a researcher without locational constraints this may prove worthwhile.

Chapter 3 pointed to the applicability of applying a case study approach to this thesis. Cases where franchisees with no previous entrepreneurial experience were identified, and as suggested in that discussion, the approach now becomes viable.

The results of this paper could also be used to set the tone for a detailed quantitative investigation. In designing a survey to assess the entrepreneurial capacity enhancing impact of franchise ownership on those of no previous business ownership experience, one could use the entrepreneurship constructs identified in this paper i.e. the personal attributes and the technical skills and assess initial levels as franchisees enter the system. Questions could be posed that give a scoring to the person's initial entrepreneurial capabilities. An example of such would be questions that test a participant's financial skills or their knowledge of basic marketing principles. Assigning a score to a person's aptitude for that attribute could assess personal attributes. For example the propensity for risk could be tested and profiled in much the same way insurance companies do. The survey could be repeated on candidates after a predetermined period, possibly a year, or even more, in order to measure their progression. The possibilities for future quantitative options are wide and appear to be attractive after the groundwork covered in this paper.

Other topics that appear worthy of further academic investigation have surfaced in this paper. One such possibility involves research into the ability of franchising to assist in bridging the divide between the formal and informal economy. Another involves assessing the role that South Africa, in its guise of an economic leader in the African continent, could play in exporting successful and credible franchise systems through the continent. The literature has pointed to the benefits that franchising brings to a developing economy, and South African systems could prove successful in penetrating such markets due to the natural affinities. A further possible avenue of research would be an investigation into the feasibility of franchisees being given easier access to finance for secondary ventures by financial institutions based on the franchisees' presumed development of a suitable level of entrepreneurial skills.

### 5.3.2 Policy Implications

It would be premature to state categorically that the results of this research are of sufficient rigour to inform an immediately implementable policy. Yet a common theme emerging from this research is a need for policy makers to begin to address the rather loose regulatory environment that the country's franchise systems operate in. It was reported that there were variant levels of technology transfer that took place amongst different franchisees. Training durations and content varied, and the initial services provided were also contrasting. All of that impacts on the level of entrepreneurial development of franchisees. If policy makers do accept that franchising is a valuable tool of entrepreneurial capacity enhancement, then attempts must be made to ensure at least basic standardisation in the support offerings of franchisors. Suggestions were made that an authority such as FASA be given much stronger policing powers, or even act as the initial conduit of basic entrepreneurial competency. Clear standpoints on such issues would go a long way to harnessing the entrepreneurship enhancing capability of the concept as highlighted in this paper.

### 5.4 *Accomplishment of Research Objectives*

As with any study of this nature, it is important to gain an understanding of whether the aims and objectives of this dissertation have been satisfied.

This dissertation can confidently lay claim to having contributed to the general body of knowledge regarding the role of franchising in economic development. It was able to suggest that franchise ownership does indeed stimulate capacity enhancement in those of inexperienced business ownership backgrounds.

The state of objective accomplishment is outlined as following:

#### Primary Objectives:

- *To investigate the impact of franchise ownership on the entrepreneurial development of first-time business owners:* This was investigated and the results of this investigation point to franchise ownership having a positive impact on the entrepreneurial development of first-time business owners.
- *To understand whether the skills and knowledge gained through franchise ownership allow for entrepreneurship outside of the franchise system:* It was found that technical skills imparted within a franchising context are generic to entrepreneurship as a whole, and can be considered eminently transferable. Further to that there are mechanisms within the franchise relationship that allow for the passing on of nuanced entrepreneurial skill development. Experiences are also gained in areas such as business start-up that are transferable outside the franchise system.
- *To establish whether franchise ownership prepares a first-time business owner to exploit economic opportunities outside the franchise system:* There is strong evidence brought to bear which allowed for the concluding suggestion that first-time business owners are enabled through their franchise experiences to exploit economic opportunities outside the system.

#### Secondary Objectives:

- *To lay a foundation for further research that is able to definitively investigate whether initial franchise ownership amongst those of entrepreneurial inexperience can be positively and absolutely correlated with entrepreneurship capacity enhancement:* It is the belief of this author that such a foundation has indeed been laid, with the paper going even further to suggest ways in which this furthering of research could be carried out.
- *To gain an indicative understanding of whether the franchising concept warrants support as a tool of entrepreneurial development in South Africa:* This research has brought strong indications to bear that franchising warrants support as a tool of entrepreneurial development in South Africa.

Entrepreneurial development on its own should not be seen as the ultimate aim. There is an end goal to the benefits of promoting enhanced levels of entrepreneurship. That end goal in this case is the stimulation of the small business sector bearing in mind the positive role played by small business sectors in global economic development. One should refer back to the finding by Wennekers et al (2005) that the stimulation of the small business agenda of developing countries would be best served by pursuing the utilization of scale economies, attraction of foreign direct investment and promoting entrepreneurial skills and management education in their attempts at stimulating the small business sector. One could then draw inferences that the franchising concept theoretically meets the underpinnings of each of these constructs. The literature has pointed us towards the economies of scale created by franchisors in developing their franchise network. We were also privy to secondary research that showed franchising to be a suitable substitute in duplicating the technology transfer benefits that occur with foreign direct investment and finally, as shown by this study, there is sufficient evidence to support the positive role played by franchising in developing managerial and entrepreneurial skills. Thus in closing this discussion the writer, when talking in the context of that sought-after goal of small business stimulation for which many developing nations appear to strive, has no hesitation in stating that the franchising concept, as a tool of entrepreneurial development, has shown itself to be a most noteworthy field of study.

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## *Appendices*

Name	Age	Gender	Race	Franchise	Year Purchased	Annual Turnover (Approx)	Annual Growth Rate (Approx)
Lilian Hamilton	46	Female	White	H2O International	2001	R 2 000 000	15%
Gero Khuluse	48	Female	Black	Signarama	2006	R 500 000	N/A
Rob Ashworth	32	Male	White	Gloria Jeans Coffee	2005	R 2 000 000	65%
Ashton Naidoo	28	Male	Indian	Sky Properties	2006	R 400 000	N/A
Brad Conlon	38	Male	White	NWJ	2002	R 2 000 000	10%
Yvonne Appelcryn	32	Female	White	Hot Dog Café	2001	R 1 800 000	22%
Nick du Plessis	30	Male	White	House of Coffees	2004	R 1 400 000	48%
<i>John Black*</i>	<i>48</i>	<i>Male</i>	<i>White</i>	<i>JJJ</i>	<i>2003</i>	<i>R 2 000 000</i>	<i>15%</i>
Willie Ferreira	44	Male	White	Pirtek	2004	R 3 000 000	25%
Nelli Nzama	32	Female	Black	3@1	2005	R 200 000	13%
Mike Reid	52	Male	White	NWJ	2002	R 5 000 000	10%
Ashley Mathura	32	Male	Indian	Empowerdex	2005	R 1 500 000	10%

\* Pseudonym

## *Appendix B: Franchisee Interview Schedule*



### **Interview Schedule**

*(Researcher's Guidelines and notes)*

#### ***Research Topic:***

Franchising, entrepreneurship and small business development - Exploring the experiences and perceptions of first-time franchise owners

#### **Research Aims:**

The dissertation aims to contribute to the body of knowledge regarding the role of franchising in economic development, and more specifically whether it can enable and enhance the entrepreneurial skills of participants. This has important implications for the development of small business in South Africa

#### **Objectives:**

- To investigate the impact of franchise ownership on the entrepreneurial development of first-time franchisees
- To understand whether the skills and knowledge gained through franchise ownership is transferable
- To determine whether franchise ownership prepares a first-time franchisee for future entrepreneurial events, and if so, to what extent and how.

Thank you for agreeing to spend this time with me. I know that I will find the information and thoughts you share me most useful. It is also probable that you will find this process quite reflective in nature and could prove to be a source of insight to you. I am sure you will enjoy our discussions!

Please note that I will be recording our interview so that I do not lose any bits of information that you pass on to me. Our discussions will remain confidential and anonymity is assured unless you agree otherwise. To this effect please complete and sign this document (*pass on attached informed consent document...collect immediately*). Lets begin.

### **Section A-Descriptive Info (to be captured immediately)**

1. Name of Participant \_\_\_\_\_
2. Age \_\_\_\_\_
3. Gender \_\_\_\_\_
4. Name and location of franchise \_\_\_\_\_
5. Year of franchise purchase \_\_\_\_\_
6. Staff size (*broken into rank ie management vs workers if possible*) \_\_\_\_\_
7. Approximate annual turnover \_\_\_\_\_
8. Approximate annual growth rate \_\_\_\_\_

### **Section B-Starting the franchise**

9. What were your reasons for moving into the world of business ownership?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
10. Why did you choose franchising as opposed to independent business ownership?  
\_\_\_\_\_

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11. What was it that made you settle on the choice of this particular franchise?

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12. What did you do before starting this venture? (*Probe re previous employment, especially on issues such as roles, core duties, responsibility, reasons for leaving etc*)

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13. Did you play an active role in setting up the franchise store/office or was it purely driven by the franchisor? Choice of location? Describe the process... would you have been able to do everything on your own? What have you learnt from it?

**Section C-Operating the Franchise**

14. Tell me about the (initial) training that you received from franchisor before the franchise opened? How intensive was it and what did you learn?

15. How and to what extent is this initial training assisting you in the day-to-day running and also growing of the business?

16. If you do receive ongoing training as part of the franchise agreement, describe this to me. What is it like and what has been the overall impact on your business and also your business skills?

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17. Common business management theory identifies 7 key competencies necessary for successful small business management. Please tell me a bit about how you as an individual has developed in each of these skills, starting with your strengths in each before starting the franchise, to the current level and describe what led to the change if any. *(Use ranking system provided below)*

	<b>Before</b>	<b>Current</b>	<b>Description/Explanation</b>
<i>Finance/Accounting</i>			
<i>Human Resources</i>			
<i>Operations/Production</i>			
<i>Marketing/Sales</i>			
<i>Customer Service</i>			
<i>Information Management</i>			
<i>Administration</i>			

1 = None, 2 = Weak, 3 = Average, 4 = Strong, 5 = Exceptional

### **Section D-The Franchise Relationship**

18. Is there an emphasis on continuous mentorship and coaching within your franchise relationship? Describe specific examples to me if this is the case

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19. Have you ever had the opportunity to innovate or be creative within your franchise? If yes, describe this to me. If no, is this through choice?

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20. Is your feedback requested or considered by the franchisor in terms of innovation that could take the business forward? Can you tell me how this feedback process works and the extent of your involvement

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21. How satisfied are you with the franchise experience so far? Would you recommend franchising to others faced with similar initial circumstances as yourself? Why?

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**Section E-Strategic Development Questions**

22. Tell me how you feel about opening up further businesses in the future

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23. How has your experience as a franchisee contributed to this (response)?

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24. How would you now feel about starting up an independent business as opposed to staying within the franchising environment? Why?

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25. What have you taken out of your franchise experience to date that could assist you in doing this should an opportunity (independent) arise? Describe these to me in terms of specific competencies or experiences that you may have gained

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26. What do you believe would hinder or prevent you from pursuing opportunities outside the franchise environment?

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27. What do you believe can be done by government or other authorities (professional associations etc) to assist your development as an entrepreneur?

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That is all for now. Thank you for  
your time and insight.

### *Appendix C: Focus Group Topical Guideline*

1. Why is the generation of entrepreneurship and new small businesses important to a developing country like SA?
2. What would be some of the reasons that would lead people to embark on small business ownership?  
Constraints (question as above)...
3. What is the role, if any, of previous business experience in stimulating entrepreneurship and/or new business start-ups?
4. What are the advantages/disadvantages of purchasing a franchise over pursuing independent business ownership, especially for someone with no previous business experience?
5. The transfer of knowledge and skills from franchisor to franchisee is an underlying factor behind any franchise relationship. Based on your knowledge of the sector, how successful is this transfer of knowledge in developing entrepreneurial skills in first time business owners?
6. What are the different skills or competencies that first time franchisees can expect to learn when purchasing a franchise?  
How transferable are these skills (abovementioned) to an independent business environment?
7. There exists academic debate as to whether franchising is truly entrepreneurial in nature. Arguments against this stem from the fact that successful franchise systems are built on standardisation and uniformity, thus excluding innovation and creativity on the part of the franchisee. Is this true, or do franchisees

(typically) get the opportunity to innovate or be creative within their franchise relationships?

8. Do you believe that owning a franchise prepares an inexperienced businessperson to pursue other independent business opportunities? Why (talk in terms of specific competencies/experiences)
9. What would prevent/hinder such business people should abovementioned opportunity arise?
10. Do you believe franchising as a concept needs to be promoted/given stronger exposure and support at a government level as one of the ways of broadening the small business pool. Why? How?
11. Further comments or points of interest...(open to panel)

## ***Appendix D: Focus Group Profile***

### **Anita du Toit**

Anita is a senior consultant at Franchising Plus, a specialist franchising consultancy. She has been in franchising since 1998 and has gained experience servicing diverse clients in the telecommunications, automotive and retail industries. Armed with a Masters Degree in Marketing with distinction from the University of Pretoria in 2000, Anita has authored papers published in academic journals, including the Journal of Marketing Channels and Franchising Law and Policy Review. She also had papers accepted for reading at the annual conference of the International Society of Franchising.

### **Louis Nhlapo**

Louis is currently the Franchise Sector Specialist for SEDA and the holder of a post graduate diploma in business management. He has been involved in franchising for the past nine years both from a governmental perspective and in the private franchise sector. Other key positions that he has held include that of Franchise Training Manager and Franchise Development Manager.

### **Mojalefa Mohoto**

Mojalefa Mohoto is Director of Policy and Research at the dti, Enterprise Development Unit and has been with the dti since 1999. He has been instrumental in the development of the new Small Enterprise Development Strategy adopted in 2005 and has played a role in the development of the franchising strategy in 2000. Mojalefa was part of the team that led the rationalisation of the enterprise development policy implementation agencies culminating in the establishment of the Small Enterprise Development Agency (seda). He project managed the establishment of the National Small Business Council, established in 2006 and is currently leading the team that does secretariat functions. Mojalefa has been in the Board of SEDA, Khula Finance, the former National

Manufacturing Advisory Centre (NAMAC) and currently a Board Member of the South African Quality Institute (SAQI). He led the development of the Franchising legislation which ended at a Bill stage but could not be pursued due to the BEE sector charter processes which FASA was involved with at the time (2004). He is the holder of a Masters degree in Public and Development Management done through the University of Witwatersrand

### **Ben Rautenbach**

Ben is employed by FBS Consulting, a company specialising in providing advisory and other consultancy services to the franchise sector. He has been entrenched in the franchising arena since 2001, when he joined Butterfield Bakeries as a business consultant. Upon joining FBS Consulting in 2004 he became responsible for the implementation and maintaining of an in house web based business system, developed for the assistance of both franchisors and franchisees. He also performs the financial management functions of the FBS Group. Ben is the holder of a certificate in Advanced Franchise Management.

### **Shanaaz Ebrahim**

Shanaaz is Director at the dti, Enterprise Development Unit, She has been with the dti since 2001. She had been seconded to the Presidency to assist with Economic Policy Development and Implementation. She was involved in the preparation of a range of policies including the Micro-Economic Reform Strategy and AsgiSA. Her major project responsibility at the Presidency was the Small Business Regulation Project. Shanaaz holds a Masters in Business Leadership and is currently reading for her Doctorate in Business Leadership, focussing on South Africa's small business policy benchmarking with other developing countries such as India.

## **Ginny Verran**

Ginny has recently returned from Brussels where she served as Economic Counsellor at the South African Embassy to Belgium, Luxembourg and Mission to the European Union. As part of her portfolio she has been actively involved in promoting business opportunities in target sectors in South Africa with a particular focus on SME development and linkages, job creation, skills and technology transfer. An important area of her work has been the development and implementation of bilateral economic cooperation programmes, with a focus on international best practice in SME development, including entrepreneurship promotion, capacity building and export development. In addition to being a BA graduate she is also the holder of a Post-Graduate Diploma in International Economic Law from the University of Brussels.

## **Thabo Thole**

Thabo has an extensive history in the franchising arena, and is currently the director of Montle-Thole Franchise Consultancy. His practical experience crosses both the private and public sector, having done franchise related research and consultancy for the South African government and several well-known franchise systems. He is currently co-opted onto the board of FASA

## *Appendix E: Respondent Validation Request*

**From:** Renai Moothlal  
**To:** anita@franchisingplus.co.za; ben.rautenbach@fbsconsulting.co.za; Ginty Verran; Inniapo@seda.org.za; Mojalefa Mohoto; Shanaaz Ebrahim; thabothole@webmail.co.za  
**Date:** Thu, Sep 27, 2007 5:14 PM  
**Subject:** Franchising focus group feedback

Reply requested by Tue, Oct 2, 2007

Hi Everyone

Trust you are all well.

As discussed when we met last month, please find attached report back on the focus group discussion.

It would be much appreciated if you could take some time to read through this and comment accordingly. Please note that the aim of this is not to add any new opinions or points of view. **I merely want you to comment on any misconstrutions or misrepresentations that you believe may have occurred during my summing up of the discussion.**

Though this document is at this stage only a working document and its content only forms a part of the final report, the points expressed therein will be used during my final dissertation write up, thus it is important that I have not misunderstood any of the points put forward. It is also not going to be used in this form. I still have a detailed transcript of the entire meeting, and will probably use other quotes etc from this in the final report. However it represents what I believe to be the gist of our discussions.

I thank you again for all your time afforded to my research and the unanimous positive support.

Look forward to your feedback

Renai Moothlal  
Investment Promotion  
Trade and Investment South Africa

The Department of Trade and Industry  
Tel: +27 12 394-1202  
Fax: +27 12 394-2202  
email: renaim@thedi.gov.za

## Appendix F1: Informed Consent: Franchisee



### Informed Consent Form

*(To be supplied by researcher before the beginning of the interview. One copy of the form to be left with the respondent; one copy to be signed by the respondent and kept by the researcher.)*

My name is Renai Moothlal (student number 971131116) and I am doing research on a project entitled "Franchising, entrepreneurship and small business development: Exploring the experiences and perceptions of first-time franchise owners". This study primarily aims to investigate the impact of franchise ownership on entrepreneurial development. Mr Inraan Valodts at the School of Development Studies, University of KwaZulu-Natal, serves as supervisor with myself as the project manager.

Thank you for agreeing to take part in the project. Before the interview begins I would like to emphasize that:

- Your participation is entirely voluntary;
- You are free to refuse to answer any question you don't feel comfortable with;
- You are free to withdraw at any time.

The interview will be kept strictly confidential and will be available only to members of the research team. Excerpts from the interview may be made part of the final research report. Anonymity is assured unless otherwise consented to. Kindly select from the following:

CONSENT TO DISCLOSE	YES	NO
Your name	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Name of franchise	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Location of franchise	<input checked="" type="checkbox"/>	<input type="checkbox"/>

I can be contacted at listings below should you have any further queries or comments.

*School of Development Studies: University of KwaZulu-Natal (Howard College Campus)  
Telephone - Office hours: 032 5330266  
Mobile: 0837970523  
Email: 971131116@ukzn.ac.za or renaim@thedstl.gov.za*

Please sign this form to show that you fully understand the nature of its contents.

[Signature] (Signed) 22/05/2023 (Date)  
Willie Moothlal (Name)

N.B. A complementary copy of the report will be made available to you on completion. Should you want one kindly supply an address below at which this can be sent to you:

Email Address if electronic copy required Renai.moothlal@ukzn.ac.za  
Postal address if hard copy required \_\_\_\_\_

## Appendix F2: Informed Consent: Focus Group



### Informed Consent Form

16 August 2007

My name is Renai Moothlal (student number 971131116) and I am doing research on a project entitled "Franchising, entrepreneurship and small business development: Exploring the experiences and perceptions of first-time franchise owners". This study primarily aims to investigate the impact of franchise ownership on entrepreneurial development. Mr Imraan Valodia at the School of Development Studies, University of KwaZulu-Natal, serves as supervisor with myself as the project manager.

Thank you for agreeing to take part in the discussions. Before we begin I want to emphasize that:

- Your participation is entirely voluntary;
- You are free to refuse to enter any points of discussion you don't feel comfortable with;
- You are free to withdraw at any time.

The focus group records will be kept strictly confidential and will be available only to members of the research team. Excerpts from the discussions may be made part of the final research report. Anonymity is assured unless otherwise consented to. Kindly complete and sign the following:

PARTICIPANT	CONSENT TO DISCLOSE (yes/no)		SIGNATURE
	NAME	ORGANISATION	
Ginny Verban	YES	YES	<i>[Signature]</i>
Anita du Toit	YES	Franchising Plus	<i>[Signature]</i>
Louis Nhlapo	YES	SEDA	<i>[Signature]</i>
Ben Rautenbach	Yes	FBS Consulting	<i>[Signature]</i>
Thabo Thole	Yes	DMT Consultants	<i>[Signature]</i>
S. Erdin	YES	DMT Consultants	<i>[Signature]</i>
M. Mokoena	YES	the Hi-Cube	<i>[Signature]</i>

Your participation in this research is highly valued. Complementary copies of the final report will be made available upon its completion.

Feel free to contact me at any stage (083 797 0523) should you need to.

*[Signature]*

Renai Moothlal