

**FRANCHISING AS A MECHANISM
FOR
ECONOMIC EMPOWERMENT
IN
SOUTH AFRICA**

JEANINE JONSON

**Submitted in fulfilment of the requirements for the degree of
Master of Social Science in the Division of Management
School of Economics and Management
University of Natal, Durban**

November 1999

DECLARATION

I declare that this thesis is my own original work unless specifically indicated to the contrary in the text. This thesis has not been submitted to any other University or tertiary institution.

Signed

A handwritten signature in black ink, appearing to read 'M. Hasan', is written over a horizontal line. The signature is stylized with a large loop at the beginning and a long horizontal stroke at the end.

29 November 1999

ACKNOWLEDGEMENTS

Sincere thanks to my supervisor, Dr John MacDonald, who provided valued guidance throughout the writing of this thesis. His ideas provided the ground work for this work and helped me discover a field I would not have otherwise ventured into.

Thank you to all the franchisors and franchisees as well as the financial institutions who participated in the surveys. Many people expressed great interest in the research and provided additional information freely beyond that which was required of them.

Thank you to the Centre for Science Development, now known as the National Research Foundation, for providing the funding for the research.

Thank you to my friend, Francisca Gonah, for her support and camaraderie throughout our years of study together. I am grateful that she was along with me for the ride.

A special thank you to my dad who spent many, many hours proof reading this thesis. His objectivity and eloquence clarified many blurred areas. For his insights, I am eternally grateful.

Thank you to my family who have always supported and encouraged me to complete my studies.

To Stephen, for his support and generosity as well as his assistance. It is all very much appreciated.

Lastly, thank you to Hiprom Pty Ltd where I was able to print this thesis.

ABSTRACT

South Africa is currently undergoing a phase of transformation that has indicated a shift from institutionalised oppression in all political, social and economic spheres to a society that is ideally open, free and democratic. Many aspects of life in South Africa are therefore changing as this transformation process is proceeding. It is this transformation process that has prompted interest in the area of economic empowerment amongst those who were previously disadvantaged in the "old" South Africa. The previously disadvantaged represent a large percentage of potentially economically active members of South African society. However, because of a high unemployment rate, other alternative forms of employment need to be sought, mainly through entrepreneurial endeavours. One such alternative, which is presented in this study, is the possible role that the franchise industry may play in economically empowering people that were previously disadvantaged.

The purpose of this study is to theoretically and empirically examine the potential of franchising to act as a mechanism for economic empowerment. It explores the perceptions of franchisors, franchisees and financial institutions in regards to the current state of the franchise industry in order to assess the extent to which franchising does or does not act as a mechanism for economic empowerment.

Conclusions have been drawn to correlate the theory and the empirical analysis of the surveys that were undertaken. It has been found that in many ways, franchising may act as a mechanism for economic empowerment but there are factors that inhibit the role that franchising can play in promoting this form of entrepreneurship. Where these negative factors have surfaced, a methodology has been presented in order to minimise such effect.

TABLE OF CONTENTS

Declaration.....	i
Acknowledgements.....	ii
Abstract.....	iii
Table of Contents.....	iv
List of Figures	xiv
List of Tables.....	xvi

CHAPTER 1 : INTRODUCTION..... 1

1.1 INTRODUCTION	1
1.2 THE PROBLEM AREA	3
1.3 THE OBJECTIVES OF THE STUDY	4
1.4 THE STRUCTURE	4
1.5 AN OVERVIEW OF THE RESEARCH METHODOLOGY.....	5
1.6 CONCLUSION.....	7

CHAPTER 2 : LITERATURE REVIEW..... 8

2.1 INTRODUCTION	8
2.2 TRANSFORMATION - A SOUTH AFRICAN PERSPECTIVE.....	9
2.2.1 Introduction.....	9
2.2.2 The Political Sphere.....	10

2.2.3 The Social Sphere	12
2.2.3.1 Introduction	12
2.2.3.2 Education	12
2.2.3.3 Housing	15
2.2.3.4 Health Care	17
2.2.3.5 Security/Policing	19
2.2.3.6 Conclusion	20
2.2.4 The Economic Sphere	21
2.2.4.1 Introduction	21
2.2.4.2 Globalisation	21
2.2.4.3 Technology	24
2.2.4.4 The Business Environment	25
2.2.4.5 The Skills Market	28
2.2.4.6 Entrepreneurship	31
2.2.4.7 Conclusion	33
2.3 ECONOMIC EMPOWERMENT	34
2.3.1 Introduction	34
2.3.2 Black Economic Empowerment	35
2.3.2.1 The Significance of Black Economic Empowerment	35
2.3.2.2 Black Economic Empowerment Initiatives	36
2.3.3 Economic Empowerment of all South Africans	38
2.3.4 Small Business	39
2.3.4.1 Introduction	39
2.3.4.2 The Informal Sector	40
2.3.4.3 The Formal Sector	43
2.3.4.4 Reasons For the Failure of Small Businesses	44
2.3.4.5 Conclusion	45
2.4 CONCLUSION	46
CHAPTER 3 : FRANCHISING	47
3.1 INTRODUCTION	47
3.2 THE DEFINITIONS OF A FRANCHISE ARE IDENTIFIED	48
3.3 AN HISTORICAL OVERVIEW OF FRANCHISING	50

3.4 AN OVERVIEW OF THE FRANCHISE INDUSTRY IN SOUTH AFRICA	51
3.4.1 Introduction.....	51
3.4.2 Racial Distribution.....	52
3.4.3 South African Franchise Statistics	54
3.4.3.1 Introduction.....	54
3.4.3.2 Franchising Per Industry	55
3.4.3.3 The Costs of Franchising	57
3.4.3.4 Conclusion	63
3.5 FRANCHISING AS A BUSINESS MECHANISM	64
3.6 FRANCHISING AS A MECHANISM FOR ECONOMIC EMPOWERMENT	65
3.7 FRANCHISING AS AN ENTREPRENEURIAL VENTURE	67
3.7.1 Introduction.....	67
3.7.2 The Entrepreneur	68
3.7.3 The Similarities between the Entrepreneur and the Franchisee.....	70
3.7.4 Conclusion	71
3.8 THE BENEFITS OF FRANCHISING	72
3.8.1 Access to Capital.....	72
3.8.2 Markets	73
3.8.3 Skill Development	73
3.8.4 Institutional Arrangements.....	74
3.8.5 Government Intervention.....	75
3.8.6 The Experience of the Franchisor	76
3.8.7 Buying and Advertising	76
3.8.8 Ongoing Advice, Research and Development	77

3.8.9 Business Synergy	77
3.9 THE CHALLENGES OF FRANCHISING.....	78
3.9.1 Working within the System	78
3.9.2 Low Initial Profit for the Franchisor	79
3.9.3 The Risk	79
3.9.4 Working with the Franchisor	80
3.9.5 False Expectations	80
3.9.6 Managing the Business	81
3.9.7 Constant Payments by the Franchisee.....	81
3.9.8 Training a Competitor.....	81
3.9.9 South Africa's Tax System	82
3.9.10 Conclusion	83
3.10 CONCLUSION.....	83
CHAPTER 4 : RESEARCH METHODOLOGY	84
4.1 INTRODUCTION	84
4.2 RESEARCH DESIGN	84
4.2.1 Introduction.....	84
4.2.2 The Exploratory Nature of the Research	85
4.2.3 The Survey Method.....	86
4.2.4 The Research Instrument	88
4.2.4.1 Introduction.....	88
4.2.4.2 The Advantages and Disadvantages of Postal Questionnaires	89
4.2.4.3 The Advantages and Disadvantages of Interviewing.....	91
4.2.4.4 Conclusion	92

4.2.5	Developing the Questionnaires	92
4.2.5.1	Introduction.....	92
4.2.5.2	Developing a Questionnaire for the Franchisor Group.....	92
4.2.5.3	Developing Questionnaires for the Franchisee Group.....	93
4.2.5.4	Developing the Questionnaire for the Financial Institution Group	95
4.2.5.5	Validity and Reliability of the Research Instrument.....	95
4.2.5.6	Conclusion	96
4.2.6	Conclusion	97
4.3	THE SAMPLING TECHNIQUE	97
4.3.1	Introduction.....	97
4.3.2	Probability Sampling	98
4.3.3	Sampling Size	99
4.3.3.1	Sampling Size - The Franchisor Group	99
4.3.3.2	Sampling Size - The Franchisee Group	100
4.3.3.3	Sampling Size - The Financial Institution Group	101
4.3.4	The Response Rates	101
4.3.4.1	The Response Rate for the Franchisor Group.....	101
4.3.4.2	The Response Rate for the Franchisee Group.....	103
4.3.4.3	The Response Rate for the Financial Institution Group.....	106
4.3.5	Problems Encountered in Collecting Data	107
4.3.6	Conclusion	108
4.4	STATISTICAL ANALYSIS	108
4.5	CONCLUSION.....	109
CHAPTER 5 : ANALYSIS OF RESULTS.....		110
5.1	INTRODUCTION	110
5.2	INDUSTRY REPRESENTATION IN FRANCHISING	111
5.2.1	Introduction.....	111
5.2.2	Industry Representation	111

5.2.3	Conclusion	116
5.3	DURATION AND OWNERSHIP OF ORIGINAL AND OTHER FRANCHISES AND OUTLETS	116
5.3.1	Introduction	116
5.3.2	Duration of Franchise System and Outlet Existence	117
5.3.3	Franchise Outlets in Major Cities	120
5.3.4	Representation in Various Franchises by Franchisors	122
5.3.5	Franchisee Ownership of Other Outlets.....	124
5.3.6	Conclusion	124
5.4	DEMOGRAPHIC DISTRIBUTION OF FRANCHISEES	125
5.4.1	Introduction.....	125
5.4.2	Race Group Representation of Franchisees as Depicted by Franchisors, Franchisees and the Literature Review	126
5.4.3	The Representation of Franchisee Gender	129
5.4.4	The Representation of Franchisee Age	130
5.4.5	Conclusion	131
5.5	EXPERIENCES AND PREREQUISITES FOR BECOMING A FRANCHISEE	132
5.5.1	Introduction.....	132
5.5.2	Franchising as a Livelihood for Franchisees	132
5.5.3	First Steps to Becoming a Franchisee	134
5.5.4	The Personality Traits, Qualifications and Backgrounds of.....	139
	Prospective Franchisees as Favoured by Franchisors	139
5.5.4.1	Compliance with Franchisor Goals.....	141
5.5.5	Conclusion	142

5.6 THE FINANCIAL ASPECTS OF OWNING A FRANCHISE OUTLET	143
5.6.1 Introduction.....	143
5.6.2 Financial Requirements of Franchisees	143
5.6.3 The Costs Associated with Owning a Franchise Outlet.....	144
5.6.3.1 Capital Investment Required of Franchisees	145
5.6.3.2 Franchisees' Opinion Concerning the Costs of their Franchise Outlets.....	147
5.6.4 Franchisor Assistance in Financial Matters	149
5.6.5 Financial Assistance from the Government.....	150
5.6.6 Financial Assistance from Financial Institutions.....	151
5.6.6.1 Introduction.....	151
5.6.6.2 Franchisees as a Proportion of Entrepreneurs.....	152
5.6.6.3 Racial Representation of Franchisees Requiring Funding.....	153
5.6.6.4 Requirements of Aspiring Franchisees on Applying for Funding	155
5.6.6.5 The Advantage of a Reputable Franchisor.....	157
5.6.6.6 Financial Assistance Given to Prospective Franchisees	157
5.6.6.7 Franchisees' Experience of Funding by Financial Institutions ...	160
5.6.6.8 Conclusion	162
5.6.7 Conclusion	163
5.7 TRAINING OF FRANCHISEES	164
5.7.1 Introduction.....	164
5.7.2 Training Offered by the Franchisor	165
5.7.3 The Franchisees' Experience of Training.....	167
5.7.4 Conclusion	168
5.8 SUPPORT FROM THE FRANCHISOR.....	170
5.8.1 Introduction.....	170
5.8.2 Support for Franchisees	170
5.8.3 Assistance and Support Received from Franchisors.....	171

5.8.4 Conclusion	173
5.9 SOCIAL RESPONSIBILITY	174
5.9.1 Introduction.....	174
5.9.2 The Encouragement of Disadvantaged Franchisees	175
5.9.3 Community Orientation in Terms of Franchisees.....	176
5.9.4 Conclusion	178
5.10 WORKING TIME ALLOCATED TO THE OUTLET	179
5.10.1 Introduction.....	179
5.10.2 Average Hours/Days Worked Per Week	179
5.10.3 Conclusion	182
5.11 THE PROFITABILITY OF FRANCHISING	182
5.11.1 Introduction.....	182
5.11.2 Franchisors' Opinions Concerning the Profitability of Franchising	183
5.11.3 Franchisors' Depiction of Franchise Outlet Success Rate.....	183
5.11.4 Franchisees' Opinions Regarding the Success of their Outlets.....	184
5.11.5 Franchisees' Income Generation	186
5.11.6 Conclusion	187
5.12 THE FRANCHISE AGREEMENT	187
5.12.1 Introduction.....	187
5.12.2 Franchisee Opinions Concerning the Franchise Agreement.....	188
5.12.3 Royalty Payments	189
5.12.4 Profitability Assessment	190
5.12.5 Conclusion	191

5.13 FRANCHISEE OPINIONS REGARDING THE BENEFITS AND SHORTFALLS OF THE FRANCHISE SYSTEM	192
5.13.1 Introduction.....	192
5.13.2 Franchisees' Overall Satisfaction	193
5.13.3 The Advantages of a Franchise System	194
5.13.3.1 Introduction.....	194
5.13.3.2 Being at an Advantage in the General Sense	194
5.13.3.3 Other Advantages to Franchising.....	195
5.13.3.4 Financial Independence	196
5.13.3.5 Innovativeness.....	197
5.13.3.6 Calculated Risks Taken by Franchisees.....	198
5.13.3.7 The Achievement of Other Ambitions.....	200
5.13.3.8 The Attainment of Skills.....	201
5.13.3.9 The Attainment of Training	202
5.13.3.10 Conclusion	203
5.13.4 Further Comments Made by Franchisees	204
5.13.5 Conclusion	206
5.14 CONCLUSION.....	208

CHAPTER 6 : CONCLUSIONS AND RECOMMENDATIONS..... 213

6.1 INTRODUCTION	213
6.2 A METHODOLOGY BY WHICH FRANCHISING CAN ACT AS A MECHANISM FOR ECONOMIC EMPOWERMENT	216
6.2.1 Introduction.....	216
6.2.2 A Regulatory Body	216
6.2.3 Different Industry Involvement	220
6.2.4 Exploring Alternative Cost Structures	221
6.2.5 The Provision of Adequate Basic Training.....	222
6.2.6 Conclusion	223

6.3 CONCLUSION.....	224
APPENDIX A FRANCHISOR'S QUESTIONNAIRE	225
APPENDIX B FRANCHISE CONCEPT OWNERSHIP	229
APPENDIX C FRANCHISEE'S QUESTIONNAIRE - POSTAL.....	233
APPENDIX D FRANCHISEE'S QUESTIONNAIRE - INTERVIEW	237
APPENDIX E FINANCIAL INSTITUTIONS QUESTIONNAIRE	241
APPENDIX F REMINDER LETTER TO FRANCHISORS.....	243
APPENDIX G REMINDER LETTER TO FRANCHISEES.....	244
APPENDIX H THE RACIAL REPRESENTATION OF FRANCHISEES AS DEPICTED BY FRANCHISORS.....	245
REFERENCES.....	247

LIST OF FIGURES

Figure 3. 1 A Comparison between Franchise Outlet Ownership and Racial Distribution, 1995 and 1996	53
Figure 3. 2 Franchising Per Industry	55
Figure 3. 3 Fast Food Category	56
Figure 3. 4 Restaurant Category	57
Figure 3. 5 Total Franchise Fees	58
Figure 3. 6 Minimum Contributions	59
Figure 3. 7 Initial Fees.....	60
Figure 3. 8 Management Service Fees	61
Figure 3. 9 Advertising Levy	62
Figure 5. 1 Industry Representation in Franchising	113
Figure 5. 2 Duration of Franchise System and Outlet Existence	118
Figure 5. 3 Race Group Representation of Franchisees as Depicted by	127
Figure 5. 4 Race Group Representation of Franchisees as Depicted by the Franchisees and the Literature Review	128
Figure 5. 5 Representation of Franchisee Gender	129
Figure 5. 6 Representation of Franchisee Age	130
Figure 5. 7 Franchisee Consideration by Franchisors	135
Figure 5. 8 Capital Investment by Franchisees	145
Figure 5. 9 Franchisees' Opinions Concerning Costs of Franchise Outlets	148
Figure 5. 10 Race Group Representation of Franchisees Requiring Funding from Financial Institutions.....	153
Figure 5. 11 Funding Provided to Franchisees by Financial Institutions.....	158

Figure 5. 12 Funding Provided to Non-Franchised Small Business Owners by Financial Institutions.....	159
Figure 5. 13 Franchisees' Experience of Funding from Financial Institutions....	161
Figure 5. 14 Franchisee Opinion Regarding Franchisor Support and Assistance	171
Figure 5. 15 Average Days Worked by Franchisees	180
Figure 5. 16 Average Hours Worked by Franchisees	181
Figure 5. 17 Franchisees' Opinion of Success of Outlet	185
Figure 5. 18 Franchisee's Income Generation	186
Figure 5. 19 Franchisees' Overall Satisfaction	193

LIST OF TABLES

Table 3. 1	A Comparison between Franchise Outlet Ownership and Racial Distribution, 1995 and 1996	54
Table 3. 2	A Comparison between the Potential of Entrepreneurial and Conventional Careers for Satisfying Economic, Social and Personal Development Needs.	69
Table 4. 1	The Franchisor Group Return Rate.....	102
Table 4. 2	The Franchisee Group Return Rate.....	104
Table 5. 1	Franchise Outlet Representation in Major Cities.....	120
Table 5. 2	Reasons for Franchisor Participation in Other Similar/Different Franchises	123
Table 5. 3	Franchisees' Positive Experiences of Franchisor Consideration.....	136
Table 5. 4	Franchisees' Negative Experiences of Franchisor Consideration ...	138
Table 5. 5	The Relationship between Capital Investment and Industry Type .	146
Table 5. 6	Franchisees as a Proportion of Entrepreneurs.....	152
Table 5. 7	Requirements of Aspiring Franchisees on Applying for Funding from Financial Institutions.....	155
Table 5. 8	Areas of Training Provided by Franchisors	166
Table 5. 9	Indicators of the Social Responsibility Role/s of Franchisees.....	177
Table 5. 10	Franchisors' Perception of the Success Rate of Franchised Outlets	184
Table H 1	Racial Representation - Black Franchisees.....	245
Table H 2	Race Representation - White Franchisees.....	245
Table H 3	Race Representation - Indian Franchisees	246
Table H 4	Race Representation - Coloured Franchisees	246

CHAPTER 1 : INTRODUCTION

1.1 INTRODUCTION

Since 1994, South Africa has been characterised as a nation undertaking the process of "transformation". This is a term which has been loosely used to describe all social, political and economic activities that are attempting to move South Africa from its past policy of racial segregation to a future that embraces the challenges associated with a multi-faceted society. For instance, the Reconstruction and Development Programme, according to the ANC (1994:1), "...is an integrated, coherent socio-economic policy framework. It seeks to mobilise all our people and our country's resources toward the final eradication of apartheid and the building of a democratic, non-racial and non-sexist future." Affirmative action seeks to transform employment practices by ensuring that people disadvantaged during the past are provided with employment opportunities (Ramphela, 1996:31). Curriculum 2005 is a proposal which attempts to transform education in South Africa by ensuring that quality education and alignment with the needs of the economy is attained in respect of all the races of the country who were previously excluded (Collings, 1997:43). The Basic Conditions of Employment Act (No.75 of 1997) and the Labour Relations Act (No.66 of 1995) are in place to improve working conditions and the employer-employee relationship. The government's macro-economic blueprint, GEAR, seeks to transform the economic arena by lobbying for greater deregulation and labour market flexibility (Bruce, 1997:27). These examples represent a few of the initiatives aimed at bringing about transformation in South Africa.

The nature of transformation is such that it embraces a host of possibilities. On a theoretical basis, transformation may imply a process, a long-term endeavour to change the social, political and economic spheres of South Africa. Or it may represent an ideal state or a desired endpoint that South Africa in general is

striving towards. To understand the concept of transformation it is useful to consider a specific mechanism for transformation. A mechanism, for example, may represent labour legislation passed by government to transform recruitment procedures; or workplace forums may represent a mechanism by which decision-making is transformed. The mechanism chosen for this study is franchising as a possible mechanism for transforming the small business arena and bringing about economic empowerment.

According to Teke (1997:24), economic empowerment is "...a form of redress that may involve opening up job opportunities and business opportunities to those who were oppressed in the past." Franchising as a mechanism for economic empowerment "...is the ideal vehicle for stimulating small business development because it provides the skills, training and back-up that lowers the risk of starting a business. It allows the emerging entrepreneur to leapfrog the year it takes to acquire the necessary business acumen" (Bisseker, 1997:76). The growth of the franchise industry in the last two years may be accredited to large corporations using franchising as a way of diversifying and expanding. Franchising is also seen as an alternative to subcontracting and retrenching staff, and a tool for economic empowerment (Bisseker, 1997:76).

Deriving a theoretical framework is, however, problematic when applying two concepts such as franchising and economic empowerment of previously disadvantaged people. A main reason is that literature and theories of linkage between the two concepts are very limited. According to Wiese (in Wilhelm *et al*, 1997:18), "Unless all South Africans can participate meaningfully in the economic life of the country, we will not be able to sustain a market-orientated political philosophy." One of the avenues which afford people meaningful participation in the economy is through the franchise industry. Because "franchises have a very much higher success rate than other small businesses largely because the product or service is already established in the market and the franchisor provides training for the franchisee in running the specific business", it

presents a more attractive business opportunity than setting up an entirely new business (MacDonald, 1997). Setting up a completely new business is not an option for people with limited financial resources, business acumen and expertise, therefore, the benefits of the franchise industry provide opportunities for people falling within this category. Thus, with this mind, members of the previously disadvantaged community who nevertheless wish to start their own business but have limited financial resources and expertise in business have the option of becoming economically empowered through franchising.

With a possible conceptual framework sketched, the question arises as to what extent franchising provides for economic empowerment and whether it can be regarded as a mechanism for transformation in South Africa.

1.2 THE PROBLEM AREA

The problem area addressed in this study is the need for economic empowerment as a form of transformation and the use of the franchising mechanism in this regard.

A key question in the context of this study is whether franchising is or can be used as a mechanism for empowering the previously disadvantaged population or is it only available to the already advantaged population?

1.3 THE OBJECTIVES OF THE STUDY

The objectives of the study are:

- to investigate franchising as a means of providing business opportunities;
- to investigate the demographic structure of established franchising operations in South Africa;
- to investigate the *modus operandi* of established franchises to determine if they actively seek to bring about economic empowerment;
- to provide a methodology through which franchising can be used as a mechanism for economic empowerment and transformation.

1.4 THE STRUCTURE

This thesis will follow the structure described below:

CHAPTER 2 outlines the fundamental concepts underlying the study.

CHAPTER 3 explores the fundamentals of franchising.

CHAPTER 4 expands on the research methodology used in the study.

CHAPTER 5 presents an analysis of the findings of the research

CHAPTER 6 provides conclusions and recommendations in terms of the literature review and the findings of the research.

1.5 AN OVERVIEW OF THE RESEARCH METHODOLOGY

The research for this study consists of two major sections: a literature review and empirical research. The literature review reflects current ideas and perceptions regarding transformation in the South African context, the role of economic empowerment in this process and how franchising can contribute to economically empowering the previously disadvantaged. This is pursued to establish a theoretical framework. The empirical research reflects the practical elements of economic empowerment, specifically in the franchise industry, in the context of transformation in South Africa. It therefore examines the different roles played by franchisors, franchisees and financial institutions in the franchising industry.

The procedure for the empirical research involved the administration of questionnaires to three groups, namely the franchisor, franchisee and the financial institution groups. These three groups were considered in that they would provide the most appropriate source of statistical data in determining how the franchise industry operates. Information regarding economic empowerment initiatives or understanding thereof could also be gained through interaction with these three groups. A list of franchisors, franchisees and financial institutions in South Africa has been supplied by a reputable source, namely the Franchise Association of Southern Africa and various publications, and the random sampling technique applied to select participants.

Pilot studies were conducted for the franchisor and franchisee groups. The group that represented the financial institutions was very small and eventually did not require a pilot study. The responses provided an indication of any weaknesses of the questions asked in terms of question ambiguity or misunderstanding in order to improve the questionnaires. The second step involved the use of larger lists obtained from the Franchise Association of Southern Africa and the various publications. The subjects were approached to seek their participation in the research.

As the size of the target populations were relatively large, the predominant data gathering technique that was used was the despatch of postal questionnaires. According to Williamson *et al* (1982:132), the advantages of this method is that it is the least costly data gathering technique; it allows respondents as much time as possible to answer; there is no pressure for respondents to reply immediately; and there is less likely cause for embarrassment in regard to sensitive issues. The limitations, however, highlight the tendencies for questionnaires to inspire a low degree of enthusiasm and involvement from possible respondents. Questionnaires rely heavily on predetermined response alternatives as respondents are not likely to answer unstructured questions as reflectively and as comprehensively as they might be expected in a face-to-face situation. The rate of response to postal questionnaires is considerably lower than that of face-to-face interviewing. Questionnaires also transfer a great deal of control from the researcher to the subject where, for instance, respondents fill in the questionnaire without much thought. There is also the possibility that someone other than the intended respondent may complete the questionnaire instead (Williamson *et al*, 1982:185).

Attempts were made to limit the disadvantages associated with postal questionnaires. Firstly, the questionnaires relied more heavily on predetermined response alternatives than unstructured questions as a means of encouraging participants to answer the questionnaire. Secondly, regular contact was made with participants who failed to send back their questionnaires. In addition to these steps, it was considered necessary to conduct interviews with a selected sample of the franchisee group to as to gain a more in-depth perspective of their situation.

The empirical research proposal is quantitative and consists of objective data such as the demographic profile of established operators, their costs of establishment, levies charged and income generated. It also consists of subjective data displayed by and inherent to the perceptions of franchisors, franchisees and financial

institutions with regard to the possibility of using franchising as a mechanism for economic empowerment.

1.6 CONCLUSION

The purpose of this research is to better understand the current franchise industry in the context of economic empowerment. An important focal point in the South Africa economy today is the creation of employment opportunities that may be generated outside government capabilities and intervention. Thus, it will be established through this research whether the franchising industry is in fact providing this kind of opportunity and if not the manner in which this process can best be facilitated.

Chapter 2 follows and concerns the literature review to introduce the concepts mentioned above.

CHAPTER 2 : LITERATURE REVIEW

2.1 INTRODUCTION

This thesis will investigate the role of franchising as a mechanism for economic empowerment in a changing South Africa. In order to place the research in context three essential topics, which follow on each other, will be discussed:

- The concept of transformation, as it is applied to the current South African context, will be explored in general terms. The point of this is to determine how and in what manner South African life is changing fundamentally.
- One of the areas the transformation discussion will evaluate is that of economic empowerment. This section will discuss economic empowerment in more detail to address its various forms.
- One of the mechanisms of economic empowerment is entrepreneurship. This section will focus on the small business sector in South Africa and the manner in which it may best be utilised in transforming South Africa.

All these topics mentioned above provide the foundation for which the concept of franchising can later be presented.

2.2 TRANSFORMATION - A SOUTH AFRICAN PERSPECTIVE

2.2.1 Introduction

The current application of the term “transformation” in many societies of the world broadly implies perpetual change. Conner (1992:10) suggests that there are seven fundamental factors that seem to be contributing to the dramatic increase in the magnitude of change, such as faster communication and knowledge acquisition; a growing world-wide population; increasing interdependence and competition; limited resources; diversifying political and religious ideologies; constant transitions in power; and ecological distress. In the South African sense, transformation is an all-encompassing word that is applied to all aspects of life in South Africa, namely the political, economic and social spheres. The most apparent use for the term “transformation”, specifically in the South African context, is due to the political shift in power from the white-dominated National Party to the majoritarian rule of the African National Congress Party. As a consequence, not only has the political arena changed but so too has the economic sphere. Sanctions have been lifted against South Africa thereby exposing itself to the international financial arena and the global economy. Transformation, in a broad sense, affects all aspects of South African life. By examining the term “transformation” and applying it to the various contexts it is thought to impact on, its relevance in terms of this thesis requires dissection and clarification. Before examining these various contexts, however, a brief discussion of the term “transformation” is necessary.

According to the Oxford Dictionary, the verb “to transform” means: “to change form, appearance, condition, function etc. considerably.” Rosen (1997:68) is of the view that transformation means to change something in a way that alters its shape or form so fundamentally that it is turned into another entity. Therefore, when something undergoes a transformation it implies change of a major circumference. According to Visser (1994:17), transformation is capable of being

understood as “new paradigm” thinking in that revolutionary change is often the result of new ways of thinking about things (i.e. changes in perception) rather than new ways of doing things. In other words, transformation refers to an ongoing, never ending succession of changes where individuals, groups and societies fundamentally change the way they understand things in order to do things differently, on a continuous basis. “Transformation is usually a deliberate action with the aim of creating something better - better looking, better working, more usable and more valuable” (Rosen, 1997:68). Education is a good example. Because of the nature of advancing technology and the consequences of competing in a global economy the quality of skills and the manner in which these skills are taught will change continuously to cope with the different demands of ever-changing industries. Therefore, new and more effective skills will be required and new methods of teaching will be required thereby emphasising the inevitability of continuous change in the education system. Therefore, transformation, in the context of this thesis, will be seen to represent a process of continuous adaptation to the changing environment. That which is changing and how it is changing is the topic of the next section. The three main spheres in which the process of transformation is seen to play a fundamental role, are the political, social and economic spheres.

2.2.2 The Political Sphere

Probably the most significant change in current South Africa has been the political shift in power. The National Party, which enforced the system of racial segregation up until April 1994 and which was representative of only the white minority of South Africa, has been ousted by the African National Congress (ANC), which in turn represents the majority of all South Africans albeit mostly black people. This depicts a transformation of the political arena from a dictatorial and oppressive government to one that is representative of a democratic mode of leadership. This shift in power has had a profound effect on

South African way of life. Institutionalised discrimination and oppression is a thing of the past, equal opportunities and empowerment the current order of the day (ANC, 1994:1). The system of democracy implies that people have the freedom to choose how they live without being impeded by their government.

Wilhelm (1998:28) contends that the transformation of South African society is essentially the government's current priority to affirm those formerly disadvantaged. For instance, affirmative action has been introduced to address discriminatory employment practices by regulating the recruitment and selection procedures of companies and institutions (Ramphela, 1996:31); projects are underway to provide low-cost housing to thousands of homeless people (ANC, 1994:1); the education department is being restructured to provide all pupils with the same level of education and to provide education which is in line with the requirements of industry (Collings, 1997:43); and the support for an open economy indicates a willingness to trade in the global economy (Bruce, 1997:27). In essence, these examples highlight the desire of the government to transform a country once was oppressed to a democratic one, which implies a paradigm shift in perception. However, the government's efforts at transforming the country do not cease here. The government itself is being pressured to transform.

Sunter (1997:49) maintains that high unemployment, rising crime, the reduction in welfare entitlements, the deteriorating quality of state education and health, as well as the widening gap between the rich and the poor are all shortcomings for which the government is held responsible. Dissatisfaction with politicians and political parties has begun to escalate despite the paradigm shift in political perception. In other words, what authors are suggesting (Sunter, 1997 and Manning, 1992) is that the government should move away from the traditional role of governing all aspects of the country's affairs thereby alleviating complete reliance on the government. It should rather concentrate on basic needs, such as security, housing, education, health and an effective economic system with the assistance of private enterprise. "It's all about government creating a promising

environment to help people help themselves” (Sunter, 1997:51). By improving the standards and accessibility of these basic needs, the government will be able to create the right atmosphere for those with foresight to develop self-help projects (Sunter 1997:54). How basic needs are being transformed in an attempt to meet these ideals, forms the topic of the subsequent sections.

2.2.3 The Social Sphere

2.2.3.1 Introduction

Sunter (1997:47) uses an example of a Rwandan convent to illustrate the importance of a well-structured social system. It has been found that young people in this convent prosper when given orderly and disciplined security, education, health care and a sound economic system. Likewise, talented people only remain if the environment remains conducive and amenable. Otherwise they leave to find a more suitable environment. Therefore, by providing these basic needs, which is the responsibility of the government, people are able to grow and prosper. In the last four years, the government has attempted to meet the needs of a majority population that in the past had been denied access to the country’s resources. This represents a transformation in the manner in which resources are distributed to all South Africans. Education, housing, health care and security will be examined to illustrate this transformation process.

2.2.3.2 Education

Add 13 under training

In the past, the government’s main objective was to institutionalise the racial segregation policy in black schools through inadequate education standards. Mohlamme (1991:13-14) cites the following points:

*1. Basic education for all: never received proper training & handling: dynamics of inner world.
Now funding of system adopted by oil companies after 4 years
Sol: 2 address 11 problem of training & support is provided.
read more 1.1111111111111111*

- *Teachers' qualifications:* At the end of 1985, of the 45 059 black teachers employed by the Department of Education and Training, 42 000 were under-qualified, according to the Minister of Development and Education;
- *High pupil-teacher ratios:* The consequence of this was inadequate attention to individual pupil's needs;
- *A lower per capita government expenditure:* In 1984, the government was spending seven times as much on a white child as it spent on a black child. In 1990, the annual cost of education of a white child to the government amounted to R3082 compared to R764 per black child;
- *Matriculation results:* In 1989 of the nearly 200 000 candidates, a lamentable 42 per cent passed. Only 8.95 percent obtained a matriculation exemption. At the inception of Bantu education in 1953, 259 black pupils passed matric. Some eight years later, the number decreased to 115, which represented a deterioration of 44.4 percent.
- *A lopsided and short-sighted educational system:* The educational system favoured academic training while giving scant attention to technical training.

Currently the South African public education system is undergoing restructuring in an attempt to correct educational inadequacies. Some of the various reforms that the Department of Education is implementing are amendments and adaptations to the curriculum at schools, by the implementation of the provisions of Curriculum 2005. This change will attempt to align schooling with the requirements of industries. Wilhelm (1997:26) however believes that the new curriculum faces major problems such as the fact that teachers have not been adequately involved in the developmental stages. Without their participation, implementation of the strategy may meet with resistance because most teachers will have to be trained in the new approach of which they are ignorant. In addition to this, R1 billion was spent on more than 15 000 severance packages which were claimed by long-service teachers and proved to be disastrous in that valuable skills possessed by experienced teachers have been lost (Coulson, 1997:22). Another problem is the demand by teachers for increases in their salary

levels. According to Bruce (1997:24), salaries account for at least 85 percent of total education costs, therefore paying teachers more in real terms would have to mean employing fewer of them. Not only are problems presented by the demand for increased salaries by teachers, but according to the findings of Bruce (1997:24), there is a massive shortage of 57 000 classrooms. With the decrease in teacher numbers, classes are too large to grant individual attention to pupils. Curriculum 2005 places an emphasis on individual attention to pupils but this may prove impossible considering that classes of more than 40 have become the norm as a result of the shortage of teachers. There are many other problems associated with the current education system but it is not the intention of this thesis to explore and traverse all these problems. However, in response to the inadequacies of the public schooling system, the establishment of private schools is on the increase.

Graeme Crawford, head of the rapidly expanding private educational group carrying his name, is not relying solely on the government's schooling strategy to educate pupils. He proposes standard 10 pupils write preliminary matriculation examinations as well as the "Scottish Highers" examination that is slightly more advanced than the content of the South African syllabus. Both these examinations are accepted internationally for university entrance (Bruce, 1997:24).

The state of universities and technikons in South Africa is also cause for concern. According to Bisseker (1997:39), closure seems inevitable for many of the 21 existing universities and technikons as government realises it cannot afford to maintain them all. Universities are expected to grant access to rising numbers of disadvantaged students while receiving little or no increase in State or private funding. Human Sciences Research Council chief executive, Dr Rolf Stumpf, says that unless money is found outside the higher education budget, closures and merges will be inevitable (Bisseker, 1997:39).

The many problems the government is facing in attempting to transform the education system is evident but due to very limited resources, it will undoubtedly take years before an effective public schooling system will emerge. There are individuals who choose not to rely on the government for schooling but they represent the affluent and therefore a small minority of a large population in need of adequate education.

2.2.3.3 Housing

One of the election promises of the present government made at the time of electioneering was to provide housing to all South Africans. During the past, many people with hardly any possessions or accommodation of any sort were relegated to settlements with no or very limited essential services and other aspects which would normally fall within a township's infrastructure. Today, the government endeavours to subsidise housing so that people who would normally be unable to afford a house built by a construction company are now able to acquire title to their own properties. Despite scandals in government relating to fraud and corruption, the positive aspects of this endeavour to provide housing by far outweigh the negative factors.

The lack of the government to meet the huge demand for housing has inevitably led to the involvement of the private sector. Practical schemes by the private sector coupled with a growing emphasis on public-private sector partnerships, have boosted the delivery of mass housing. As a result of this shift in focus, housing delivery is improving says National Housing Board vice-chairman and housing consultant Matthew Nell: "The emerging collaborative endeavours involving employers, unions and private-sector housing financiers has the potential to extend housing credit to all low-income households who have a member in stable formal employment." The market is split along lines of

affordability, ability to provide collateral and administrative support for repaying loans (Halse, 1996:32).

According to McNulty (1996:31), “Only recently charged with the responsibility of developing low-cost homes *en masse* to boost delivery, particularly to the poorest of the poor, municipalities have now entered an all-out battle to attract funding and the best partners.”

Another example of the successful business relationship between the government and the private-sector to build houses is illustrated by a R1.1 billion contract that was signed to build mass housing in the Westlake area in Cape Town (Bisseker, 1997:58). The project involves relocating and re-housing 700 families and two secondary hospitals on a 95 hectare tract of under-utilised land in Westlake. The cost of providing formal housing to the squatters is to be cross-subsidised by the light industrial, commercial and residential components of the development (modern factories, office blocks and retail outlets will also be included in the development). Squatters who qualify will receive a R17 500 government housing subsidy towards their homes. In addition to the low-cost homes, about 1500 homes are planned, ranging in price from about R150 000 to R500000.

However, Laurence (1996:47) points out that private-sector involvement in housing initiatives is somewhat deterred by various factors: the culture of non-payment and the calls for bond boycotts; the level of crime and violence which contractors have to deal with on site; administrative problems associated with a slow-moving bureaucracy; and the commercial risks of trying to match housing requirements to people’s ability to pay. The task team charged with identifying the practices blocking housing delivery stated that the government should play a far greater role in the removal of these barriers. The task team suggested that the government should: adjust the institutional subsidy scheme to promote more rental and social housing options; create a special programme to promote larger scale projects through joint venture partnerships between the public and private

sectors; and take urgent steps to make the housing bureaucracy more efficient and responsive to the needs of the public.

On a more positive note, Goldberg (1997:47) argues that the claim that there is no profit for builders is losing credibility. He adds that both builders and non-governmental organisations had shown that shell homes of 36 metres square, including site and service costs, could be built for the then government subsidy of R15 000. The demand for low-cost housing, finance and building materials is immense. The Building Materials Suppliers' Association fears its members will not be paid for the materials acquired. Goldberg (1997:47) suggests that the Department of Trade and Industry needs to provide special assistance to small and medium-sized businesses to ensure that they participate in this potentially lucrative industry.

2.2.3.4 Health Care

In an attempt to transform health care in South Africa so that all people receive adequate medical care, the Department of Health has pursued the ideals of a socialist health care system. The Department of Health is credited with the provision of free primary health care for pregnant women and children under the age of six years as from May 1994, followed in April 1996 by the introduction of free primary health care for all; the expansion of immunisation, nutrition and disease prevention programmes; substantial salary increase for doctors and nurses and an essential drugs list (Laurence, 1996:22). The overriding success of the Department of Health, according to the independent *SA Health Care Review 1996*, has been the reallocation of resources to primary health care, resulting in 700 new posts in under-served provinces and 60 new clinics. It notes that a lack of detailed planning and inadequate consultation preceded the implementation of both free health care policies. The decision to extend free primary health care to all South Africans was made before its effects had been evaluated in respect of

pregnant women, and children under six years. However, in the Eastern Cape, Northern Province, the North-West and KwaZulu Natal, the service may be free but a significant portion of clinics do not possess adequate water and electricity supply or telephones. Because the service is free, attendance has increased and due to many posts being vacant, clinics are filled to capacity. Medicines have had to be rationed and up to 200 patients a day are being turned away because there are insufficient medically qualified staff to attend to them. To those who can afford them, private hospitals are the only option (Laurence, 1996:22).

The Department of Health's policies have been criticised in general as they seem to be contributing to a reduction in the quality and availability of health care in parts of South Africa (Laurence, 1996:24). Instead of devising a comprehensive plan to redress the mal-distribution of health personnel, the Department of Health has imported Cuban doctors and attempted to conscript medical graduates in outlying areas. None of these proposals have addressed the lack of confidence of the medical fraternity and have probably added to the exodus of doctors from the country (Laurence, 1996:24).

Privatisation of hospitals and clinics is becoming a growing tendency. The Medical Schools of the University of the Witwatersrand and the University of Cape Town both serve as good examples to illustrate this point. They are investigating the purchase of private hospitals which they want to convert into academic teaching centres funded by private patients, exclusive of government assistance. The option has been decided upon in order to save academic medicine in South Africa which has been adversely affected by budget cuts, mass exodus of top specialists and a decline in private fee-paying patients (Bisseker, 1998:37).

2.2.3.5 Security/Policing

One aspect of society that has changed somewhat since the inception of democracy in South Africa, is the increasing level in crime. The rate of armed robberies, murders and rapes has increase dramatically and has reached alarming proportions. Many aspects of the policing system are blamed for the unprecedented increase in violent crime, among them inefficient policing and prison systems. Wilhelm (1997:37) accentuates this concern by reference to a statistic quoted by him. Prisons are on average 150 percent full. However, new government policy aimed at legislating more stringent bail conditions may exacerbate the problem of already overcrowded prisons. In terms of policing, in 1997 the Pietersburg Police Forum hired a management consultancy to examine the causes of poor policing. Its finding pointed to bad management as the main cause as opposed to staff shortages which was during the past generally perceived to be the scape-goat (Honey, 1997:42). His findings are that outdated management processes and technology, inefficient use of resources, lack of accountability, inadequate planning and low morale at all levels of management are collectively to blame. From this, one may safely conclude, in general terms, that poor management lies at the root of the inefficiency of the country's policing system (Honey, 1997:42).

As a consequence of the high levels of crime, there has been an upswing in the private security industry. Wilhelm's (1997:53) statistics show that there are currently 130 000 active security guards that nearly equals the total national police force. There are about 4000 security firms registered with an existing overseeing body known as the Security Officers Board. The prevention of crime seems to have found a lucrative niche in private enterprise.

2.2.3.6 Conclusion

Education, housing, health care and policing have been examined superficially to highlight the way in which they are changing to meet the demands of a transforming society. It is evident that the government is facing major problems in attempting to uplift previously disadvantaged people using very limited resources. However, there is a consistent theme which pinpoints the involvement of business in basic needs provision. The afore-mentioned sections clearly illustrate the extent to which private enterprise is becoming involved in privatising the provision of essential medical services and education. It further indicates that policing services and the provision of housing are being aided by private enterprise at a gradually increased pace. Various schemes such as Business Against Crime and donations of equipment and vehicles by socially conscious private enterprises highlight the escalating role that the business sector is assuming in the community.

The economic environment of South Africa is the next aspect that is undergoing transformation. The local economic environment is presently being influenced by endeavours to open a previously restricted economy and has had to adjust to the effect of globalisation. The reasons for encouraging privatisation and capitalism are inspected from different perspectives. An altogether different approach to examine the manner in which the skills market is being affected, is being adopted. The unemployment problem presents a real and difficult dilemma to the country. The effect of technology is a further very important aspect relating to the national economy that is deserving of discussion.

2.2.4 The Economic Sphere

2.2.4.1 Introduction

South Africa counts among the countries of the world that are embracing the realities of economic transformation. Manning (1992:4) is of the opinion that a “new world order” now exists: on one level, inter-linked economic interests are shaping new arrangements between nations, technology is shrinking the world and forcing change on an unprecedented scale. Transforming countries, like South Africa, are faced with simultaneous global and local challenges. On the second level, industries are in turmoil because customer demands are changing and competition is very fierce. On the third level, companies are facing increasing debt, inflexible bureaucracy and outdated strategies. Underpinning all these changes, individuals are becoming world citizens, adopting new values and accepting new lifestyles for themselves. According to Manning (1992:9), the “new world order” is based on structural rather than cyclical changes in that they demand strategic rather than tactical approaches. In other words, what is done and how it is done has to be changed fundamentally. Globalisation, technology, the business environment, the skills market and entrepreneurship are areas that depict the transformation of the economic sphere and each will be discussed in turn.

2.2.4.2 Globalisation

In the South African context, the abolition of sanctions, the eradication of protective tariffs under the GATT agreement, the massive increase in international competition, the return of international corporations with their marketing agility, and the impact of technological advances have transformed the economic arena (Fourie, 1997:39). In so doing, South Africa has become part of the global economy.

South Africa is now an open economy and the consequence is exposure to all the opportunities and challenges that accompany this status. James Gwantney and Robert Lawson, co-authors of *Economic Freedom of the World 1997*, argue that economic freedom enables greater productivity and higher incomes (Roberts, 1997:19). Their research found that, since 1985, the 10 countries with the biggest increase in economic freedom also enjoyed an average annual *per capita* Gross Domestic Product growth rate of 2.4 percent. In other words personal growth exceeded population growth. The 10 countries with little economic freedom saw an average *per capita* shrinkage in Gross Domestic Product of 2.1 percent. However, for South Africa to declare itself economically free is not without its problems.

An interim report of the *World Competitiveness Yearbook* indicates that South Africa is second last among 46 industrialised countries listed, and only Russia is behind South Africa (Sunter, 1997:11). The United States of America, Singapore, Hong Kong and Finland occupied the top four places. The main reason why South Africa is so far behind other world-class competitors is that it has not yet learned how to become a global player. To be able to compete with the United States of America and the Far East, South Africa has to develop world-class companies locally. For instance, with the relaxing of exchange controls and the widening of investment opportunities, a South African pension fund or unit trust is going to compare South African companies with world-class companies overseas, such as General Electric in the United States of America and British Airways in the United Kingdom. South African companies will therefore have to perform according to world-class norms of performance to attract or retain their local as well as their overseas shareholders (Sunter, 1997:11).

In effect, South Africa needs a change in mindset to face the challenges associated with a global economy (Sunter, 1997:19). For example, Jack Welch of General Electric has shown that to run a diversified business and win is achievable, providing there is focus in each business and a learning, sharing and action-driven

culture encompassing all if them. Focus is a key issue for South African management who, because of the shortage of expertise, have spread themselves very thin over a wide range of responsibilities. In an open economy, they will stand no chance against focused professionals. One of the principles mentioned by Tom Peters and Bob Waterman in their book entitled *In Search of Excellence*, published in 1982, is “stick to the knitting” which means to remain with the business that the company knows best (Sunter, 1997:20). In other words, companies should stay with their core competencies but adapt their range of products and services to the changing times. Senge (1991:13) adds to this sentiment by suggesting that there are two critical elements that are required to think and compete globally, namely vision and understanding of current reality. Vision refers to a view of the future that all individuals wish to create. However, shared vision is just as important as individual vision. Shared vision is a picture of the future that a group of people hold and become involved in taking a stand to make that vision concurrent with reality. By understanding the current reality and working within its confines, a shared vision can be sharpened and refined to reflect winning ideas and concepts.

The world is now one market for an increasing number of products and services. Advances in communications technology make it easier to trade across countries and cultures. This, in turn, is leading to a convergence of customer tastes and requirements. Deregulation and privatisation are becoming catch phrases (Manning, 1992:6). In the longer term, it is likely that markets will be more open and global marketing will become easier. However, as Sunter (1997:22) points out, because industries are in a continual state of transition, companies only have a “bubble of value” to exploit, therefore they are obliged to undertake a global marketing blitz for their product or service so that everybody has access to it before it goes stale. In effect the companies which will survive are those that, through continual innovation can cut their unit costs the fastest. This leads to the importance of technology and how this impacts on companies’ ability to innovate.

2.2.4.3 Technology

→ Finance service to P&C system Inter. 2
ball office / Mark CAC
Dinner

The ability of companies to survive in the global economy with accelerating technological change is dependent on their level of innovation. Sunter (1997:21) explains the difference between “lock-in” and “perpetual transition” industries to illustrate why innovation is essential. A lock-in industry is one where technological standards change slowly. For example, in the recording industry 78s were manufactured up to the 1950s, then LPs and 45s and now CDs and cassettes. In a locked-in world, each technology exists for several decades, and even for a century or more. However, an increasing number of industries are currently moving into perpetual transition. The computer industry is a good example. When IBM invented the personal computer, it had no idea that this machine would transform the market. Before the personal computer, IBM set the standard for the mainframe and decided how long that standard would endure. It was long enough for IBM to make a fortune out of each generation of its computers. But the personal computer eradicated this monopoly. It not only ensured that no company would ever have the same dominance again in computer manufacture as IBM did before the personal computer, it also shortened product life cycles to about six months. Six months is the time that it takes for a competitor to introduce a new personal computer to the market, one with a more powerful memory or microprocessor (Sunter, 1997:21).

According to Roberts (1998:21), South African manufacturers are spending more on innovation than previously estimated. In a 1994 survey of 244 firms conducted by the Foundation for Research Development and the Industry Strategy Project, it was found that five percent of turnover was spent on innovation and research and development. In the past three years, innovations have been achieved by South African firms which include: Castle Lite beer; total containment flaps to prevent leakage on nappies; a paraglider fabric which was used when six world records were broken; two new piping systems which allow for a 30 percent saving in raw material input cost; a lightweight vodka bottle

using 25 percent less glass; an SR-8 pole-planting drill for the US; a tracked harvesting machine for export to Europe, North America and Australia; an air-conditioning system for ostrich hatcheries; vehicle tracking systems; and the adaptation of sports car disk brakes to light commercial vehicle application (Roberts, 1998:21).

Manning (1992:5) supports the view that the “Information Age” has dawned in that the boundaries of human potential are being pushed farther. In the past, highly skilled people were required to operate computers. Today, technology allows us to capture, store, analyse and use knowledge in new ways, making them simpler to work with and therefore accessible to many more people. Technology is and will be responsible for major breakthroughs in products and procedures, in methods, materials and management. In essence, the potential of the average human being has been hugely expanded by technology. Because technology is becoming an essential part of human existence, it has inevitably caused a shift in the economy towards information and service markets (Sunter, 1997:80). The extent to which the business environment has transformed to meet this challenge creates the next topic under discussion.

2.2.4.4 The Business Environment

Pretorius (1993:8) comments that the winners in the business world are those that move faster than their environment. Adaptability is a prerequisite for success as is the ability to view change as an opportunity rather than a threat. He suggests that businesses require visionary leadership; moral management philosophy; a suitable organisational culture; flexible and scientific strategic planning; effective development of human resources; and cost effective production. In addition, for companies to compete in the global economy will require significant increases in productivity and efficiency. The reality is more value at lower cost and identification of locations where competitive advantage needs to be earned

(Pretorius, 1993:9). To achieve cost effective production, a change in the South African labour relations arena will be an essential requisite.

Already this need for a change in the labour relations' arena is being felt. For instance, Manning (1992:6) is of the opinion that because political democracy has in effect made more 'average' people more powerful, it has spilled over into the workplace where industrial democracy is translated into participative management styles. Venter (1997:24) takes this further to argue that until now participation in organisational improvement meant involving workers in operational matters through structures such as quality circles or multi-skilling. But participation is extending beyond operational levels to policy and strategic levels through workplace forums. The objective of the new Labour Relations Act in regards to workplace forums is that they "... should engineer relationships between capital and labour towards effective co-operation in order to ensure mutual wealth creation (Marais & Israelstam, 1997:40). Values are also changing in the workplace especially regarding compensation, advancement, company loyalty, willingness to relocate and treatment of minorities and the handicapped (Pretorius, 1993:9). The Employment Equity Act (No.55 of 1998) attempts to promote these values. Its purpose is to facilitate equal opportunity and fair treatment in employment practices that eliminate unfair discrimination. It also proposes to legislate affirmative action measures in order to redress disadvantages relating to employment practices experienced by black people, women and people with disabilities during the past. The ultimate aim of the Bill is thus to ensure equitable representation in all occupational categories and levels in the workplace.

The increasing complexity in delivering goods and services means that new forms of management will increase innovative organisational structures, improved production methods and machinery and will include the use of advanced information systems. Ultimately the quality of a company rests on the quality of its management and employees (Sunter, 1997:30).

Senior Mgt Service
 X Manning (1992:8) perceives that attention to customer service is changing the conduct of business by companies. Quality and productivity are now essential components of any business where every policy, process, procedure and system needs to be designed with customers in mind. Manning (1992:8) proceeds to submit that customers determine what businesses do and how they do it, from the way they hire, train and reward people to the manner in which products and services are packaged and promoted.

Because the global economy requires a different approach to marketing and providing products and services, the view that competition is the law of the market and promotes effective and efficient business performance, is outdated (Visser, 1994:18). Instead, co-operation and reciprocity are the guiding principles by which business should create synergies. In other words, progressive companies are inclined towards networking. Access to money, technology, markets and people are forcing them to be pragmatic and to form teams to impact on the market. Success is decreasing, implying that there is less time to exploit a successful product or service, while the risk of failure is rising because of the shift in changing competitors and customers. This trend also manifests itself in teamwork inside organisations and in new relationships between companies, their customers and suppliers. Information is traded at every opportunity, and managers are learning that good ideas come from everywhere and that knowledge expands through use (Manning, 1992:9).

X Finally, the old paradigm that the ultimate and sole function, goal and responsibility of businesses is to make a financial profit is being replaced by a new paradigm. This is one of social responsibility, which dictates that business plays an active role in society, not only by providing employment but also through social upliftment programmes (Visser, 1994:18).

2.2.4.5 The Skills Market

Today workers need a significantly different portfolio of knowledge and skills. In particular, the change is driven by increasing complexity and accelerating changes in technologies, business strategy, customer requirements, politics, economic policies and education as well as legislation to protect the environment, work ethics and the changing needs of the workers in respect of rights and quality of working life (Joubert, 1992:4).

The skills market is a dynamic environment that responds to deliberate interventions as well as natural system adjustments (Joubert, 1992:4). Therefore, countries that have taken charge of their economic performance manage their markets deliberately by either stimulating or retarding the production of skills. In South Africa, skill shortages have been experienced for various reasons and will be discussed.

A number of South African industries have undergone a process of rationalisation (gold mining, transport, armaments, nuclear, electricity, iron and steel, manufacturing, computer technology and banking.) This process has led to greater unemployment in the South African market. South Africa's reliance on commodities to generate foreign exchange has proven to be a major reason for its economic stagnation (Joubert, 1992:5). Advisors on economic and industrial development policies have indicated that the country should move away from its total dependence on raw material exports in that manufacturing for export markets should become the core of industrial policy. This shift will be technologically driven and will demand a new approach to the management of the South African skills market because more sophisticated skills will need to be created (Joubert, 1992:5).

Also, changes in the business strategy have seen the removal of levels of middle management jobs traditionally responsible for information management. Another human resource management strategy impacting on the availability of jobs is empowerment. The worker takes on more responsibility, accountability and caring for customers, technology and resources of the business. This invariably leads to fewer people required to do the business better. Robotics, automation, mechanisation and computerisation of production, manufacturing and engineering processes has meant a decreased reliance on manual labour, thereby reducing the amount of employees needed (Joubert, 1993:6). Multi-skilling attains more flexibility in the positioning and utilisation of skills, while multi-disciplinary work teams, in the search for production and quality breakthroughs, increase the variety of skills that workers must possess but also decrease the number of workers required.

Sunter (1997:80) reasons that one of the most prevalent reasons for the skills shortage in South Africa is the current educational crisis. The major technological environments identified by Arthur D Little are electronics and information technologies; material and process technologies; life sciences and management (Joubert, 1992:5). However, Sunter (1997:80) concludes that the majority of students at tertiary institutions are studying courses offering little scientific and technological learning thus creating a mismatch between the skills offered and the skills required by the workplace. Thousands of pupils and students qualify at institutions without having gained any practical skills. The availability of employment is not guaranteed and they are unable to start their own businesses because of lack of skills. Sunter (1997:80) continues that the lack of appropriate education means that the production of engineers, technicians, scientists and craftsmen in South Africa falls short of numbers of similarly qualified persons being produced in developed countries.

South Africa's population has expanded at a rate of 2.4 percent per annum during the 1980s (Joubert, 1992:8). The markets, from which the vast majority of engineers, technicians, scientists and artisans were traditionally drawn, namely the local white schools and the European skills market are shrinking. Joubert (1992:8) warns that if these trends are not reversed or if these vocations cannot absorb more young people from other population groups, South Africa will be technologically poor. Another aspect is that of skilled people emigrating. High levels of criminal activity, inadequate education standards and high taxation are among the various reasons motivating people to emigrate. The political, social and economic environment has estranged many educated and skilled individuals, who have chosen to relocate, taking their skills with them (Joubert, 1992:8).

In essence, South Africa needs to align economic, industrial and technological development strategies with their education and training policies in order to create skills markets which support development (Sunter, 1997:81). As a contribution to productivity improvement, the National Productivity Institute seeks to influence improvements in the following areas: the effectiveness of mathematics teaching in South African school (it being considered that mathematics forms the core of technical education); basic business education; adult basic education; management training and development; productivity techniques; and on-the-job training (Riley, 1994:23). The Ministry of Labour has also tabled a new Skills Development Strategy Bill with the intention of creating an environment that encourages more investment in the field of skill development. The Ministry of Labour recommends a levy system where all employers would contribute to a skill-training fund administered and subsidised by the government and made available as a training grant to employers (van Huyssteen, 1997:54). Employment creation will have to be achieved through business expansion and new business. In the South African context this means entering into industries and world export markets with potential for growth. By ensuring that people possess the skills to recognise business potential in any industry, job creation will follow as a matter of course.

2.2.4.6 Entrepreneurship

Hazelhurst (1997:46) maintains that South Africa is suffering from a phenomenon described by economists as "jobless growth". In other words, there is an increase in economic activity but this does not necessarily translate into job creation. This is occurring due to general cutting of costs, including labour costs. Therefore, because of problems of social immobility, segregation and a national income distribution which is perceived as too much in favour of the rich, Sunter (1997:84) proposes a revolution in thinking in South Africa. He suggests that the most powerful driving force behind transforming the prospects of the poor and underprivileged and allowing them to break free of impoverishment is small business development. To quote but one example: in Poland there are now two million small and medium-sized enterprises operating, generating 50 percent of Gross Domestic Product and 60 percent of employment. Sunter (1997:83) believes that there is an impression in South Africa that the small and microbusiness sectors are considered a refugee camp for those unlucky enough not to find jobs in the formal sector. However, many people whom conduct their own businesses do not wish to work in the formal sector, or to work as a subordinate for another. Instead they obtain dignity and self-esteem from being their own boss thereby perpetuating a sense of empowerment. Sunter (1997:83) expands his point of view by stating that the only way to reduce inequity is by creating a new class of entrepreneurs. He is convinced that the gap between the rich and the poor must be closed but he does not believe that the government is the most effective agency to achieve this objective. The persistence in inequity amounts to a lack of social mobility in many societies. For instance, by supplying money to sustain disadvantaged people, merely creates dependency on the government and reduces the incentive of the recipients of aid to unilaterally try and change their circumstances.

↓
dependency syndrome
"welfare state"

However, Manning (1992:8) indicates that communities everywhere are already taking responsibility for themselves. Privatisation is not only sweeping the globe but is becoming a viable option for economic growth in South Africa. For instance, employees are more involved in organisations, while also improving efficiency and increasing competitiveness. Manning (1992:8) further points out that firms are beginning to focus on the things they do best and are discarding whatever they cannot do better than other firms. Also, large corporations are looking outwards to entrepreneurs to provide a growing range of products and services previously produced in-house. In turn, small business is beginning to boom. At the same time there is a move towards empowerment within organisations. Intrapreneurs are now actively encouraged to apply constant innovation; to improve technology facilities and to move away from hierarchies towards networking. More people are taking control of their own lives. This fresh new philosophy exercises a huge impact on living standards, education, medical services, social values, creativity and resource use. It will, as a consequence, lead to positive changes in people's perception of their self-worth and to the growth of national pride (Manning, 1992:8).

Sunter (1997:80) proposes that there should be huge encouragement of small business development, particularly by the government, as this is the area in society where the majority of jobs will be created in future. Hazelhurst (1997:35) highlights the rate of unemployment. It rose from 8.4 percent in 1960 to 12 percent in 1980, 19.4 percent in 1991, and 29.3 percent in 1995. The formal sector is unlikely to provide the unemployed with jobs, therefore small business is the only remaining option. Hazelhurst (1997:35) also points out that the informal sector is a growing source of employment. It is estimated that in 1995, 1.7 million people, out of an economically active 14.4 million people, worked in this sector.

unemployment \rightarrow informal sector

The greatest opportunities for business start-ups, says Sunter (1997:80), lie in information and services. He concludes that this entrepreneurial revolution is broad-based, encompassing blacks and whites, women and men, graduates and squatters. The establishment of an all-inclusive economy has become an urgent and desperate priority. All the above pointers indicate that failure to address the described need at this stage in the country's history, will not only escalate already rampant frustration but will lead firstly to retardation and ultimately to regression of the economy in general. The creation of an all-consuming and realisable desire for prospective entrepreneurs is imperative in order to involve themselves in business so that they are given the formerly unattainable opportunity to develop self-esteem and dignity.

2.2.4.7 Conclusion

By examining the political, social and economic spheres of South Africa in conjunction with the changes occurring globally, it is clear that transformation is taking place at an increasing rate. An overriding conclusion, however, indicates that the days of large corporations holding monopolies, competition being set and economies remaining relatively stable are relics of the past. Joubert (1992:vi), summing up the current situation, professes that the new economy may simplistically be defined as an economy that is driven by innovation and entrepreneurship. It encourages and rewards both the individual and corporate self-respect and self-reliance. It aims to resolve the problem of over-concentration of opportunities and monopoly power by stimulating partnerships between big business and small business. The new economy stimulates education, training, venture capital and new business ventures through tax incentives for both in-house and external initiatives; encourages and rewards those individuals who facilitate the concept of "ownership" through work, equity, participation and home ownership. The Information Age coupled with the Global Economy phenomenon promises to provide fierce and most often overwhelming

competition where competitive advantage is the be all and end all of company survival. The introduction of new and fresh methods is essential in the pursuit of winning products and services. The authors quoted above are all in agreement that small business is likely to fulfil the task. In effect, technology will and is enabling people to start their own business with specific expertise. It not only provides a service or a product but it empowers people to provide their own employment and determine their own success. Empowerment thus follows as the focal point of the next section.

2.3 ECONOMIC EMPOWERMENT

2.3.1 Introduction

Oxtoby (1999:40) avers the word "empower" encompasses two distinctive definitions. In support of his contention, he refers to the Shorter Oxford Dictionary. The first definition of "empower" means to "invest legally or formally with power, to authorise, license", while the second meaning is "to impart power (to do something); to enable, permit." He continues that these two definitions provide useful insight into the issue of empowerment: "...One [definition] is concerned with the objective facts about what we are authorised or given permission to do, ... The other is concerned with our subjective feelings of energy and ability, with having a sense of power,..." (Oxtoby, 1999:40). It is submitted that at present, South Africa is intent on righting the wrongs of the past by doing away with all practices that marginalised particular sectors of society during the past. In other words, in pursuit of the desire to facilitate this transformation process, empowerment, in its objective form, is being encouraged to ensure that previously marginalised sectors of society are being invested legally or formally with power. On the other hand, the subjective form of empowerment alludes to the extent to which people make use of this sense of empowerment.

Joubert (1992: iv) is of the opinion that economic empowerment is a process by which people are enabled to participate in the economic mainstream of the country. There are various connotations that economic empowerment carries. One connotation is that it refers to black economic empowerment. Authors advocating this kind of economic empowerment refer to it as a form of redress that involves the opening up of job opportunities and business opportunities to those who were oppressed during the past, namely black people (Masango, 1994; Mkhwanazi, 1994; Teke, 1997; Malunga, 1998). Another connotation is that economic empowerment refers to the participation of all South Africans in the mainstream economy, not only black people. It is important to define these connotations of economic empowerment in order to determine the focus of this thesis.

2.3.2 Black Economic Empowerment

2.3.2.1 The Significance of Black Economic Empowerment

*Use
Sikhonolize. Braining*

Mohlamme (1991:13) believes that South Africa is an unequal society because the apartheid policy structured it in such a way that its black majority was denied full participation in the commercial and industrial life of the country. He points out further that the traditional role of the black people was principally that of unskilled labourers and peasants. The laws and policies of the country were designed to deliberately retard and restrain advancement of that section of the populace who form the majority of the country's inhabitants. Mkhwanazi (1994:7) explains that empowerment in this sense refers to the economic upliftment of those who suffered from the harsh economics of exclusion that was the norm in South Africa. In essence, black economic empowerment implies that black people become participants in the economic life of the country through various initiatives.

Mkhwanazi (1994:8) contends that a lack of relevant skills and training and development in management, technology and science have rendered black people powerless and thus a reservoir of untapped human capital. Dependency, lack of networking, lack of clarity, focus, strategic alliances and unity undermined empowerment amongst black people. Mkhwanazi (1994:7) adds that, in the past, financial institutions in South Africa contributed to the oppression of black empowerment initiatives because of:

- their short-term outlook;
- a culture of huge and exorbitant profits;
- ownership and control that has been largely in the hands of a few powerful magnates;
- they have been totally risk adverse;
- over-zealousness in relegating black people into the informal and small business sectors;
- the elitist, closed, aloof and racist favouring of big business;
- practices, culture, values, ethics and standards that are First World in character and practice; and
- Unresponsiveness to the needs of the larger society.

Discrimination against the majority of South Africans, be it through financial institutions or employment practices, has lead to a conscious move, primarily by black business people, to overcome this oppression by actively becoming involved in the economy through various initiatives.

2.3.2.2 Black Economic Empowerment Initiatives

Black economic empowerment policies are intended to assist those who having during the past been systematically oppressed, denied equal access to resources, skills and opportunities and branded as socially or racially inferior. It is therefore

a multi-pronged process with multi-faceted strategies aimed at the distribution of power and resources (Masango 1994:12). One of the initiatives undertaken to remedy this defect was the launch of the Black Business Council (BBC) during May 1997 (Malala, 1997:41). The council's main aim is to promote black economic empowerment through active participation in political and economic restructuring of the South African economy. This includes unification to communicate the needs of its member organisations, such as the National African Federated Chambers of Commerce, the Black Management Forum and the Association of Black Accountants of South Africa.

Black
Business
Council

The New Africa Investment Limited (Nail)'s bid to take joint control of Gold Fields of South Africa in May 1997 presents a good example of a business venture that is black empowerment driven (Wilhelm *et al*, 1997:20). In 1992-1993, Metropolitan Life chairman Willem Pretorius - with MD Marius Smith, Sanlam chairman Martinus Daling and others - were the motivators who led the first visible black business empowerment when they created Metlife's holding company, Methold. It subsequently became New Africa Investments (Nail). A further example extrapolated from Ryan (1997:36) also illustrates this aspect. Because the mining industry had fallen on bad times, Gold Fields began to look to its new black business partners for help needed to improve mining productivity. In order to research innovative working methods it was imperative to win the support and trust of labour. Ryan (1997:37) makes reference to his perception that the then Gold Fields management was at that time in urgent need of radical changes to both management and structure, which the new business partnership would hopefully encourage and make a reality.

Another example of the impact of black economic empowerment is a company called Real Africa, created by Don Ncube (Malunga, 1998:30). Over four years, he built up a conglomerate that is estimated to be worth approximately R3.7 billion on the Johannesburg Stock Exchange. Real Africa holds investments in food, financial services, information technology, tourism and health care.

lot of the BEE
companies are
created, it means
buying shares
within the company
or starting up
do start up

However, Real Africa only invests in established operating companies with track records rather than start-up businesses. Ncube (Malunga, 1998:31) hold the view that this kind of black empowerment places pressure on black people to manage and make strategic decisions, therefore encouraging talented black people to become involved in this category of industry.

But Wilhelm *et al*, (1997:20) to the contrary, argue that business is colour-blind and while groups may start out with community upliftment in mind under the auspices of black economic empowerment, the nature of the free market is not racially divided. In essence, black economic empowerment will be assured when partnerships and shareholdings cross all barriers, including racial ones.

the point where is questioned if black capitalism is expected to have better the fact it people it get enough, only a elite participate in all deals

2.3.3 Economic Empowerment of all South Africans

The empowerment of black people is an essential component of uplifting previously disadvantaged communities in South Africa. Here "upliftment" is the key concept, applicable to the entire country if it is to survive in the global economy. As President Lyndon B. Johnson said, "You cannot take a ball and chain off a man's leg at the start of a race and expect him to win" (Mohlamme, 1991:13). Similarly, it would be short sighted and unrealistic to assume that black economic empowerment is the only form of economic empowerment upon which South Africa should be reliant. Economic empowerment, from Joubert's (1992:66) vantage, indicates a shift in emphasis. It is, he says, nothing more than encouraging people to help themselves, and that means all South Africans. As mentioned before, the new economy needs the participation of men and women of all races, cultural backgrounds and minority groups. Pepkor and Industrial Development Corporation chairman Christo Wiese holds the following idealistic perception: "Unless all South Africans can participate meaningfully in the economic life of the country, we will not be able to sustain a market-orientated political philosophy" (Wilhelm *et al*, 1997:18).

Forms of
empowerment

There are various forms of economic empowerment that exist in different contexts, such as economic empowerment in the organisational context and that of small business development. Economic empowerment in the organisational ¹ context refers to schemes that enable employees to be shareholders in the company in which they work. ² Small business development, as a form of economic empowerment, however remains the focus of this thesis. Small business development encompasses a broader variety of opportunities and a broad variety of industries. It is not as restrictive as organisational economic empowerment. For instance, in South Africa, only a few organisations, which ^{*} tend to be the larger firms, have schemes such as those mentioned above. Small business on the other hand implies that anyone can open their own business in any industry, therefore appealing to a much larger community. Small businesses will next be discussed in greater detail.



2.3.4 Small Business

2.3.4.1 Introduction

Vosloo (1991:1) comes to the conclusion that in all the successful economies of the world, small businesses are a dominant force because they contain the essential factors of economic growth, employment generation and social progress. He maintains that small businesses are flexible and easily adaptable to changing market opportunities. Small businesses operate in both the formal and informal sectors. The importance of the differences between the informal and formal sectors necessitates a discussion of each.

2.3.4.2 The Informal Sector

All the discriminatory measures of apartheid produced a situation where most of the wealth of South Africa lay in the hands of four and a half million white people, while the overwhelming majority of the nearly 26 million black people have lived in poverty (Davies *et al*, 1998). The previous regime created an unbalanced distribution of wealth whereby the resources and capital of South Africa were reserved for the minority white community. This together with unemployment led to a boom in the informal sector.

features of
informal
sector

The International Labour Office defines informal sector enterprises as having the following characteristics, namely: ease of entry into markets; reliance on indigenous resources; family ownership of resources; small-scale operations; labour intensive activities using adaptable technology; skills acquired outside the formal education system; and being unregulated (Joubert, 1992:63).

Roberts' (1997:11) investigation relating to this topic shows that almost one in every eight jobs originates in the informal sector. The Central Statistical Services estimates the informal sector contributed R32.4 billion to Gross Domestic Product during 1995, which represents seven percent of the total value added, that is income, to the economy.

GDP
of
informal
sector

The informal sector is characterised by a large number of small-scale production and service activities that are individually or family-owned and use labour-intensive and simple technology (Joubert, 1992:64). Their motivation is usually to obtain sufficient income for survival purposes by relying on their own resources to create work. In South Africa, the informal sector comprises an extraordinary range of enterprises:

- *Retail distribution*: peddling, street hawking, shebeens (bars), spaza shops;
- *Personal services*: shoe repairs, photography, sangomas (traditional African healers);
- *Other services*: gardening services; caddying services; musical services;
- *Repair services*: motor repairs, panel beating, upholstery, tiling;
- *Productive and secondary activities*: furniture makers, dressmaking, traditional crafts (bead work, mats, basketry), pottery, cement block-making;
- *Building construction*: building contractors, plumbing, painting, electrician work, plastering;
- *Transport*: Taxis, truckers;
- *Accommodation*: sub-letting of land and premises;
- *Money lenders*: alternative for poor people not having access to conventional sources of finance;
- *Crime*: theft, prostitution, drug trafficking, pimping, gambling (Joubert, 1992:65).

Roberts' (1997:11) demographic statistics show that black people represent the majority of informal labour, in total 78 percent, while females represent 70 percent of this figure. Almost 40 percent of men in the informal sector work as artisans or craftsmen, such as building, house painting and carpentry, compared with six percent of women. Far more women, 82 percent, are engaged in activities such as street vending and domestic work.

Because of the difficulties of obtaining legitimate finance, the informal sector is known to rely on its own resources. Sunter (1997:94-95) explains a scheme known as the Start-up Fund that successfully serves those categorised as the "untouchables" by the banking sector - providing capital to the unemployed people in the informal sector who start up in business. The Start-up Fund has emerged as a viable financial institution serving thousands of micro-entrepreneurs throughout South Africa in that it covers all its costs from its own earnings with

zero bad-debt impact. The capital used to start the Start-up Fund was supplied jointly by the Development Bank of Southern Africa, the Independent Development Trust, the Anglo American and De Beers Chairman's Fund, Metropolitan Life, the Nedcor Community Development Fund, Southern Life, JCI, First National Bank, the Foschini Group and the Industrial Development Corporation. The Start-up Fund is the brainchild of Tony Davenport. He visualised a system that makes it possible for the unemployed to start their own businesses. Despite being a non-profit organisation, the way the loans are granted is as follows: firstly, an applicant deposits R75 in cash as a refundable deposit; secondly, the applicant undertakes a micro-enterprise training course provided by one of the 75 designated organisations, for example, STRIVE Foundation, the School Leavers Opportunity Trust, and the Association for Micro-Enterprise Business Activity; and thirdly, the applicant opens a bank account. The applicant then receives the first advance of R250 for a period of three months and the applicant is required to repay R120 per month for three months, R360 in total. At the same time, the loan account is debited with an additional R50, credited to the Group Indemnity Trust. This Trust provides insurance in the form of group surety to the Start-up Fund on behalf of all borrowers, so that in the event of a bad debt, the Start-up Fund is compensated by the Groups Indemnity Trust. The R360 repayment, where R110 is surplus, not only covers the R50 Group Indemnity Trust debit, it also covers the running costs of the Start-up Fund. Provided the applicant affects repayment in full and timeously, they will be permitted to enter the next phase of borrowing R500 for six months and so on up to R2000. The incentive to maintain repayments in each phase is strong in that a responsible and compliant applicant gains access to more funds - up to a maximum of R2000. The Start-up Fund commenced operating on 1 October 1993. It now occupies a critical niche in South Africa's capital markets. There are at present 3500 borrowers with total loans of approximately R3 million. Sunter (1997:96) is critical of the small base but the model has proven itself already, indicating an enormous potential for growth.

The Cape Flats community serves as a deserving example of the use of the Start-up Fund (Machenheimer, 1998:8). A programme known as the One-Up Business Training Programme (dubbed the “Township MBA”) is an initiative which teaches the unemployed to start and run their own small business in the Cape Town area. The programme is run by the Informal Business Training Trust and combines training and funding to get people started. The training covers areas such as marketing, buying, costing, pricing, selling, compiling a business plan, money management and stock control. The funding is covered by the Start-up Fund.

The informal sector undoubtedly plays an essential role in the development of the economy and society as a whole. However, Joubert (1992:64) finds that the distinguishing characteristics of the informal sector to be reflected in the facts that it is unregulated and the levels of economic activity and incomes earned are not known with absolute certainty. The informal sector may thus be described as that unrecognised sector of the economy that operates without official recognition, authority or control. Without this recognition, government support, financing and taxation is far below that of other sectors. It is virtually impossible to regulate very small-scale businesses because incomes generated are comparatively small and varied, thereby making taxation an administrative ordeal. The formal sector, on the other hand, is far more regulated and therefore secures a viable, controllable income for the government and forms the subject of the next section.

2.3.4.3 The Formal Sector

Small businesses which operate in the formal sector are characterised as registered businesses functioning from regular fixed premises and have certain fixed costs, such as rent and trading licence fees (Ramsdale, 1990:12). They require limited capital, and dependent on need, they combine simple and advanced technology while being generally labour intensive and hence able to

contribute significantly to job creation. Ramsdale (1990:5) sees a small business as an independent profit-orientated economic unit that generally has the following characteristics: independent ownership; independent management; simple organisational structure; and includes businesses which have a relatively small influence on the market. The turnover of small businesses is generally thought to total R5 million or less. The number of employees is generally 100 or less and the total assets are valued at less than R1.5 million.

Authors such as Sunter (1997) and Manning (1996), mentioned previously in this thesis, advocate that small business development is an economic necessity. However, the reality is that many small businesses fail. The reasons for this phenomenon are examined in the next section.

2.3.4.4 Reasons For the Failure of Small Businesses

Studies undertaken by De Coning *et al* (1989:2) are indicative that approximately 80 percent of small businesses in South Africa will fail within the first 24 months. Authors such as Manning (1992) and Sunter (1997), who embrace the absolute importance of small business creation, find such a high failure rate both deplorable and unacceptable. The most common causes of failure in financial terms are bankruptcy, bond default, recalled overdrawn bank accounts, or non-repayment of preferred stock dividends (Bunn, 1992:26). A transparent reason that contributes to failure is the lack of necessary skills and knowledge required for the effective management of a business. Further factors include incompetence; lack of product or service knowledge; lack of all-round experience in all aspects of the business from management, marketing and finance to production and/or service orientation; general neglect of the business; fraud; or disaster (such as fire, sabotage or strike action) (Bunn, 1992:27).

Particular problems encountered by the retail industry, falling inside this category of small business, are exposed by Fife (1997:61). High rents in shopping centres and stagnant turnover are among the main reasons that cause small retailers to declare bankruptcy. Rents are rising by 11 percent but operators have to keep their prices down to retain their customers. With an average profit margin of only 15 percent and prime rentals eroding over one-third of the turnover, businesses are unable to maintain a profit level to keep functioning (Fife, 1997:61).

A contributing factor, this time at government level, is identified by van Huyssteen (1997:53). Frustration is caused by the non-delivery of the Department of Trade and Industry's R874 million small business support budget. Apparently it is not as much a problem of financing as one of compilation and delivery of the budget referred to. He has discovered that the funds are not being transmitted because small business development is not adequately represented in Cabinet. Ineffective administration is the cause that legally earmarked funds are entangled in red tape. Inadequate representation at Cabinet level, to the non-delivery of the budget represent bureaucratic stumbling blocks, while the official policies imposed by law push up the costs of small businesses. This in itself creates a further difficulty for small firms to survive and thrive.

2.3.4.5 Conclusion

This section has established the significance and importance of small business by examining both the informal and formal sectors. It is evident that apart from numerous other benefits to society, each provides a valuable source of income to individuals and empowers them to become self-reliant and to function independently of government aid and intervention in order to survive. However, these sectors face a multitude of problems that undermine their success and appeal.

2.4 CONCLUSION

The afore-going chapter concentrated on an analysis of the concepts of transformation and economic empowerment. The discussion introduced these two aspects in order to highlight their significance and the role they fulfill in small business development. Vosloo (1991:5) indicates that, "A redistribution of wealth is in essence only a short term relief. Long term economic viability can only be assured when employment and income grow". Small business development is an essential component of a growing and thriving economy, therefore it should include all economically active citizens, regardless of racial categorisation. Small business development serves to empower people to earn a living engineered by their own means, and therefore develop they own sense of self-reliance and self-worth. But the failure of small business is wide ranging. Not only are the contributing factors because of the personal inadequacies of some of the owners but are also caused by the impact of adverse government intervention. However, there is a form of small business that is relatively protected from the problems mentioned above. Such protection is provided by franchising. Franchising is the central theme of this thesis and is introduced in the next chapter.

CHAPTER 3 : FRANCHISING

3.1 INTRODUCTION

So far, this thesis has discussed the concept of transformation, in paragraph 2.2, in a broad perspective to establish that which is being transformed. It examined the political, social and economic spheres that are changing and further narrowed the discussion to economic empowerment to indicate that people are empowering themselves. One of the ways in which people may gain empowerment is by entering the economy as entrepreneurs through franchising. It is the purpose of this chapter to investigate such a possibility.

The objectives of this chapter are to provide a definition of franchising, to place it in its historical context and to examine the significance of franchising as a more effective form of job creation and small business ownership, and thus economic empowerment.

In order to justify the significance of franchising as a more effective form of job creation and small business ownership, four main areas will be discussed. The first is franchising as a business mechanism. The reasons for regarding franchising as an attractive business option for larger companies will be examined. Thereafter the viability of franchising as a mechanism for economic empowerment will be scrutinised. The third area that will be discussed is that of franchising as an entrepreneurial venture. The last area will focus on the benefits and challenges of franchising to provide a realistic perspective of its viability.

3.2 THE DEFINITIONS OF A FRANCHISE ARE IDENTIFIED

The elements of a franchise relationship are defined by the British Franchising Association in its definition of a franchise as follows:

“A contractual licence granted by one person (the franchisor) to another (the franchisee) which:

- (a) permits or requires the franchisee to carry on, during the period of the franchise, a particular business under or using a specific name belonging to or associated with the franchisor; and
- (b) enables the franchisor to exercise continuing control during the period of the franchise over the manner in which the franchisee carries on the business which is the subject of the franchise;
- (c) obliges the franchisor to provide the franchisee with assistance in carrying on the business which is the subject of the franchise (in relation to the organisation of the franchisee’s business, the training of staff, merchandising, management or otherwise) and
- (d) requires the franchisee periodically, during the period of the franchise to pay the franchisor sums of money in consideration for the franchise, or for goods or services provided by the franchisor to the franchisee; and
- (e) which is not a transaction between a holding company and its subsidiary ... or between subsidiaries of the same holding company, or between an individual and a company controlled by him” (Morley, 1991:353).

The Franchise Association of South Africa provides an alternative (albeit a lesser detailed) definition of franchising: “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, to enable him to run it on an ongoing basis, according to guidelines supplied, efficiently and profitably” (Morley, 1991:354).

This definition of franchising encompasses the concept that a person who is 'previously untrained' may, with a greater degree of assurance of success, venture into a particular business. The principle advantage of franchising is found in a set of fairly rigid guidelines prescribed by each franchisor. Prospective franchisees are made aware that these guidelines have been designed by the franchisor who already possess a proven track record of success in the type of business that the franchisee desires to launch. The guidelines are therefore put into place to enable the franchisee to succeed while also creating a valuable form of backup. This "promise of success" is particularly relevant when examining franchising as a mechanism for economic empowerment. There is no emphasis on previous experience or qualifications thereby making it an appealing business or work option to a large proportion of the South African population who are 'previously untrained', namely its black people.

Barber (1997:9) explains that generally two types of franchising exist, namely product and trade name franchising, on the one hand, and business format franchising on the other. Product and trade name franchising generally entails the use by a franchisee of the franchisor's trade name in exchange for fees and royalties as well as an obligation to sell only the franchisor's products. Car dealers, filling stations and cool-drink bottlers, dominate this type of franchising (Barber, 1997:9).

Business format franchising is similar to product and trade name franchising except that the franchisee acquires the right to use the franchisor's entire business concept. This includes the franchisor's name, goodwill, products and services, marketing procedures, expertise, systems and support facilities. In exchange, the franchisee pays the franchisor an initial fee and ongoing management services fees or royalties as stipulated in the franchise agreement. What characterises this kind of franchising is that the franchisor benefits from rapid growth and limited risk and the franchisee buys into a proven business system. Barber (1997:9) believes that business format franchising offers more benefits to the franchisees

than product and trade name franchising, and therefore is in a more dynamic growth phase of development than product and trade name franchising.

By examining the various definitions of franchising, its relevance in terms of this thesis may be determined. The British Franchising Association provides a contractual definition of franchising to establish the legal parameters of the franchise relationship. The Franchise Association of South Africa is more simplistic in its approach to providing a definition and allows an interpretation of franchising within the South African context. In other words, franchising should be viewed as particularly beneficial to South Africans because it particularly appeals to 'previously untrained' people who are enabled, by the acquisition of a franchise, to follow the guidelines of a specific business package, as offered by business format franchising.

3.3 AN HISTORICAL OVERVIEW OF FRANCHISING

According to Stanworth and Smith (1991:2), the British "tied house" system signified the first distinguishable form of franchising. In the 1800's, legislation was introduced to restrict the sale of alcohol. It required that people wishing to sell alcohol needed a licence and also required innkeepers to improve the drinking environment. A lack of funds to meet these requirements on the part of innkeepers encouraged brewers to make use of a system akin to franchising as a means of protection against this legislation. In exchange for the grant of a loan or the lease for a property, the brewer established the inn as an exclusive outlet for the brewer's products.

A history of franchising is also traced to the United States of America. During the 1800's, the Singer Sewing Machine Company made use of the franchising principle to recruit independent operators to exclusively sell and service Singer sewing machines. In 1898, General Motors used the franchising system to

increase the number of distribution outlets without incurring the cost of investing in these outlets itself (Stanworth and Smith, 1991:3). One of the most successful early franchises was the soft drinks bottling industry, including Coca-Cola, Pepsi and 7-Up. Until the 1950's companies who operated as franchisors used product and trade name franchising as an efficient method of distribution for products and services which already existed. It was after the 1950's, that business format franchising began to boom (Mendelsohn, 1992:21). For instance, Wimpy, the hamburger restaurant chain, was the first business format franchise to be set up in the United Kingdom in the 1950's (Stanworth and Smith, 1991:5). Today, business format franchising represents the most popular form of franchising. The next section demonstrates that business format franchising is as popular in South Africa.

3.4 AN OVERVIEW OF THE FRANCHISE INDUSTRY IN SOUTH AFRICA

3.4.1 Introduction

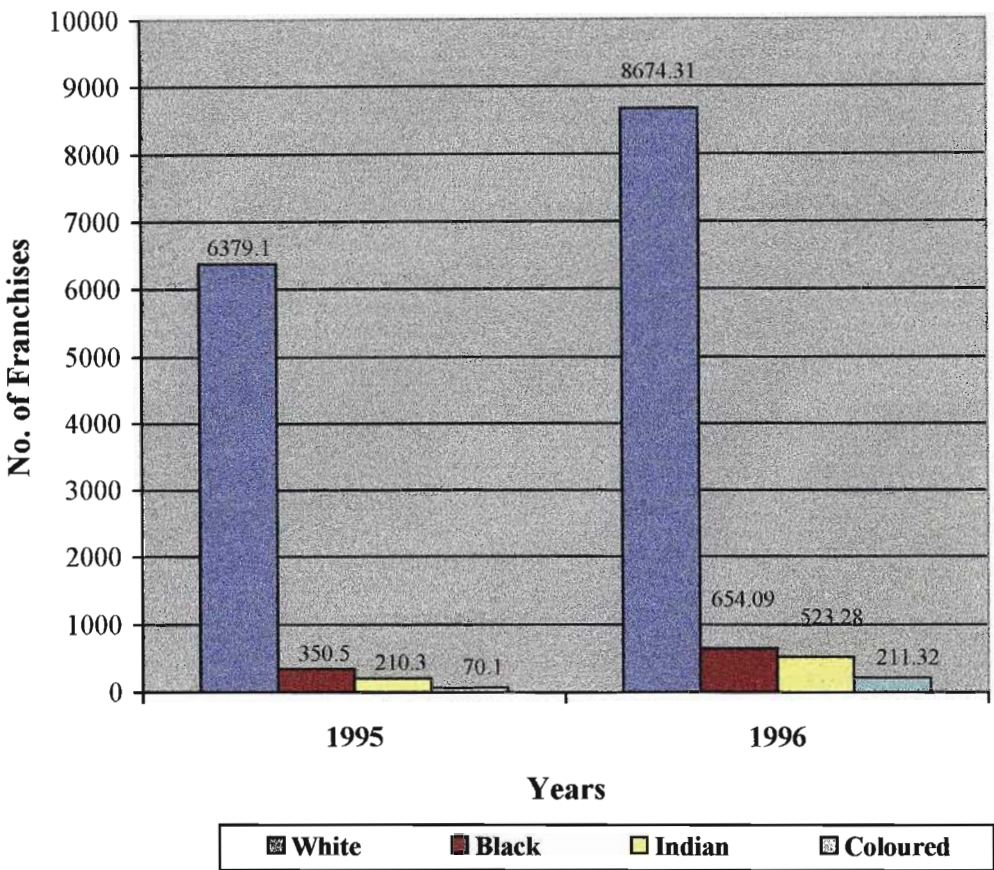
A national survey undertaken by Parker Gordon Associates shows that business format franchise turnover in South Africa has risen from R12.5 billion at retail level in 1995 to R21 billion in 1996 (Bisseker, 1997:76). These statistics almost place South Africa on par with countries like Sweden and France in terms of private consumption expenditure. The number of franchise chains has risen from eight in the 1960s to 236 in 1996 of which 17 are international. The total number of franchised outlets in South Africa in September 1996 stood at 11 702 compared with 7 010 in January 1995. This represents a 44 percent increase. More than 87 percent of the franchise systems operating in South Africa have been developed locally. This statistic shows that South Africans have the ability to develop and market business ideas successfully. At the same time Bisseker (1997:76) is of the opinion that the lack of international involvement is attributed to the poor

performance of the Rand and the minimum up-front fee of US\$200 000 required for a master licence (Bisseker, 1997:76). It can therefore be concluded that the development of local franchise markets is preferred above international markets, by both prospective entrepreneurs and franchise innovators.

3.4.2 Racial Distribution

Van Huyssteen (1996:84) points out that white people still operate most of the South African franchises but other groups are beginning to appear in the industry. Van Huyssteen (1996:84) feels that an inhibiting factor may be the cost of entry. Initial franchise fees range from about R40 000 for building, office and home services to R60 000 - R100 000 for printing and photographic development, automotive products and real estate franchises. Opportunities that require minimal investment, such as pie vending and household maintenance, are on the rise (van Huyssteen, 1996:84). Figure 3.1 and table 3.1 illustrate the racial distribution of franchise outlet ownership in 1995 and 1996.

Figure 3.1 A Comparison between Franchise Outlet Ownership and Racial Distribution, 1995 and 1996



Source: Adapted from the Parker Gordon Associates' National Survey (Bisseker, 1997:76)

Table 3. 1 A Comparison between Franchise Outlet Ownership and Racial Distribution, 1995 and 1996

	WHITE	BLACK	INDIAN	COLOURED
1995 of 7010 franchises	91%	5%	3%	1%
1996 of 10063 franchises	86.2%	6.5%	5.2%	2.1%

*Source: Adapted from the Parker Gordon Associates' National Survey
(Bisseker, 1997:76)*

Figure 3.1 and table 3.1 indicate that franchise outlet ownership in South Africa, in 1995 and 1996, was dominated by whites people. However, table 3.1 indicates that while white franchise ownership dominates the racial groups, the gap is showing signs of narrowing.

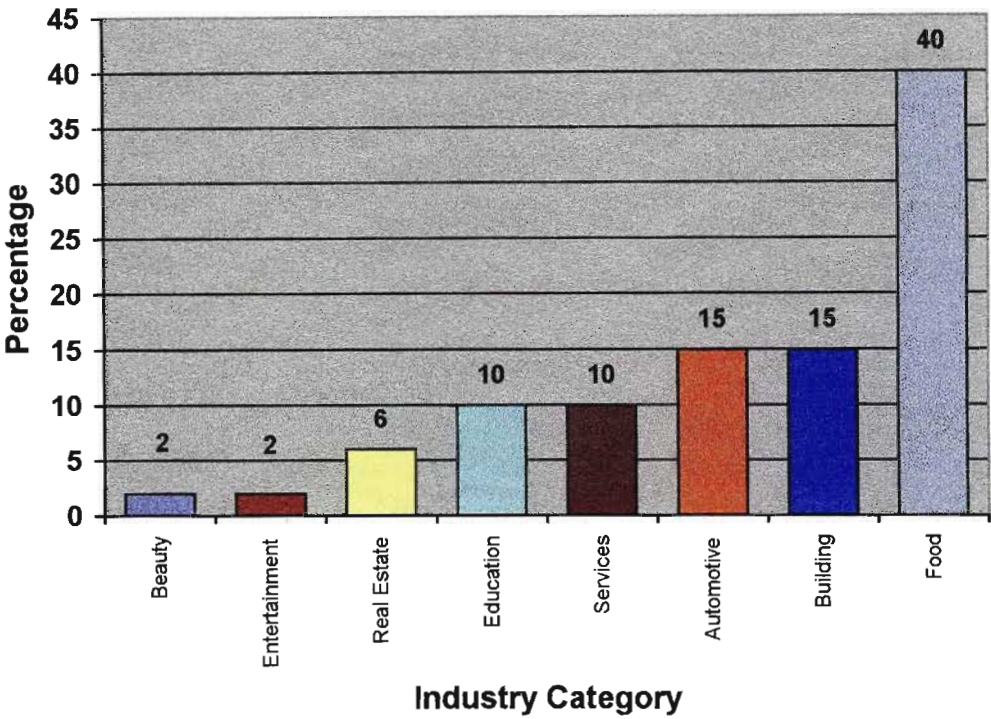
3.4.3 South African Franchise Statistics

3.4.3.1 Introduction

An extrapolation of statistics concerning the franchise industry in South Africa is considered in this section. It examines the various categories that fall within the boundaries of the franchise industry in order to highlight growth areas. It also investigates the costs of franchising within each category in order to determine differences in investment requirements.

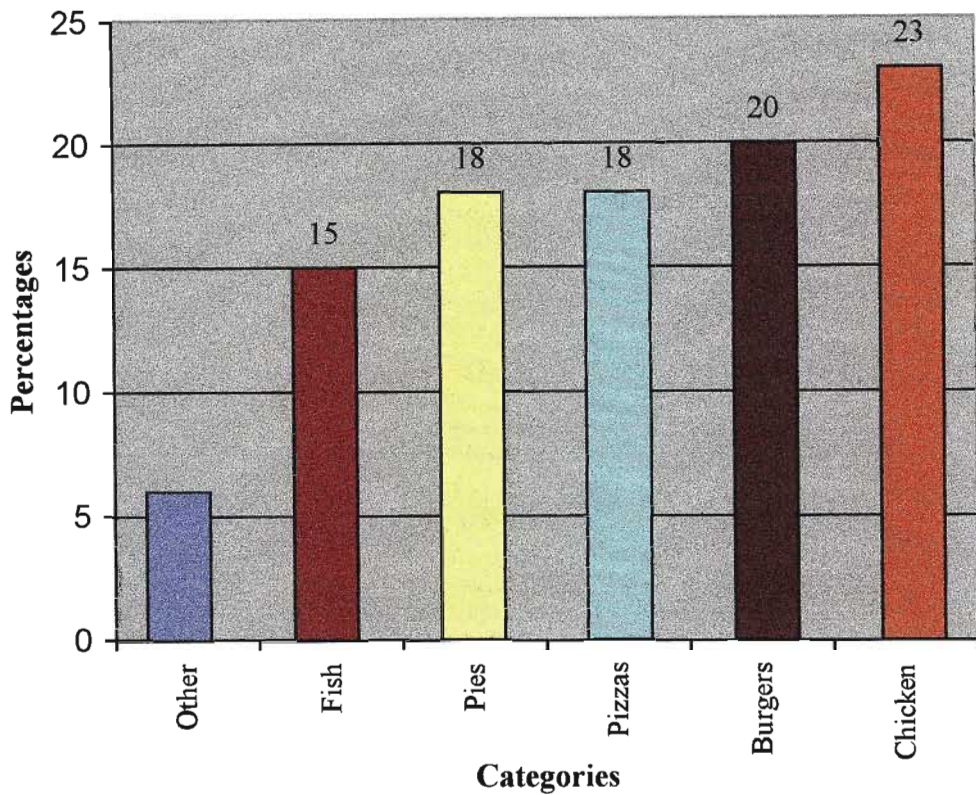
3.4.3.2 Franchising Per Industry

Figure 3. 2 Franchising Per Industry



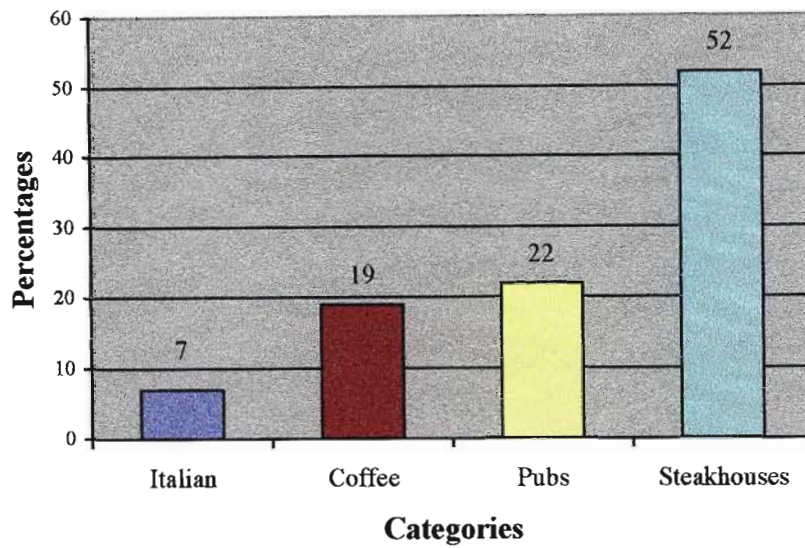
Source: Adapted from Rodkin (1995)

Figure 3.2 indicates that the food category has the largest representation in the franchise industry and includes restaurants, pubs, confectioners and fast food outlets. According to Parker (1998:20), fast food accounts for the largest growth in the food category. The following two bar charts illustrate the distribution of various sectors in the food category in 1997.

Figure 3.3 Fast Food Category

Source: Adapted from Parker (1998:20)

According to figure 3.3, chicken and hamburger franchising represent the fastest growing fast food categories. McDonald's is an example of one of the fastest growing fast food companies world-wide. It is recorded that in 1997, McDonald's, an American hamburger fast food franchise, was opening outlets at a rate of one outlet every five hours (Roberts, 1998:14). McDonald's has entered the South African market and is already taking the lead in the hamburger fast food industry.

Figure 3. 4 Restaurant Category

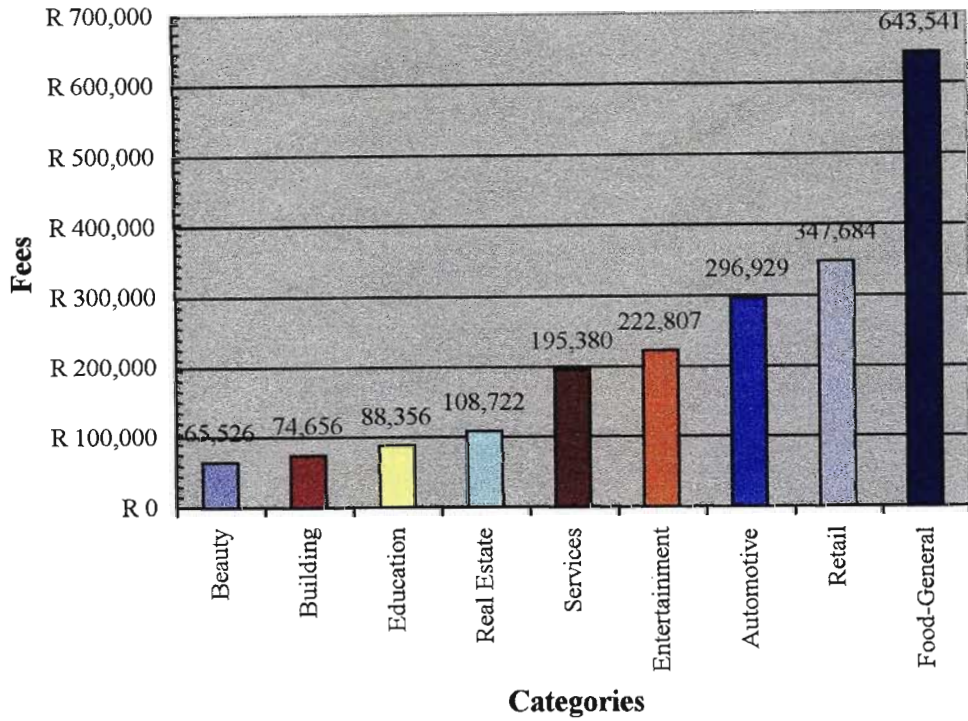
Source: Adapted from Parker (1998:20)

Representing the restaurant category, steakhouses are in the majority by far. Examples of steakhouses are Spur Steak Ranches, Mike's Kitchen and Saddlers Steak Ranches. Pubs follow steakhouses in popularity and are represented by franchises such as O'Hagan's, Keg Franchising and McGinty's.

3.4.3.3 The Costs of Franchising

The costs of franchising in this context are those borne by the franchisee and include total franchise fees, minimum contribution, initial fees, management service fees and the advertising levy.

Figure 3.5 Total Franchise Fees

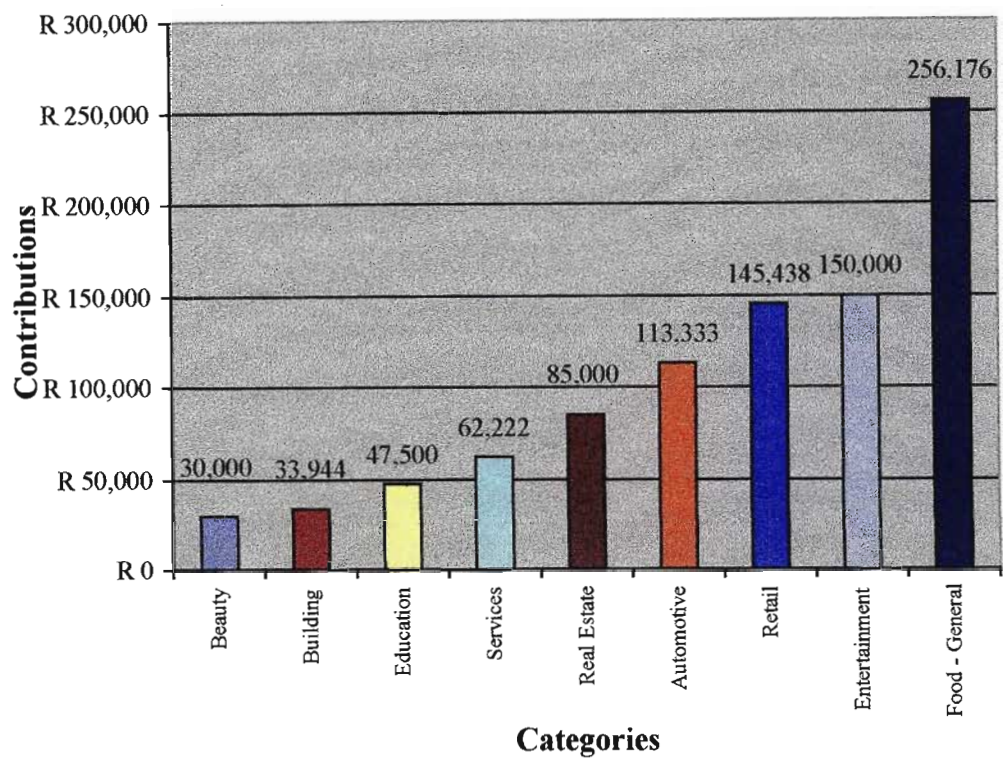


Source: Adapted from Rodkin (1995)

Total franchise fees refers to the total investment cost to the franchisee of entering and opening a business (Mendelsohn, 1992:92). The total franchise fees are determined by the franchisor and generally represent costs that include the initial fee, the investment in fixed assets, start-up stock and working capital (O'Connor, 1997:51). Figure 3.5 illustrates that the general food category is the most expensive franchise industry for franchisees. For instance, the cost of establishing a restaurant with all the fittings and kitchen equipment is very high, ranging between R250 000 and R850 000 (Smith-Chandler, 1998:32-37). The retail, automotive and entertainment categories are also expensive for franchisees as the costs of premises, shop fittings and equipment are also high. By comparison,

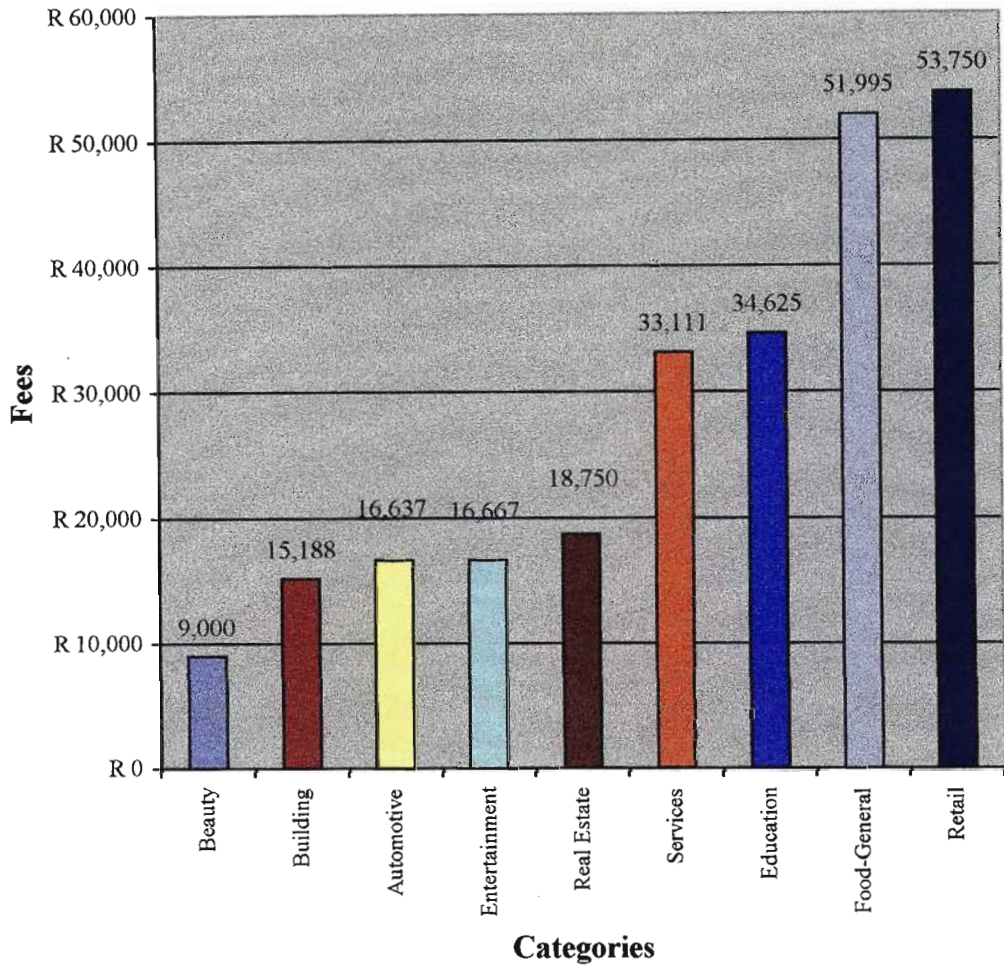
smaller premises and minimal equipment is required by a beauty franchise, reducing it to a cheaper franchise category.

Figure 3. 6 Minimum Contributions



Source: Adapted from Rodkin (1995)

Minimum contributions refer to the amount of cash that the franchisee is expected to have available before borrowings (Illetschko, 1997:51). In other words, the franchisee is expected to have some of his or her own funds available in addition to funds acquired through financial institutions, such as loans. Figure 3.6 illustrates that the highest contribution that is required by franchisees lies in the general food, entertainment, and retail categories. Far lesser contributions are required by the beauty and building construction categories.

Figure 3. 7 Initial Fees

Source: Adapted from Rodkin (1995)

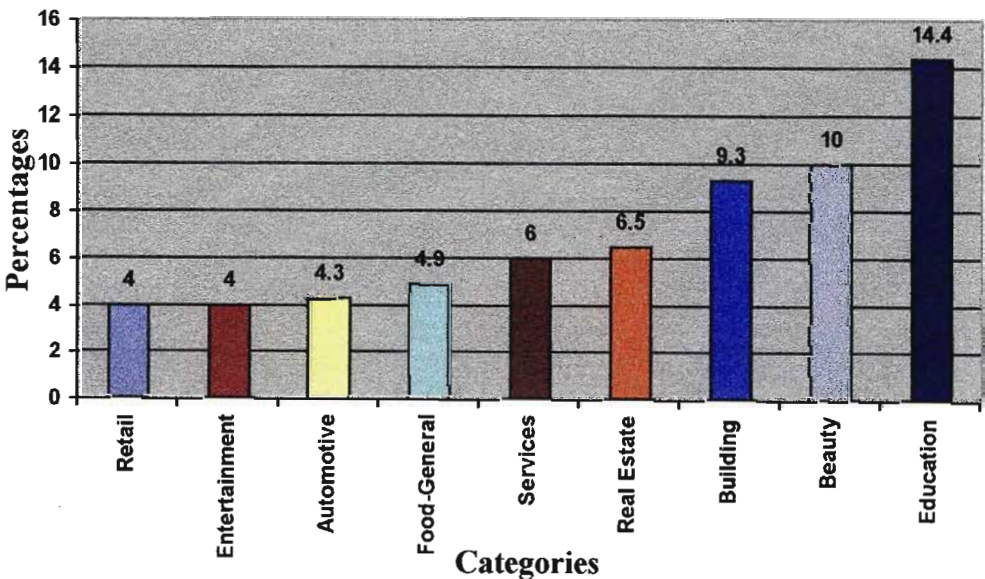
The initial franchise fee is payable by the franchisee to the franchisor. The fee usually covers the following costs:

- the cost of developing the franchise manual;
- design costs;
- the cost of developing the accounting system;
- the cost of site selection;
- the cost of the initial training provided by the franchisor;

- the cost of marketing the franchise system;
- the cost of initial advertising and promotion for the launch of the franchisee’s individual outlet;
- professional fees and legal costs;
- initial store supervision by the franchisor;
- travel and accommodation; and
- the franchisor’s own time (Hall and Dixon, 1988: 6-47).

Figure 3.7 illustrates that certain industries require a larger initial franchise fee than others. The retail, general food and education categories require larger initial fee payments because a larger scope of costly activities are undertaken. This is in comparison to the beauty industry which requires the smallest initial payment by its franchisees. It is most likely that less costly activities are undertaken to establish outlets in the beauty industry.

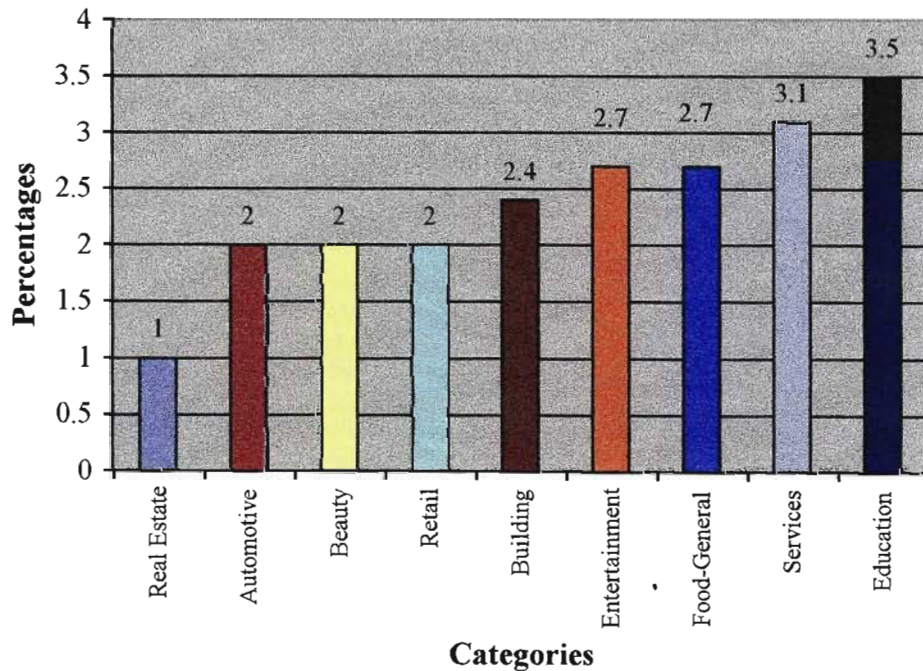
Figure 3. 8 Management Service Fees



Source: Adapted from Rodkin (1995)

Baillieu (1988:59) states that most franchisors “...rely on regular income from providing continuing services to the franchisee and obtaining a royalty payment on a weekly or monthly basis.” Management service fees or royalties therefore refer to the fee that franchisors require from franchisees in return for continued assistance. This management fee or royalty is calculated as a percentage of the gross income of the individual franchise outlet (Baillieu, 1988:60). Figure 3.8 illustrates that education is the category that requires the highest management service fee, that of 14.4 percent, as opposed to the retail and entertainment industries which each requires four percent from their franchisees.

Figure 3. 9 Advertising Levy



Source: Adapted from Rodkin (1995)

Many franchise chains have a uniform image and franchisors will either undertake to spend a specific amount of the management service fee on advertising on behalf of the franchisees, or may set up a separate advertising fund to which every franchisee contributes a percentage of their gross income either weekly or

monthly (Baillieu, 1998:58). Figure 3.9 indicates statistics concerning the more common system of an advertising levy, that is where franchisees contribute a percentage of their income to advertising. Figure 3.9 identifies certain industries that require a larger percentage of the franchisees' profits to fund advertising campaigns, such as education that requires 3.5 percent. This is opposed to the real estate industry that only requires one percent of the franchisees' gross income.

3.4.3.4 Conclusion

The statistics illustrated in Figures 3.1 to 3.9 represent findings in respect of the years 1995 to 1998 concerning the franchise industry with particular reference to its representatives. The statistics magnify the substantial capital required to open and operate the majority of franchise outlets. In order to acquire a franchise, a prospective franchisee is obliged to part with considerable personal funds. A large proportion of aspiring entrepreneurs is therefore ruled out because of lack of finance to attain and participate in almost all of the current franchise categories.

For the franchise industry to become a mechanism for economic empowerment, different categories that require lower investment by individual franchisees need to be examined. Before doing so, franchising as a business mechanism, in terms of economic viability and its desirability as a vehicle for strategic planning for larger companies, will first be explored. This is in an attempt to verify the role that franchising can and does play in relation to larger companies.

3.5 FRANCHISING AS A BUSINESS MECHANISM

Bisseker (1997:76) proposes that, “the growth of the franchising industry results partly from large corporations using franchising as a way of unbundling and expanding”. It is seen as an alternative to retrenching staff and it is a tool for black economic empowerment. Bisseker (1997:76) illustrates her point by citing the activities of a company named Expercable. It is a joint venture between Philips South Africa and Siphumelele Investments in which selected subcontractors became franchisees, responsible for laying cables.

Barber (1997:9) notes that, “Franchising has been described as a blend of ‘big and ‘small’ business: a fusion of the energy and commitment of the individual with the resources, power and strength of a large company. It is widely seen as a relatively safe way for people to get into business for themselves but not by themselves; [for] companies to expand effectively without incurring the high overheads and management hassles usually associated with the establishment of a branch network and [enables] companies to convert their existing branch or agency systems into a lean and mean marketing machine”.

Stanworth & Smith (1991:98) maintain that because businesses are out-sourcing services that were previously employed in-house, the desire for flexibility and decreased overheads has encouraged the growth of subcontracting. The consequence, is therefore, the creation of a niche that could be filled by franchising. For instance, employment agencies, accounting agencies, security companies, marketing and market research companies are among a few examples of franchised industries of whose services the larger corporations make use.

Referring to international trends towards franchising as a business mechanism, Stanworth & Smith (1991:98) conclude that there is a world-wide decline of traditional manufacturing industries that is being replaced by service sector activities. This is especially so because the franchising industry is well suited to

service and labour-intensive activities, particularly when these require a large number of geographically dispersed outlets serving local markets. This, therefore, translates into a demand for structured, organised and networked industries within the framework of franchising as opposed to more unpredictable individually conducted small businesses. A niche is thus created for entrepreneurs to become economically empowered through franchising.

3.6 FRANCHISING AS A MECHANISM FOR ECONOMIC EMPOWERMENT

The desire to promote franchising within under-privileged communities appears to be based on two broad reasons. The first is political pressure placed on businesses for visible and credible changes to occur. Secondly, because of the reported higher success rate of franchised businesses that also enjoy the confidence and more willing support of financial institutions compared to non-franchised ventures. Both of these extended reasons will be discussed in greater detail.

Gordon (1997:27) perceives that franchising adequately meets some of the constraints that are outlined in the Reconstruction and Development Programme framework in order to facilitate the transformation of South African society. Affirmative action, for instance, implies that previously disadvantaged people are allocated previously unavailable opportunities for upliftment. The franchising industry does not discriminate between different racial groups as participation is open to all. The implications of community acceptance means that franchises operating in particular areas address the needs of that community. Parker Gordon Associates hold the view that, "The franchises most likely to succeed are those that provide basic commodities and services at an affordable, reasonable price. This means the swing is towards satisfying the requirements of the black market" (Bisseker, 1997:76). Franchising aids in the reconstruction and development of

communities by empowering people to operate business in their respective communities, thereby creating their own opportunities. Therefore, the franchise industry will have to consider the opening and operating of smaller and less expensive franchise outlets to cater for these needs. As Elana Koral of Parker Gordon Associates comments on this aspect of franchising, "...there has been significant penetration in the black market, especially in the rural areas" (Bisseker, 1997:76).

Van Huyssteen (1998:54) points to the fact that the government is recognising the potential of the franchising industry as a source of job creation. Barber (1997:10) supports this sentiment by explaining that franchising is the ideal vehicle for stimulating small business development because it provides the skills, training and support that lowers the risk of starting up a business. It allows the emerging entrepreneur to forgo the year it takes to acquire the necessary business acumen. "Statistics show that the failure rate of established franchises is about five percent. The United States of America's Department of Commerce traced the success of 100 independently owned businesses and 100 franchises over a ten-year period. At the end of year one, 97 franchises were still operating compared to 62 independent businesses. By the tenth year, 90 franchises were still going strong, but only 18 independent business survived," (van Huyssteen, 1998:54). The Franchise Association of South Africa estimates that there are about 14 000 locally operated franchises. If it is estimated that 15 direct and indirect new jobs are created per franchise, 210 000 jobs have been created. The government is therefore obliged to recognise the importance of a 30 to 35 percent annual industry growth, coupled to a low failure rate, against an unemployment rate of 35 to 40 percent (van Huyssteen, 1998:54).

Maitland (1991:70) proposes that banking and lending institutions are weary of backing new small businesses but franchising, on the other hand, provides banks and lending institutions with researched and reliable information about the franchise that is to be opened. He maintains that banks are far more likely to back

a small business if it is provided with the necessary expertise by a reputable franchisor.

The incentive for people to become involved in franchising has been established because it appeals to all sectors of society. Not only do larger companies use franchising as a business tool to downsize and restructure, it also appeals to individuals who wish to own and operate their own businesses but with support of known experience and expertise. It is therefore important to stress the point that franchising, as a potential mechanism for economic empowerment, paves the way for entrepreneurship.

3.7 FRANCHISING AS AN ENTREPRENEURIAL VENTURE

3.7.1 Introduction

In South Africa, the word “entrepreneur” has been loosely applied to describe anyone who embarks on the establishment of one’s own business, and this includes franchisees. But Wickham (1998:6), applying an expansive philosophy, argues that entrepreneurs can be found anywhere, not only as small business owners. He defines entrepreneurs with the aid of a three angled approach.

The first perspective is that an entrepreneur is a manager undertaking an activity, which is considered entrepreneurial in the particular tasks performed, and the way the tasks are undertaken - for example owning or founding an organisation.

The second is that an entrepreneur is an agent of economic change by virtue of the effects they exert and the type of changes they create. For instance, brings innovation to the market and is able to identify market opportunity.

The third angle is that entrepreneurs exhibit certain character traits that distinguish them from others. Entrepreneurs are said to be unconventional, ambitious, risk-taking and flexible. They generally control their own lives, structure their own progress and are answerable for their own achievements (Oates, 1987:3).

3.7.2 The Entrepreneur

Wickham (1998) defines entrepreneurs by classifying the kinds of people who become entrepreneurs by reference to the tasks they undertake and the nature of their personalities. For instance, the most likely candidates for entrepreneurs are inventors, unfulfilled managers, displaced managers and young professionals (Wickham, 1998:36-38). Each of these different groups of people desire to fill a niche in the market, rather than place themselves in a conventional and established working environment. In turn an entrepreneur is likely to be fulfilling tasks in the following areas: owning organisations, founding organisations, bringing innovations to the market, identifying market opportunity and applying expertise for economic gain (Wickham, 1998:6-8). The entrepreneurial personality, as described by Wickham, (1998:13-15), is usually manifested in behaviour such as a need for achievement, autonomy, risk taking and creativity. The entrepreneur is usually seen as a person who is averse to working for a boss, or working within constraints, while typically working harder to succeed in their entrepreneurial endeavours. Table 3.2 defines the differences between the entrepreneurial and conventional career.

Table 3. 2 A Comparison between the Potential of Entrepreneurial and Conventional Careers for Satisfying Economic, Social and Personal Development Needs.

	ENTREPRENEURIAL CAREER	CONVENTIONAL CAREER
Economic Needs	Offers the possibility of high financial rewards in the long term. However, income may be low in early stages and risks are high.	Financial rewards typically lower, but secure and predictable.
Social Needs	Entrepreneur creates organisational change. A great deal of freedom to create and control network of social relationships. Social status of the entrepreneur variable.	Established organisation usually provides good stage for making social relationships. However, manager may have only limited scope to control potential of social relationship formed. Social status of manager usually high.
Personal Development	Entrepreneur in control of own destiny. Needs possibility of creating an “entire new world”. Venture may be powerful vehicle for personal development and expression of personal values. However, this is dependent on the success of the venture.	Good potential to pursue personal development. However, the direction of personal development may need to be compromised to overall organisational objectives and values. Career options limited and subject to internal competition.

Source: Wickham (1998:52)

Table 3.2 indicates three main areas that affect people's decisions to undertake entrepreneurial or conventional careers, namely economic and social needs, and personal development. For the purposes of this discussion, an entrepreneurial career can be defined as one where an individual creates his or her own employment. Conventional careers refer to careers where people rely on larger, established companies for employment. As table 3.2 displays, people who prefer the security of a regular and stable income will not be inclined to become entrepreneurs, which implies high risk although the rewards are greater. The conventional career establishes a person in a stable, inflexible and limiting environment in that compliance to an organisational culture and structure is essential for organisational effectiveness and efficiency. The entrepreneurial career, on the other hand, is more flexible and unstable, and while being high risk and more stressful, provides a larger scope for personal development and freedom as well as higher rewards.

3.7.3 The Similarities between the Entrepreneur and the Franchisee

Individuals who become involved in franchising can be defined as entrepreneurs for various reasons. The entrepreneur, as mentioned in paragraph 3.7.2, is usually a person who is either unfulfilled, has been retrenched or is young and wants to advance in an unconventional career. Retrenched and unfilled people as well as young self-starters are also among the people who choose to become involved in franchising. The only difference is that franchising offers more secure small business opportunities.

Entrepreneurs, as mentioned above, are individuals who usually own their own businesses, are founders of organisations, bring innovation to the market, identify market opportunity and apply their expertise to the business situation. Franchisees almost fulfil all these tasks. They may not be founders of their own organisations or bring innovation to the market, but they all own their own

business by identifying where they are likely to make a success of their business and by applying their skills to making it a success.

The entrepreneurial personality, as mentioned before, is determined, autonomous, risk-inclined, creative and ambitious. The individual franchisee is also determined, autonomous and ambitious, all qualities that are required to make a business succeed. The only difference is that some of the risk is eliminated by the security of the franchise agreement.

3.7.4 Conclusion

Being an entrepreneur presupposes that such an individual is innovative, self-driven, ambitious to achieve his or her own goals and unconventional in their desire to reach their own objectives (Wickham, 1998:15). People who become franchisees are not usually innovative and do not necessarily found their own businesses. But franchisees have the same desire as entrepreneurs to be independent and self-driven in the pursuit of their own goals. One may therefore assume with a measure of certainty that many of the qualities that characterise entrepreneurs also characterise franchisees and thus franchisees may, in the context of this thesis, be considered entrepreneurs. With this established, a more detailed examination of the benefits of franchising to both franchisors and franchisees is required and forms the topic of the next section.

3.8 THE BENEFITS OF FRANCHISING

3.8.1 Access to Capital

Gordon (1997:29) is of the opinion that the lack of access to capital is somewhat overcome as commercial banks and development corporations recognise the lower risk profile of franchising and consequently prefer franchisees. Also, it is claimed that a franchisee requires less capital than if he or she starts a business independently because of the assistance of the franchisor (Stanworth & Smith, 1991:32). The franchisee is assisted in all aspects of running the business, because it is patently in the interest of both the franchisee and franchisor to make the business a success. While the service is covered by the management fee, the service is nevertheless relatively exclusive to meet the needs of the franchisee in that particular business. An individual who starts a business independently does not have this automatic assistance. If assistance is required, the owner of an independently owned business is obliged to pay for professional outside services.

Gordon (1997:29) indicates that financiers are setting up various equity participation funds and loan guarantee schemes in a bid to assist the disadvantaged businessperson. The Department of Enterprise Management at the University of Stellenbosch finds that the micro-lending industry serves a large proportion of business people in need of financing. This has developed into a strong economic force with a turnover of R5 billion a year (van Huyssteen, 1996:87). The industry is in a primary growth phase with 600 micro-lenders having joined up in the last 10 months of 1996 (van Huyssteen, 1996:87). These statistics therefore demonstrate that many business people participate in the micro-lending industry.

3.8.2 Markets

Franchisors have identified the markets with growth potential and choose to exploit these by involving franchisees who are community based (Gordon, 1997:28). Through the establishment of a franchised network, markets grow and the franchisor utilises collective resources to employ sophisticated marketing and communication strategies. In some cases orders are secured by the franchisor and the franchisee merely delivers the service and /or the product (Gordon, 1997:28).

Because of urban renewal and deregulation strategies applied by the current government, new retail development and facilities are beginning to grow in black townships thereby creating opportunities (Makhubele, 1995:92). Traditionally, franchisors allocate certain reserved territories to particular franchisees. Such a territorial allocation is based on the principle that the franchisee will not be in competition with other franchisees of the same franchise. This is aimed at ensuring that the franchisee is given the opportunity to gain market share under the franchise in a given area during the contract period.

Consumers are familiar with particular brands of products and services, and because franchises are granted to ensure vesting of the same principles, consumers are able to rely on familiarity. Franchising therefore encourages brand loyalty.

3.8.3 Skill Development

Gordon (1997:28) argues that franchise programmes adequately address the lack of access to skills as a good franchisor will provide training for the new franchisee. The success of a franchised business is largely based on the skill transfer that takes place between the franchisor and its franchisees. The franchisor provides training and start-up support to ease entry into the business.

He/she further provides ongoing business support services, product development and financial management and business advice (Gordon, 1997:28). The training material includes a manual and audio-visual material which the franchisee is able to utilise daily and many years thereafter (Makhubele, 1995:88). This training should prepare the new owner in all facets of the business (Machenheimer, 1998:45).

However, Makhubele (1995:88) amplifies the point that candidates are normally carefully selected to ensure that their educational and work backgrounds and qualifications should enable them to cope with the demands of the programme. This principle is in conflict with the encouragement of entrepreneurs from the more disadvantaged sectors of South African society to participate in franchising. It therefore depends on the requirements set by the franchisor when selecting prospective franchisees.

3.8.4 Institutional Arrangements

The lack of access to supported institutional arrangements is also addressed. By gathering the combined force of the franchisees, the franchisor may, with greater standing, demand and secure arrangements for all its franchisees. Typical benefits would include health-care support, pension funds, savings facilities and insurance (Gordon, 1997:28). To minimise the consequences of historical discriminatory practices against black entrepreneurs, some franchisors are known to provide financial assistance of one kind or another to promising franchisees (Makhubele, 1995:91). This may be in the form of a well-structured, affordable and attractive financial package negotiated with a financial institution which enables an franchisee to enter the industry without experience (Makhubele, 1995:91). Banks and lending institutions are willing to lend funds to an individual who is backed by a reputable franchisor and who has a good track record because such an applicant is considered less risky (Makhubele, 1995:91).

3.8.5 Government Intervention

Deputy Minister of Trade and Industry, Phumzile Mlambo-Ngcuka, says by reason of the fact that because South Africa is currently one of the fastest growing franchise economies in the world, franchising offers opportunities for entrepreneurs. The Department of Trade and Industry intends to enter into partnership with the Franchise Association of South Africa and other private-sector institutions such as banks to support and promote franchising (van Huyssteen, 1998:54). “Government therefore intends developing 'a comprehensive strategy of support' for the sector, including financial and non-financial support services and a new regulatory environment for franchising” (van Huyssteen, 1998:54). Financial support services could include credit guarantees up to a maximum of R1 million; direct equity and loan financing by the Industrial Development Corporation; the promotion of low cost-of-entry franchises; and assistance to obtain financing through proposed Franchise Support Service Centres, to be co-developed by the Department of Trade and Industry and Franchise Association of South Africa. “Phenomenal growth is projected for the proposed low cost-of-entry franchises, with the investment paid back within six months and growth doubled each year thereafter. These would typically require investments of R20 000 - R50 000 and, depending on the nature of the franchise, enjoy a 20 percent return on investment” (van Huyssteen, 1998:54).

He continues to mention that the government wishes to fulfil a regulatory role to limit the occurrences of people becoming involved in franchising for fraudulent purposes. He states that the government would require compulsory registration for franchisors and franchisees in order to regulate franchise relationships. According to him, the executive director of the Franchise Association of South Africa supports the proposed regulatory role of the government but on condition that the franchise industry continues with a self-regulatory function, rather than government legislating rules and regulations.

3.8.6 The Experience of the Franchisor

When an individual decides to buy a franchise, he/she acquires the valuable experience and the proven methods of the franchisor. A proven franchise may eliminate many problems that are associated with the initial start-up. The franchisor, for instance, assists the franchisee with site selection, problems of planning, staff training, opening of the business and its smooth running (Stanworth & Smith, 1991:32). Prospective franchisees are thus placed in a position to open a franchise business with little or no previous training in a given industry (Machenheimer, 1998:45).

3.8.7 Buying and Advertising

The franchisee sells a product or provides a service that is generally well known by consumers. Stanworth and Smith (1991:32) stress that if the product or service is already a proven success, then the franchisee can focus on the day-to-day operations rather than being preoccupied with the promotion of the product or service.

Most people involved in small business cannot afford to inventory products in bulk or to do extensive advertising. The franchisee buys this advantage which enables him or her to use the franchisor's purchasing power and advertising (Stanworth & Smith, 1991:32). Most franchisors provide advertising assistance and direction. Furthermore, as the number of franchises increases, so does public awareness of the franchise, which represents an increased and supplemental advertising advantage. Also, franchisees that are located near one another are able to advertise jointly, thus reducing costs (Machenheimer, 1998:45).

Makhubele (1995:95) is critical in his view by indicating that during the past, business dealings were conducted unethically with a few local suppliers dictating prices that were non-negotiable. These suppliers dominated the markets by means of monopolies as compared to urban suppliers who conducted business by competitive advantage. Today, franchisors and franchisees are able to negotiate prices with suppliers, due to deregulation. He goes on to argue that black franchisees, in particular, would benefit immensely from the national, regional and local advertisements whereby franchisors promote their name, image, prices, outlet openings and special promotions. Thus, franchises develop and establish strong names and business images. This makes franchisees more competitive in the market place in comparison to independent operators. Through franchising the franchisee will gain access to advertising and effect marketing at a lower cost than if he/she were to pay for it themselves (Makhubele, 1995:89).

3.8.8 Ongoing Advice, Research and Development

Franchisees need support and assistance throughout the term of their business endeavours. The franchisor's staff of experts is able to advance relief in all aspects of the business. The franchisor is also in a position to provide ongoing research and development. Thus, new products and services will be brought to the attention of the franchisee (Machenheimer, 1998:45). As a franchisee, an opportunity is gained to become an independent businessperson within the supportive framework of the franchise arrangement (Makhubele, 1995:97).

3.8.9 Business Synergy

Machenheimer (1998:45) quotes the established age-old adage that the sum of the whole is greater than its separate component parts. Those who buy a franchise outlet become part of the group where all members work together for the good of

the whole. She goes on to suggest that some of the most effective ideas come from franchisees who in turn share their ideas with the corporate office which subsequently benefits other franchisees.

3.8.10 Conclusion

The benefits of franchising are manifold and provide a solid and secure framework in which both the aspiring franchisee and the established franchisor is empowered to operate. However, there are a few drawbacks of franchising that need to be recognised so that franchisees and franchisors may avoid, or at the very least, minimise the risk of failure on both sides.

3.9 THE CHALLENGES OF FRANCHISING

3.9.1 Working within the System

Conformity to the franchisor's system is critical if consistency among franchisees is to be maintained. However, there are areas such as marketing where a franchisee is still afforded some leeway to be creative (Machenheimer, 1998:45). Invariably, the individual businessperson forfeits some of his/her independence and individual flair because of the strict controls that are imposed by the franchisor (Makhubele, 1995:100). He appears somewhat critical in his approach and states that in general black business people have to acknowledge the constant "supervision" by the franchisor. Therefore the success of their involvement in franchising depends on their tolerance of outsiders, which characteristic they are reputed to balk against.

The control exercised by the franchisor to regulate the way in which a product or service is presented to the consumer may leave little opportunity for a franchisee to impose his or her own personality on the business (Stanworth & Smith, 1991:34).

3.9.2 Low Initial Profit for the Franchisor

Maitland (1991:17) indicates that setting up a franchise may amount to a costly affair for the franchisor because organising and marketing a proven format not only requires a substantial investment, but also, in most cases, franchisors refuse to provide a guarantee that a successful franchise network is even established. He comments that supplying initial and ongoing support to the franchisee in exchange for a non-profit initial fee and slow-to-accumulate royalties may in the short term be very taxing on the franchisor.

Mendelsohn (1992:30) continues to highlight the disadvantages facing a franchisor: "The amount of profit in cash terms which will flow to the franchisor from a franchised outlet will be less than the profit potential of the franchisor-owned outlet, although as a return on capital the franchised outlet is likely to produce a better result."

3.9.3 The Risk

The franchisor may have a well-designed programme and a respected name but the risk ultimately lies with the franchisee (Machenheimer, 1998:45). Should the name of the franchise company become tarnished, perhaps through mismanagement by the franchisor or shortcomings of other franchisees, then there is a possibility that an innocent franchisee may suffer simply because he is seen

by the public as a representative of the franchise organisation in question (Stanworth & Smith, 1991:34).

Another risk is that of a financial nature. Many franchises require a substantial investment in the business by the franchisee. Since the franchise industry in South Africa is currently largely unregulated, there is a risk that if the franchisor is unscrupulous then the franchisee could quite conceivably be misled into paying a substantial amount of money for the purchase of a worthless franchise. Ignorance, misunderstanding and a lack of education could therefore result in a high risk of loss (Makhubele, 1995:101).

3.9.4 Working with the Franchisor

Parker Gordon Associates national survey found that franchisor support in South Africa is generally weak, with only 39 percent offering financial and administrative help and 52 per cent analysing franchisees' profitability (Bisseker, 1997:76). Therefore, as Machenheimer (1998:45) proposes it is essential that the franchisee and the franchisor build a trusting relationship. Without this the business arrangement may be strained and unsuccessful.

3.9.5 False Expectations

Some franchisees enter franchising expecting instant success. Stanworth & Smith (1991:34) point to the possible danger that the franchise agreement may not fulfil the franchisee's initial expectations, either in terms of anticipated sales turnover, or in terms of the franchisor fulfilling his obligations. Machenheimer (1998:45), concentrating on the reciprocal obligations of the franchisee, accentuates the fact that if a franchisee is not willing to put hard work, time, initiative and industry into the business, it will be a failure.

3.9.6 Managing the Business

Some people are more prepared to manage a business than others and to be successful requires a franchisee to properly manage the business (Machenheimer, 1998:45). The franchisor faces the possibility that a franchisee may not be performing his obligations by the franchise agreement as required. There is however no legal remedy available to a franchisor if the franchisee is operating within the terms of the contract but neglects to perform in terms of the spirit of the agreement. This represents a risk to a franchisor if a franchisee neglects to or is not exploiting the potential of a demarcated area forming the subject of the franchise (Stanworth & Smith, 1991:31).

3.9.7 Constant Payments by the Franchisee

Once the initial fee has been paid to the franchisor, covering the costs of setting up an outlet, the franchisee has to make regular royalty payments to the franchisor (Maitland, 1991:74). A percentage, of the franchisee's gross earnings, is allocated towards management service fees and an advertising levy. Initially, the franchisor is visible in supporting the activities of the franchisee but once the franchise outlet is operational, the franchisee may feel that he or she is paying for services that are no longer required. Maitland (1991:74) concludes that this may in itself be a cause of friction in the franchise relationship.

3.9.8 Training a Competitor

Mendelsohn (1992:29) submits that there is always the risk that a franchisor may unintentionally be training future competitors. While it is essential to provide training and support in order to create a successful franchise relationship, there is nothing that a franchisor is able to do to stop franchisees, having already gained

valuable information and expert guidance, from resigning and starting their own businesses under another guise. Mendelsohn (1992:30), after critically dissecting this aspect, comments that trust is a large component of the success of the franchise relationship and if, for any reason, this relationship is strained, the franchise will suffer.

3.9.9 South Africa's Tax System

Hermann (1998:54) explains that the tax system in South Africa is extremely complicated compared to other countries. The South African government provides no incentives for small and medium businesses to thrive but rather places tax burdens on them which many are unable to meet. By law the government taxes imposed on business include employees tax, value-added tax, regional services levies, unemployment insurance and ordinary tax on income earned. An aspect of taxation that imposes a further financial burden on business owners is the fact that income and value-added tax becomes payable on income that has been earned but that may not have been received. This discourages the granting of credit to customers or clients that obviously results in a tendency to limit trade. With up to 65 percent of gross income generated being taxed, taxation serves as a serious disincentive for entrepreneurs to start their own businesses. Hermann (1998:54) indicates that because the tax system is complicated, it raises the cost of conducting business in South Africa. In addition to this, the tax system has an inherent bias in favour of big business by, for instance, allowing accelerated depreciation for large-scale capital investment, whereas it does not provide direct relief to entrepreneurs who invest in their own businesses (Hermann, 1998:54).

3.9.10 Conclusion

Mendelsohn (1992:30) contends that most of the challenges associated with the franchise relationship are individual and personality based. Franchising relies heavily on a sound relationship between the franchisor and the franchisee so that both sides achieve a win-win situation. Each side significantly affects the other so that if one is not adhering to the requirements of the business, it will adversely affect the other. However, other challenges, such as South Africa's tax system, fall relatively speaking outside the control of the franchise relationship.

3.10 CONCLUSION

This chapter has dealt with franchising in terms of its significance as a business mechanism, an economic empowerment mechanism and as an entrepreneurial venture. In so doing, this chapter has evaluated the potential of franchising, on a theoretical basis, and its establishment as a recognisable force in the economic upliftment of individuals and communities.

As an economic and social endeavour to transform South Africa, various large businesses have embarked on franchising as a vehicle to downsize; provide a wide distribution network for products and services but without incurring the financial costs. Opportunities are thus created whereby individuals are empowered to open their own businesses without facing the risks and insecurity of venturing out on their own. Franchising therefore opens a niche in the market for individuals who wish to work for themselves but who lack the innovation and expertise required to set up and operate a business completely independently.

The next chapter concerns itself with the research methodology that was adopted to collect data relating to the franchise industry in South Africa.

CHAPTER 4 : RESEARCH METHODOLOGY

4.1 INTRODUCTION

The empirical research accompanying the literature review has been undertaken with the purpose of assessing the roles of three groups of participants in the franchise industry, namely franchisors, franchisees and financial institutions. The aim is to ascertain whether or not there is scope for franchising to act as a mechanism for economic empowerment. This chapter, therefore, focuses on the manner on which this task has been undertaken. The research methodology is justified, the research instrument and data collection approaches are explained as well as the sampling techniques and limitations of the study addressed so as to provide an understanding of the direction taken in the study.

4.2 RESEARCH DESIGN

4.2.1 Introduction

Literature concerning franchising as a mechanism for economic empowerment in the South African sense is rather scarce. Therefore, an attempt has been made through this study to identify certain issues that are relevant or form the background against which franchising and economic empowerment may be viewed. As a result, this research is qualitative and exploratory in nature because it attempts to gain insight into a research area of which relatively little is known (Bless & Higson-Smith, 1995:95). Therefore to determine a research method which best suits the objectives of the study, an examination of the nature of the research needs to be undertaken.

4.2.2 The Exploratory Nature of the Research

Mouton and Marais (1990:43) propose that exploratory studies fulfil certain aims, summarised as follows:

- they gain new insights into the research area;
- they undertake a preliminary investigation before a more structured study of the research area;
- they explain the central concepts and constructs
- they determine priorities for future research
- they develop new hypotheses about existing research areas.

This research fulfils the aims mentioned above. It attempts to gain new insight into the phenomenon of franchising as a mechanism for economic empowerment in South Africa, it being a topic that has not previously been extensively explored. The research investigates the main players in the franchising industry in order to establish their roles and search for general trends. The research explains central themes and concepts for informed comprehension of the research topic. This study provides a preliminary investigation into the topic of franchising as a mechanism for economic empowerment, and identifies priorities for future research. The most salient aspects of the findings are noted. Lastly, hypotheses are evolved from the findings of the research. Mouton & Marais (1990:43) are of the view that "...exploratory studies usually lead to insight and comprehension rather than the collection of accurate and replicable data Hypotheses tend to be developed as a result of such research, rather than the research being guided by hypotheses."

Bless & Higson-Smith (1995:43) provide two alternatives for the design of exploratory research, namely the case study and the survey. They explain the differences between the two methods. The case study is the detailed and thorough investigation of a few cases, whereas the survey is the collection of the information on a wide range of cases, each case being investigated only on the

particular aspect under consideration. For the purposes of this research, an entire industry is under investigation in order to gain insights into a particular phenomenon. Therefore, it would be inappropriate to limit data collection to a few individuals, as is the nature of case studies, because they would not adequately address the objectives of the research that attempts to investigate the opinions of a large variety of possible participants. On the other hand, the survey method taps into a much larger pool of individual players in the franchise industry who are able to provide a variety of responses to the particular phenomenon under investigation. Because of the nature of this research, the survey method is therefore deemed a more appropriate research method.

4.2.3 The Survey Method

De Vaus' (1986:3) point of view is that a survey is a method by which information about the same variables or characteristics of at least two cases can be collected. Bless & Higson-Smith (1995:44) elaborate on this definition by reflecting that, "...the survey does not emphasise the diverse aspects of a single case but rather the frequency or number of answers to the same question by different people. The different cases here lose their individuality [and] become anonymous." Williamson *et al* (1977:135) add that this collection is achieved through various techniques such as interviewing and administering questionnaires to relatively large and representative samples of the population of interest. Questionnaires and interviews allow the researcher to access information that is not directly observable (Higson-Smith, 1995:43).

In order to justify the use of a particular research design, which in this case is survey research, Warwick and Lininger (1975:7-8) suggest that six criteria be applied when selecting a research design. These criteria will be used to justify the application of the survey method utilised in this study.

The **first criterion** is that of the appropriateness of the research design to the objectives of the study. This implies that the method should produce the kinds of data needed to answer the questions posed in the study. The study calls for the examination of three major group players, namely franchisors, franchisees and financial institutions so as to assess their relevant roles. They provide insight into the current state of affairs in the franchising industry so that assessments and recommendations may be made.

The **second criterion** concerns the accuracy of measurement. Because the research targets the three major group players mentioned above, they represent large populations that are only practically accessible through the usage of the survey method. Therefore, by utilising an appropriate research instrument and sampling technique, the reliability and validity of the research design are able to be established.

The **third criterion** refers to the generality of the results. By approaching the populations of the three groups and selecting representative samples from each, the conclusions drawn from the samples can be generalised to the rest of the populations.

The **fourth criterion** is explanatory power. This means that research is able to move beyond description to the analysis of causation. The results provide insights into the world of franchising in that causes of effects are able to be identified by the analysis of the results of the surveys.

The **fifth criterion** is administrative convenience. The researcher required a method that was cost-effective, could be achieved in a relatively short space of time (six months) and required minimal organisational complexity, while still remaining accurate, generalisable and explanatory. The survey method was thus utilised to fulfil the objectives and limitations imposed by the researcher.

The **sixth criterion** is the avoidance of ethical and political problems. The nature of this study is not sufficiently sensitive to cause any obvious ethical and political problems. The survey method utilised maintains the anonymity of the respondents. Respondents were not deceived into participating in the study. Respondents who felt that the information required of them was of too sensitive a nature contacted the researcher who noted the response and left it at that. A sponsor financed the research but did not assist, prescribe terms or intervene in any other way whatsoever. The research, thus, was not subjected to political or any other interference of any kind.

The survey method fulfilled the criteria mentioned above. The objectives and expectations of the research could be realised within the parameters of the survey method. It is however noted that the survey method has its disadvantages. De Vaus' (1986:35) opinion compels him to state that: "surveys are often seen to inhibit [the] process of problem formulation because they frequently use structured questionnaires and collect data at one time, thus limiting the extent to which the problem can be redefined and refocused." Despite this mentioned limitation, surveys are still considered a satisfactory data collection technique (Dowdy & Wearden, 1985: 15).

4.2.4 The Research Instrument

4.2.4.1 Introduction

Because opinions were required from relatively large groups of participants, a standardised format needed to apply to all participants. This was achieved through the use of questionnaires which had a structured format. Structured questionnaires require that respondents answered direct questions with little or no deviation from the original questions. The questionnaires were administered predominantly through the postal service. The only group interviewed at a more

in-depth level, was ten percent of the franchisee group. The same questionnaire was used as the postal questionnaire format but with the extension of nine open-ended questions added to the interview questionnaire. The reason why interviewing was undertaken specifically for this group was because certain experiences of the franchisees required elaboration. Sudman and Bradburn (1983:262) hold the conviction that the number of open-ended questions in a postal questionnaire be kept to a minimum, if not excluded completely, because requests for lengthy answers are likely to lead to refusals to answer. It is for this reason that open-ended questions are preferred in the interview process. In this way, more meaningful justification for answers may be sought. The advantages and disadvantages pertaining to both postal questionnaires and face-to-face interviewing will be established in order to pinpoint possible limitations in the research design.

4.2.4.2 The Advantages and Disadvantages of Postal Questionnaires

One of the most obvious advantages of postal questionnaires compared to any other data collection technique is its cost-effectiveness. The researcher is not part of the data collection process thereby minimising the expense such as that associated with interviewing. Respondents have time to consider the questionnaire and react to the questions in their own time. They are not subjected to time pressures or any other influence exerted by the researcher (Dane, 1990:142). For this study, the geographical distribution of the sample population was large, and postal questionnaires could reach a large group in the limited time allocation. Safety considerations also deemed postal questionnaires a more appropriate data collection technique since the researcher's safety would be compromised if on-site visits were necessary.

One of the greatest disadvantages of postal questionnaires is the possibility of a low response rate. One underlying reason is that the researcher has no control over the conditions under which the questionnaire is received. To quote but one example: as soon as a potential respondent opens the envelope containing the postal questionnaire, it may immediately be treated as junk mail and be relegated to the wastepaper bin. This eventuality is more unlikely to occur if the researcher were present. As there is no immediate pressure from the researcher, the motivation to fill out the questionnaire is greatly diminished. Another likely disadvantage that may arise is when respondents may seek others to fill out the questionnaire instead of completing it themselves. The response rate is therefore heavily dependent on respondents who are interested in the topic and are willing to impart information in a written format. The representativeness of the sample is thus jeopardised under these circumstances (Williamson *et al*, 1977:142).

Sudman and Bradman (1983:7) also indicate that postal questionnaires rely heavily on the questions and the written instructions to elicit accurate responses. As such, structured questions require that participants answer only that which is required of them and offer no other information to encourage a respondent to expand on points.

One last disadvantage of postal questionnaires is that of questionnaire duration. The postal questionnaire has to be kept relatively short to encourage people to answer it. Many people requested to be informed of the length of the questionnaire, making length an important variable in the likelihood of response. Questionnaires are therefore limited by the extent to which questions may be posed. The solution is therefore to keep the questionnaire as short and concise as possible.

4.2.4.3 The Advantages and Disadvantages of Interviewing

The advantages of using the interview technique overcome the disadvantages of the postal questionnaire. Dane (1990:143) finds that interviewing enables the researcher to obtain information from a much larger percentage of those sampled than do postal questionnaires. One reason is that it is more difficult for a participant to refuse to co-operate if the researcher has approached such a person directly to ask for his/her participation. Another reason is that those participants who demand clarification on certain questions may readily ask the interviewer and therefore minimise questions that may otherwise go unanswered. This also contributes to more detailed answers than otherwise achieved by means of postal questionnaires.

There are two main disadvantages associated with interviewing. One disadvantage is that the interviewer may wittingly or unwittingly influence respondents. It comes to mind that respondents may give answers to questions they think the researcher wants to hear. Another disadvantage of interviewing is the cost factor. One researcher would singularly be unable to conduct all the interviews and would therefore require the assistance of others. The cost of employing interviewers on the other hand may prove to be prohibitive in many survey research situations (Williamson *et al*, 1977:143).

Despite the disadvantages associated with both postal questionnaires and the interview process, use was made of both techniques. Postal questionnaires were used predominantly in the research, specifically with the franchisor and franchisee groups, since their sample populations were relatively large. Even though the financial institution group was very small in comparison to the other two groups, it was decided that in order to maintain consistency in the data collection procedures postal questionnaires would also be used for this group. Since postal questionnaires proved to reach a larger number of potential participants, it was felt that its use was justified. Interviewing, as mentioned earlier, was used

specifically with regard to the franchisee group so as to attain more detailed information that would not have surfaced through postal questionnaire replies.

4.2.4.4 Conclusion

The nature of this research is such that it required a research instrument that could reach a large group of participants. It was therefore considered appropriate that postal questionnaires be predominantly used in the accumulation of data while interviewing was the method applied in respect of a small group of franchisees so that a more detailed perspective could be gained from them. The advantages and disadvantages of both techniques have been established to present the strengths and weaknesses of the research instrument used. The next section expands on the development of the questionnaires used in the research.

4.2.5 Developing the Questionnaires

4.2.5.1 Introduction

Three questionnaires required to be configured so that each of the three groups, franchisors, franchisees and financial institutions, could be adequately researched to meet the objectives of the study. The format of the questionnaires, designed to question the three groups, will each be addressed separately.

4.2.5.2 Developing a Questionnaire for the Franchisor Group

The sample for the franchisor group was relatively large and for responses to be gained from a large sample, the most effective method was thought to be the dispatching of postal questionnaires. Another reason for the dispatching of postal

questionnaires was the fact that many franchisors are Johannesburg based and, as the research was conducted from Durban, face-to-face interviewing would have posed a problem. It was decided that the questionnaire be constructed in what de Vaus (1986:75) calls "a forced choice response format" so as to keep the questionnaire simple, to the point and as short as possible. A nominal-style approach was used and required answers in either the positive or the negative. Another technique used quite extensively in the questionnaire was the provision of multiple answers to a question. The questionnaire contains an option, to elicit information not otherwise requested specifically, by providing an invite to an open-ended response by insertion of the words: 'other (please specify)' where it was deemed appropriate. The questionnaire is reproduced as appendix A.

To determine whether the franchisor questionnaire adequately addressed the objectives of the study, the author attended a franchise exposition (BIZ '98) in Johannesburg and approached franchisors, in a completely random fashion, at their stands and asked them to fill out the questionnaire for the pilot study. Sixteen questionnaires were completed by franchisors while the author waited. Any questions requiring clarity could be asked directly to the researcher. It appeared that only one question required amendment. It created confusion and was capable of ambiguous interpretation. All the other questions were left unchanged. While drawing up the listing of the franchisor group, and conducting the pilot study, it became apparent that some franchisors owned more than one franchise in any given industry. Two further questions were added to the questionnaire in order to establish which franchisors fell within this group.

4.2.5.3 Developing Questionnaires for the Franchisee Group

This group represents an important component of the research because they are individuals directly involved in small business development and are thus considered economically empowered. It was therefore important that the

information obtained from them be as detailed as possible. The sample for this group was localised, geographically, to the Durban area because of convenience, time and expense factors. This sample was also large and it was considered appropriate for the questionnaires to be dispatched by means of the postal service. It was also considered important to acquire more detail concerning various issues. Face-to face interviewing was thus administered to a ten percent sample of the franchisee group. The interview questionnaire was identical to the postal questionnaire except for questions that were added to encourage respondents to elaborate on questions already posed. The franchisee questionnaires dispatched through the postal service and through the interview process, are reflected in appendices C and D respectively.

The questionnaires, except for the inclusion of the open-ended questions in the interview questionnaire, made use of the forced choice response format such as the nominal style formats - 'yes' and 'no' and 'male' and 'female'. Likert – style formats, or more specifically attitude statements, were used where a list of statements about some attitude dimension was ranged from 'most favourable' to 'least favourable' (de Vaus, 1986:75). Use was also made of multiple answers, as explained earlier in the construction of the franchisor questionnaire. An open-ended question soliciting any further comments that franchisees might have had, was included at the end of both the postal and interview questionnaires.

A pilot study, comprising ten percent of the franchisee sample, was undertaken to determine whether the questionnaire fulfilled the objectives of the study. One question needed to be rephrased as it was open-ended and did not elicit many responses. Another question was added so as to tie in with a question asked of the franchisor group. Besides these amendments, this questionnaire contained the most important questions and was administered to the remainder of the sample.

4.2.5.4 Developing the Questionnaire for the Financial Institution Group

As a result of initial theoretical probes directed at the financial institution group, some issues arose which necessitated clarification. The questionnaire was therefore designed with these issues in mind. The questionnaire consisted of a forced choice format and was compiled in a mainly multiple answer style. The questionnaire was very short, and not particularly complex. After issuing two questionnaires, it was considered it measured up to its purpose and further redrafting was not required. The questionnaire is presented in appendix E.

4.2.5.5 Validity and Reliability of the Research Instrument

Bless & Higson-Smith (1995:140) regard it essential to utilise a research instrument which is both as valid and reliable as possible in order for the research to be deemed significant. For the research instrument to be valid, implies that the instrument measures what it is supposed to measure. The reliability of the research instrument refers to the degree to which the instrument produces equivalent results for repeated trials. Therefore, to determine if the research instrument, in this case a questionnaire, is considered valid and reliable, certain tests were carried out.

In an attempt to ascertain whether or not the questionnaires applied in the research of this study are valid, the techniques of content validity and construct validity have been applied (Bless & Higson-Smith, 1995:136). Content validity refers to the extent to which the instrument provides some information on all the different components of the topic in question. In order to justify the use of the instrument, the content of the questionnaires and literature relating to the research topic have been compared. The compatibility between the questions asked in the questionnaire and the points raised in the literature review had to be weighed, one against the other. Although the literature concerning the research topic is

relatively scarce, consideration has been made and precautions taken to ensure the instrument contains as high a content validity as the study would allow.

The other technique applied in an effort to determine whether or not the instrument is valid, is that of construct validity. It is quite similar to content validity in that it determines whether the instrument is closely linked with known theory and related concepts. In order to establish construct validity all variables that are strongly related to the variable, namely franchising, therefore form the basis of the questions asked in the questionnaire. Theory, past research and logical deduction serves as bases for this method. Also, relationships have been identified, interpreted and explained so that an argument could be developed and produced to demonstrate construct validity of the instrument. The more variables, other than the one under scrutiny that indicate a meaningful interrelation, the better the construct validity. This had hopefully been achieved with the questions posed.

To determine whether or not the instrument is reliable, an item analysis was performed. This entails a method which estimates the internal consistency of the instrument, how well the responses to each item correspond to the responses of the other items and to test the instrument as a whole. It assists to identify those items within an instrument which are not providing useful information or provide confusing or ambiguous data.

4.2.5.6 Conclusion

In developing the questionnaire as an effective research instrument, all attempts were made to keep it as valid and reliable as possible to ensure that the research would be deemed significant. Each of the three groups, namely the franchisor, franchisee and financial institution groups, were allocated different questionnaires according to their roles in the franchising industry. Each questionnaire was

carefully developed to meet the objectives of the research in order to provide meaningful interpretations of these different roles.

4.2.6 Conclusion

This section has dealt with the overall research design of the study. It established the research to be exploratory in nature and justified the survey method as the most appropriate data collection technique. It introduced the research instrument as being the administration of questionnaires and the conducting of interviews. It further addressed the strengths and weaknesses of each technique. It also inspected and made findings on the reliability and validity of the research instrument, sufficient for the research to be deemed significant. The following section investigates and comments on the sampling technique that was used to search for participants.

4.3 THE SAMPLING TECHNIQUE

4.3.1 Introduction

Dane's (1990:119) point of view is that social science research is dependent on the opinions of the participants who are in some way connected to the subject matter being researched. Therefore, in order to extract the desired information, communication has to be established with the participants. In many instances the populations of participants involved are rather large and practically speaking not all are accessible to researchers. Therefore, in order to obtain potential respondents that are representative of the populations, samples of the relevant populations are deemed appropriate for the purposes of research. There are various ways in which a sample may be derived from a population. For the

purposes of this study it was found that probability sampling met the requirements of the research adequately.

4.3.2 Probability Sampling

Henry (1990: 25) states that “probability samples have the distinguishing characteristic that each unit in the population has a known, nonzero probability of being included in the sample.” In other words, each unit in a population has an equal chance of being included in the sample. This principle was considered appropriate in terms of the study because the researcher obtained possession of a complete list of populations for the franchisors and franchisees. Therefore, although samples had been obtained from the populations, each unit had an equal chance of being selected in each sample group.

It needs to be recorded that the financial institutions group was very small. This fact obviated the requirement that a sample of the population be taken because all potential respondents tested could be reached with relative ease. Therefore, probability sampling was employed to select samples from the franchisor and franchisee groups. Of the various techniques for selecting probability samples, stratified random sampling was chosen and used. Henry (1990:28) describes the operation of this method of data gathering. Stratified random sample is selected by first assembling the population or a listing of the population, and thereafter grouping the population into categories. After choosing a random start, every *i*th unit is extracted. This same technique was utilised in the assembling of the samples. The purpose of grouping the populations of both the franchisors and franchisees categories, was to differentiate between industry types so that individual units in a particular category stood an equal chance of being selected for the sample. If they were not grouped, representation of the particular industries would not be necessarily ensured.

4.3.3 Sampling Size

4.3.3.1 Sampling Size - The Franchisor Group

A listing of franchisors was supplied by the Franchise Association of South Africa (FASA), in order to identify a population for the franchisor group. The list discloses all franchisors who are registered members of FASA. An additional listing was obtained from The Franchise Factor '98 (in Start, Manage and Own your Business, Vol. pp 28-39). The two listings were combined to provide a complete and current listing of all franchisors operating in South Africa.

The franchisors were then separated and placed into sub-categories, for instance fast food or automotive products. Franchisors who own more than one franchise in an industry or more than one franchise concept in any given industry were deleted from the listing. This step proved necessary because the pilot study revealed that a franchisor who is represented in more than one franchise would answer the questionnaire collectively and not separately relating to each separate franchise. Appendix B provides for the extrapolation of further information to ascertain which companies, or other legal personalities, own more than one franchise concept. The final listing therefore consisted of all the remaining franchisors who were not part of the pilot study or were represented in more than one category of franchise. The franchisor population was thus reduced to 208.

The next step was to determine an appropriate sample size for this selected population. Kinnear and Taylor (1987:232) contend that "there is no one sample size which is statistically optimal for any study. The only way to ensure the required precision will be to select the largest sample." Constraints of cost and accessibility precluded a sample size of 100 percent of the total population. Therefore, to allow for the research to still be deemed significant, a survey sample of 50 percent of the total population was decided upon. It is inherent in the concept of random sampling that elements be chosen from a population in order

to adhere to the principles of this method. Therefore it was decided that a sampling interval of $i = 2$, or every 2nd unit be utilised to derive a sample size for this group.

Therefore by applying $i = 2$ to a franchisor population of 208, that is selecting every second franchisor, a sample size of 104 franchisors was arrived at. The pilot study responses were added to this total to form the entire sample of franchisors. The pilot study, including the non-responses, represents 11.1 percent of the total sample.

4.3.3.2 Sampling Size - The Franchisee Group

It was decided that franchisees from the Durban area only would be invited for participation in the research because a nation-wide endeavour would prove too time consuming and expensive. The listing of the franchisors was used to compile a list of franchise outlets in the greater Durban area, thereby establishing the identity of the franchisees involved. The Durban telephone directory was also used to access this information. Once a listing was made of the franchisees in the Durban area and each franchisee placed into sub-categories, as was done in the case of the franchisor listing, random sampling could be applied.

The population size of the franchisee group consisted of 364 individual outlets. The same principles as those applied to the franchisor group were used to derive a sample size for the franchisee group. It was also decided that a sample size of half the population was appropriate for the study. Using exactly the same principles as that used for the franchisor group, every second unit was therefore selected for the sample. Because the units were divided into sub-categories, each unit had an equal chance of being selected. The sample, constructed in the manner explained, consisted of 182 franchisees. A pilot study was undertaken in which 10.4 percent of the sample was represented. The pilot study respondents

where selected, by means of stratified random sampling, from the overall franchisee sample. Every 18th unit in each sub-category was selected to attain as near to a 10 percent representation as possible. Once the pilot study was completed, the respondents who partook therein were deleted from the listing. The exact same technique was then used to select respondents for participation in the structured interviewing. Again, every 18th unit of the franchisee sample was selected, eventually accounting for 9.8 percent of the sample.

4.3.3.3 Sampling Size - The Financial Institution Group

In order to attain the relevant information relating to the financial institutions, a list was obtained from the Franchise Association of South Africa. Because the population size was small, and consisted of only eight, it was deemed appropriate to contact each financial institution in the Durban area individually and request their participation in the study. Most of the respondents were administered the questionnaire in the presence of the researcher, while the remainder received it via fax and responded by the same means.

4.3.4 The Response Rates

4.3.4.1 The Response Rate for the Franchisor Group

Stratified random sampling was used to derive a sample size of 104 potential participants. Because the pilot study was undertaken prior to the sample being established, the eventual sample was increased by 13 to 117, and together with the three pilot study questionnaires that were not returned, totalled 120. Table 4.1 indicates the steps taken to achieve responses from the franchisor group.

Table 4.1 The Franchisor Group Return Rate

Activity Undertaken	No.Sent Out	No. of Responses	No. of Non Responses	Response Rate as a % of Each Particular Activity Undertaken	Response Rate as a % of the Entire Sample N=120
1. Pilot Study	16	13	3	81.3%	10.8%
2.Questionnaire sent by fax	104	33	71	31.7%	27.6%
3.Reminder letter sent by fax	71	10	61	14.1%	8.3%
Totals	120	56	64		46.7%

Source: Research Data

As Table 4.1 depicts, the pilot study, excluding the non-responses, represents 10.8 percent of the total sample. Only minimal changes were made to the questionnaire once the pilot study had been undertaken and it was decided to use the responses obtained from the pilot study as part of the overall study.

Once the pilot study had been undertaken and the amendments made to the questionnaire, the franchisors in the sample were approached and asked to participate in the study. The questionnaire was then conveyed to them by way of telefax transmission. As table 4.1 indicates, 33 responses were obtained from the first faxed questionnaires, which represent 31.7 percent of the questionnaires dispatched. This constitutes 27.6 percent of the total sample. The reminder letter (appendix F) faxed to the remaining potential respondents resulted in a total of 10 responses which represents a response rate of 14.1 percent of the reminder letters sent by ordinary mail and accounts for 8.3 percent of the total sample. In total, the response rate for the entire sample from the faxed questionnaires amounted to

35.9 percent, and together with the pilot study responses, a response rate of 46.7 percent was achieved.

4.3.4.2 The Response Rate for the Franchisee Group

The population size of the franchisee group in Durban originally consisted of 377. This number comprises the individual franchise outlets in the greater Durban area. However, upon embarking on the process of contacting prospective respondents, it was found that some franchisees own more than one franchise and that this would obviously affect the population and sample sizes. Once the contacting process began, the listing was systematically adjusted so as to include only one of the franchise outlets owned by a franchisee who owned more than one franchise outlet. Those franchisees would then respond to the questionnaire without repeating themselves as could conceivably be the case if questionnaires were sent to any of their other branches. The reasoning behind this is that it would be likely that respondents would not want to complete the questionnaire a second time, even though it would refer to a different franchise, as was found when the pilot study of the franchisor group was undertaken. Another aspect that caused the population to be reduced was the fact that a few outlets are classified as company-owned. In these cases, the traditional nature of a franchise does not apply as holding companies have ownership of these outlets. Therefore, these outlets are not technically franchised because they are not owned by individual franchisees. Thus, company-owned outlets were excluded from the franchisee population. This process eventually reduced the population size to 346 franchise outlets. The sampling technique of stratified random sampling was again used to derive a sample size that was half this amount in order to attain an adequate representation of the population. The sample size was therefore 173. Throughout the downsizing process, careful note was made to adjust the listing so as to include every second franchise outlet, and to keep the sample legitimate. Table 4.2 documents the stages of the survey.

Table 4. 2 The Franchisee Group Return Rate

Activity Undertaken	Number of Questionnaires Sent Out	No. of Responses	No. of Non Responses	Response Rate as a % of Each Particular Activity Undertaken	Response Rate as a % of the Entire Sample N= 173
1. Pilot Study	18	18	0	100%	10.4%
2. Interview respondents	17	17	0	100%	9.8%
3. First postings to remaining prospective respondents	138	34	104	24.6%	19.7%
4. Reminder letter posted	104	19	85	18.3%	11%
Total	173	88	85		50.9%

Source: Research Data

As mentioned in paragraph 4.3.3.2, as near to a 10 percent representation of the franchisee sample was derived for the pilot study. It was felt that 10 percent of the sample would be an adequate measure of the effectiveness of the questionnaire. The prospective participants were approached to consent to a telephonic interview. When it was found that any 18th unit was unavailable or no longer in existence, the unit directly following the 18th unit was selected as a replacement. Once this study was undertaken, two questions were added. Because no major amendments were made to the questionnaire, the pilot study respondents would be used in the main study, and represented 10.4 percent of the sample. The pilot study respondents were then deleted from the original listing so that they would not appear again and be selected for the interview sample.

To conduct the face-to-face structured interviews, a 10 percent representation of the sample was also considered appropriate for the purposes of the study. The exact same technique was applied to contact prospective respondents as was performed for the pilot study. Where an 18th unit was unavailable, the unit directly preceding the original unit was contacted. As Table 4.2 depicts, 17 franchisees responded to this stage in the survey representing 9.8 percent of the sample.

The next stage of the study was to establish communication with the remaining prospective respondents. An attempt was made to contact people and fax the questionnaire to them, as was done with the franchisor group. Unfortunately, many franchise outlets do not possess fax machines. This meant that most of the questionnaires had to be sent via the postal system. An initial response rate of 19.7 percent, of the entire sample, was obtained from the participants who where sent the questionnaire. A reminder letter (appendix G) was sent to all the prospective participants who did not respond. 21 of the participants said they had not received it in the post initially. As table 4.2 indicates, the reminder letter rendered a response rate of 11 percent of the total sample and raised the total response rate from the postal questionnaires to 30.7 percent. The disadvantages associated with postal questionnaires, mentioned in paragraph 4.2.4.2, are reflected in these results, as lack of interest and uncertainty of delivery most probably account for the low response rate.

Even though the responses obtained from the postal questionnaires were relatively low, the overall response rate inclusive of that relating to the pilot study and the interview responses, raised the figure to 50.9 percent. It is submitted that this figure provides an adequate representation of the franchisee population in the greater Durban area.

4.3.4.3 The Response Rate for the Financial Institution Group

A listing of the financial institutions, that are purported to provide funding to franchisees, has been provided by the Franchise Association of South Africa. It lists the names of the major banks in South Africa, the lesser known banks and smaller institutions geared towards developing small businesses. This list consisted of 11 institutions. Because the number of financial institutions was small, it was decided that each one would be approached and asked to participate in the research study. However, upon contacting the prospective respondents, it was found that three of the lending institutions are in fact smaller agencies working on a facilitation basis in order to aid small business, and do not assist franchisees because the costs involved in franchising are too high for them to provide funding. The list was therefore reduced to eight financial institutions. Another setback experienced by this research, was a confidentiality problem. One financial institution considered the information that was required to be of a confidential and therefore privileged nature. Its official, was for that reason, not prepared to answer the questionnaire. A second financial institution was also not willing to respond. The reasons advanced was that the financial institution does not have a division that deals specifically with franchise financing. The official of this institution also said that to extract the information requested would entail a lengthy manual exercise of searching through their records which they were not prepared to undertake.

The remaining six respondents were then contacted. Either telephonic or face-to-face interviews, depending on the preference of the respondents, were conducted using a structured interview (appendix E).

4.3.5 Problems Encountered in Collecting Data

The most obvious problems that were encountered in the data collection process were the result of researcher inexperience. There is, for example, an inconsistency between the manner in which the pilot studies were undertaken in respect of the franchisor and franchisee groups. The franchisor pilot study was undertaken independently of the sample that was selected from the franchisor population. The franchisee pilot study involved participants that were part of the selected sample. Although this aspect of the manner in which the research was undertaken is technical in nature, the researcher is aware that it represents an inconsistency.

Another problem ascribed to researcher inexperience that arose, was one relating to detail of the franchisee questionnaire. Allowance was not made for franchisees that own more than one franchise outlet in a different industry. This means that franchisees were obliged to answer only in respect of the industry to which the questionnaire was addressed, thereby ignoring the fact that they own other outlets in other industries. Provision should have been made in the questionnaire so that franchisees could draw comparisons between outlets owned by them in different categories of industry.

While every care was made to ensure that all the relevant issues were dealt with, it proved difficult to ask respondents all the questions that could possibly apply to their experience of franchising without making the questionnaire too long and open-ended. This more specifically applied to the postal questionnaire administered to the franchisee group. A long questionnaire being too open-ended would most certainly have discouraged people from taking time to fill it out. In so doing, some respondents, who replied through the post, included comments that the questionnaire had left out important points that would not be known to a potential newcomer franchisee. Unfortunately, some of these comments were void of explanations. An encouraging sign, though, was that other respondents

added comments, which they felt strongly about. Some even furnished their contact details for further correspondence. Most of the respondents contacted directly were very willing to volunteer information concerning their experiences on a deeper and more detailed level. This therefore opens the way for a far more detailed study in order to gain a more complete and comprehensive perspective of the franchisee experience.

4.3.6 Conclusion

The sampling technique that was utilised in the research to determine appropriate samples of the franchisor and franchisee populations has been examined in detail. Probability sampling was used to allow all participants an equal chance of being selected in the samples. This section also examined the response rates of the three participating groups to provide a step-by-step account of the empirical research process. Lastly, problems that were encountered in the research were expanded upon with some of them ascribed to the inexperience of the researcher. The following section examines the method used to analyse the statistics generated by the research.

4.4 STATISTICAL ANALYSIS

The manner in which the questionnaires were structured and the numbers of responses allowed for the answers to be coded. This means that the answers could be processed into numerical form so they could be entered into a computer. A statistics software package called Statistical Products and Service Solutions or SPSS, as it is more commonly called, was utilised to determine the frequencies of responses to the questions. It must be noted, however, that frequencies were the only statistics required and utilised by the researcher to determine significant results. This was done because of the exploratory and thus qualitative nature of

the research. The only purpose of utilising a statistics package was to simplify the task of determining how many respondents responded to each question, thereby allowing for the results to be interpreted in a qualitative manner.

4.5 CONCLUSION

This chapter has outlined the research techniques utilised in gaining knowledge about the participants in the field of study concerned. It examined the justification for the use of postal questionnaires as a data collection tool. It also established why face-to-face interviewing was used together with postal questionnaires for the franchisee group. The sampling technique of probability sampling was discussed and a step by step account of how this sampling technique was applied to the franchisor and franchisee groups was furnished.

It is acknowledged that other techniques could have been used in the extraction of the information required, but the researcher chose to use these methods as they were considered the most appropriate at the time. It is also admitted that because of the researcher's inexperience, the questionnaires may not be as comprehensive as ideally desired but lack of resources and time constraints contributed to this limitation.

The most obvious limitation imposed by the research methodology is that of the use of postal questionnaires to gather information. It has been mentioned that postal questionnaires render a lower response rate than other data collection techniques. While this holds true, the response rates achieved in this research is considered well within the acceptable parameters for significant representation.

The next chapter concerns itself with the analysis of the data.

CHAPTER 5 : ANALYSIS OF RESULTS

5.1 INTRODUCTION

This chapter deals with the analysis of the results that were derived from the questionnaires administered to the franchisor, franchisee and financial institution groups. The questionnaires aimed at determining the experiences of each group in terms of their participation in the franchise industry. This chapter is presented in a specific manner in that it is broken down into various themes. The overriding accent of this study is economic empowerment in terms of the franchising industry and as such, the empowerment issue will be scrutinised as the results of the study are presented.

As discussed in paragraph 4.2.5, individual questionnaires were administered to the three groups therein mentioned. Two different questionnaires were administered to the franchisee group, one by postal service and the other to a group of interviewees. Essentially both the questionnaires consist of the same questions but the questions asked of the interviewees required elaboration on certain issues. Where expansion of certain questions was required of interviewees, the question is marked as "(b)". As further commented in paragraph 4.2.5, the purpose of interviewing a small group was to gain insight into the group that is considered economically empowered and to provide an advancement of certain areas of interest. The interview questionnaire therefore comprises of open-ended questions, the answers to which will be integrated with responses to the questions contained in the postal questionnaire in an attempt to explore issues to a greater extent.

This chapter therefore focuses on the themes. Each theme is presented, where possible, to expose and examine the various perspectives of the franchisor, franchisee and financial institution groups. There are themes that specifically refer to the perspective of the franchisee group. The purpose thereof is to provide further insight into the issues that directly affect them.

The following sections present the themes in question.

5.2 INDUSTRY REPRESENTATION IN FRANCHISING

5.2.1 Introduction

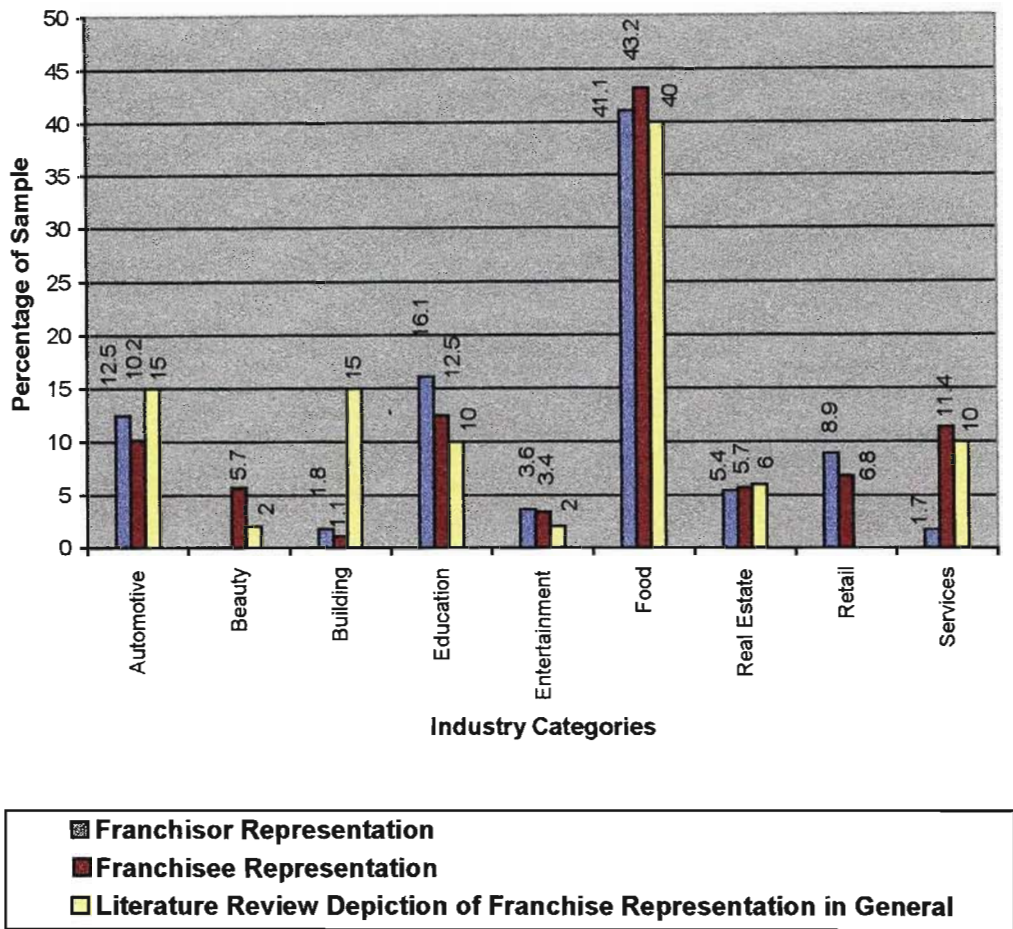
As mentioned in the literature review, in paragraph 3.4.3.2, franchising is represented in most of the economically viable industries in South Africa. To test whether this is a valid claim in terms of the study, it was important to incorporate questions in the franchisee and franchisor questionnaires that would ask respondents to indicate the industry/ies in which they were involved. By undertaking this task, one is able to gauge which industries are more highly represented than others and so explore how this impacts on the franchising industry as a whole.

5.2.2 Industry Representation

This section refers to questions one in both the franchisor and franchisee questionnaires. The results of the survey will be presented in a manner that illustrates consistencies and discrepancies between the findings of the literature review, and the franchisor and franchisee groups. The information conveyed by the literature review has been taken from paragraph 3.4.3.2.

However, before the findings are presented, certain problems that were encountered in the analysis, need to be raised. One point is that the literature review conveys information that is representative of both players, namely franchisors and franchisees, in the franchise industry. Therefore, in terms of the literature review, representation in each category is general and not specific to a certain player. While this point is noted, the literature review is still able to provide useful parallels with the findings of the current study. Another problem that surfaced is the fact that the literature review collectively conveys information regarding the entire food category and does not present a breakdown of the food category types as has been done with the franchisor and franchisee groups. Thus, for the sake of simplicity, the statistics representing the different sub-categories of the food category for the franchisor and franchisee groups have also been combined to form one general food category. A more detailed account of the representation of the sub-categories in the general food category is provided in the analysis of figure 5.1, below.

Figure 5.1 Industry Representation in Franchising



Source: Research Data and Rodkin (1995)

Figure 5.1 will be examined by taking into account the consistencies and discrepancies of representation between the findings of the literature review and the franchisor and franchisee groups. The consistencies in representation among the groups will be examined first.

The literature review indicates that the food category dominates the franchise industry, with a representation of 40 percent. This is supported by statistics that are represented by the franchisor and franchisee groups, at 41.1 percent and 43.2 percent respectively. It was considered important to differentiate between the different sub-categories in the food category, therefore franchisors and franchisees were asked in the questionnaires to specify which sub-category they were participating in. Of the 41.1 percent of the franchisors who indicated that they are represented in the food category, 17.9 percent are involved in fast food, 19.6 percent are involved in restaurants/pubs and 3.6 percent are involved in the food retailing sub-category. Of the 43.2 percent of the franchisees who indicated that they are represented in the food category, 20.5 percent are involved in fast food, 19.3 percent are involved in restaurants/pubs and 3.4 percent are involved in the food retailing industry. Inasmuch as the retail food category is one of the smallest representations of the franchisor and franchisee groups, at 3.6 percent and 3.4 percent respectively, it is nevertheless considered significant that two out of the three categories, which comprise the general food category, dominate representation in the franchise industry.

Another relatively consistent indicator of category representation prevalence is found in the education category, which is classified as the next highest representation in the franchise industry. The literature review indicates that 10 percent of franchises are involved in education. Franchisor representation is higher than the literature review, depicted in this study at 16.1 percent, while franchisee representation is 12.5 percent.

The third highest representation consistently illustrated by the three groups in figure 5.1, is the automotive category. The literature review indicates that 15 percent of franchises are automotive, while the response rates of the franchisor group is 12.5 percent. The franchisee group is represented by 10.2 percent of the sample.

The retail category is only represented by the franchisor and franchisee groups as no information regarding this category was provided by the literature review. It nevertheless conveys the fact that both groups are fairly well represented in this category.

The lowest representations are found in the real estate and entertainment categories, where both categories are consistently represented by the findings of the literature review, and the franchisor and franchisee groups.

The findings have also indicated that there are discrepancies. There is a significant discrepancy indicated by the results of the literature review and those of the franchisor and franchisee groups with regard to the building category. The literature review indicates that 15 percent of the franchises are represented in the building category but only 1.8 percent and 1.1 percent of the franchisor and franchisee groups, respectively classified themselves as falling within the building category. However, this does indicate that the franchisor and franchisee groups are closely represented in this category. Another discrepancy was found in the services category. While the literature review and franchisor group findings are quite consistent, at 10 percent and 11.4 percent respectively, representation of the franchisee group is well below, at 1.7 percent.

Despite considerable prompting, none of the potential franchisee respondents belonging to the beauty category responded to the questionnaire. The only remark to be noted in respect of this category is the discovery of a small discrepancy between the findings of the literature review and the franchisor group.

5.2.3 Conclusion

Interestingly, the majority of the findings indicate a close relationship between the literature review, the franchisor and franchisee groups. Despite the fact that the franchisee group consists of a sample of Durban-based respondents, the findings have not necessarily indicated a location specific outcome.

Of all the categories, only three discrepancies were noted. Where location possibly plays a role is in the building category. The franchisee sample for the building category consisted of only four possible participants and by reducing it by two to find a sample, only one franchisee responded in time for the completion of this study.

Both the samples for the franchisor and franchisee groups indicated that the food category was by far larger than any other category. The results therefore are representative of a greater percentage of respondents than any other category and, as such, represent the majority of the franchise industry.

5.3 DURATION AND OWNERSHIP OF ORIGINAL AND OTHER FRANCHISES AND OUTLETS

5.3.1 Introduction

The purpose of this theme is to gauge the extent to which franchising, as an industry, is growing in South Africa. Various questions were therefore posed to both the franchisor and franchisee groups in order to fulfil the objectives of this theme. Questions that were asked of the franchisor group concerned the following: the duration of the existence of the franchise systems, that is how long franchise concepts has been in existence; whether they are involved in other similar or completely different franchise systems; and the extent to which

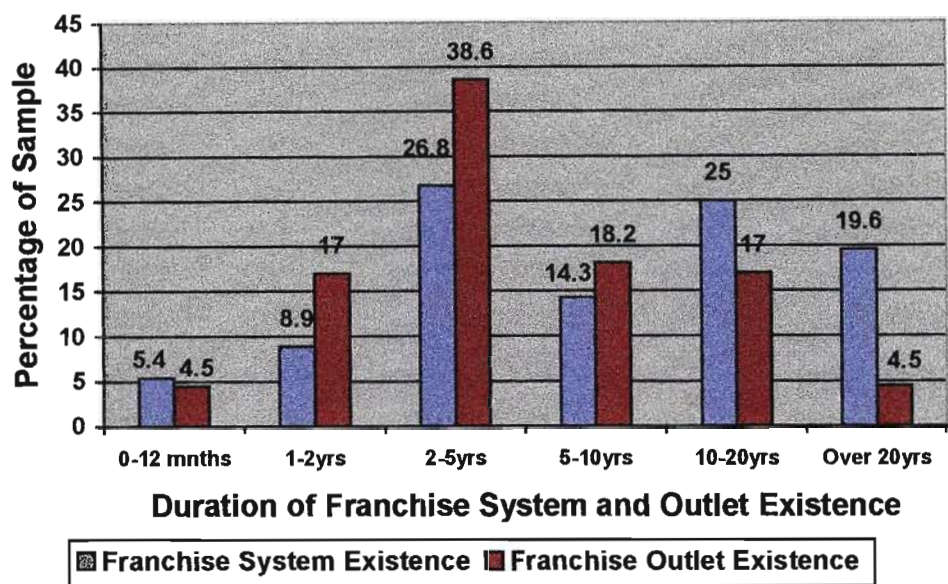
franchise outlets appear elsewhere in South Africa. Questions that were asked of the franchisee group concerned the period of ownership of outlets and whether or not franchisees own more than one outlet.

The first issue that will be dealt with is that of the duration of the franchise systems owned by franchisors and the individual outlets owned by franchisees.

5.3.2 Duration of Franchise System and Outlet Existence

This section refers to question three of the franchisor questionnaire and question two of the franchisee questionnaire. They require that franchisors and franchisees disclose the period the franchise systems and individual outlets have been in operation. Figure 5.2 illustrates the results and provides a comparison between the length of time that franchise systems have been in existence and the length of time that individual franchise outlets have been in existence.

Figure 5.2 Duration of Franchise System and Outlet Existence



Source: Research Data

Figure 5.2 illustrates that a close similarity is represented in the 0-12 month time span between franchise system existence and individual outlet existence. No other statistic presents a close similarity in sample representation. The greatest discrepancy between the franchisor and franchisee groups is found in the category exceeding 20 years. The franchisor group is represented by 19.6 percent of the sample, representing the third highest percentage of franchise systems in existence, while only 4.5 percent of the franchisee sample has been in existence for over 20 years.

By adding another perspective, to gauge the differences between the franchisor and franchisee groups in terms of time reference, each time category has been grouped into "newly established" and "established" groups. The "newly established" group consists of 0-12 months, 1-2 year and 2-5 year time categories, while the "established" group consists of the 5-10 year, 10-20 year and beyond 20

year time categories. By simply adding the respective percentages in each group, one is able to determine in which group the franchis**ors** and franchis**ees** may be classified. The results are as follows: the "newly established" group for the franchis**ees** stands at 50.1 percent and the "established" group at 39.7 percent. This indicates that the franchis**ee** group is dominated by younger franchises that have been newly opened. The results for the franchis**or** group are as follows: the "newly established" group stands at 41.1 percent while the "established" group accounts for the remaining 58.9 percent. This indicates that the majority of franchise systems owned and controlled by franchis**ors** have been in existence for a relatively long period of time. The "established" group of franchis**ors** therefore indicate a dominance over the "newly established" group as opposed to the findings relating to the franchis**ee** group.

Both the franchis**or** and franchis**ee** groups are, interestingly enough, dominated by franchises that have existed for a period of between 2 - 5 years. A percentage of 26.8 of the franchis**or** sample is represented in this 2 - 5 year time category while 38.6 percent of the franchis**ees** indicated that their outlets have been in existence for this period. This statistic points to the relative short period of existence of the franchis**ee** group's outlets. It is indicative of the fact that the creation of new franchise outlets is on the increase. Those that are beginning to establish themselves and have passed the initial setting up stages, represent the majority of the franchise outlets presently in Durban.

These findings suggest that, specifically in Durban, franchise outlets are relatively young. The majority of the outlets range in age from 1 month to 5 years. This also signals that franchise outlets are a relatively new concept in Durban with a smaller percentage of outlets being older than 5 years. Franchise systems, on the other hand, have been in existence for far longer than the age of an average outlet in Durban.

The next section concerns the franchisor group and the extent to which they have expanded into the major cities in South Africa.

5.3.3 Franchise Outlets in Major Cities

This section concerns itself with an analysis of the data acquired in response to question four and question five of the franchisor questionnaire. The purpose of question four is to ascertain the extent to which franchises have expanded countrywide. As mentioned in the literature review, paragraph 3.4.1, the concept of franchising entails expansion. The purpose of question five is aimed specifically at those franchisors that have not expanded into most of the major cities and to ascertain the reasons for this. Table 5.1 tabulates the results of question four.

Table 5. 1 Franchise Outlet Representation in Major Cities

Number of Cities	Percentage
All eight listed in questionnaire	21.4
Seven	5.4
Six	12.5
Five	14.3
Four	3.6
Three	3.6
Two	7.1
One	8.9
Pilot study respondents	23.2
Total	100

Source: Research Data

Of the franchisors who participated in the survey, 76.8 percent responded to this question. As this question was included after the pilot study was undertaken, 23.2 percent represents the group who did not respond to this question. Since the question was never put to them., they are categorised separately and referred to as the "pilot study respondents". Table 5.1 indicates that 21.4 percent of the franchisors who participated in the study have outlets in all the major cities in South Africa that were listed in the questionnaire, namely Johannesburg, Pretoria, Durban, Pietermaritzburg, Bloemfontein, Cape Town, Port Elizabeth and East London. These cities represent the major centres in South Africa and serve as a meaningful indicator as to franchise outlet expansion. The next highest statistic is that of 14.3 percent which is representative of franchises that have granted franchises to five cities. By adding the percentages of franchisors who have indicated that they have outlets in three and/or more major cities, which is a percentage of 53.6 percent, it may with certainty be deduced that a larger percentage of franchisors have expanded to other major cities.

The statistics that indicate the lowest representation are shared between franchises that have vested franchise interests in three and four cities, each representing 3.6 percent of the sample. Of the franchisors that responded to this question, 8.9 percent have granted franchise rights to outlets in one city only and is the fourth highest representation in the sample. As mentioned earlier, question five refers specifically to those franchisors that are not represented in all the major centres in South Africa and examines reasons why they have not expanded as yet. The results are as follows.

Of the franchisors that responded to this question, 39.3 percent indicated that expansion was still under consideration. This statistic represents the highest response rate to the question. The second highest response rate for this question is represented by 7.1 percent of the respondents who indicated that potential franchisees in the cities where expansion was favoured had not yet expressed interest in their franchises. The third highest response rate for this question, 5.4

percent of the respondents, indicated that they had no intention of further expansion because the franchises did particularly well in the local rural areas. In these cases expansion was not considered desirable or necessary. The remaining respondents, 1.8 percent, indicated that expansion was not being considered due to the state of the economy. It can only be assumed that this response ties in with the third optional answer in question five, namely financial constraints. In other words, financial problems either from the side of the franchisor or prospective franchisees has been the main cause for lack of expansion into other areas.

It can therefore be suggested that the majority of the franchisors who responded have already expanded to the major cities in South Africa. Of those who have not expanded, the main reason cited has been that expansion is still under consideration. This leads one to the conclusion that the majority of those franchisors that have as yet no franchised outlets in most of the major cities have not ruled out expansion in the future.

The next section examines whether franchisors have become involved in other similar or different franchise systems or concepts and the reasons therefore.

5.3.4 Representation in Various Franchises by Franchisors

In keeping with the theme of franchise expansion and growth, it was considered important to include a question aimed at the franchisor group in order to discern franchisor expansion into similar or different franchise concepts. This section is directed at the answers to question two of the franchisor questionnaire. Its purpose is to ascertain the reasons for ownership by franchisors of their own and other related franchises and also to learn whether or not they have diversified their interests into franchises in other industries. The following table provides a synopsis of the various responses to the question.

**Table 5.2 Reasons for Franchisor Participation in Other
Similar/Different Franchises**

Reasons for answer	Percentage
Complementary	5.4
Competitive Advantage	14.3
Pilot study respondents	23.2
Question does not apply	57.1
Total	100

Source: Research Data

The number of franchisors involved in more than one franchise that responded to this question totalled 19.7 percent. This question was included after the pilot study was undertaken. Because the question was not in the questionnaire the first time it was administered, this group of participants who could not participate in the answering of this question are referred to as the "pilot study respondents". Table 5.2 demonstrates a larger percentage of franchisors considered the primary reason for their expansion into other franchises in the same or different industries in order to obtain a competitive advantage. In other words, franchisors place more importance on the economic benefit of diversifying into other similar or different franchises as opposed to only participating in industries that are complementary to each another.

The following section examines ownership of other franchise outlets by members of the franchisee group.

5.3.5 Franchisee Ownership of Other Outlets

Similar to the study undertaken in respect of the expansion of franchise concepts by franchisors, it is important to determine whether franchisees own other franchise outlets as well, in order to consider their own expansion. Question three of the franchisees' questionnaire is aimed at reaching this objective. The results of the survey indicate that 35.2 percent of the respondents own more than one franchise outlet, while 63.6 percent of the respondents indicated they own one franchise outlet only. One respondent (1.1 percent of the sample) did not answer the question.

5.3.6 Conclusion

This theme lends prominence to some interesting findings concerning the extent to which the franchising industry in South Africa is developing. It was found that specifically in Durban, a difference exists between the length of time of the existence of franchise systems on the one hand and individual outlets on the other. Franchise systems have been in existence for a longer period of time than the individually franchised outlets in Durban. The most likely inference drawn from the data collected and examined is that franchising is a relatively young concept and is gaining momentum in the greater Durban area. Because Durban may be regarded as a microcosm of the country's larger economy, it is considered that this deduction holds true for the rest of South Africa. Most franchisors have expanded into the major cities in South Africa but for the greater part of those who have not, future expansion is still under consideration. Another aspect prominent in the development of franchising in South Africa derived from the responses received from the franchisor group is that competitive advantage is the driving force behind the reasons for franchisors diversifying into similar and/or different franchise systems. To complete the picture of franchise outlet expansion, it was found that a smaller percentage of franchisees own multiple

franchise outlets in contrast to those who are single outlet owners. This statistic most probably coincides with the responses that indicate that franchise outlets in Durban are relatively newly established and expansion to start further outlets may be dependent on the success of the original outlet.

In terms of economic empowerment, the results of the survey so far have provided reassuring signs that the franchising industry is on an upward curve of development in South Africa. A developing industry provides opportunities, and in this case, specifically for people to become economically empowered through becoming franchisees. By reason of the fact that franchising is relatively new in Durban, there is the possibility of opportunities and space for growth. Since franchisors have indicated in the survey that competitive advantage is a driving force for franchise expansion, it would not be untoward to conclude that franchisors are indeed eager to encourage people to become franchisees.

The following theme examines the current demographic distribution of franchisees in South Africa.

5.4 DEMOGRAPHIC DISTRIBUTION OF FRANCHISEES

5.4.1 Introduction

This theme concerns the demographic profile of franchisees in South Africa. The purpose of this section of the study is to ascertain the current representation of the South African population in the franchising industry. Race groups, gender and age categories constitute the bases of this analysis.

The analysis of the racial distribution of the franchisee population is approached from two vantage points. The franchisor's perspective of the racial distribution of franchisees in South Africa is presented first. The racial distribution relating to

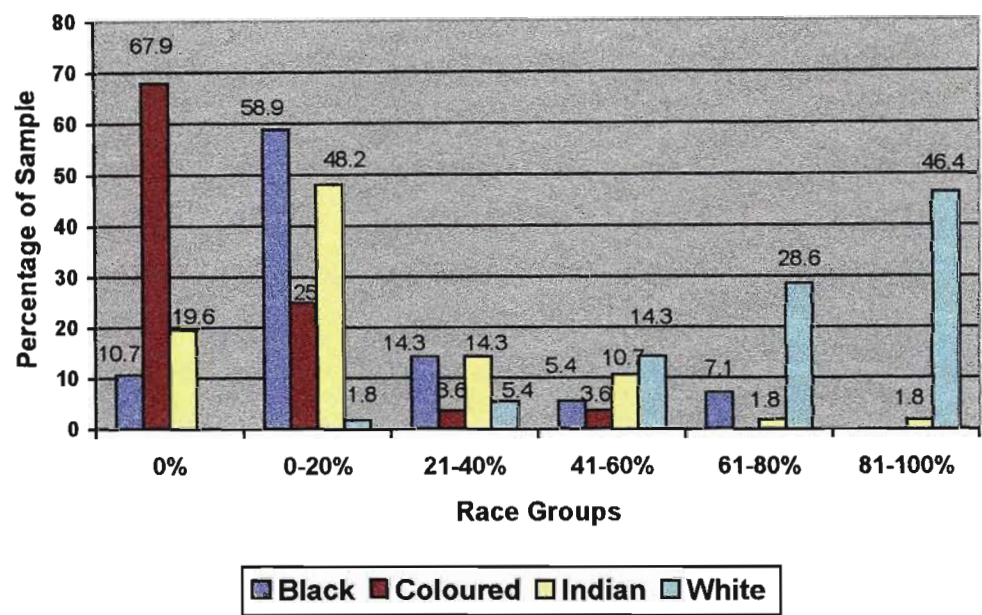
the Durban population of franchisees is disclosed next, together with the literature review depiction of franchisee racial distribution in South Africa in general. The reason why all the results from all three groups are not presented jointly is that the data obtained from the franchisor group is different from that of the franchisee group and the literature review. As such, the data cannot be treated in unison. However, the results of all three groups will be discussed together.

The results concerning the age and gender of the franchisees were obtained only from the franchisee group and, as such, are presented separately with no comparison to other data.

5.4.2 Race Group Representation of Franchisees as Depicted by Franchisors, Franchisees and the Literature Review

This part of the study commences with the notation and inspection of the opinion of the franchisor group. This deals with the replies to question six of the franchisor questionnaire. The franchisors were asked to provide estimates concerning the prevalence of each race group in specified percentage categories. Figure 5.3 illustrates the results. A breakdown of the results for each race group is presented in appendix H in table form.

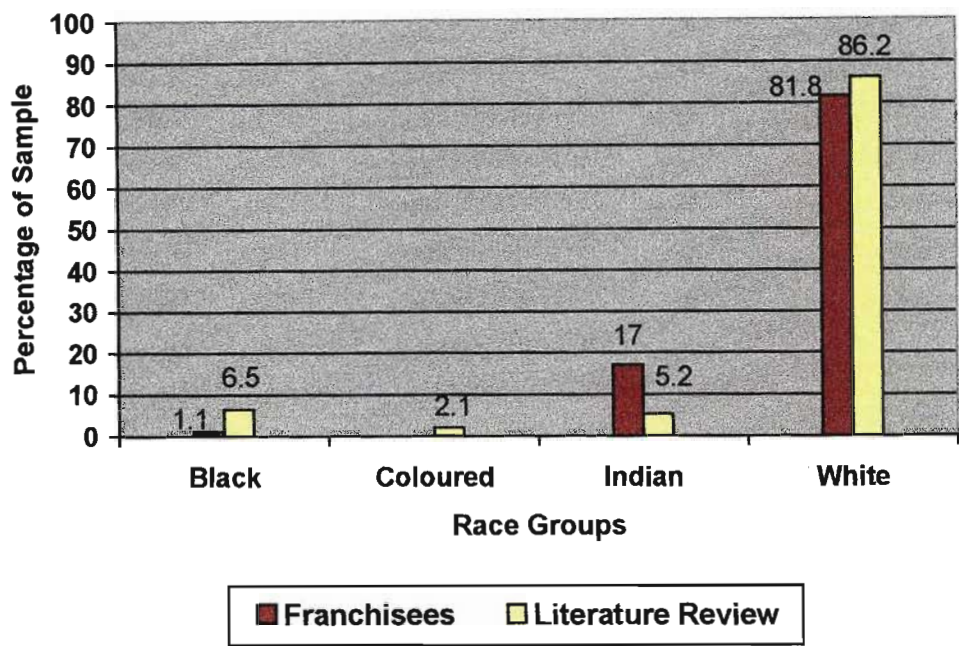
Figure 5.3 Race Group Representation of Franchisees as Depicted by Franchisors



Source: Research Data

Figure 5.3 illustrates the highest representation of each race group is classified in different categories. Black, indian and coloured franchisees are represented mainly in the 0-20 percent category which in effect means that their representation in the franchise industry lies below 20 percent. White franchisees, on the other hand, dominate the 81-100 percent category as well as the 61-80 percent and 41-60 percent categories. This means that franchisors perceive white franchisees as being more widely represented in the franchise industry than any other race group by a large margin.

Figure 5. 4 Race Group Representation of Franchisees as Depicted by the Franchisees and the Literature Review



Source: Research Data

Both the franchisee group and the literature review, as illustrated in figure 5.4, indicate that white franchisees are by far in the majority at 81.8 percent and 86.2 percent, respectively. The franchisee group indicates that indian franchisees are the next highest representation at 17.0 percent while black franchisees make up only 1.1 percent of the sample. No coloured franchisees responded to the franchisee survey and are excluded from the study. A possible reason for this result may be ascribed to the location by reason of the fact that the coloured community is the smallest racial minority in the greater Durban area.

Figures 5.3 and 5.4 as well as the literature review depict similar results in respect of the franchisor and franchisee groups. All three clearly point to the fact that white franchisees are far more widely represented in the franchising industry than any other race group. Black franchisees constitute a very small minority of

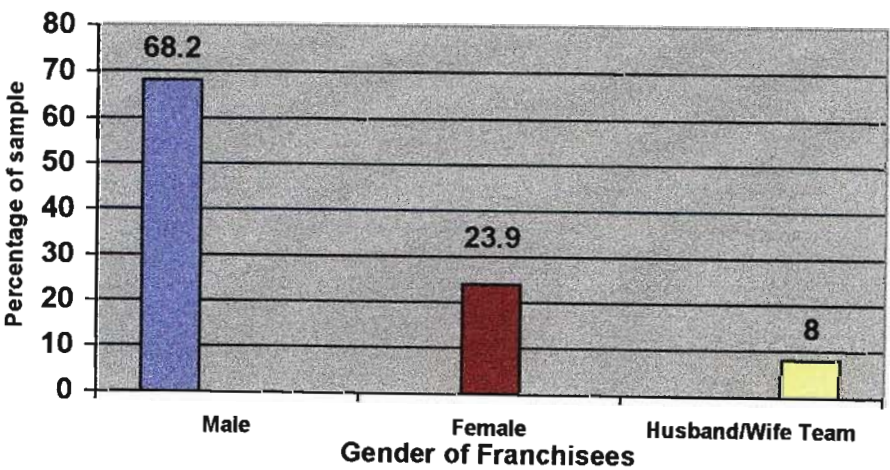
franchisees in the current South African franchise industry. It is alarming to note that although black people represent the majority of South Africans, they form such a small minority in the franchise industry. There is therefore a significant implication as far as economic empowerment is concerned. Black people, in the current state of affairs, are not participating in South Africa's franchise industry. It is therefore limpud that franchising is at present not economically empowering black people.

The gender of franchisees is discussed in the next section

5.4.3 The Representation of Franchisee Gender

The next category represented in the analysis of the demographic profile of the franchisee population is that of gender. This statistic is derived only from the franchisee group, and therefore represents the gender of franchisees in the Durban area. This section refers to question five of the franchisee questionnaire. Figure 5.5 illustrates the results.

Figure 5.5 Representation of Franchisee Gender



Source: Research Data

Male franchisees, as is apparent from the statistics contained in figure 5.5, represent the largest group of the sample, at 68.2 percent. Female franchisees represent 23.9 percent. Seven franchisees verified that ownership of their franchises is vested in a husband and wife team. They represent 8.0 percent of the sample.

The demographic category of age follows.

5.4.4 The Representation of Franchisee Age

The last demographic statistic relevant to the study is age. Again, the only group that provided this information was the franchisee group. They therefore represent the age of franchisees in Durban. This section provides an analysis of the responses to question six of the franchisee questionnaire. The results are presented in figure 5.6.

Figure 5.6 Representation of Franchisee Age



Source: Research Data

As Figure 5.6 portrays, franchisees aged between 36 and 75 years clearly dominate the sample at 67.0 percent, while 26 to 35 year old franchisees are the next highest representation of the sample at 30.7. The 18 to 25 year category is represented by only 1.1 percent of the franchisees. None of the franchisees in the sample indicated that they were over the age of 75. It may therefore be assumed that the majority of franchisees in the sample represent a relatively older working class.

5.4.5 Conclusion

It is clear from the demographic statistics of this study that the majority of franchisees, who own franchise outlets in the greater Durban area are white males, aged between 36 and 75 years. The current demographic profile of the franchise industry in Durban therefore indicates that the white minority group dominates the franchise industry. The literature review as well as the results reflected by the franchisor group also indicate that white franchisees are by a large margin, the most representative racial group in the franchising industry in South Africa. This profile, therefore, is a clear indicator that previously disadvantaged people are not participating in the franchise industry. The inference drawn from this is apparent: at present the franchise industry is not economically empowering the majority of South Africans.

5.5 EXPERIENCES AND PREREQUISITES FOR BECOMING A FRANCHISEE

5.5.1 Introduction

This theme attempts to explore the motivation and underlying reasons of franchisees becoming involved in the franchise industry. This theme consists of three sections. The first two concern franchisees and relate to the reasons giving rise to their initial involvement in franchising, the steps they took to be elected as a franchisee, and their opinions regarding the whole process of being accepted into the franchise industry. The third section involves the franchisor group and concerns the favoured personality traits, qualifications and backgrounds that franchisors expect of franchisees. The perspectives of both the franchisee and franchisor groups will be juxtaposed *vis a vis* each other in an attempt to determine whether the perspectives correlate or not.

5.5.2 Franchising as a Livelihood for Franchisees

This section analyses the responses to questions seven and eight of the franchisee questionnaire. The purpose of these particular questions is to determine why franchisees have become involved in franchising. Question seven determines whether or not franchisees were employed before they became franchisees. The aim of question eight is to ascertain the reason or reasons why franchisees chose this industry to earn their livelihood. The results are as follows.

The results of question seven indicate that 84.1 percent (74 of the respondents) were employed before they became involved in franchising while 15.9 percent (14 of the respondents) were not employed initially.

The responses to question eight yield a variation of reasons regarding the franchisees' entry into franchising. The highest response rate for this question is represented by 55.7 percent of the respondents who replied that they responded to a franchise opportunity presented to them. The second highest response rate for this question, represented by 14.8 percent of the sample, indicated that they always desired to own a franchise outlet. This statistic may be read in conjunction with three other responses (3.4 percent of the sample). These replies indicate that respondents wished to own their own business and therefore work for themselves. Of the sample, 9.1 percent cited their reason for involvement was because their previous employment failed to provide the degree of fulfilment and job satisfaction they sought. One respondent expanded on this point by adding that he made use of his severance package, paid to him by his last employer, which enabled him to finance his franchise outlet. Eight percent of the sample indicated that they were previously unemployed, while 2.3 percent had been retrenched from previous employment. Some of the individual respondents provided further reasons for their involvement. For instance, one respondent (1.1 percent of the sample) indicated that affirmative action had diminished career prospects and growth in a previous job and as a result of which he became involved in franchising as an alternative means to earn a living. Another respondent indicated that franchising provides diversity. It is thought that this reply wished to convey that it permitted the respondent an escape from the narrower confines of fixed employment thereby granting a larger scope of involvement in business he would not otherwise have enjoyed. Yet another respondent indicated that he applied his retirement package from his previous employment to finance his franchise outlet. One franchisee, although responding to the other questions, chose not to reply to the question discussed at all.

It has been stated that the majority of franchisees became involved in franchising because they reacted to a franchise opportunity. From the results to this portion of the questionnaire, it is apparent that the greater percentage of the respondents were previously employed. Broadly speaking, virtually the only assumption that

may be drawn from these statistics is that the franchisees forming the subject of this section of the study desired a change from their previous circumstances. They, however, possessed the financial resources necessary to pursue a career in the franchising industry of their choice and then only to the extent their financial resources permitted. Only a few of the relevant respondents indicated individual reasons for their answers.

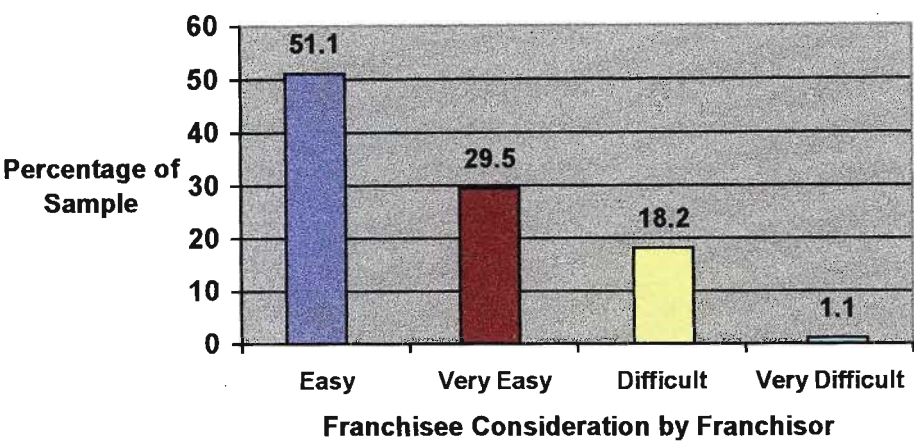
The next section examines the first steps required of entrepreneurs to become franchisees.

5.5.3 First Steps to Becoming a Franchisee

This section deals with the replies to questions nine and ten of the franchisee questionnaire. The intention of this section is to determine and dissect the various attitudes experienced by franchisees when they first approached the franchisor who eventually granted the franchise. Question nine required franchisees to disclose the stringency of the test and the degree of difficulty each faced at the time such franchisees were considered as prospective franchisees by franchisors. Question ten elicits further elaboration to question nine by way of enquiries relating to qualifications, finance, experience as well as any further information that may be regarded as relevant. The following results are recorded.

Figure 5.7 illustrates the responses to question nine.

Figure 5. 7 Franchisee Consideration by Franchisors



Source: Research Data

Of the franchisees, 51.1 percent found it easy to be considered for selection by the franchisor they approached, as is reflected in figure 5.7. A percentage of 29.5 found the selection process very easy, while 18.2 percent of the sample found the experience difficult. One respondent (1.1 percent of the sample) found their approval as a franchisee by the franchisor very difficult. The reasons for these results are provided by the responses to question ten of the questionnaire.

The responses to question ten reflect positive as well as negative aspects of the franchisees' experiences in the consideration process. The positive aspects are examined first.

Table 5.3 Franchisees' Positive Experiences of Franchisor Consideration

Reasons why Consideration by Franchisor was Easy or Very Easy	Percentage of Respondents
Franchisees had the necessary finance	12.5
Franchisee was managing a branch and was then offered the opportunity to buy into the franchise system by the franchisor	10.2
Franchisees had the necessary finance and experience	9.1
Franchisor wanted to expand, therefore was not particularly selective	8.0
Franchisees had the necessary finance and qualifications	6.8
Franchisee had the necessary experience	6.8
Franchisee knew the franchisor	5.7
The business was closed by the corporate owners, stock and assets were bought by the franchisee	2.3
Franchisee took over an already established franchise outlet from a previous owner	2.3
Franchisee had the necessary qualifications	2.3
Franchisee had the necessary finance, qualifications and experience	2.3
Franchisee had the necessary qualifications and finance as well as a good location	1.1
Respondents did not answer the question	10.1
Total of positive responses to the question	69.4

Source: Research Data

There are numerous reasons why franchisees found the initial selection process with the franchisor they approached favourable. These responses are classified and noted in table 5.3. The most common reason for easy selection cited by franchisees is ascribed to the fact that they had the necessary finance available. One respondent commented that the franchisor he approached was only interested

in the franchisee's ability to pay the initial fees, without the necessity to meet any other selection requirements. Another interesting aspect relating to selection raised by the respondents is that of their franchisors' need and desire to expand, without being particularly selective about the qualities of a prospective franchisee. This point is supported by 8.0 percent of the sample. A respondent elaborated on this point by suggesting that franchisors looking to expand without applying certain criteria to franchisee selection are making the allocation of franchise rights too easy. This in effect leads to the conclusion that some franchisors select franchisees without applying any standards of merit, save for payment of the franchise rights or prescribed portion thereof. The potential of franchisee failure is therefore ignored. A very small percentage, namely 2.3 percent of the sample indicated that they possessed the necessary finance, qualifications and experience at the time they applied for the franchise. Only the professional franchises, such as those falling under the categories of education and optometry, (and very obviously as a result of the nature of the franchise under consideration) insisted on an applicant possessing the qualifications of the profession concerned as a necessary prerequisite for selection.

The next section examines the reasons why franchisees found it difficult or very difficult to be considered as a franchisee by the franchisor. Table 5.4 indicates the results of these responses.

**Table 5. 4 Franchisees' Negative Experiences of Franchisor
Consideration**

Reasons why Consideration by Franchisor was Difficult or Very Difficult	Percentage of Responses
Franchisee did not have necessary experience	5.7
Franchisee did not have the necessary finance or experience	4.5
As a new franchisee, difficult to enter franchise system	3.4
Franchisee did not have the necessary finance	2.3
Franchisee did not have the necessary qualifications	1.1
Franchisee had to provide a good detailed business plan, and had to undergo strict training at the head office before selection	1.1
In pre-democratic South African, preference was given to white franchisees and because franchisee was black, he had initial problems	1.1
Franchisee had to be prepared to relocate to another province	1.1
Respondents did not answer the question	10.1
Total of negative responses to the question	20.3

Source: Research Data

Table 5.4 indicates that 5.7 percent of the franchisees who found it difficult to be considered as a franchisee by the franchisor, lacked the necessary experience, while 4.5 percent of the franchisees had neither the necessary finance nor experience required to establish their outlets. One respondent indicated that when he applied for franchise rights during pre-democratic South African rule, preference was given to white franchisees. He therefore encountered prejudice on the part of his franchisor because of his "non white" classification.

5.5.4 The Personality Traits, Qualifications and Backgrounds of Prospective Franchisees as Favoured by Franchisors

This section studies the results of the responses to questions eleven, twelve and thirteen of the franchisor questionnaire. Question eleven is designed to extract and evaluate the favoured personality traits that franchisors consider when selecting a suitable franchisee. Question twelve seeks an answer from franchisees in respect of the necessary qualifications that franchisees are required to have, while question thirteen examines the nature of the background and history of applicants that franchisors regard relevant when selecting a franchisee. The results are as follows.

The responses to question nine revealed that all the franchisors who participated required a number of distinctive personality and character traits of the prospective franchisees. Of the personality traits listed in the questionnaire, 28.6 percent required that prospective franchisees be ambitious, hardworking and problem solvers as well as adherence to the franchise principles. The second highest response rate to this question is represented by 12.5 percent of the franchisors that desired all the personality traits listed except the requirement relating to problem solution. A percentage of 8.9 percent of the franchisors required only ambition on the part of prospective franchisees while another 8.9 percent required franchisees to be hardworking and conduct their outlets in conformity with their franchise principles. Other smaller percentages, accounting for 12.6 percent of the sample, are represented by franchisors who alternate between all the options listed in the questionnaire. Of the traits not listed in the questionnaire, other traits were deemed necessary or desirable by franchisors. The following results came to light: the attributes that a candidate also be a good marketer was required by 3.6 percent; the same percentage required franchisees to be team players and good communicators; the same percentage again required an enterprising attitude; a further 3.6 percent required applicants honest; and 1.8 percent required prospective franchisees to be self-motivated and practical.

The responses to question twelve show that 44.6 percent of the respondents required no qualifications of prospective franchisees. This percentage is represented mainly by the fast food, restaurant/pub, retail and entertainment industries. Of the respondents, 23.2 percent thought a Standard Ten or Grade 12 certificate to constitute an adequate standard of education, while 23.2 percent required franchisees to have a tertiary qualification. This percentage is represented mainly by the education industry. It is no surprise that this category represents the highest number of franchisors requiring prospective franchisees to have a tertiary qualification. This statistical result is fairly obvious because education represents 16.1 percent of the franchisor sample and 77.7 percent of this group indicated tertiary education to be a prerequisite. Of the franchisors who require that franchisees have their Standard Ten Certificate as well as be computer literate, 3.6 percent represent this group. One respondent (1.8 percent of the sample) was of the opinion that franchisees he appointed only require formal education up to Standard Eight. Another respondent (1.8 percent of the sample) required that franchisees be registered with the Real Estates Board which is obviously a specific professional prerequisite applicable to those franchisees becoming professionally involved in real estate.

The responses to question thirteen, provides particulars relating to franchisee background. A large percentage, namely 48.2 percent of the franchisors considered prospective franchisees' employment history as being the most relevant and important selection criterion. Only 3.6 percent thought franchisees' background to be irrelevant to their selection. The answers further indicate that 8.9 percent of the respondents considered previous knowledge of the industry a prerequisite for selection, 7.1 percent considered previous participation or experience in the industry important, while 5.4 percent considered employment history and previous experience in the industry a prerequisite. Employment history and entrepreneurial skills were considered essentials by 5.4 percent. Yet another 5.4 percent considered the employment history, previous knowledge of the industry and education necessary qualifying factors. Computer literacy, a

possible requirement not listed in the questionnaire, was considered necessary by 1.8 percent.

The overall picture concerning the personality traits and backgrounds of aspiring franchisees indicate that they do exert an influence at the time of selection of franchisees. Most of the franchisors require franchisees to have some suitable personality trait that would be of benefit in the managing of the franchise outlet. Employment history is considered important in terms of background checks on franchisees. Qualifications, on the other hand, do not generally appear to feature as a very important priority. Some franchises, depending on the degree of professionalism involved, do require some or other specific qualifications but these are in the minority compared with the responses by the majority of franchisors.

5.5.4.1 Compliance with Franchisor Goals

This section addresses the results to question sixteen of the franchisor questionnaire. Its aim is to ascertain the extent to which franchisors consider it important, for selection purposes, that aspiring franchisees' goals coincide with those of the franchisors'. The following exposition indicates the results.

This sample shows that 92.9 percent of franchisors considered goal compliance important compared to 3.6 percent who considered this aspect unimportant, while 3.6 percent of the franchisors failed or refused to answer the question.

5.5.5 Conclusion

The results of this theme indicate that the franchisee and franchisor groups are, to a certain degree, *ad idem* regarding the factors to be taken into account when selecting franchisees. The majority of the franchisees indicated that they found it easy to be appointed franchisee rights because the franchisor did not apply onerous conditions in the selection process. The majority of the franchisees indicated that they were not required to have any qualifications and this view was reinforced by the majority of the franchisors who also indicated that qualifications were not a priority for selection as a franchisee. Franchisors did, however, consider the employment history of the franchisees to be important.

The experiences of the franchisees themselves revealed that the majority of them were previously employed. They availed themselves of franchise opportunities when it came their way. Franchisors did find it imperative that franchisees' goals should be compliant with those of the franchisors'.

In terms of economic empowerment, the finding that qualifications are not necessarily considered a prerequisite to selection as a franchisee provides opportunities for previously disadvantaged people to apply for and obtain franchising rights. However, of those franchisees who found it easy to be awarded franchise rights, having the necessary finance available was one of the more common reasons cited for easy selection. This impacts on the previously disadvantaged who do not necessarily have access to funding required to acquire the rights to a franchise outlet.

5.6 THE FINANCIAL ASPECTS OF OWNING A FRANCHISE OUTLET

5.6.1 Introduction

This theme exposes and analyses the financial encounters of the franchisees in terms of the costs involved in the establishment of their franchise outlets. It also questions the source of financial assistance received by franchisees - whether it was obtained from their franchisors and/or the government. Another important subject of discussion is the role that financial institutions play in providing funding to aspirant franchisees. The role of financial institutions is therefore examined as well as the treatment experienced by franchisees who approached financial institutions for funding.

The first section looks into the financial requirements of franchisees considered essential by franchisors.

5.6.2 Financial Requirements of Franchisees

This section investigates and discusses the answers to question fourteen of the franchisor questionnaire. The purpose of this section is to determine the relevance of information required and considered important by franchisors by virtue of the financial arrangement between franchisor and prospective franchisee. The following results flow from this question.

The results indicate that 39.3 percent of the franchisors require disclosure by the prospective franchisee of personal financial records and history, details of bank loans and proof of finance from sources other than banks. The group of franchisors who place more importance on the proof of funding other than from banks amount to 16.1. The third highest response rate for this question is

represented by 10.7 percent of the franchisors who require personal financial records as well as proof of finance other than from banks. The responses further show that 8.9 percent of the respondents require only bank loan details from franchisees while 8.9 percent require personal financial records as well as bank loan details. Five point four percent required insight of applicants' personal financial records. Only 3.6 percent of the respondents indicated that they require no financial details of any sort, while 1.8 percent required bank loan details as well as information regarding finance obtained from sources other than banks. Five point four percent of those franchisors presented with the questionnaire and resorting under this group did not answer the question.

A larger percentage of the franchisors in this survey therefore considered it necessary for prospective franchisees to produce records of their personal financial history, bank loans and funding excluding loans and other forms of funding obtained from banks. The conclusion of this portion of the study presents adverse ramifications for previously disadvantaged people who wish to enter the franchising industry, since it implies that franchisors prefer franchisees to be affiliated to banks. For those franchisees who are not affiliated to any banks, the possibility exists that the granting of franchise rights may be hampered to a certain degree.

The capital required to obtain franchise rights and establish an outlet is discussed next.

5.6.3 The Costs Associated with Owning a Franchise Outlet

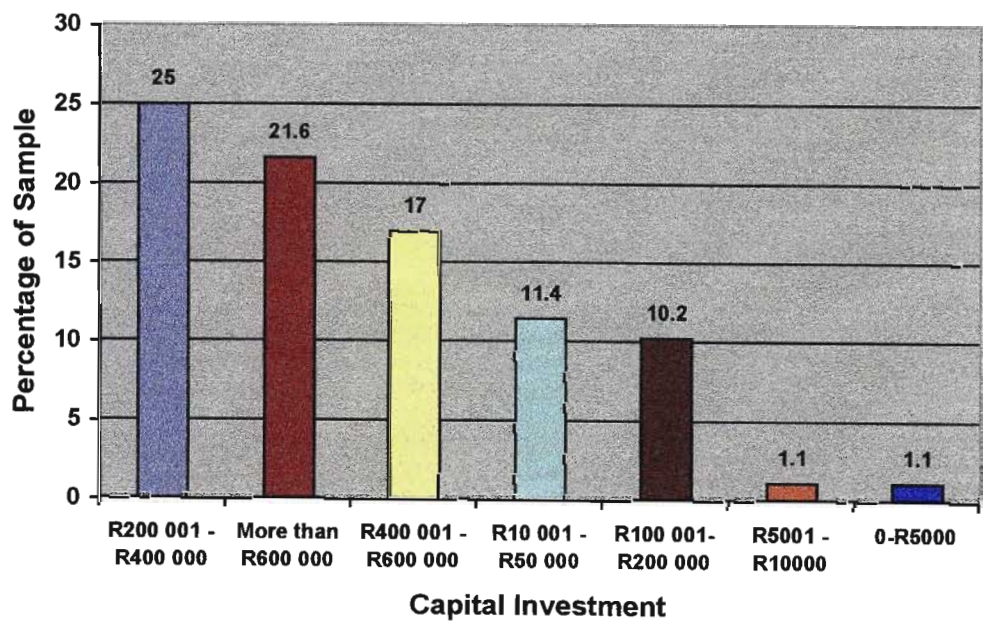
This section inspects and comments on the replies to questions eleven and eighteen of the franchisee questionnaire. Its thrust is to determine the costs in actual terms of purchasing franchise rights and financing a franchise outlet. This section further investigates and analyses the expectations of franchisees of the

costs involved in the acquisition and running of a franchise. The results are dealt with below.

5.6.3.1 Capital Investment Required of Franchisees

Question eleven asks franchisees the amount in actual terms they were obliged to produce in order to finance the franchise outlet they started. Figure 5.8 illustrates the various categories of finance required from the franchisees, compiled from the replies to the question.

Figure 5. 8 Capital Investment by Franchisees



Source: Research Data

Figure 5.8 reflects that 25.0 percent of the franchisees required a capital investment ranging from R200 001 to R400 000. Twenty one point six percent of the sample were in need of a capital investment in excess of R600 000. This

group represents the next highest representation. Figure 5.8 also indicates that only two respondents required a capital investment of less than R10 000 to establish their franchise. These statistics are clearly indicative that the acquisition of franchising rights and the commencement of a franchise outlet, is capital intensive and requires a substantial investment in monetary terms.

An analysis of the classification of industries involved in franchising in relation to capital investment provides interesting reading. The purpose of such analysis is to determine the amount of capital investment prescribed on average by the various franchise industries and furthermore to gauge which classification dominates a particular capital investment category. Table 5.5 records the results of this analysis. N = the number of franchisees who responded to the particular capital investment category.

Table 5.5 The Relationship between Capital Investment and Industry Type

Capital Investment Category	N	Dominant Industry/ies
0 - R5000	1	Education
R5001 - R10 000	1	Education
R10 001 - R50 000	10	Real Estate
R50 001 - R100 000	11	Education & Services
R100 001 - R200 000	9	Services
R200 001 - R400 000	22	Fast Food
R400 001 - R600 000	15	Fast Food & Restaurant/Pub
More than R600 000	19	Restaurant/Pub
Total	88	

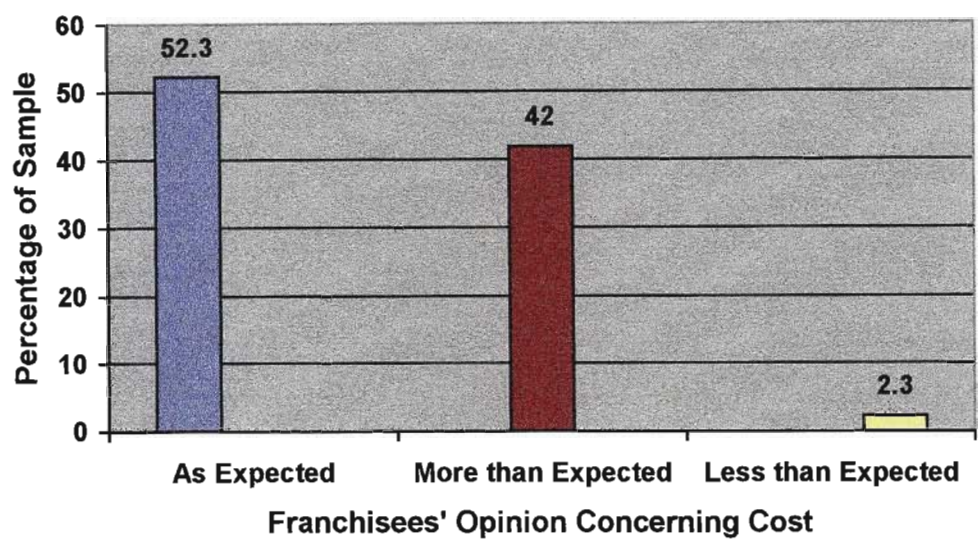
Source: Research Data

The bar chart portrayed in figure 5.8 plots the percentage of industries falling within certain demarcated parameters of capital investment required, while table 5.5 indicates the dominant franchise in each of the particular capital investment categories. The 0-R5000 and R5001 - R10 000 categories are both represented by franchise outlets that resort under the category of education. The R50 001 - R100 000 category is dominated equally by the education and service industry franchises. The majority of the franchisees indicated a capital investment requirement of between R200 001 and R400 001 to commence a franchise outlet. The fast food industry dominates this group. The next highest number of responses by franchisees places them in the highest capital investment category, requiring an investment in excess of R600 000. This category is dominated by the restaurant/pub industry. It can, therefore, be safely assumed that the most expensive franchise industry, undertaken in the study of the greater Durban area, is the restaurant/pub industry. Table 5.5 also indicates that food-related franchises dominate the higher capital investment categories, making their acquisition the most expensive. The education industry dominates the lower capital investment categories. This study, therefore, shows them to be the cheapest franchised industry.

5.6.3.2 Franchisees' Opinion Concerning the Costs of their Franchise Outlets

Question eighteen of the franchisee questionnaire enquired of franchisees to advise the extent to which their expectations relating to the costs entailed in the establishment of their franchise, had been met. Figure 5.9 graphically displays the results of the findings.

Figure 5. 9 Franchisees' Opinions Concerning Costs of Franchise Outlets



Source: Research Data

Figure 5.9 indicates that 52.3 percent of the respondents are of the opinion that the costs paid in respect of the acquisition and establishment of their franchise outlets met with their expectations. A relatively large number of the respondents, namely 42 percent, indicated that they found the costs exceeded their expectations. Only 2.3 percent of the respondents indicated that the costs were less than the amount they had anticipated. Of the sample, 3.4 percent did not answer the question.

The next section examines the extent to which franchisors provide franchisees with financial advice and financial support services.

5.6.4 Franchisor Assistance in Financial Matters

This section probes the reactions to question fifteen of the franchisor questionnaire. Its purpose is to ascertain to what extent franchisors provide financial assistance and/or support franchisees to procure finances. The following results are noted.

This sample of franchisors declares that 58.9 percent of them assisted franchisees when they approached financial institutions for loans. This implies assistance by franchisors in the compilation of business plans, namely the drafting of budgets and cash flow projections. A further 19.6 percent of the franchisors assisted franchisees by providing individual payment plans and supported them when they applied to financial institutions for the required finances. A smaller percentage of franchisors, namely 16.1 percent, provided no assistance at all in matters of finance. The remaining 5.4 percent of the franchisors provided financial assistance in the form of individual payment plans for the benefit of franchisees.

Question sixteen of the franchisee questionnaire extracted information from franchisees in order to establish whether or not they received financial assistance or concessions from the franchisor. Only 9.1 percent of the sample indicated that they had indeed received financial assistance from the franchisor. The remaining 88.6 percent received no such assistance.

The affirmative responses of franchisees to question seventeen is considered next. These responses also provide leads to determine the kind of assistance received. Five respondents said that their franchisor reduced the royalty payments for the first year. The price of the franchise was successfully negotiated with the franchisor by two respondents. One respondent indicated that his office space and basic running costs were borne by the franchisor.

Only a small minority of franchis**ors** provide financial assistance to franchise**es**. This is supported by the franchise**es**' responses by reason of the fact that 9.1 percent of the franchise**es** in the sample received financial assistance from the franchis**or**. While the findings of both groups are consistent, it nevertheless carries negative implications for economic empowerment of previously disadvantaged people who wish to purchase franchising rights. It is assumed that funding will remain a stumbling block for the previously disadvantaged, and franchis**ors** would thus be encouraged to expand on opportunities offered to potential franchise**es** that would assist them in the acquisition and management of their own franchise outlets.

5.6.5 Financial Assistance from the Government

Question fourteen of the franchisee questionnaire requires of franchisees to indicate whether or not they received financial assistance from the government. Only 2 respondents indicated that they had received or were in the process of receiving funding from the government. The balance, accounting for 96.6 percent of the sample did not receive financial assistance from the government.

Question fifteen of the franchisee questionnaire applies specifically to the respondents who received funding from the government and asks them to elaborate on their answers. One respondent indicated that he obtained finance with assistance from a government scheme called the Khula Guarantee. This scheme provides the franchisee with a guarantor that underwrites a loan if he or she borrows from a financial institution. Another respondent indicated that he was in the process of receiving a financial subsidy through a scheme organised by the Department of Trade and Industry. It is known as the Small Business Production Incentive Scheme. This scheme is aimed primarily at the manufacturing sector in order to encourage small business growth in that particular category.

There seems to be a positive attitude displayed by the government by the development of new financial assistance schemes. It is evident that the government is becoming increasingly aware of its social and economic obligation to encourage entrepreneurs to succeed. While it is still very much in its infancy at this stage, and with the added dilemma of severe budgetary constraints, it is nevertheless an encouraging sign that the government is recognising the importance of entrepreneurial development. This can only be fully realised by the continuation of its efforts to explore ways and means to provide adequate funding in order to satisfy the financial requirements of those who wish to enter the business world as fully-fledged franchise holders.

5.6.6 Financial Assistance from Financial Institutions

5.6.6.1 Introduction

The importance attached to the financing of individual franchise outlets is inspected in this section of the study. By reason of the very necessary requirement of capital to establish any business, it is assumed that most franchisees will at some time require aid from a financial institution to fund the business. Since most franchisees do not have access to private funding, their only alternative is to turn to financial institutions. The role of financial institutions is therefore an essential one in the development of the franchise industry.

In this section, various issues will be examined. These include the approximate number of franchisees in the sample who approached financial institutions for funding, the racial representation of such franchisees, the requirements in terms of selection as well as the relevance of a reputable franchisor. A comparison is made between financial assistance given to franchisees as opposed to non-franchised small business owners. Lastly, the opinions of franchisees, in terms of their experiences in dealing with the financial institutions, are discussed. This

serves to draw parallels between services advertised by financial institutions and the actual experiences of franchisees.

5.6.6.2 Franchisees as a Proportion of Entrepreneurs

This section directs itself at a scrutiny of the responses to question one of the financial institutions' questionnaire. This question required such respondents to indicate the percentage of entrepreneurs who approach them for financial assistance that may be identified as aspiring franchisees. The following table 5.6 indicates the results.

Table 5. 6 Franchisees as a Proportion of Entrepreneurs

Percentage Bracket	Number of banks that responded
0% to 20%	1
21% to 40%	1
41% to 60%	3
61% to 80%	1
81% to 100%	0
Total	6

Source: Research Data

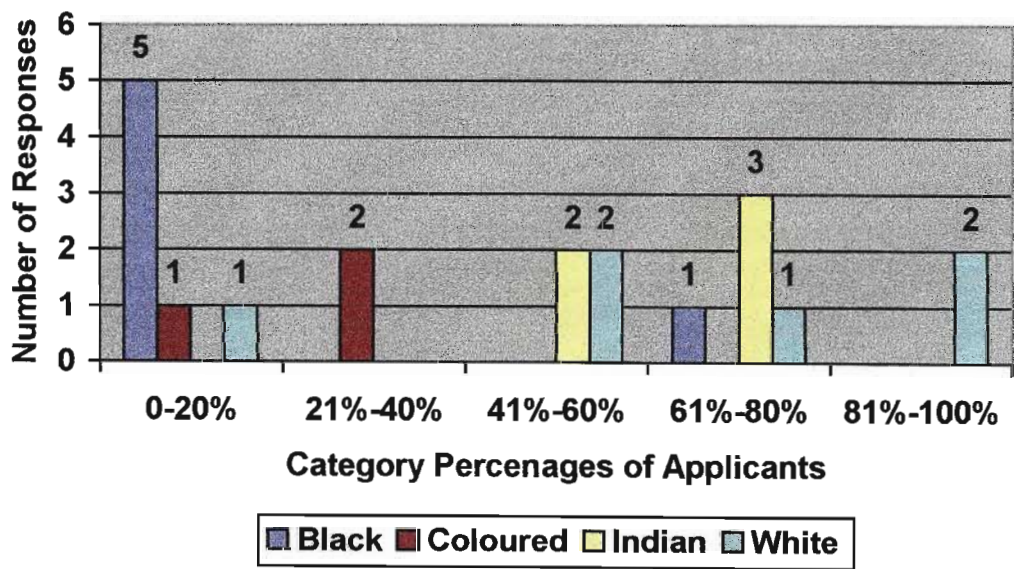
Table 5.6 indicates that a larger number of the respondents, namely three banks, disclosed that 41 to 60 percent of the entrepreneurs who approach them for funding are aspiring franchisees. One bank indicated that aspirant franchisees are grouped in a larger percentage of between 61 and 80 percent while another indicated them to fall within a lower category - between 0 to 20 percent. According to the relevant information advanced by the majority of the banks,

aspiring franchisees therefore make up roughly half the amount of entrepreneurs who approach them for financial assistance.

5.6.6.3 Racial Representation of Franchisees Requiring Funding

The intention of this section is to determine the racial representation of aspiring franchisees who approach financial institutions. The following figure indicates the outcome of the responses.

Figure 5. 10 Race Group Representation of Franchisees Requiring Funding from Financial Institutions



Source: Research Data

Figure 5.10 sketches the perception of the financial institutions that responded to the questionnaire. It shows the approximate percentage categories of aspiring franchisees of the various race groups in South Africa against the number of financial institutions approached by each individual race group for financial assistance. All the respondents indicated the distribution of black and white franchisees in the different percentage categories. Only half of the respondents indicated the extent to which the coloured franchisees are distributed while five of the respondents indicated the distribution of indian franchisees. In the category 0 to 20 percent black franchisees applied to five out of the six financial institutions represented in this particular sample. According to the results recorded in table 5.10 this is the greatest representation of all the race groups. The next highest representation appears in the 61 to 80 percent category which applies to applications by indian franchisees. They sought financial assistance from three out of the six institutions. Two of the financial institutions that reacted to the questionnaire indicated that white franchisee applicants dominate the 81 to 100 percent category.

Figure 5.10 leads one to the conclusion that, although contained in different percentage groupings, a larger percentage of white and indian prospective franchisees have approached financial institutions for funding than coloured and black prospective franchisees. However, the results recorded in the table do not draw a clear distinction between the estimated percentages of white and indian prospective franchisees. This leads to an implication that these two groups are relatively closely represented. An interesting perception is that of the representation of the black prospective franchisees. Their estimated representation is shown as a distinct minority. This in turn correlates with other results of this research where it was found that black franchisees are very narrowly represented in the franchise industry, as depicted in paragraph 3.4.2. These results also therefore signify that very few black prospective franchisees are approaching financial institutions for funding. The results in general indicate that very few aspiring black franchisees apply for financial assistance from the recognised

financial institutions. The following sections possibly identify the reasons for this phenomenon.

5.6.6.4 Requirements of Aspiring Franchisees on Applying for Funding

The academic qualifications and other information prescribed by financial institutions, considered essential for approval of funding applied for by franchisees, is the concern of this section. This section examines and analyses the replies to questions five and seven of the questionnaire.

Question five asks the respondents to indicate the academic qualifications of franchisees in order to justify their consideration as lenders. The following was found.

Table 5. 7 Requirements of Aspiring Franchisees on Applying for Funding from Financial Institutions

Academic Qualification/s	Response Rate
Grade 8 (Standard 6)	1
Grade 12 (Standard 10) with business experience and other business-orientated qualifications	1
No academic qualifications necessary, however, business knowledge and experience is essential	2
None required as franchisor support is adequate	1
None	1
Total	6

Source: Research Data

Table 5.7 indicates that all the financial institutions apply divergent criteria in respect of academic qualifications required of aspiring franchisees. However, two of the respondents indicated that while no academic qualifications are necessary, business knowledge and experience are considered essentials for the approval of funding considered for them. Only one financial institution indicated that relatively high prerequisites, namely Grade 12 as well as tertiary qualifications, are considered necessary. Formal academic qualifications are, however, not considered a priority by all the financial institutions. To some extent experience and knowledge of the field pursued is considered more important. These findings correspond with most of the franchisors' responses, as more comprehensively traversed in paragraph 5.5.4.2. Most franchisors also do not expect franchisees to possess formal qualifications.

Question seven researches the prerequisites of financial institutions applicable to applicant franchisees in respect of formal documentation. The following emerged. All respondents indicated that a franchisee's financial history, a business plan and an acceptable franchisor were considered essential. In addition to these points, one respondent indicated that the franchisee's personal information is an additional requirement. Another respondent required cash flow projections. A further respondent requested disclosure of the relevant franchise agreement. The last respondent indicated, in addition to the possible requirements mentioned in the questionnaire, location, experience, viability, security/collateral and the franchisee's own contributions are important factors when the approval of funding is considered.

5.6.6.5 The Advantage of a Reputable Franchisor

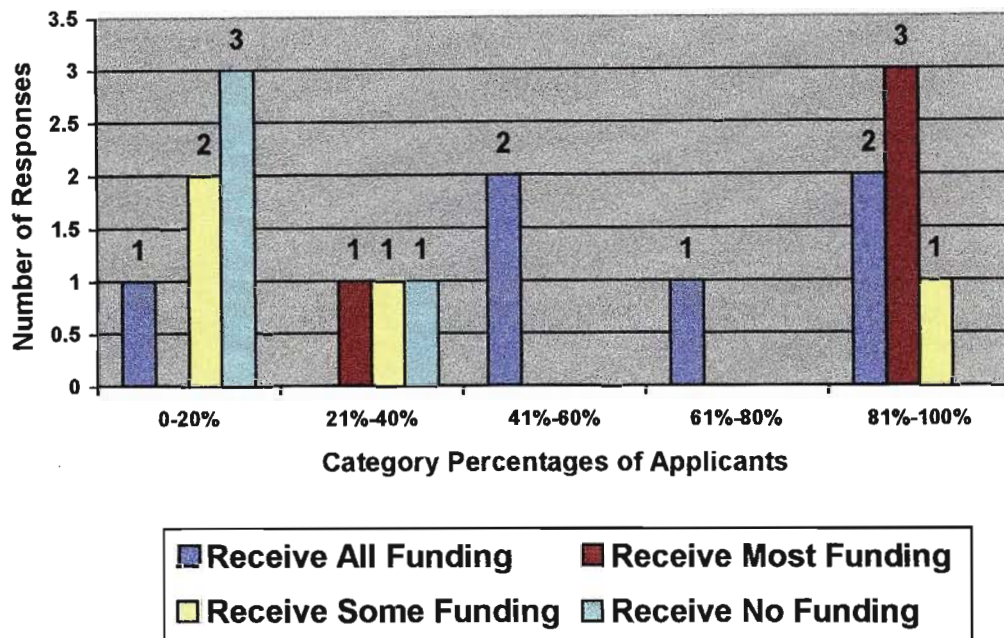
This section navigates the answers to question three of the financial institution questionnaire. It asks whether or not it is considered an advantage for an applicant to be supported by a reputable franchisor. All the respondents considered it to be an advantage in favour of a prospective franchisee.

5.6.6.6 Financial Assistance Given to Prospective Franchisees

This section attempts to gauge the extent to which funding is provided to small business owners, and to differentiate whether they are franchise outlet owners or non-franchised small business owners. This entails a study of the responses to questions four and six.

Question four examines the percentage of prospective franchisees that receive funding. It contains sub-questions wherein the respondents are asked in sequence to indicate how many prospective franchisees receive all they require, most of that which they require, a portion of their requirements and lastly, none at all. The following responses were noted.

Figure 5. 11 Funding Provided to Franchisees by Financial Institutions

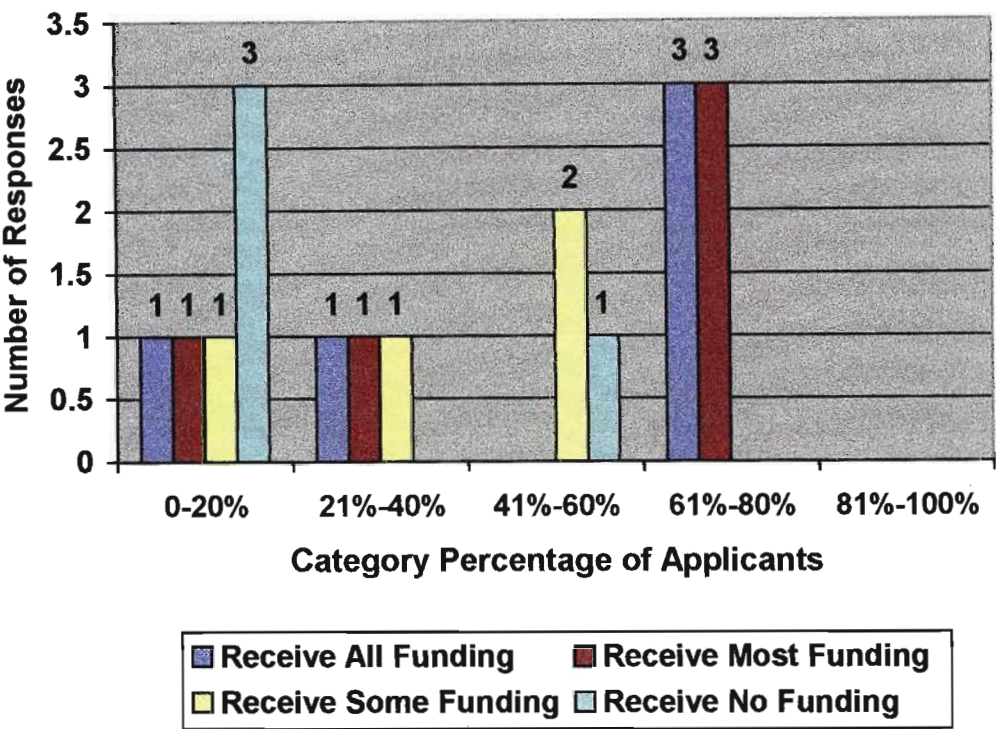


Source: Research Data

Figure 5.11 indicates that 50 percent of the sample, that is three financial institutions, estimate that 81 to 100 percent of the aspiring franchisees receive most of the funding they require. Of the sample, 33.3 percent indicated that 81 to 100 percent of the aspiring franchisees receive all they require. In the category 0 and 20 percent, none of the aspiring franchisees receive what they require. This is indicated by 50 percent of the responses.

The purpose of question six was to determine whether there is a difference between the funding received by aspiring franchisees as opposed to funding received by non-franchised small business applicants starting their own businesses. The following was found.

**Figure 5. 12 Funding Provided to Non-Franchised Small Business Owners
by Financial Institutions**



Source: Research Data

Figure 5.12 indicates that, otherwise than in the case of aspiring franchisees, 50 percent of the financial institutions indicated that a smaller percentage, namely 61 to 80 percent of small business applicants receive all the funding they require. Another 50 percent of the financial institutions indicated that 61 to 80 percent of small business applicants receive most of what they require. The same percentage of financial institutions indicated that between 0 to 20 percent of both small business applicants and aspiring franchisees receive none of the funding they require.

The findings illustrated in figures 5.11 and 5.12 indicate that financial institutions estimate that more franchisees receive all and most of the funding they require compared to non-franchised business owners. These findings suggest that financial institutions have more confidence in the funding applications presented by franchisees than the non-franchised business owners since a larger number of franchisees are awarded finance.

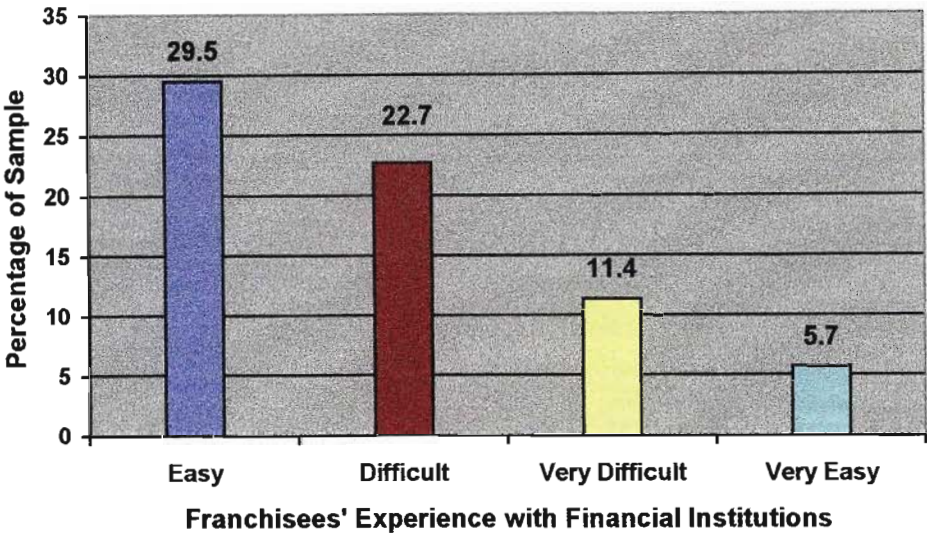
The next section examines the experiences of the franchisees, who participated in the study, when they approached financial institutions for funding.

5.6.6.7 Franchisees' Experience of Funding by Financial Institutions

Question twelve asks franchisees to indicate whether they received loans from lending institutions. The results indicate that 69.3 percent of the franchisees received loans compared to 29.5 percent who did not require loans. This suggests that a larger percentage of franchisees who establish franchise outlets need outside financial assistance from financial institutions, such as banks. One respondent did not answer the question.

Questions thirteen (a) and (b) were aimed at those franchisees who did receive financial assistance from banks in the form of loans. It attempts to gauge the degree of difficulty involved to obtain funding from financial institutions. Question thirteen (b) asked interviewees to elaborate further on this issue. Figure 5.13 illustrates the results.

Figure 5. 13 Franchisees' Experience of Funding from Financial Institutions



Source: Research Data

Figure 5.13 indicates that, of the 69.3 percent of the franchisees who did receive loans, 29.5 percent found their experience in dealing with the financial institutions easy and therefore favourable. The second highest representation of those who received loans, 22.7 percent, found the same exercise difficult. Figure 5.13 also indicates that more respondents found the experience very difficult than those who found it very easy.

Question thirteen (b) asked the interviewees to provide a broader perspective. Five respondents indicated that their previous dealings with their respective banks had been favourable. One respondent indicated that once his track record was established, it paved the way for him to approach his bank for additional financing. Another respondent indicated that a partner was introduced into the business, who then provided the necessary security. Some of the reasons why

some franchisees found the experience of approaching the financial institutions more difficult, are mentioned by four respondents who indicated that they lacked security required by their banks. Three respondents indicated that they had no previous credit references, and this hampered their efforts to obtain finance. Another three respondents indicated that the banks they approached considered small business too high a risk.

5.6.6.8 Conclusion

To sum up, the responses gained from the financial institutions group, reflected the following. Roughly half the entrepreneurs who approach financial institutions are franchisees, most of them white aspiring franchisees. The financial institutions prefer franchisees to be backed by reputable franchisors.

With regard to the allocation of funding to aspiring franchisees, two financial institutions indicated that between 80 and 100 percent of the aspiring franchisees receive all the funding they require. Three financial institutions indicated that between 80 and 100 percent of aspiring franchisees receive most of the finances they require. In comparison, three financial institutions indicated that between 60 and 80 percent of non-franchised small business applicants receive all they require. Three different financial institutions indicated that between 60 and 80 percent of small business applicants that approach then for finances, receive most of the funding they apply for. There is, therefore, an inference that franchisees stand a better chance of obtaining more funding than their non-franchised small business applicant counterparts.

Dealing with formal education and qualifications, the majority of the respondents did not regard these to be priorities when they contemplated the suitability of a candidate franchisee. Their franchisors concurred with this view. However, some of the respondents indicated that previous business experience was a rather

important variable of the selection criteria applied. The majority of the financial institutions also indicated that it is essential that aspiring franchisees produce their financial history and a sound business plan. It is transparent that financial backing by an acceptable franchisor is seen as a plus factor by financial institutions.

5.6.7 Conclusion

This section examined the financial aspects involved in the ownership of individual franchise outlets. Various interesting indicators have come to the fore and will be summarised.

The cost of establishing an individual franchise outlet is considerable. The majority of franchisees, resorting mostly under the food industry, indicated that they had invested between R200 000 and R400 000, and over some R600 000. Even though the majority of the franchisees indicated that the costs of the establishment of an outlet met with their expectations, such costs were nevertheless substantial. These discovered facts justify an opinion that prospective franchisees, depending on the industry they wish to participate in and escalating from the lesser to the most lucrative franchises, will ultimately require considerable funding.

At the time the costs involved in establishing an individual franchise outlet was researched, it followed as a natural consequence to examine the extent to which franchisees received outside assistance to finance their business endeavours. It was found that only a few franchisees received assistance from the franchisor in the form of incentives, such as reduced royalty payments. Even fewer franchisees received or are in the process of receiving financial assistance from the government. The only source of real financial assistance, were the financial institutions. Approximately half of the franchisees found the process of acquiring

funds through financial institutions an easy one. Therefore, according to the current state of affairs, the financial institutions maintain their dominance by providing the only accessible means to funding for the majority of franchisees. This impacts heavily on prospective franchisees from disadvantaged backgrounds because financial institutions require certain criteria, beyond the means of most of the persons falling in the mentioned category.

There is, therefore, huge scope for franchisors and the government to develop schemes and plans by which prospective franchisees may be encouraged to participate in franchising through the provision of alternative assistance, other than that provided by financial institutions. These types of schemes and plans are already beginning to surface but for franchising to act as a mechanism for economic empowerment, they need to be accelerated so that funding is made available in abundance and in good time.

This thesis continues in the following section to inspect and discuss the training that franchisors offer and the opinions of franchisees of the training they have received.

5.7 TRAINING OF FRANCHISEES

5.7.1 Introduction

In paragraph 3.8.3, the results obtained by means of the literature review showed that franchising provides franchisees with training opportunities they would not have received otherwise. It was argued that franchising facilitates skill development by reason of the fact that franchisors provided the necessary training to enable franchisees to succeed in their businesses. As such, franchising could provide people, from previously disadvantaged backgrounds, opportunities to gain skills they would not previously have obtained from other sources.

To put this argument to the test, it was essential to determine whether the training offered by franchis**ors** and that received by franchise**es** was in fact adequate and fulfilled the ideal of skill development. For that reason, both the franchis**or** and franchise**ee** groups were surveyed. The franchis**or** group was questioned in order to establish whether or not they did in fact provide training and if so, to further investigate the nature of the training franchisees were expected to submit themselves to. In turn, the franchise**ee** group was surveyed to determine whether or not they have in fact received training and what kind of training they were subjected to.

5.7.2 Training Offered by the Franchisor

The replies to questions seventeen, eighteen and nineteen of the franchis**or** questionnaire form the subject of the matter of this section. The reason for the posing of these questions was threefold - to ascertain whether or not training is provided; if responded to in the affirmative, the period of training and finally a description of the training itself. The following results were recorded.

The response rate to question seventeen, which asked of franchis**ors** whether or not they offered training, was 100 percent.

Question eighteen, which required franchisors to state the period of training, 39.3 percent of the sample confirmed that they provided ongoing training, whenever it was required. The second highest representation, namely 23.2 percent, provided a month's training in addition to ongoing training assistance afterwards. The next group, 14.3 percent of the franchisors, provided training for periods varying from two to three months. Training by 10.7 percent of the sample tested, was of one month's duration only, while another 10.7 percent provided tuition for an initial period of two to three months as well as ongoing training support thereafter. The

remaining 1.8 percent of the franchisors extended training for periods of between four and six months.

Question nineteen elicited responses to the areas in which training is given. The areas listed as options in the question, consisted of day to day operations, staff management, bookkeeping, stock control, leadership and management and marketing. The franchisors who confirmed they provided training in all the listed areas, formed 46.4 percent of the relevant sample. The other 53.6 percent of the responses are selectively dispersed between these areas as well as areas that are industry specific. Table 5.8 provides a detailed breakdown of the franchisors' responses.

Table 5.8 Areas of Training Provided by Franchisors

Areas of Training	Percentage of sample
Day to day operations, stock control, bookkeeping, leadership & management, marketing	21.5
Day to day operations, staff management, bookkeeping, leadership & management, marketing	8.9
Day to day operations, business planning, bookkeeping, leadership & management, marketing	3.6
Day to day operations, marketing	3.6
Day to day operations	3.6
Day to day operations, stock control, leadership and management	3.6
Day to day operations, stock control, staff management	1.8
Day to day operations, staff management, leadership & management, teaching	1.8
Product knowledge	1.8
Day to day operations, bookkeeping, stock control	1.8
Day to day operations, bookkeeping, staff management, marketing	1.8
Total	53.6

Source: Research Data

With the wisdom of hindsight, it is thought and suggested that this question could have been refined somewhat. Different franchises have different requirements in terms of their operations and management, making the analysis of the responses somewhat clumsy. The question could have been shortened to reflect only the most salient aspects of the training offered. It is evident that an in depth knowledge of each specific industry would have had an influence at the time the questionnaire was compiled. This argument is however circuitous because further knowledge was only gained as a result of this and was not previously known. For instance, the franchisors could have been asked whether they provided basic operation and management training to franchisees and whether this training is supplemented, at a later stage, by courses and workshops. With knowledge of the information since gathered, it does not seem very necessary to break down the exact functions for which training is provided. While this point is noted, the responses to this question are nevertheless considered important because they collectively form a yardstick to determine the extent to which franchisees are adequately trained so that they are able to effectively manage their outlet.

The opinions of the franchisees concerning the training they received follows in the next section.

5.7.3 The Franchisees' Experience of Training

This section determines the experiences of franchisees in terms of training, obtained from the information gleaned from questions nineteen and twenty of the franchisee questionnaire. Question nineteen asks whether franchisees received training from the franchisor or not. Question twenty asks franchisees who answered in the affirmative, to elaborate on their replies.

Ninety two percent of the respondents indicated that they did/do receive some form of training since their introduction to the franchise industry, while 8.0 percent indicated that they received none whatsoever. Of those respondents who did/do not receive training, 4.5 percent indicated that training was not considered necessary because of their familiarity and association with the business. The remaining respondents were not offered training by their franchis**ors** at all. They considered this to constitute a breach of their franchise contract. The respondents who replied that they did receive training, indicated that only 45.5 percent of them received initial basic training. The respondents who indicated that they were supplied with initial basic training as well as individual, specialised courses, constituted a mere 18.2 percent of this group. Nineteen point three percent of the respondents received initial basic training together with ongoing training if and when required. The remaining 10.2 percent were supplied with initial basic training, and were at the time still attending specialised courses as well as ongoing training if and when required.

It creates concern that two respondents added that that their basic initial training was not sufficient enough to assist them in the running of the franchise outlet/s. The one respondent expanded on this point by complaining that the training had become less and less as the years progressed, thereby negating the purpose of training. Another three respondents added that their training was administered at their expense and not the franchis**ors'**, thereby discouraging consistent attendance and foregoing the benefits of training.

5.7.4 Conclusion

The results of the responses to questions relating to training are multi-faceted. All the franchis**ors** who participated in the survey indicated that they offer training to franchise**es** that is supposedly comprehensive enough for franchise**es** to adequately manage their individual franchise outlets. This is at variance with the

responses obtained from the franchisees. Though the majority of the franchisees replied that they had received training, there was a small percentage who said they had received absolutely no training whatsoever. This small percentage, it is submitted, is sufficient to identify danger signals that may derail prospective franchisees. The results gathered indicate that some franchisors, although they form a small minority, make themselves guilty of misrepresentation and do not provide training specifically included in the franchise package as an incentive to the purchase of the franchise. Training is therefore not always provided. It is significant to note that of those franchisees who did receive training, the majority received only initial basic training with a smaller percentage of respondents indicating that they received more comprehensive training. The indication of lesser training must however not be construed as breach on the part of all franchisors involved because limited training may have been agreed upon at the outset. It speaks for itself that the greater the purchase price paid for a franchise the more the franchisee will insist on proper training in order to protect his or her investment. The comprehensiveness of training is obviously further dependent on the type of industry or profession within which the franchise falls. More knowledge-based franchises would require franchisees to be more extensively trained.

When one considers the impact these findings have on the viability of franchising as a mechanism for economic empowerment, it is apparent that the quality of training depends on the individual franchisors. The results obtained show that most franchisors provide training but on a superficial and basic level only. The franchisors who provide more specialised or comprehensive training are grouped in a small minority. It is therefore questionable whether the training offered by franchisors adequately prepares franchisees to manage their franchise outlets effectively, especially in cases where the franchisee has no formal education or experience. This presents serious implications to people of previously disadvantaged backgrounds because without extensive, in-depth and proper training, their success at managing an outlet could be gravely jeopardised.

In the following theme, the support and assistance franchisors provide and the franchisees' perception thereof is analysed.

5.8 SUPPORT FROM THE FRANCHISOR

5.8.1 Introduction

The literature review, paragraph 3.8.8, found that one of the advantages offered to franchisees when acquiring a franchise, is the assistance and support that franchisors are able to provide their franchisees. With an already established track record as well as business acumen and experience, the franchisor creates somewhat of a safety net and thereby some measure of protection against failure for the franchisee. Any questions or problems concerning the management of the outlet may be relayed to the franchisor. In order to test whether or not this purported benefit is in fact operative, questions relating to the support that franchisors give to franchisees and the nature thereof were included in the surveys.

5.8.2 Support for Franchisees

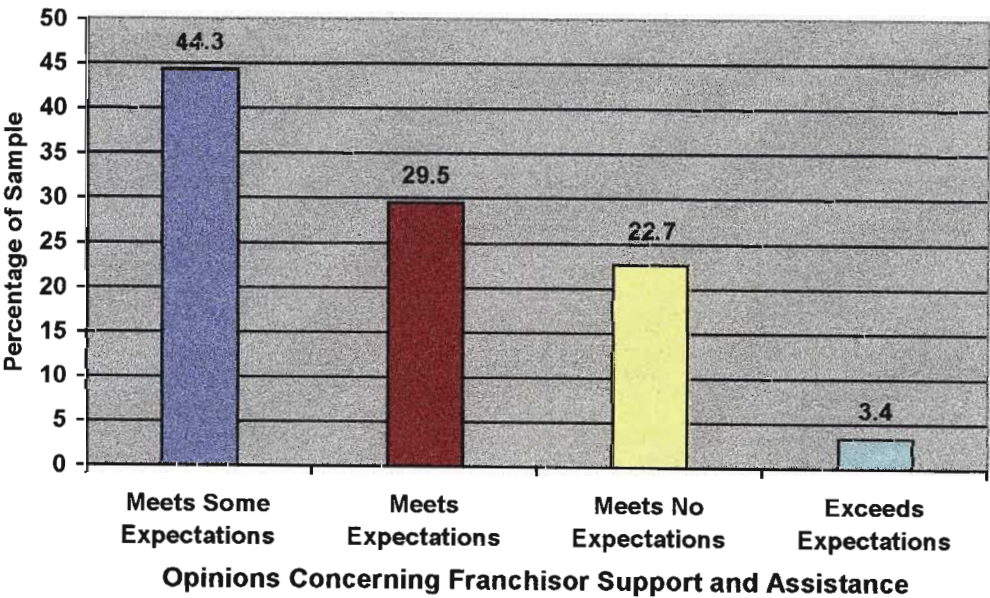
Question twenty of the franchisor questionnaire puts franchisors to the test to learn whether or not they provide ongoing support for franchisees. The responses elicited a 100 percent return in favour of ongoing support.

5.8.3 Assistance and Support Received from Franchisors

The relationship between franchisees and franchisors is brought into focus in this section. It dissects the answers to questions twenty-five and twenty-six (a) and (b) of the franchisee questionnaire.

Question twenty-five seeks to measure the expectations of franchisees and to gauge the level of assistance and support that they have received from their franchisors. Figure 5.14 illustrates the results found in this area of the study.

Figure 5. 14 Franchisee Opinion Regarding Franchisor Support and Assistance



Source: Research Data

Figure 5.14 indicates that 44.3 percent of the franchisees who responded to the question found that franchisor support and assistance met some of their expectations, while 29.5 percent indicated that their expectations were met

altogether. A relatively large percentage, 22.7 percent, replied that franchisor support met none of their expectations. A very small 3.4 percent indicated that franchisor support and assistance had exceeded their expectations.

Question twenty-six (a) asks franchisees to indicate whether they are on good terms, and therefore enjoy a good business relationship with their franchisor. An overwhelming 80.7 percent of the respondents indicated that they were on good terms with their franchisors. A group of 14.8 percent indicated that they were not on good terms with their franchisors, while 4.5 percent indicated that both answers applied since it depended on the issue involved

Question twenty-six (b) attempted to probe the opinion of franchisees, through the interview process, by asking them to elaborate on the positive and negative aspects of the relationship with their franchisors. In so doing, it was hoped that both beneficial and adverse traits of their franchisor would also surface. The following was found. Of those who testified in favour of the positive aspects of the relationship with their respective franchisors, 11.4 percent indicated that they had a good working relationship with their franchisors because they could depend on continued support and assistance which is always at hand. In the group that stressed the negative aspects of the franchisor/franchisee relationship, three respondents indicated that their franchisors provide negligible support and tend to be dictatorial and uncooperative in their dealings with them. Two respondents indicated that none of the obligations imposed by the provisions of the franchise agreement are being honoured by their franchisors. Two other respondents indicated that franchisor ownership was changing and that because of the transfer, tension was emerging between both parties. One respondent indicated that the support and assistance they require from their franchisor was decreasing over time but their obligation to pay royalties remain intact. Two respondents indicated both positive and negative aspects of the franchisor/franchisee relationship. One respondent replied that relations with the owner of the franchise are cordial but considers the inspectors, who evaluate the outlet, dictatorial.

Another respondent indicated that the services and products supplied by the franchise system are acceptable but the accompanying sales backup is poor. The same respondent said support and assistance in respect of marketing and improvement of sales skills is non-existent.

5.8.4 Conclusion

The results measuring the level of support and assistance that franchisors provide and franchisees receive, point to interesting, though alarming aspects of the relationship between franchisee and franchisor. All the franchisors that participated in the survey indicated that they provide ongoing support and assistance to their franchisees. However, the majority of the franchisees who participated in the survey indicated that the level of support and assistance they receive only meets some of their expectations. Whilst most of the franchisees indicated that they are on good terms with their franchisors, there were some of them who indicated that they found their franchisors to be dictatorial and unco-operative. Some went so far as to state that their franchisors have committed a breach of contract because of their lack of support and unhelpful attitudes.

Whilst it is unrealistic to assume that all franchisees and franchisors would enjoy good, stable and co-operative working relationships, it is nevertheless important that this relationship be as symbiotic as possible. The fact that some franchisees have indicated that their franchisors' behaviour and reciprocating performances are far from exemplary effectively converts the purported advantages offered by the franchise relationship into disadvantages. These results therefore highlight the conflict that exists between that which the franchisors profess on the one hand and the franchisees' experiences on the other.

The next theme to be examined is that of social responsibility.

5.9 SOCIAL RESPONSIBILITY

5.9.1 Introduction

Inasmuch as this research has focused on franchising as a mechanism for economic empowerment, this concept has in itself introduced an element of social responsibility. Social responsibility, if viewed from the context of this study, implies that a business renders some contribution towards the development of the community, for instance, by providing employment opportunities and/or training. The idea of skill development though training has already been mentioned in paragraph 5.8. The perceptions of franchisors and franchisees have been explored in this area in order to gain further insight into the concept of training as a social responsibility. In its analysis of employment opportunities, the literature review, in paragraph 3.6, stressed the potential of franchising as a mechanism for job creation thereby also fulfilling a social responsibility role. This role is double-edged because franchising as a business mechanism, not only allows franchisors to create opportunities for franchisees but at the same time grants franchisees a chance to create employment for others. This aspect of the social responsibility role that franchising provides is put under the spotlight in the next theme.

Both the franchisor and franchisee groups of participants in the surveys were asked questions in order to elicit their perception of the extent to which they have contributed towards their particular social responsibility roles. The franchisor group was specifically asked questions relating to the encouragement of participation of previously disadvantaged people in franchising. This was regarded relevant because of the suspected current distribution of franchisees in the franchising industry, and further because of the small number of large franchisors involved in franchising. The franchisee group was asked questions relating to the impact they think they have made in their communities as outlet owners. The franchisor group's responses are discussed first.

5.9.2 The Encouragement of Disadvantaged Franchisees

This section investigates the replies to questions eight, nine and ten of the franchisor questionnaire. The purpose of this section is to determine whether or not franchisors encourage prospective franchisees from disadvantaged backgrounds to participate in franchising. Question eight aims to gauge encouragement while question nine, relying on a positive response to the previous question, asks how previously disadvantaged franchisees are in fact encouraged. Question ten seeks reasons for this encouragement by franchisors. The following results were obtained.

A large percentage, namely 69.6 percent of the franchisors, responded that they did encourage people from a disadvantaged background to become involved in franchising. This left 30.4 percent who did not encourage participation.

Of the 69.6 percent who advocated that they did encourage participation, 21.4 percent of them subjected franchisees, who were previously disadvantaged, to specialist training. A group of 12.5 percent of the franchisors encouraged prospective franchisees by means of specialist advertising as well as specialist training, while 8.9 percent of the franchisors used specialist advertising, applied specialist training and also extended offers of financial assistance. Financial assistance is usually granted in the form of initially reduced royalty payments or a negotiated reduced franchise fee. A smaller group of franchisors, namely 7.1 percent, said they advertised specialist training and offered financial assistance; 5.4 percent stated they made use of special advertising aimed at the prospective franchisees and 3.6 percent offered financial assistance only. The same percentage used special training as well as employment as incentives to franchisees. One point eight percent of the franchisors entered into a separate development agreement with a black empowerment group. The same percentage stated that they relied on one-on-one interviews at franchise/small business exhibitions, expositions and seminars.

The responses to question ten indicate that 37.5 percent of the franchisors who participated in the study wished to foster entrepreneurship by encouraging previously disadvantaged people to participate in their franchises. Another group of franchisors, a section representing 10.7 percent, were aimed at community upliftment; 7.1 percent wished to encourage entrepreneurship as well as uplift communities, while 5.4 percent indicated that their encouragement of previously disadvantaged people to participate in the franchising was aimed at gaining competitive advantage. Another 5.4 percent encouraged entrepreneurship and community upliftment. One respondent (forming 1.8 percent of the respondents) indicated that he/she wanted to encourage entrepreneurship and community upliftment thereby hoping to ensure competitive advantage. One respondent, although he/she responded to the previous question, did not answer this particular question.

It is indeed an encouraging sign that franchisors have indicated that they are involving themselves in concerted efforts to encourage people from previously disadvantaged backgrounds to participate in franchising. Another reason or optimism is the fact that franchisors place importance on entrepreneurship which provides a good framework within which hopeful franchisees receive recognition of their potential and thus gain financial independence in their own right.

The social responsibility role of the franchisee respondents is the focal point of the next section.

5.9.3 Community Orientation in Terms of Franchisees

This section explores the reaction to questions thirty-three and thirty-four of the franchisee questionnaire and probes whether or not franchisees have improved or uplifted their community in any way.

The responses to question thirty-three indicate that a large group, namely 71.6 percent of the respondents, were of the opinion that they had improved their community in some way, while 25 percent indicated that they had not. Three respondents (3.4 percent of the respondents) did not respond to the question.

Question thirty-four asks franchisees who answered in the affirmative to indicate how they had done so. Table 5.9 indicates how the respondents answered.

Table 5. 9 Indicators of the Social Responsibility Role/s of Franchisees

Community Improvements Made by Franchisees	Percentage of Respondents
Employment created	26.1
New services & products introduced and employment created	12.5
New services introduced and employment created	8.0
New products introduced	6.8
Employment created and provided sponsorships and assistance in sports development	6.8
New services introduced	5.7
Meals have been provided to the disadvantaged	3.4
New services and products introduced, as well as donations made	1.1
New services introduced, employment created and franchise outlet used as fund raising vehicle	1.1
Total	71.6

Source: Research Data

The results, as recorded in table 5.9, show that a substantial percentage of the respondents who answered the question, that is 26.1 percent, have improved their community by creating employment. The second largest representation, namely 12.5 percent, indicated that they had introduced new products and services, not

previously available, to their community and had also created employment. It is worth noting that eight respondents also contributed to their community by giving donations, sponsorships and meals to the disadvantaged.

5.9.4 Conclusion

Both the franchisor and franchisee groups provided different perspectives of the roles they play as far as fulfilling their social responsibility are concerned. Each, to a smaller or larger extent, contributes to their community. This fact is an encouraging sign of community involvement irrespective of the nature of such involvement. Franchisors have indicated their willingness to encourage people from previously disadvantaged backgrounds to participate in franchising. While the research cannot provide concrete proof of these attempts, as so few previously disadvantaged people are represented in the franchise industry in this research, the encouragement is nevertheless a sign of progress in the desired direction. Franchisees have also indicated that they perceive themselves to play a role in their community by offering employment. It is commendable that a few franchisees indicated that they have become directly involved in their communities by sponsoring events and donating their products and services to their community.

The following section of this thesis concentrates on the number of hours that franchisees put into managing their outlets.

5.10 WORKING TIME ALLOCATED TO THE OUTLET

5.10.1 Introduction

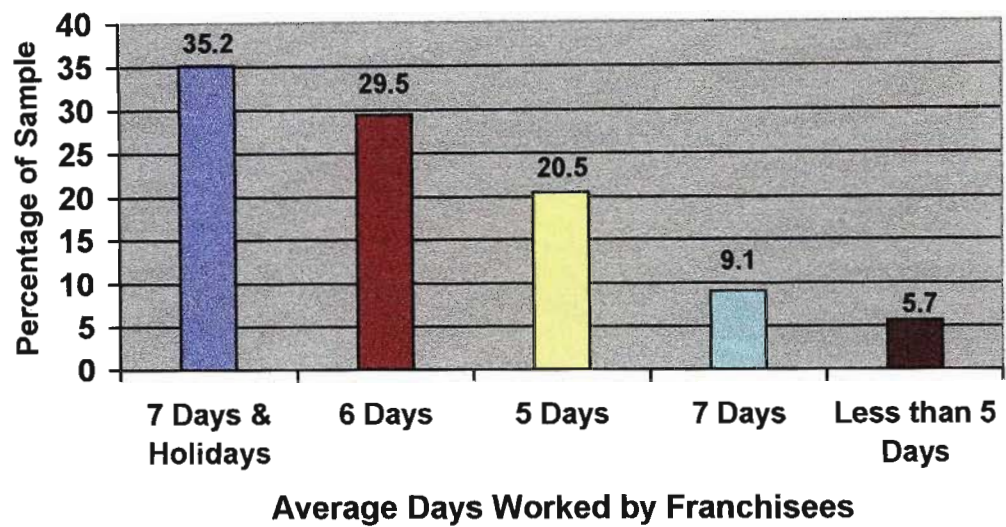
One of the assumptions of the literature review, paragraph 3.7.2, is that entrepreneurs generally work longer hours than other people in commerce. Because franchisees are viewed as entrepreneurs within the context of this research, it is considered important that the average working time allocated to the management of an outlet be investigated in order to determine whether or not franchisees work longer hours than that which is conventionally considered normal working hours. This sub-division of the study, therefore, concentrates solely on information derived from the franchisee respondents.

5.10.2 Average Hours/Days Worked Per Week

This section's purpose is to determine the days and hours that are put in by franchisees and researchers replies to question twenty-three and twenty-four of the franchisee questionnaire. Question twenty-three asks franchisees to indicate how many days a week they work. Question twenty-four asks franchisees to indicate the number of hours they work per day.

Figure 5.15 indicates average days worked by franchisees as discovered by the survey.

Figure 5. 15 Average Days Worked by Franchisees

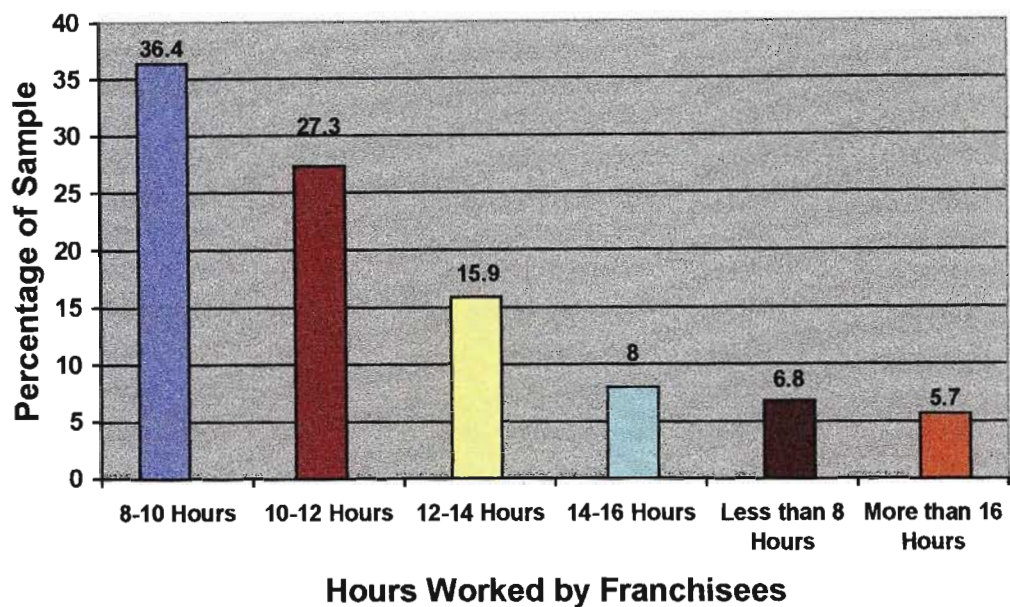


Source: Research Data

Figure 5.15 indicates that 35.2 percent of the respondents work seven days a week including public holidays, which in effect means 365 days a year. Of those who work seven days a week, 9.1 percent is represented in this group. The second and third highest representation of days worked is that of 29.5 percent of the respondents who indicated that they worked six days a week and 20.5 percent worked 5 days a week, respectively. Only 5.7 percent of the sample said they worked less than five days a week and of this number, three indicated that they had managers running their outlets for them. The statistics suggest that franchisees work more than an average of five days per week.

Figure 5.16 illustrates the findings of question twenty-four, that is, the average hours worked by franchisees.

Figure 5. 16 Average Hours Worked by Franchisees



Source: Research Data

As figure 5.16 illustrates, 36.4 percent of the franchisees indicated that they worked an average 8 -10 hour day. The figure also illustrates that a greater percentage of franchisees work longer hours per day as the 10-12 hour, 12-14 hour and 14-16 hour categories indicate. A smaller percentage of 5.7 is represented by respondents who work more than 16 hours a day. The respondents who work more than 10 hours a day, account for 56.9 percent of the sample. This percentage, compared to 43.2 percent of respondents who work less than 10 hours a day, means that a larger percentage of the franchisees who participated in the survey work longer than an average working day.

5.10.3 Conclusion

A study of the responses to question twenty-three and twenty-four indicated that, on average, franchisees work longer hours than a typical 8 hour day and 40 hour week. This substantiates the claim that small business owners tend to work longer hours than that which is considered normal working hours.

The next consideration, which flows naturally from this study, is whether franchisees and franchisors find franchising profitable or not.

5.11 THE PROFITABILITY OF FRANCHISING

5.11.1 Introduction

Following as a natural consequence of this research, questions were included in each of the franchisor and franchisee questionnaires to determine the perceptions of each group concerning the profitability of franchising. The literature review, paragraph 3.6, pointed in the direction of a relatively high success rate of franchised businesses as opposed to non-franchised business endeavours. The opinions of franchisors was sought as to whether they consider franchising to be profitable and whether they regard their franchise outlets to be successful or not. Secondly, the opinions of franchisees were obtained in order to evaluate their actual success and their income generation and thereby to determine whether the findings of the literature review can be substantiated. The two groups' opinions will be correlated and weighed against each other.

5.11.2 Franchisors' Opinions Concerning the Profitability of Franchising

The heading hereof is self-explanatory. This deals with the responses to question twenty-two of the franchisor questionnaire. The aim of the question asked was to ascertain whether franchisors considered franchising to be profitable or not. The results indicate that 53.6 percent of the franchisors found franchising to be very profitable, while the remaining 46.4 percent considered its profitability to be mediocre. Significantly, no franchisors indicated franchising to be unprofitable.

Paragraph 3.9.2 of the literature review indicated that a disadvantage to franchising, specifically for franchisors, was the possibility of a low initial profit. This indication may possibly account for the responses of the franchisor group. A large percentage indicated that they found franchising to be only somewhat and therefore marginally profitable. One franchisor mentioned that the initial costs of establishing a franchise was high. Once many franchisees became involved in the concept, only then the profits began to show. Of course, there may be many other reasons why the franchisors in the study responded that franchising is only somewhat profitable, but this one response vindicates the validity of the initial suspicion when it was first encountered and noted in the literature review.

The next section examines the success rate of individual outlets as depicted by the franchisor and franchisee groups.

5.11.3 Franchisors' Depiction of Franchise Outlet Success Rate

Question seven of the franchisor questionnaire was posed to ascertain the success rate of franchised outlets. In other words, franchisors were required to rate the success of outlets in respect of which they had granted franchise rights. Table 5.10 indicates the results.

Table 5. 10 Franchisors' Perception of the Success Rate of Franchised Outlets

Success Rate Category	Percentage
0-20 percent	1.8
21-40 percent	1.8
41-60 percent	3.6
61-80 percent	10.7
81-100 percent	78.6
Question not answered	3.6
Total	100

Source: Research Data

The results categorised in table 5.10 indicate that 78.6 percent of the franchisors who answered the question, rated 81-100 percent of all their franchises successful. This represents an overwhelming majority over the other categories listed. In only two of the groupings, 1.8 percent of the franchisors placed the success rate of the franchises in the 0-20 percent and 21-40 percent categories.

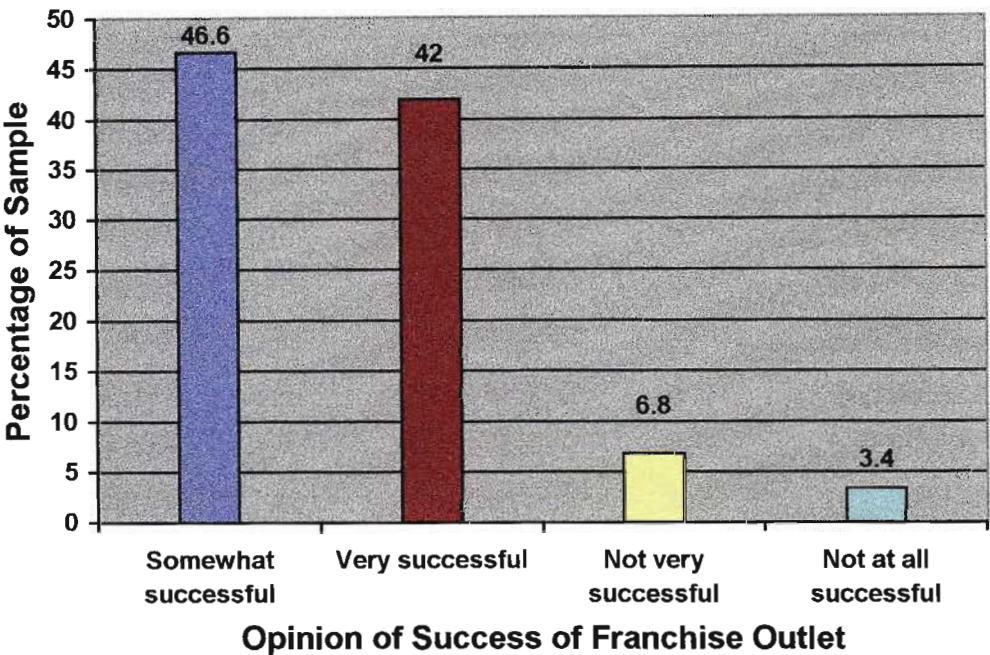
The views of the franchisee group relating to the success and profitability of their individual franchise outlets is discussed in the next section.

5.11.4 Franchisees' Opinions Regarding the Success of their Outlets

This section explores the opinion of the franchisees of their success and the income generated from their franchise outlet/s. It analyses the results obtained from questions twenty-one and twenty-two of the franchisee questionnaire. Question twenty-one asks franchisees to rate the success of their franchise

outlet/s. Question twenty-two seeks to measure their expectations in respect of income generation. Figure 5.17 illustrates the results of question twenty-one.

Figure 5. 17 Franchisees' Opinion of Success of Outlet



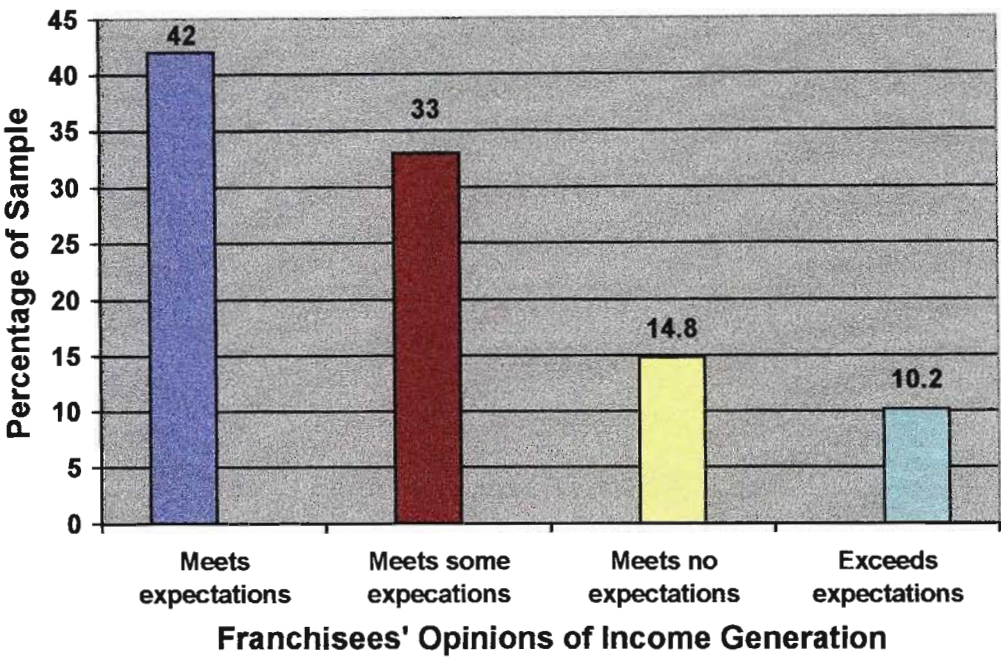
Source: Research Data

According to the results of the survey, 46.6 percent of the respondents indicated that their franchise outlets were fairly successful. Another relatively high representation, 42 percent of the respondents, considered their outlets very successful. Much lesser percentages, amounting to 6.8 and 3.4 of the respondents indicated that their outlets were not very successful and not at all successful, respectively. These statistics bear testimony to the fact that a significant majority of franchisees conduct franchised outlets that are succeeding rather than failing.

5.11.5 Franchisees' Income Generation

Figure 5.18 displays the categorised results of the franchisees' opinions regarding their income generation.

Figure 5. 18 Franchisee's Income Generation



Source: Research Data

Figure 5.18 illustrates that 42 percent of the respondents answered that their income from their respective outlet/s, met their expectations, while 33 percent indicated that some of their expectations were met. The number of respondents who indicated that their income generation had exceeded their expectations surpassed, by a fair margin, those whose expectations were only partially realised or were not realised at all.

5.11.6 Conclusion

The results of the responses attained from the franchisor and franchisee surveys in regards to the profitability of franchising indicate that both groups are positive that franchising is a profitable enterprise. Neither the franchisors nor the franchisees indicated that franchising was not at all profitable. Franchisees who participated in the survey indicated that the money they generated met their expectations. Only a small percentage of the franchisee respondents responded that their income generation met none of their expectations. On the whole, the franchisors and franchisees who participated in this study leads one to the conclusion that franchising, if properly conducted, is a profitable business mechanism. This provides a positive outlook in which franchising ought to be encouraged since its success rate is relatively high, as both the franchisor and franchisee groups have indicated. These results therefore support the claim made in the literature review, paragraph 3.6, that franchising yields relatively high success rates.

The next aspect worthy of discussion is that of the franchise agreement itself.

5.12 THE FRANCHISE AGREEMENT

5.12.1 Introduction

For the purposes of this portion of the study, it is not intended to delve into minute detail concerning the definition, nature and content of the franchise agreement and all the legal ramifications flowing therefrom. Its aim is however, to investigate the subjective opinions of franchisees as they view it. In paragraph 3.9.1 of the literature review, the possibility was raised that the franchise agreement could pose as a source of tension and apprehension for franchisees and

could therefore be regarded as a possible disadvantage to becoming involved in franchising.

This investigation therefore gauges the opinions of franchisees concerning the franchise agreement, in particular whether or not they find the agreement inhibiting; whether or not they are satisfied to submit royalty payments; and lastly, whether their profitability is assessed or not, as provided for in the franchise agreement.

5.12.2 Franchisee Opinions Concerning the Franchise Agreement

Questions thirty-seven (a) and (b) of the franchisee questionnaire are the focus of this section, and concerns itself with an analysis of the responses to these questions. Franchisees are required by their responses to the first question, to indicate whether they find working within the framework of the franchise agreement inhibiting or not. It therefore focuses on the franchisees' view of the necessity to comply with the obligations of the franchise agreement to which they are a contracting party. Question thirty-seven (b), on the presupposition that the previous question is answered in the affirmative, grants interviewees an opportunity to elaborate on their replies to the previous question.

The results indicated that 47.7 percent of the franchisee respondents found working within the parameters of a franchise agreement inhibiting, while 46.6 percent did not. Five respondents, 5.7 percent of the respondents, answered both to the affirmative and the negative. It is interesting to note that the respondents are relatively divided in their opinion concerning the inhibiting and restrictive nature of their relevant franchise agreement as viewed from their respective subjective vantage points.

The intention of question thirty-seven (b) was to ask interviewees, who responded in the negative to question thirty-seven (a), the reasons for their answer. Five of the respondents indicated that the franchise agreement was very strict and thus limiting, thereby allowing franchisees very little flexibility to impose individual styles of business management. Three respondents indicated that there was no symbiosis in the franchisor/franchisee relationship and that the franchise relationship, as they experienced it, was dysfunctional. The last respondent who answered question thirty-seven (a) in the negative indicated that he found the franchise agreement limiting as individual marketing plans suited to the outlet were not allowed to be implemented, thereby stifling his outlet's growth.

5.12.3 Royalty Payments

Many franchisors are reliant on the income of royalty payments from their franchisees. More often than not, these payments are made on a monthly basis. For the purposes of this research, it was considered important to include questions that asked the opinions of franchisees on royalty payments. Question thirty-eight (a) of the franchisee questionnaire therefore asks franchisees to indicate whether or not they find it a bother to pay royalties to the franchisor. Question thirty-eight (b) is directed at the interviewees who answered question thirty-eight (a) in the affirmative to elaborate on their answers.

It was found that 50 percent of the franchisees who responded to question thirty-eight (a) found it a bother to pay royalties to the franchisor. The second group, 43.2 percent, accepted their obligation to do so, while 4.5 percent did not pay royalties at all.

Upon an evaluation of the responses cited by the interviewees as to why they found it a bother to pay royalties, the following was established. Two interviewees responded that royalty payments required of franchisees were extremely high. This, they said, resulted in cash flow problems. Five respondents indicated that they found it a bother to pay royalties but nevertheless regarded themselves honour bound to comply with their franchise arrangement. They accepted it, their legal duty to pay royalties, but did so grudgingly. One of these respondents elaborated further by adding that he found the duty to pay royalties onerous because he was not seeing any return for what he regarded to be an ongoing investment.

5.12.4 Profitability Assessment

In order to determine whether or not franchisors keep a close watch over the financial progress of franchisees and to determine whether or not this correlates with the responses of franchisees, questions were included in the questionnaires to address this issue. This section therefore analyses the answers to question twenty-one of the franchisor questionnaire and question thirty-nine of the franchisee questionnaire. The results are as follows.

According to the responses obtained from the franchisee group, 48.9 percent of the respondents had their profitability assessed by their franchisor, while 29.5 percent did not. Of the sample, 19.3 percent were already included in the pilot study, and as the question was excluded from the pilot questionnaire, this question was not available to be answered. A percentage of 2.3 did not answer the question.

The responses from the franchisors indicated that 94.6 percent analysed franchisees' profitability while 5.4 percent did not.

It may therefore be assumed that evaluation of the profitability of franchise outlet financial progress and profitability is an integral function of the franchise system. Because most franchisors assess profitability, it may be accepted as a rather important factor in maintaining the franchise system.

5.12.5 Conclusion

An analysis of the responses recorded in respect of this theme indicates that franchisees, in particular, are divided in their opinions as to whether or not they found their franchise agreements inhibiting. It is further transparent that franchisees who participated in the study viewed the franchise agreement from different perspectives. Of those who were asked why they found the agreement to be inhibiting, some indicated the limiting and inflexible nature of their respective franchise agreements. This implies that they are required to remain within strict constraints imposed by the franchisor. This would appear to create a problem, which would not have arisen, but for the existence of the franchise agreement. The requirement of royalty payments also yielded a result that indicated divided opinions among franchisees. Even though the majority of the franchisees indicated that they did find it onerous to pay royalties, the remaining group that indicated the contrary, was also a relatively large group. One of the principal reasons cited by franchisees why they found payment of royalties an impediment was the cause of cash flow problems. They said that royalty payments were stifling their business. It was also found that the majority of franchisors keep records of the profitability of their franchised outlets. It may therefore be deduced that additional pressure is placed on franchisees to perform.

Upon examination of the implications of these results on the viability of franchising acting as a mechanism for economic empowerment, the opinions directed at the possible drawbacks of franchising are divided. It therefore depends on the subjective perspective of each of the franchisees. The concept of

franchising relies on a franchise agreement and in most cases on royalty payments as well, for it to function. Therefore, depending on the objectives of the franchisor and how strictly rules and regulations are applied, franchisees will obviously relate different experiences with regard to their criticism of the franchise agreement. Because of this subjective approach, it is therefore, difficult to estimate how a franchise agreement will impact upon and affect people trying to become involved in franchising. If franchisees require an innovative, flexible, limitless working environment, franchising will no doubt inhibit them and will present them with an ongoing source of frustration.

5.13 FRANCHISEE OPINIONS REGARDING THE BENEFITS AND SHORTFALLS OF THE FRANCHISE SYSTEM

5.13.1 Introduction

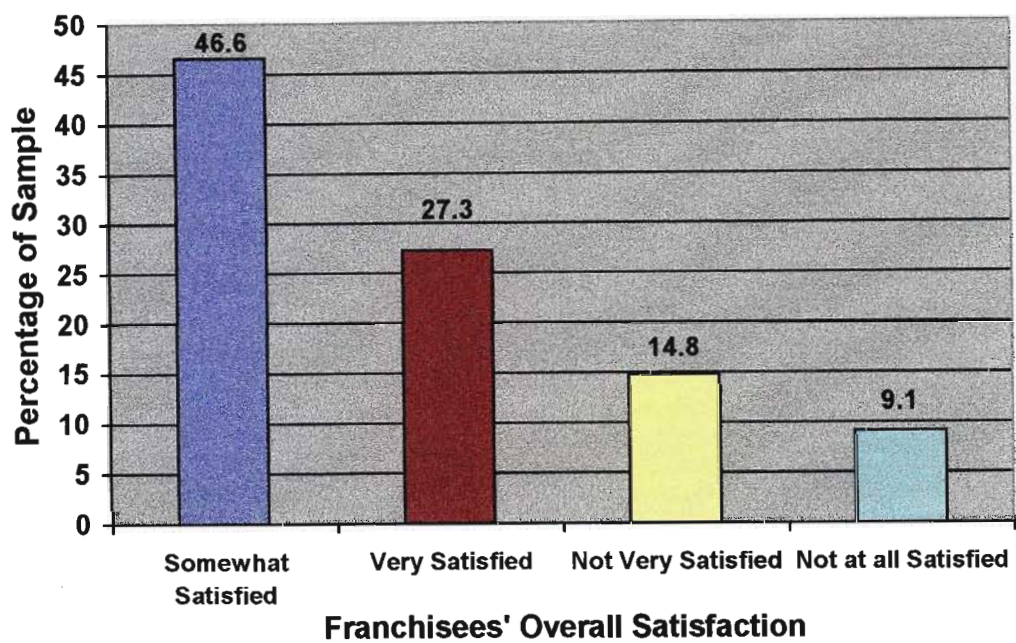
This theme examines the subjective perceptions of franchisees in regards to the perceived benefits and shortfalls of franchising. It examines franchisees' overall satisfaction, what they perceive as the advantages of franchising, which included aspects such as financial independence, taking calculated risks, the achievement of other ambitions and the attainment of skills and training, as well as general comments regarding franchising.

The first issue that will be discussed is that of overall franchisee satisfaction.

5.13.2 Franchisees' Overall Satisfaction

Determining the overall satisfaction of franchisees is an important test of the desirability of franchising as a worthwhile business endeavour. Question twenty-seven of the franchisee questionnaire therefore asks franchisees to rate their overall satisfaction. Figure 5.19 illustrates the findings.

Figure 5. 19 Franchisees' Overall Satisfaction



Source: Research Data

As figure 5.19 illustrates, 46.6 percent of the respondents are somewhat satisfied, whereas 27.3 percent are very satisfied. Of the respondents who indicated that they were not very satisfied, 14.8 percent of the respondents represent this group and only 9.1 percent of the sample indicated that they are not at all satisfied. These findings suggest that there are more franchisees who are relatively satisfied than those who are not. Two respondents did not respond to the question.

5.13.3 The Advantages of a Franchise System

5.13.3.1 Introduction

Paragraph 3.8 of the literature review discussed various advantages offered by franchising. In order to explore the experiences of franchisees, questions relating to the advantages of franchising were put forward in the survey. The purpose here was to investigate the different perceptions of franchisees in regards to these perceived advantages and to determine whether or not others have been identified as well.

5.13.3.2 Being at an Advantage in the General Sense

This section researches the replies to question twenty-eight (a) of the franchisee questionnaire. Franchisees are requested to indicate whether or not they feel that they are at an advantage by being part of a franchise system. Question twenty-eight (b), aimed at the interviewees, asks them to elaborate on this issue.

The findings indicated that a majority, namely 76.1 percent of the respondents, felt they were advantaged as subscribers to a franchise system. Approximately one fifth, 21.6 percent, said they failed to perceive any advantage. Two respondents did not reply to the question. When interviewees were asked to elaborate, the following was revealed. Of the franchisees who were of the opinion that they benefited, 10.2 percent indicated the following to be the principal reasons to which they ascribed the advantages they received. The brand name under which the franchise traded was already established; the advertising was of a high standard and the franchise possessed a good track record. One respondent indicated that being part of a franchise system meant that better transactions could be negotiated and attained with suppliers. As one forming part of a larger group, he found that he was in a far stronger position to bargain on

such aspects as a reduced price on stock, consumables and equipment. One respondent indicated that because he worked for himself, he was able to determine his own income very much as any non-franchised small business owner would. One respondent indicated that because of the franchise being of international origin and the franchise operating in a particularly lucrative market, it presented a definite advantage to be part of the franchise system concerned. Another respondent found that the difference between owning a franchise outlet and a non-franchised business was relayed to the fact that the franchise system provided sound support and assistance in the managing of the business, a benefit that non-franchised businesses generally lacked. The last respondent indicated that product quality was forced to be maintained and controlled through the franchise system. Of the respondents who felt that there was no advantage to being part of a franchise system, two respondents indicated that the system failed because the franchisor was unaccommodative and unresponsive to the needs of the franchisee. Another respondent echoed this sentiment by replying that the franchisor was in breach of the obligations imposed by the franchise agreement thereby negating the effectiveness of the particular franchise system to which he subscribed.

5.13.3.3 Other Advantages to Franchising

This section was aimed specifically at the interviewees in order to determine whether they found any other advantages accrued to them as a result of their involvement in the franchise industry. This is somewhat similar to the question that asked franchisees whether or not they felt they were advantaged by being involved in the franchise industry. It considers the replies to question forty of the franchisee interviewee questionnaire.

Eight of the seventeen interviewees (9.1 percent of the respondents) found some advantage to being involved in the franchise industry. Three interviewees found benefits in the backing they received from their franchisor in that high business standards were being maintained. Two interviewees indicated that their franchise outlets enjoyed nation-wide support because the franchise name was widely known throughout the country and therefore attracted customers as a result of an established reputation. One interviewee responded that the franchise system provided security. Another interviewee replied that his family was able to get involved in the business thereby extending a family interest. The last interviewee to respond to this question found that the royalty payments should not be regarded in an adverse light. It allowed the franchisor to innovate and expand, thereby allowing for the growth and improvement of the franchisee's own outlet.

Looking more specifically at the possible advantages that franchisees may derive from franchising, the following section concerns the extent to which financial independence is gained.

5.13.3.4 Financial Independence

The literature review, paragraph 3.6, ventured to conclude that franchise outlets enjoy a lower failure rate compared to other non-franchised businesses. This suggests that franchisees are able to entrench themselves in business quicker, with less risk and thereby eventually attain a certain degree of financial independence. Question twenty-nine (a) specifically traverses this aspect and asks franchisees whether or not franchising has allowed them to be financially independent. In question twenty-nine (b), interviewees are asked to elaborate if they answered in the negative.

The results of the survey revealed that 73.9 percent of the respondents were financially independent, while 25.0 percent regarded themselves not to have reached that goal. One respondent did not answer the question. Interviewees, who did not think themselves to be financially independent, cited the following reasons. Two respondents indicated that they experienced cash flow problems because the royalty payments required of them were too high, thereby restricting their ability to generate profits. Two other respondents indicated that they were slowly gaining financial independence while they were establishing their businesses. Yet another respondent indicated that, because of the competitive nature of the industry that he was participating in, the mark-up he placed on goods supported by his franchisor, was still insufficient to give him a competitive edge in the market place.

The next possible advantage offered by franchising to franchisees may be the extent to which they are able to introduce innovative ideas and practices into their businesses, if at all.

5.13.3.5 Innovativeness

Question thirty (a) of the franchisee questionnaire seeks to determine from franchisees whether or not franchising has allowed them leeway to be innovative in their businesses. Question thirty (b) is addressed to the interviewees who answered in the negative and requests them to elaborate on the issue.

Of the respondents, 62.5 percent of the respondents indicated that franchising allowed them to be innovative, while 34.1 percent answered that it did not. A common reason cited by the interviewees (5.7 percent of the sample) was that strict compliance with the policies of the franchise agreement was required which left little or no opportunity for them to introduce or exercise any innovative ideas or concepts in the management of their franchise outlets. This reason coincides

with the conclusions drawn in the literature review, paragraph 3.9.1. This reinforces a suspicion that some franchising systems are rather restrictive and do not permit franchisees to be inventive and innovative in the conduct of their respective franchise outlets. It may even be argued that the franchisors affected by this response wish their franchisees to keep to tried and tested methods, thereby minimising risk of failure.

In hindsight, it would have been interesting to investigate the extent to which franchisees had been able to be innovative, since the majority of the franchisees who answered the question indicated that they were to a certain extent permitted to apply their own initiative. An additional question should perhaps have been considered to allow for further elaboration by franchisees to learn how they introduced new or fresh concepts to their outlets and the repercussions thereof. This would have added a further dimension to this issue.

The following section focuses on the calculated risks that franchisees face, and whether this represents an advantage to franchising or not.

5.13.3.6 Calculated Risks Taken by Franchisees

The literature review, paragraph 3.7, concluded that entrepreneurs take risks in their businesses. Because this research is arguing that franchisees are also entrepreneurs, albeit with the support of their respective franchisors, it was considered relevant to include questions that probed the extent to which franchisees are exposed to calculated risk taking in their businesses. However, in paragraph 3.7.8 of the literature review, it is also surmised that because of the synergy prevailing in the business relationship between the parties in the franchising system, franchising does not necessarily allow or entertain risk taking on that part of franchisees. This reasoning is based on the supposition that a particular franchising concept has proved to be a workable one and the business

has already been established to that extent. All players in the system are working together in one unit so that most risks, if not eliminated altogether, are minimised. Therefore, in order to determine the experiences of franchisees in terms of risk taking, question thirty-one (a) of the franchisee questionnaire requires franchisees to indicate whether or not franchising has allowed them to take calculated risks. Question thirty-one (b) seeks extension from interviewees who answered in the negative, to elaborate on the issue.

The results of the questionnaire show that 63.6 percent of the respondents had been allowed to take calculated risks, while 35.2 percent indicated the contrary. Two reasons were supplied by interviewees who answered in the negative. One reason, advanced by 4.5 percent of the respondents, was that the franchising system provided a safety net for franchisees. A proven system had already been established and therefore most of the risk of opening and managing an outlet was eliminated from the date of inception. A further reason, cited by two other interviewees, was that the aspect of risk-taking did not figure as a factor because the policies contained in the franchise agreement were too strict and did not permit franchisees to digress. An example cited by some of the respondents was that special offers could not be offered to customers because it would have interfered with the policies of the franchise agreement.

The results of these responses provide an interesting perspective of the franchising system. The majority of the respondents indicated that they did take calculated risks. This obviously implies that they have to some extent bypassed the restrictions and rules laid down by the franchise agreement. These results therefore suggest that franchisees are able to and do take calculated risks if and when the need arises. Because it was not specifically canvassed, it is not apparent in all such cases whether risks are taken with or without the sanction of the franchisor.

The next section examines another possible advantage that franchisees may have while being involved in franchising, namely the achievement of other ambitions.

5.13.3.7 The Achievement of Other Ambitions

In comparing franchisees to entrepreneurs in paragraph 3.7.2 of the literature review, thought was given to the possibility that other ambitions could be achieved through owning one's own business. To determine whether franchisees do indeed achieve their own ambitions while owning their own businesses, questions were included to investigate this issue. Question thirty-two (a) of the franchisee questionnaire seeks franchisees to indicate whether or not franchising has allowed them to achieve other ambitions, and question thirty-two (b) requests interviewees to expand on the issue.

More than half of the respondents, 59.1 percent, indicated that franchising had allowed them to achieve other ambitions, while 36.4 percent answered in the negative. One respondent indicated both answers, while three respondents did not answer the question at all.

When the interviewees were asked to elaborate on their answers, the following was found. Of those who responded positively, five franchisees indicated that their involvement in the franchise industry had provided them with a better quality of life. Three respondents said that it enabled them to own other businesses. Four respondents stated that as owners of their respective businesses, the independence from control by superiors allowed them to become active in other areas. In other words, they saw it as a distinct advantage to be in control of their own fate which, in turn, lead to more flexibility and freedom to pursue other interests.

Four respondents, who provided negative responses to the question, commented that all available time was spent in the conduct of their respective outlets. This inhibited the pursuit of other interests or ambitions because the management of the franchise outlet alone required all their attention. This effectively precluded those franchisees from any other involvement. A further respondent indicated that because the franchise agreement was limiting, the pursuit of any other ambitions was discouraged.

These results therefore indicate that the majority of the franchisees who participated in the research have been able to pursue other interests. This tends to point to a similarity to the identifying characteristics of entrepreneurs in general raised in the literature review.

The next possible advantage of franchising to be discussed, is that of the attainment of skills.

5.13.3.8 The Attainment of Skills

This section must be treated in conjunction with the contents of paragraph 5.7, which examined the issue of training. Therein this study examined the question of whether or not franchising provides a medium for skill development. In order to further investigate this facet, question thirty-five of the franchisee questionnaire asks franchisees whether or not franchising has provided them with skills they would not have otherwise acquired.

The results obtained from this question reflect that 67 percent of the respondents indicated that, through franchising, they had acquired skills that they would not have otherwise acquired in different circumstances. The remaining 33 percent indicated that franchising bore no benefit in this particular area.

The next section has as its purpose to ascertain whether or not franchisees have, as a result of their acquisition of their franchise relationship, received training they would not have otherwise received under normal circumstances.

5.13.3.9 The Attainment of Training

Again this section ties in with previous sections, dealing with issues of training and skills development, namely paragraphs 5.7 and 5.13.3.8, and must be considered in conjunction therewith. This section enquires from franchisees whether or not franchising had provided them with training they would not have otherwise acquired but for their involvement in the franchising system. This section concentrated on the responses to question thirty-six of the franchisee questionnaire.

Just over half the respondents, namely 51.1 percent, confirmed that they had been provided with beneficial training, while 46.6 percent voiced their criticism and proclaimed in no uncertain terms that they had not received any worthwhile training. Two respondents (2.3 percent) did not answer the question. These results, interestingly enough, place the respondents in two opposing camps of just about equal proportions. The results clearly show that only a slim majority of the franchisees who participated in the research had received training that they would not have received otherwise. The results point to more or less an equal percentage of the franchisees who found the training to be ineffective or non-existent, as the case may be.

5.13.3.10 Conclusion

Various issues have been presented with regard to advantages perceived by franchisees that resulted from their involvement in the franchising industry. These perceived advantages have been raised and investigated so as to gauge the extent to which franchising offers franchisees advantages in comparison to owners of non-franchised businesses. The results were further applied in order to examine whether or not the responses correlated with the findings of the literature review. Questions were posed to the franchisee group in order to elicit responses from participants with the aim to establish financial independence, innovativeness, risk taking, the achievement of other ambitions and the attainment of skills and training franchisees would not have received in different circumstances.

The findings of this section of the survey indicated that the majority of the franchisees gained financial independence, a finding that correlates with the findings of the literature review. However, the majority of the franchisees were of the opinion that they were innovative and took calculated risks, results that are contrary to the findings of the literature review. The conclusion drawn from the results recorded by the literature review was that innovativeness and risk-taking were not necessarily carried by the individual franchisees but were rather the responsibility of the franchisor because of the inflexible nature of many franchise agreements. It further emerged that the majority of franchisees pursued and achieved other ambitions, and attained skills and training that they would not have received had it not been for their involvement in franchising.

These findings lead one to conclude that franchisees possess greater leeway and scope to be more independent of their respective franchisors than that which was generally believed. However, in terms of the attainment of skills and training received within the franchise system, franchisees are somewhat more dependent on the franchisor. Only a slim majority of franchisees indicated that the training

offered to them was beneficial. These findings therefore illustrate that, while franchisees were bound to the franchisor and the franchise agreement as was reaffirmed in paragraph 5.12.2, they were nevertheless able to exert a relative degree of independence but still obtained benefits of skill development and training. This would tend to show that franchisees enjoy just about the same degree of independence with regard to managing their businesses as non-franchised business owners.

The next section examines any further comments that were made by the franchisees in regards to franchising in general.

5.13.4 Further Comments Made by Franchisees

This section applied to all the respondents and asked franchisees to indicate whether they had any further comments. Twelve respondents replied to this prompting which represents 13.6 percent of the respondents. Franchisees had both positive and negative opinions concerning the franchise industry. The positive aspects will be revealed first.

One respondent indicated that guilds had been formed in two of the larger food franchises in order to facilitate better communication between franchisees and franchisors. The guilds were formed primarily because there was a breakdown in the franchise relationship and an alternative measure was required to restore the symbiosis. This sentiment was reflected by another respondent, who also indicated that proper communication between franchisors and franchisees was vital for any franchise system to operate effectively.

The remaining respondents expressed sentiments of a more negative nature. Three respondents indicated that they should have first spoken to other franchisees in the same franchise that they themselves were planning to participate in. Three respondents found the training and support from the franchisor inadequate and questionable. One other respondent found that experience and a background in the industry participated in was essential. That was something he did not have. Another respondent indicated that the franchise agreement was misleading as the franchisor had met none of the franchisee's expectations. Presumably, his franchisor had not honoured the spirit of the franchise contract. The same respondent also indicated that the royalty payments required of him were very high, thereby creating cash flow problems. A further respondent added a few additional points. The one point stressed that buying a franchise provides access to a business opportunity and even though an individual is buying into a known trading name, it by no means guarantees success. Instead it requires no small measure of hard work. The same respondent also found the training and support questionable. Yet another respondent complained that he also should have spoken to other franchisees prior to opening his outlet. He went on to say that the franchise agreement met none of his expectations. This respondent also indicated that the royalty payments were excessive and this fact created cash flow problems.

A further noteworthy remark made by a franchisee related to the gradual establishment of the outlet. In the early stages of the outlet's existence, it was found that the royalty payments and the franchise agreement inhibited and dwarfed the extent to which the outlet was able to grow. However, in time and subsequent to the eventual establishment of the outlet, the rules and regulations of the franchise agreement were accepted as a necessary provision of the franchisee/franchisor relationship. The franchisee mentioned that she bought into an established name and concept provided by the franchisor. For this reason she found herself obliged to accept the costs accompanying these advantages. She also commented that many franchisees who become involved in franchising forget

that they are acquiring an already established concept which has been tried and tested. According to her, complaints regarding the rules and regulations had no sound basis. She commented further that the franchisee/franchisor relationship had to be reciprocal, so that each party acquired something out of the business relationship. There had to be a *quid pro quo* flowing both ways.

5.13.5 Conclusion

This theme dealt with the benefits and challenges that franchisees experienced with regard to their involvement in the franchise industry. It broadly examined various issues that were introduced in the literature review so as to draw parallels between theory and practice. The results of this section of the survey will be briefly summarised below.

The majority of franchisees are only marginally satisfied by reason of their involvement in franchising. This attitude is far more encouraging than one that would have expressed out and out dissatisfaction with the concept of franchising. On the other hand, the franchisees' opinions clearly indicate that there is room for improvement in order for them to gain maximum satisfaction.

One is bound, however, not to lose sight of the fact that the majority of the franchisees who participated in the survey did indicate that they felt they were at an advantage by being part of franchising systems. One of the most common reasons cited was the benefit of becoming involved in already established brands and trading names. Another common reason cited was that of the support and assistance that the franchisors provide. The franchisees who did not perceive an advantage by being part of a franchise system indicated that uncooperative and unresponsive franchisors carried the blame for not realising the benefits franchising offered in general.

To establish whether or not the advantages outlined in the literature review applied to the franchisee group that was surveyed, questions relating to financial independence, innovativeness, risk taking, the achievement of other ambitions, and the attainment of skills and training were included in the franchisee questionnaire. The results of the responses to that of financial independence and the achievement of other ambitions indicated correlated with the suggestions of the literature review. However, differing results were found with regard to the innovativeness of franchisees and risk taking. The results indicated that despite the restrictions imposed by the franchisors, franchisees were still able to be innovative as well as take calculated risks, contrary to the suggestions of the literature review.

The results that were found with regard to the skills and training that franchisees acquired through franchising, the majority attained skills but only a slim majority indicated that they had received beneficial training. This could suggest that franchisees gained more experience and skills through managing their own businesses themselves than through the formal training provided by the franchisors. This introduces implications for prospective franchisees in that the training offered by franchisors does not seem to be as effective as it could be.

On the whole, franchisees indicated that they found more advantages than disadvantages to being involved in franchising. While various respondents pointed to the more negative aspects of franchising, the majority felt that franchising remained a worthwhile business mechanism.

5.14 CONCLUSION

This chapter presented the findings of the surveys that were administered to the franchisor, franchisee and financial institution groups in order to acquire information and gain insight in the roles they play in the franchising industry. The findings have been presented in themes in which various issues, thought relevant to the study, have been explored. An attempt was also made to interpret the results of the survey in conjunction with the concept of franchising acting as a mechanism for economic empowerment. Conclusions have been drawn from the findings of each theme. These conclusions will be briefly summarised to present an overall picture of the current franchise industry and the implications it poses for economic empowerment in South Africa.

The findings of the surveys that were administered to the franchisor and franchisee groups verified that the food industry is the largest industry represented in franchising. This finding was similar in the literature review and has been substantiated by the findings of the franchisor and franchisee groups. However, in terms of the costs involved in the food industry, this category demands the highest investment requirement of all the industries in franchising. Even though the food industry seems to represent a popular choice for franchise involvement, it nevertheless requires a substantial financial outlay. The concept of franchising, like most other business ventures, complies with the law of diminishing returns. The less the cost of the franchise, the less the dividends would be. The results of the study in general therefore implies that the high costs of franchising limits the number of previously disadvantaged people who wish to enter the franchising market, but especially precludes them from the food industry. The old axiom of "you need money to make money" is still very much in force.

In terms of adequately funding individual franchise outlets, the majority of the franchisees were afforded no option but to rely on external financial assistance. Very few franchisees stated that they had received financial assistance from the franchisor and/or the government. The majority of the franchisees were therefore obliged to approach financial institutions. There, only a slim majority found the process of obtaining the requisite funding an easy one. One bonus discovered in favour of prospective franchisees, was the fact that financial institutions did not require that franchisees have formal qualifications. They did, however, require that franchisees produce their financial history, a business plan and be supported by a reputable franchisor. These requirements impact heavily on prospective franchisees from disadvantaged backgrounds. The first prerequisites of a sound business plan as well as support from a reputable franchisor, may still be attainable. However, the individual's financial history will no doubt present severe and insurmountable problems. For those who do not possess an acceptable financial history, the chances of receiving funding is reduced on the presumption that strict compliance of the financial institutions requirements are to be adhered to.

Despite the high costs and possible problems involved in funding individual franchise outlets, the research has indicated that the franchise industry is in a developmental stage in South Africa, a point that was raised in the literature review. The majority of franchise systems or concepts have been in existence for longer than five years, implying an element of permanence. In addition, the majority of the franchisors indicated that they had expanded into most of the major cities in South Africa. However, the majority of the franchisees indicated that they had not been in existence for longer than five years. This suggests that franchises in Durban are relatively new and only beginning to become established. Franchisors did indicate that competitive advantage was a major driving force in the need and desire to expand. Because the concept of franchising is developing and expanding in South Africa, it presents an

encouraging sign that franchising is a sound and viable business mechanism. It provides real opportunities and is not to be regarded as a "fly-by-night" concept.

It was considered relevant to determine the current racial distribution of franchisees in the franchise industry. The findings raise interesting points in regards to whether or not franchising acts as a mechanism for economic empowerment. The literature review, and the franchisor and franchisee groups all indicated the same results, namely that white franchisees currently dominate the franchise industry. In addition, the financial institutions estimated that white franchisees are the majority race group that approach them for funding. This suggests that a minority group currently dominates the franchise industry, implying that at present the franchise industry is not economically empowering the majority of people in South Africa.

The results derived from the franchisee and franchisor group correlate in terms of the prerequisites to qualify as franchisees. The majority of the franchisees found the process of being selected as franchisees relatively easy, as qualifications were not considered necessary, but obviously depending on the industry and profession involved. An interesting point that was noted was the finding that many franchisees found it easy to be accepted as a franchisee because they had the necessary finance. This presents adverse implications for prospective franchisees from disadvantaged backgrounds. Access to funding is usually limited thereby making their selection as franchisees more difficult. The majority of the franchisees indicated that they were previously employed. After gaining some experience in the workplace, they then availed themselves of a franchise opportunity.

The literature review presented the idea that franchising offers two benefits that other conventional non-franchised businesses do not, namely training and support from the franchisor. However, two interesting findings surfaced in regards to these supposed advantages of franchising. Even though franchisors indicated that

they provided training to the franchisee, many franchisees indicated that the training they received was inadequate and not comprehensive enough to assist in the effective management of their individual outlets. With regard to the support and assistance received from franchisors, the majority of the franchisees indicated that the support and assistance they received only met some of their expectations. These two issues, which are supposed to represent important advantages for franchisee involvement in franchising have been found through this research process, to fall short of the expectations that the literature review proposed. These factors militate against franchising as a mechanism for economic empowerment in that prospective franchisees from disadvantaged backgrounds will not necessarily benefit from involvement in franchising if the training by and support from franchisors is lacking as appears to be the case.

While indicators pointed that the training and support from franchisors did not measure up to acceptable standards, it was nevertheless found that the majority of franchisors and franchisees considered franchising to be profitable. The majority of the franchisees were generating an income that met their expectations. Franchisees also tended to work longer hours than a normal eight hour day, forty hour week.

The majority of respondents in both the franchisor and franchisee groups indicated that they were involved in the community in some way. This section was considered relevant to the study in that it is in keeping with empowerment theme. The majority of franchisors indicated that they encouraged the involvement of previously disadvantaged in franchising. That in itself creates a sense of entrepreneurship development. The majority of the franchisees indicated that they created employment. Some sponsored events and/or donated their products and services to the community.

Opinions among franchisees regarding the possibility of an inhibiting franchise agreement are divided. Some franchisees indicated that they had problems with their franchise agreement because of their limiting and inflexible framework. In terms of the royalties that franchisees were expected to pay, only a slim majority of franchisees found it a bother to pay them. In terms of the advantages and downfalls of franchising, the majority of franchisees were somewhat satisfied but also felt that were at an advantage by being part of a franchise system. The majority of franchisees considered themselves to be financially independent, able to achieve other ambitions and received skills and training they would not have otherwise acquired which correlates with the suggestions of the literature review. However, franchisees also indicated that they were innovative and risk takers which is contrary to the findings of the literature review. The majority of the franchisees indicated that they found franchising to be worthwhile.

The last chapter, which follows, focuses on final conclusions that can be drawn from this research. Recommendations will also be presented in which franchising can effectively act as a mechanism for economic empowerment.

CHAPTER 6 : CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The social, economic and political climate of South Africa has changed considerably since the General Elections of 1994. This has meant that many changes to existing systems have and are being made to accommodate the emerging transformation of South African society. This study has addressed one mechanism that can possibly aid in this transformation process in that it has introduced the concept of economic empowerment but within the already established industry of franchising. It has been argued that entrepreneurship is a building block in which an economy can grow and prosper, therefore, by utilising the possible benefits of franchising to facilitate entrepreneurship, economic empowerment can be assured.

While this argument has been presented in the literature review and explored in the research analysis, many interesting points were raised. Points that either support this argument or oppose it have been revealed to gain an overall picture of whether franchising can indeed act as a mechanism for economic empowerment. The points that support this argument will be examined first.

The franchise industry in South Africa is being actively established, implying economic stability and growth in this sector. In other words, this industry seems to be one where new and fresh opportunities are being created. Many of the franchisees who responded to the survey indicated that formal qualifications were not required of them. Since the education system historically disadvantaged the black majority by endowing them with an inferior education, the general non-requirement of formal qualifications in franchising bypasses the education issue.

Financial institutions seem to favour franchisees over non-franchised small business owners because they regard the financial risk to be reduced if a reputable franchisor is one of the participating parties in a new business venture. Both franchisee and franchisor groups confirmed that they were involved in social responsibility activities. Some franchisors were and are actively encouraging the participation of previously disadvantaged people in franchising. This point was examined in paragraph 5.9.4. The study stressed that the research is unable to disclose the extent to which franchisors do in fact encourage participation. It is nevertheless accepted in good faith that such active encouragement exists and is in fact undertaken. Some franchisees prided themselves on the fact that they provided employment and made donations to their communities. Majority groups in both the franchisor and franchisee groups stated that franchising lead to their success. This was amplified by the sentiment of franchisees that their income generation was relatively lucrative. Overall, the majority of franchisees indicated that they were satisfied and many franchisees professed that they considered themselves to be at an advantage as a result of their involvement in franchising. A larger percentage of franchisees were proud of the financial independence they gained. In addition, they were able to be innovative, take calculated risks in business, and achieve other ambitions. These are all points which equate very closely to owning a non-franchised small business, making franchising an attractive option for those wishing to own their own business provided they are willing to accept the extra burdens imposed by the franchise agreement. Franchising has also provided many franchisees with skills they would not have otherwise acquired, and serves as a means of skill development.

However, there are weak points that militate against franchising. They limit the extent to which franchising is able to act as a mechanism for economic empowerment. As franchising currently stands, white franchisees form a clear majority race group in contrast to other race groups. A contributing factor to this domination may be ascribed to the fact that many franchises require substantial capital investment. The majority of previously disadvantaged potential

franchisees simply cannot afford such investment. Another contributing factor discovered by the survey in this research is that many franchisees disclosed that finance was the principal prerequisite and virtually the only hurdle to be overcome to gain acceptance as a franchisee. The research also found that financial assistance is limited and restricted. It is virtually only facilitated through financial institutions. Franchisors and the government provide very few alternatives financial sources to aid prospective franchisees. As a result, many financial institutions do not always provide funding to franchisees who are unable to produce satisfactory financial histories. Funding through financial institutions is therefore relatively difficult. The research also found that training is not always provided and many programmes are relatively superficial. They fall short of providing effective means to manage a franchise outlet successfully. There is, therefore, no guarantee of beneficial training. One last aspect is that franchisor support of franchisees is not always maintained thereby neglecting, and in the worst cases, negating an important advantage of franchising that has been mentioned in paragraph 3.8.8 of the literature review.

The following section examines the extent to which the negative aspects of the franchise industry, in its current state, may be minimised so that it can more fully act as a mechanism for economic empowerment.

6.2 A METHODOLOGY BY WHICH FRANCHISING CAN ACT AS A MECHANISM FOR ECONOMIC EMPOWERMENT

6.2.1 Introduction

In order to address the inhibiting aspects of franchising that stand in the way of economic empowerment, it is the purpose of this section to present a methodology by which franchising can be converted to act as an effective mechanism for economic empowerment. Various points are raised and each will be discussed in turn.

6.2.2 A Regulatory Body

The literature review, paragraph 3.8.5., referred to the intentions of the Department of Trade and Industry to join forces with the Franchise Association of South Africa (FASA) to create a regulatory body. The author has acknowledged this idea of a regulatory body but the merits of such intervention need to be determined. The justification for a regulatory body is presented below to determine whether it is worth pursuing or not.

The Franchise Association of Southern Africa (FASA) is the only structured body that provides assistance in franchise matters. It sets out guidelines on ethical franchising practices for franchisors (O'Connor, 1997:100). However, membership of FASA is voluntary which means that franchisees can fall prey to franchisors who refuse or decline membership to FASA and practice unethical franchising. In other words, all franchisors are not required, by law, to become members of FASA, therefore rules do not necessarily apply. This creates problems where blatantly unethical franchising is practised. A regulatory body would therefore require that all franchisors be registered as members and failure to do so would result in denial of all trading rights. Its intention would be to root

out unscrupulous franchisors by requiring membership and adherence to all the rules and regulations stipulated by the regulatory body so as to protect the prospective franchisee.

The findings of the research, paragraph 5.13.3.2, also indicated that some franchisees found the support rendered by franchisors to be inadequate, thereby indicating a lack of communication. This presents another valid reason to establish a mandatory regulatory body. By these means, a medium or forum may be established so that franchisors and franchisees are able to meet, present and resolve problems that both sides may experience. Solutions can be sought before the business relationship becomes incompatible and uncooperative.

The literature review, paragraph 3.6, remarked that training is an important advantage of franchising. However, the research findings, paragraph 5.7.4, indicate that training is relatively superficial. This point obviously presents severe difficulties to franchisees who possess very little skills in managing a franchise outlet. Training therefore has to be more comprehensive if previously disadvantaged franchisees are going to become involved in and benefit from franchising. A regulatory body could prove useful in providing basic training for prospective franchisees from disadvantaged backgrounds. It could liaise with training centres to assist disadvantaged prospective franchisees to gain the necessary basic business skills before entering the market as fully-fledged franchise outlet owners.

The three justifications for establishing a regulatory body mentioned above have been acknowledged by the author. However, the author is of the opinion that establishing a regulatory body may not necessarily facilitate all the above concerns. The reasons for this criticism are outlined below.

The costs involved in regulating the franchise industry, both financial and philosophical, are great. Centres would have to be set up around the country to maintain this regulation and/or facilitation role. The government is already bowing under immense financial burdens from all other sectors. It is therefore unrealistic that the finances required to establish these centres will be provided. Even if franchisors were required to pay higher membership fees, the resources to maintain this regulatory body would be inadequate. Realistically, the costs of establishing and maintaining a regulatory body would be too great. Also the author is weary of government intervention in economic activities. Franchising provides a means for people to make a living for themselves by engaging in free trade. Government intervention, by its definition, limits this ability to trade freely.

While the afore-mentioned criticism of voluntary and not compulsory membership to FASA may be valid, it is nevertheless up to the individual prospective franchisee to make him or herself aware of the warning signs of a potentially corrupt franchisor. FASA is in existence to provide a facilitation role to both franchisors and franchisees. Therefore, prospective franchisees are able to approach FASA and gather information regarding the warning signs they should be aware of. In effect, the author is advocating that prospective franchisees should, with the assistance of FASA, educate themselves so that they are able to make better informed decisions regarding their choice of franchise. This point applies especially to prospective franchisees from disadvantaged backgrounds who may require more intense assistance. An additional point worth noting is that franchisors who are members of FASA have the stamp of approval. Franchisees who then wish to become involved in franchises that are not registered with FASA, do so at their own risk.

Mention was made that a regulatory body could provide for forums where franchisees and franchisors could meet to solve problems concerning the franchisor/franchisee relationship. FASA has established The Franchisee Group that, to a certain extent, addresses the issue presented above. It focuses on and attempts to nourish the relationship between franchisors and franchisees. For example, the issue of more effective training is able to be raised between franchisors and franchisees. In effect it is a forum for the exchange of ideas between the franchisors and franchisees (Frost, 1997:103). The Franchisee Group serves its members and, as such, its benefits do not extend to non-member franchisors and franchisees. A point that was raised by one of the franchisees, in paragraph 5.13.4, was that independent guilds had been formed between two major food franchises to provide a medium for adequate communication to take place between the franchisors and franchisees. The idea that for forums to reach all participants in the franchise industry, they need to operate within a regulatory body has been acknowledged. However, with the Franchisee Group already established as well as guilds beginning to appear, a regulatory body would prove redundant over time. The costs mentioned earlier in establishing a regulatory body would not be justified in this sense as franchisors and franchisees, as well as FASA are already establishing their own forums.

The idea of a regulatory body has been presented and its justification explored. It would ideally protect prospective franchisees from unscrupulous franchisors, provide forums where franchisors and franchisees could meet to solve problems and could also address the problem of inadequate training for franchisees from disadvantaged backgrounds. However, the author is of the opinion that the costs that would be incurred to establish and maintain a regulatory body could not be justified especially since FASA is already beginning to move in the direction of a more facilitatory role. In effect, over time a regulatory body would become redundant.

6.2.3 Different Industry Involvement

The findings of the research, paragraph 5.2.2, indicate that the majority of the franchisors and franchisees are involved in the food industry. The findings also indicate that the food industry requires the highest capital outlay by franchisees, paragraph 5.6.3.1. While food represents an important industry in South Africa, it would nevertheless be more beneficial to incorporate other industries that require less investment so as to encourage greater participation in the franchise industry as a whole.

Ebersohn (1998:21) is of the opinion that if full employment could ever be possible, it will only be through the service sector. He maintains that the historical decline in employment in the agriculture and manufacturing industries has led to a growth in the service sector. He continues by mentioning that "in this day of instant solutions to everyday needs, more and more work is being contracted out to service providers" (Ebersohn, 1998:21). The findings, paragraph 5.2.2, however, indicate that only a relatively small percentage of franchisees and franchisors are involved in this category of industry in comparison to other industries.

The service industry holds great potential, especially for the previously disadvantaged potential franchisee. Once a service need has been identified and addressed, it can often be turned into a business opportunity - a niche that the franchise industry can easily dominate. As Ebersohn (1998:22) suggests, "a fundamental reason for the success of the service industry is that it is often easier to leave the hard work to a trained expert than attempt the job on one's own." The service industry embraces many professions and many opportunities that cover a huge spectrum of investment requirements. Through the service sector, potential franchisees would thus have more alternatives in terms of financial requirements than what is currently being offered.

6.2.4 Exploring Alternative Cost Structures

As mentioned in the previous section, the findings indicate that the general costs involved in establishing a franchise outlet are huge. This factor in itself serves as a discouragement to previously disadvantaged people to enter into franchising. By finding attachment to less expensive industries, and exploiting opportunities that the service sector provide, aspiring franchisees could look forward to less expensive franchises that may also be more suited to their communities.

The role of the government in providing financial assistance to aspiring franchisees could be investigated at more intense levels and developed to a greater extent. Much of the financial assistance is aimed at the non-franchised small business owner without much regard for the aspiring franchisee. The same criteria used to assess the potential of aspiring non-franchised small business owners should also be applied to prospective franchisees.

Equally the role of the franchisor in providing financial assistance to the aspiring franchisee is an important one. This method ought also to receive closer attention. It could be developed into a vehicle to facilitate greater participation in franchising. While the research findings, paragraph 5.6.4, suggest that some franchisors are providing assistance to franchisees in the form of concessions and/or individual payment plans, only a small percentage are benefiting from this arrangement. In the current state of affairs, franchisors are most probably averse to accepting franchisees who have little or no financial backing, employment history, or the necessary experience and skills but may nevertheless possess more than sufficient potential to become a successful franchisee. In other words, franchisors are probably reluctant to take the risk of providing financial assistance to people who only possess potential. As an incentive for franchisors to provide financial assistance, there must be an appeal to their sense of social responsibility as well as their desire to recruit as many franchisees as they are able to but with the minimum of risk.

To provide this incentive for franchisors, the Franchise Association of South Africa (FASA) could play an important role. The task of encouraging previously disadvantaged aspiring franchisees, with only potential as their draw card into franchising, could therefore be referred to FASA. In other words, FASA could facilitate a programme, with the help of the government and other agencies, to assist franchisors in recognising the potential of aspiring franchisees from disadvantaged backgrounds. This programme could be designed to be intensive, theoretically and practically, to assess the potential of aspiring franchisees. The reasoning behind this endeavour is to provide opportunities for aspiring franchisees while minimising the risk of the franchisee failing in the business. By establishing that a franchisee has the potential to be successful, the franchisor could then tailor-make a package whereby the franchisee can establish his own outlet.

Because it is considered high risk to finance people who have very little or no backing of any kind, FASA could liaise with financial institutions to assist in funding aspiring franchisees who have proved themselves through the intensive programme administered through FASA. This special arrangement could benefit all parties. The task of financial assistance would then not fall solely on the franchisor but would also provide a suitable risk assessment to financial institutions.

6.2.5 The Provision of Adequate Basic Training

It was mentioned earlier that a regulatory body could prove useful in providing a medium for the adequate administration of basic training, especially to those franchisees from previously disadvantaged backgrounds. Because the author is not convinced of the effectiveness of a regulatory body, emphasis is once again placed on the potential of FASA to facilitate adequate basic training. The sentiment is again expressed that FASA is in a stronger position to initiate the

provision of adequate training. By identifying the potential of prospective franchisees, as mentioned in paragraph 6.2.4, FASA would be in an informed position to assess the training needs of these franchisees. FASA could attempt to form alliances with learning institutions and provide feedback to the respective franchisors in order to provide these previously disadvantaged franchisees with the basic training they may require.

6.2.6 Conclusion

The fundamental aspect surrounding this argument concerning a methodology by which franchising can act as a mechanism for economic empowerment is of extending the facilitation role of the Franchise Association of South Africa. This idea has been touched on very briefly and there are obvious factors, such as the cost to FASA to extend its responsibilities, which have not been explored. Nevertheless, the author is of the opinion that FASA is in a strong position to provide ethical franchise principles, forums for franchisor and franchisee discussions, the assessment of potential franchisees from disadvantaged backgrounds, and fundamental skills training. By developing FASA's role further, many aspects of franchising that currently inhibit the participation of the previously disadvantaged could well be negated. Another aspect that could also encourage participation in franchising is the development of franchising in the service sector. The development of service-orientated franchise systems, that are far less expensive, could create a niche for the franchise industry that more people could become involved in.

6.3 CONCLUSION

This thesis has explored the concept of franchising as a mechanism for economic empowerment. It has theoretically examined current literature concerning the franchise industry and has explored the concept of entrepreneurship. It has also empirically explored the perceptions of franchisors, franchisees (in the greater Durban area) and financial institutions to gain an overall view of the current franchise industry.

In its current state, the franchise industry is not completely equipped to act as a mechanism for economic empowerment because there are factors that inhibit the participation of people who lack funding and fundamental business skills. In turn, franchising should only really appeal to those who have the drive and potential to succeed in a demanding business environment. Franchising therefore does not represent a sure-fire solution to the unemployment problem but a viable alternative for people to create their own employment. They are thus endowed with a sense of empowerment, but within an already established system.

By providing an overview of franchising as a mechanism for economic empowerment, and incorporating therein the expansion of the role of FASA, the path is open for further research. Theoretically, the expansion of FASA's role in the franchise industry could alleviate a number of the difficulties standing in the way of disadvantaged prospective franchisees. It may well prove to be the key which will unlock the door which has until now prevented the lesser privileged prospective franchisee from entering the franchise market place. It may also pave the way and prove that franchising is indeed able to act as a mechanism for economic empowerment, but further investigation is required to establish its full potential.

APPENDIX A
FRANCHISORS' QUESTIONNAIRE

Please tick the block next to your answer.

1. In which industry would you categorise your franchise?
- | | |
|-------------------------------------|---|
| <input type="checkbox"/> Automotive | <input type="checkbox"/> Beauty |
| <input type="checkbox"/> Building | <input type="checkbox"/> Services (printing, repair, cleaning, etc) |
| <input type="checkbox"/> Education | <input type="checkbox"/> Entertainment |
| <input type="checkbox"/> Food | <input type="checkbox"/> Real Estate |
| <input type="checkbox"/> Retail | <input type="checkbox"/> Other (please specify)..... |
2. If your company is represented in more than one industry or if there is more than one franchise in an industry, please indicate reasons for this:
- | |
|--|
| <input type="checkbox"/> Industries participated in are complementary to one another |
| <input type="checkbox"/> Competitive advantage |
| <input type="checkbox"/> Other (please specify)..... |
3. How many months/years has the franchise been in operation?
- | | |
|--|--|
| <input type="checkbox"/> 0 – 12 months | <input type="checkbox"/> 5 – 10 years |
| <input type="checkbox"/> 1 – 2 years | <input type="checkbox"/> 10 – 20 years |
| <input type="checkbox"/> 2 – 5 years | <input type="checkbox"/> Over 20 years |
4. In which of the following major cities/towns do you have outlets?
- | | |
|---|---|
| <input type="checkbox"/> Johannesburg | <input type="checkbox"/> Pretoria |
| <input type="checkbox"/> Durban | <input type="checkbox"/> Pietermaritzburg |
| <input type="checkbox"/> Bloemfontein | <input type="checkbox"/> Cape Town |
| <input type="checkbox"/> Port Elizabeth | <input type="checkbox"/> East London |
5. If you do not have outlets in all of the above, please indicate the reason/s why:
- | |
|--|
| <input type="checkbox"/> Expansion is still under consideration |
| <input type="checkbox"/> Potential franchisees in the other cities/towns have not yet expressed interest |
| <input type="checkbox"/> Expansion has not been considered due to financial constraints |
| <input type="checkbox"/> Other (please specify)..... |

6. Of those who approach you to open and operate a franchise outlet, what percentage are (please tick the appropriate box):

Race Groups	Percentages				
	0% - 20%	21%- 40%	40% - 60%	61% - 80%	81% - 100%
Black					
Coloured					
Indian					
White					

7. What percentage of franchise outlets opened per year are successful?
- ☐ 0% - 20%☐ 61% - 80%
- ☐ 21% - 40%☐ 81% - 100%
- ☐ 41% - 60%
8. Do you encourage previously disadvantaged people to participate in your franchise?
- ☐ Yes☐ No
9. If your answer to question 8 is yes, how do you encourage them?
- ☐ Specialist advertising
- ☐ Specialist training
- ☐ Financial assistance
- ☐ Other (please specify).....
10. Why do you encourage previously disadvantaged people to participate in your franchise?
- ☐ Community upliftment through encouraging the introduction of products and services that are not otherwise available
- ☐ Encourage entrepreneurship, which in turn creates employment for others
- ☐ Competitive advantage
- ☐ Other (please specify).....
11. What type of personality traits do you take into consideration when selecting an aspiring franchisee?
- ☐ Ambition
- ☐ Agree to accept franchise principles
- ☐ Hardworking
- ☐ Problem solver
- ☐ Other (please specify).....
- ☐ No specific personality traits required

12. What academic qualifications do you require of aspiring franchisees?
 - ☐ Grade 8 (Std 6)
 - ☐ Grade 9 (Std 7)
 - ☐ Grade 10 (Std 8)
 - ☐ Grade 11 (Std 9)
 - ☐ Grade 12 (Std 10)
 - ☐ Tertiary qualifications (e.g. degrees and diplomas)
 - ☐ Other (please specify).....
 - ☐ No academic qualifications necessary

13. What kind of background of aspiring franchisees is relevant to their selection?
 - ☐ Employment history
 - ☐ Previous knowledge of franchising
 - ☐ Previous education in franchising
 - ☐ Previous participation in franchising
 - ☐ Other (please specify).....

14. What kind of financial requirements do you need from prospective franchisees?
 - ☐ Personal financial records and history
 - ☐ Details of bank loans, other financial assistance
 - ☐ Proof of finance for the franchise other than from banks/lending institutions
 - ☐ Other (please specify).....
 - ☐ No financial requirements

15. Do you assist in any of the following?
 - ☐ Financial assistance (i.e. individual payment plans for franchisees)
 - ☐ Helping franchisees approach banks/lending institutions
 - ☐ Do not assist in either of the above

16. Do you only consider an aspiring franchisee for selection whose goals are in keeping with that of the franchise?
 - ☐ Yes ☐ No

17. Do you provide training for franchisees?
 - ☐ Yes ☐ No

18. If your answer to question 17 is yes, what time scale do you allocate to training?
 - ☐ 1 month
 - ☐ 2 - 3 months
 - ☐ 4 - 6 months
 - ☐ 6 - 12 months
 - ☐ Ongoing
 - ☐ Other (please specify).....

19. What areas of franchising is training provided for?
- ☐ Day to day operations
 - ☐ Personnel matters
 - ☐ Bookkeeping
 - ☐ Stock control
 - ☐ Leadership and management
 - ☐ Other (please specify).....
20. Do you provide ongoing support for franchisees?
- ☐ Yes ☐ No
21. Do you analyse franchisees' profitability?
- ☐ Yes ☐ No
22. Do you find franchising profitable?
- ☐ Very ☐ Somewhat ☐ Not at all

If you any comments, please use this space

.....

.....

.....

.....

.....

.....

.....

.....

.....

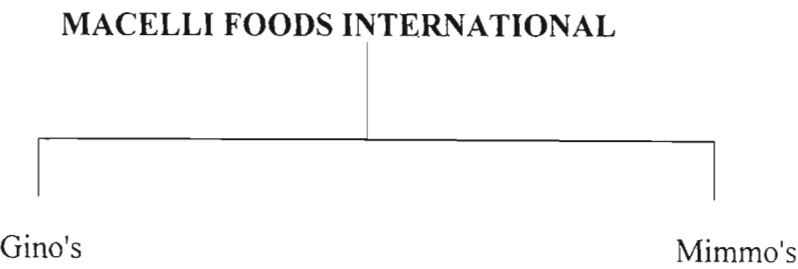
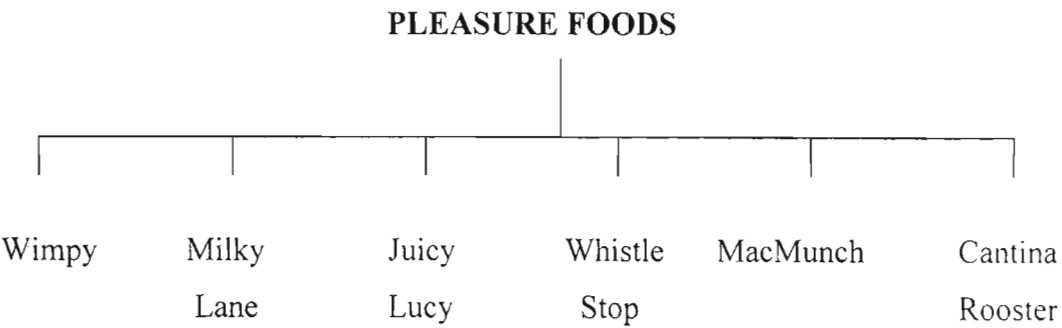
.....

Thank you for your participation.

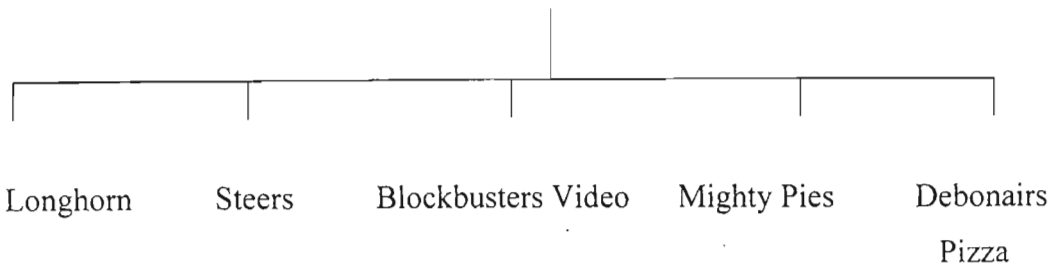
APPENDIX B

FRANCHISE CONCEPT OWNERSHIP

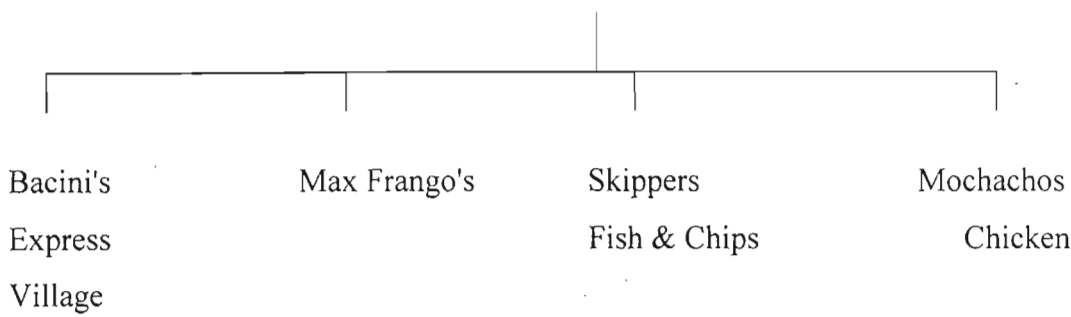
The following figures concern various members of the franchisor group that were asked to participate in the research survey. The figures indicate that specific companies, for example holding companies, own more than one franchise concept. As paragraph 4.3.3.1. indicates, the franchisor pilot study revealed that a franchisor who is represented in more than one franchise would answer the questionnaire collectively and not separately according to each separate franchise. It was therefore deemed appropriate to allocate one questionnaire to franchisors, even if they own more than one franchise. The following figures therefore indicate which companies own the various franchise concepts.



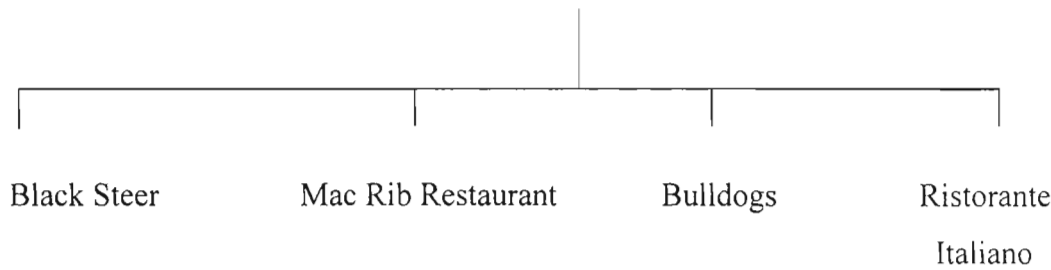
STEERS HOLDING COMPANY



MEXICAN FRANCHISE HOLDINGS

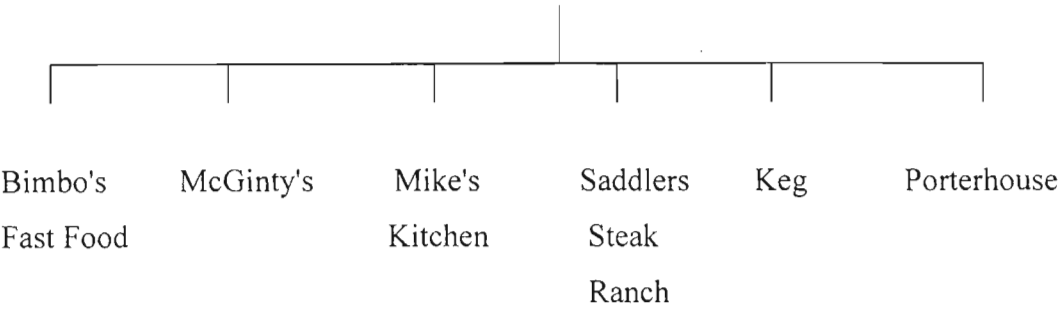


FOODGRO FRANCHISE HOLDINGS COMPANY

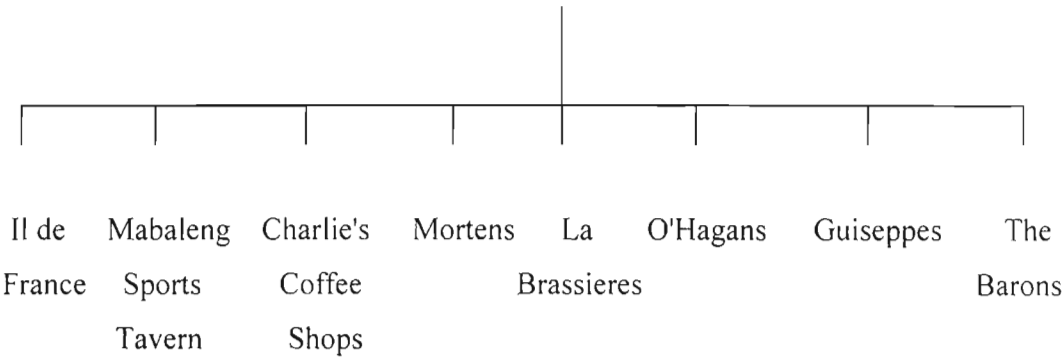


(The franchises listed in the above diagram have subsequently broken away from the Foodgro Franchise Holdings Company, after the research was undertaken.)

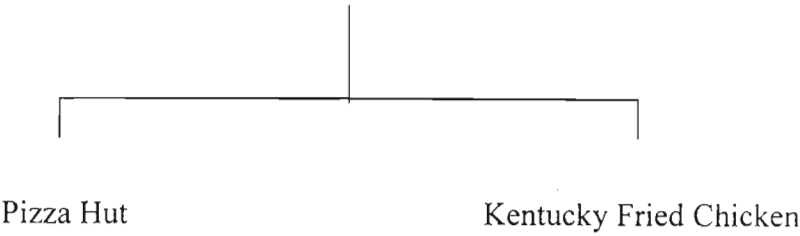
KING FRANCHISING



O'HAGAN'S INVESTMENT HOLDINGS



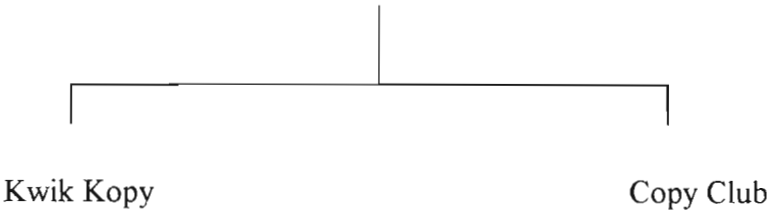
TRICON RESTAURANTS INTERNATIONAL (PTY) LTD



SWEETS FROM HEAVEN



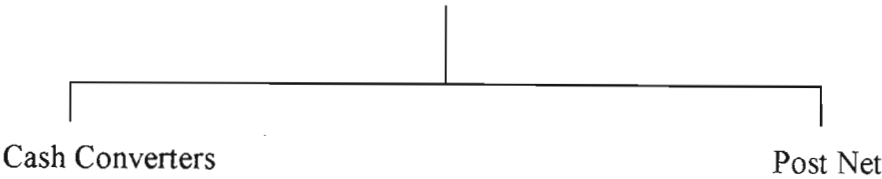
KWIK KOPY SA (PTY) LTD



JETLINE PRINT FRANCHISING



TRUNORTH HOLDINGS



APPENDIX C

FRANCHISEES' QUESTIONNAIRE - POSTAL

Please tick the block next to your answer.

1. In which industry would you categorise your franchise?

- ☐ Automotive ☐ Beauty/Health Services
☐ Business & Speed Printing Services
☐ Education ☐ Entertainment
☐ Food ☐ Real Estate
☐ Retail ☐ Building

2. How many months/years has your franchise outlet been in operation?

- ☐ 0 – 12 months ☐ 5 – 10 years
☐ 1 – 2 years ☐ 10 – 20 years
☐ 2 – 5 years ☐ Over 20 years

3. Do you own any other franchise outlets?

- ☐ Yes ☐ No

4. Of which race group are you a member?

- ☐ Black ☐ Coloured
☐ Indian ☐ White

5. What is your gender?

- ☐ Male ☐ Female

6. Please indicate your age.

- ☐ 18-25 years
☐ 26-35 years
☐ 36-75 years
☐ Older than 75 years

7. Were you previously employed before deciding to open your own franchise outlet?

- ☐ Yes ☐ No

8. For what reason/s did you become involved in franchising?

- ☐ Previously unemployed/retrained
☐ Unfulfilled in your previous job
☐ Made use of a franchise opportunity
☐ Always wanted to own a franchise
☐ Other (please specify).....
.....

9. How easy or difficult was it to be considered as a franchisee by the franchisor you approached?

- ☐ Very easy ☐ Easy
☐ Difficult ☐ Very difficult

10. Please elaborate on your answer to question 9.

- ☐ Had the necessary qualifications
☐ Did not have the necessary qualifications
☐ Had the necessary finance
☐ Did not have the necessary finance
☐ Had necessary previous experience
☐ Did not have necessary previous experience
☐ Other (please specify).....
.....

11. How much capital did you require to open your franchise?

- ☐ 0 – R5000
☐ R5001 – R10 000
☐ R10 001 – R50 000
☐ R50 001 – R100 000
☐ R100 001 – R200 000
☐ R200 001 – R400 000
☐ R400 001 – R600 000
☐ More than R600 000

12. Did you require additional funding, such as a loan, to open your franchise?

☐ Yes ☐ No

13. If your answer to question 12 is yes, how easy or difficult was it to receive funding from a financial institution?

☐ Very easy ☐ Easy
☐ Difficult ☐ Very difficult

14. Did you receive any financial assistance from the government?

☐ Yes ☐ No

15. If your answer to question 14 is yes, please elaborate.

.....

16. Did you receive any financial assistance/concessions from the franchisor?

☐ Yes ☐ No

17. If your answer to question 16 is yes, please elaborate.

.....

18. Were and are the costs entailed in the franchise:

☐ More than you expected?
☐ As you expected?
☐ Less than you expected?

19. Did/do you receive training that assists you in running your franchise outlet/s?

☐ Yes ☐ No

20. If your answer to question 19 is yes, please indicate what kind of training you received.

☐ Initial basic training (operations/management)
☐ Individual specialist courses
☐ Ongoing training as & when required
☐ Other (please specify).....

21. How successful would you rate your franchise?

☐ Very ☐ Somewhat
☐ Not very ☐ Not at all

22. Does the amount of money you are making:

☐ Exceed your expectations?
☐ Meet your expectations?
☐ Meet some of your expectations?
☐ Meet none of your expectations?

23. How many days a week do you work?

☐ Less than 5 days a week
☐ 5 days a week
☐ 6 days a week
☐ 7 days a week
☐ 7 days a week including public holidays
☐ Other (please specify)

24. On average, how many hours do you work per day?

☐ Less than 8 hours
☐ 8 – 10 hours
☐ 10 – 12 hours
☐ 12 – 14 hours
☐ 14 – 16 hours
☐ More than 16 hrs

25. How would you rate the level of assistance and support you receive from your franchisor?

- ☐ Exceeds your expectations
- ☐ Meets your expectations
- ☐ Meets some of your expectations
- ☐ Meets none of your expectations

26. Are you on good terms with your franchisor?

- ☐ Yes
- ☐ No

27. How would you rate your overall satisfaction?

- ☐ Very satisfied
- ☐ Somewhat satisfied
- ☐ Not very satisfied
- ☐ Not at all satisfied

28. Do you feel that you are at an advantage by being part of a franchise system?

- ☐ Yes
- ☐ No

29. Has franchising allowed you to be financially independent?

- ☐ Yes
- ☐ No

30. Has franchising allowed you to be innovative?

- ☐ Yes
- ☐ No

31. Has franchising allowed you to take calculated risks?

- ☐ Yes
- ☐ No

32. Has franchising allowed you to achieve other ambitions?

- ☐ Yes
- ☐ No

33. In any way, has your franchise outlet aided in the upliftment/improvement of your community?

- ☐ Yes
- ☐ No

34. If your answer to question 33 is yes, how has your franchise outlet uplifted/improved your community?

- ☐ Services introduced that were not previously available
- ☐ Products introduced that were not previously available
- ☐ Employment opportunities created
- ☐ Other (please specify).....

35. Has franchising provided you with skills you would not have otherwise acquired?

- ☐ Yes
- ☐ No

36. Has franchising provided you with training you would not have otherwise received?

- ☐ Yes
- ☐ No

37. Do you find working within the franchising agreement inhibiting?

- ☐ Yes
- ☐ No

38. Do you find it a bother to pay royalties to the franchisor every month?

- ☐ Yes
- ☐ No

39. Is your profitability assessed by the franchisor?

- ☐ Yes
- ☐ No

If you have any other comments, please use this space.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Thank you for your participation.

APPENDIX D

FRANCHISEES' QUESTIONNAIRE - INTERVIEW

Please tick the block next to your answer.

<p>1. In which industry would you categorise your franchise?</p> <p> <input type="checkbox"/> Automotive <input type="checkbox"/> Real Estate <input type="checkbox"/> Building <input type="checkbox"/> Beauty <input type="checkbox"/> Education <input type="checkbox"/> Entertainment <input type="checkbox"/> Food <input type="checkbox"/> Services (repair, cleaning, printing) <input type="checkbox"/> Retail <input type="checkbox"/> Other (please specify) </p> <p>2. How many months/years has your franchise outlet been in operation?</p> <p> <input type="checkbox"/> 0 – 12 months <input type="checkbox"/> 5 – 10 years <input type="checkbox"/> 1 – 2 years <input type="checkbox"/> 10 – 20 years <input type="checkbox"/> 2 – 5 years <input type="checkbox"/> Over 20 yrs </p> <p>3. Do you own more than one franchise?</p> <p> <input type="checkbox"/> Yes <input type="checkbox"/> No </p> <p>4. Of which race group are you a member?</p> <p> <input type="checkbox"/> Black <input type="checkbox"/> Coloured <input type="checkbox"/> Indian <input type="checkbox"/> White </p> <p>5. What is your gender?</p> <p> <input type="checkbox"/> Male <input type="checkbox"/> Female </p> <p>6. Please indicate your age.</p> <p> <input type="checkbox"/> 18 – 25 years <input type="checkbox"/> 26 – 35 years <input type="checkbox"/> 36 years – 75 years <input type="checkbox"/> Older than 75 years </p> <p>7. Were you previously employed before deciding to open your own franchise outlet?</p> <p> <input type="checkbox"/> Yes <input type="checkbox"/> No </p>	<p>8. For what reason/s did you become involved in franchising?</p> <p> <input type="checkbox"/> Previously unemployed/retrenched <input type="checkbox"/> Unfulfilled in your previous job <input type="checkbox"/> Made use of a franchise opportunity <input type="checkbox"/> Always wanted to own a franchise outlet <input type="checkbox"/> Other (please specify) </p> <p>9. How easy or difficult was it to be considered as a franchisee by the franchisor you approached?</p> <p> <input type="checkbox"/> Very easy <input type="checkbox"/> Easy <input type="checkbox"/> Difficult <input type="checkbox"/> Very difficult </p> <p>10. Please elaborate on your answer to question 9.</p> <p> <input type="checkbox"/> Had the necessary qualifications <input type="checkbox"/> Did not have necessary qualifications <input type="checkbox"/> Had the necessary finance <input type="checkbox"/> Did not have the necessary finance <input type="checkbox"/> Had necessary previous experience <input type="checkbox"/> Did not have necessary previous experience <input type="checkbox"/> Other (please specify)..... </p> <p>11. How much capital did you require to open your franchise?</p> <p> <input type="checkbox"/> 0 – R5000 <input type="checkbox"/> R5001 – R10 000 <input type="checkbox"/> R10 001 – R50 000 <input type="checkbox"/> R50 001 – R100 000 <input type="checkbox"/> R100 001 – R200 000 <input type="checkbox"/> R200 001 – R400 000 <input type="checkbox"/> R400 001 – R600 000 <input type="checkbox"/> More than R600 000 </p>
---	--

<p>12. Did you require additional funding, such as a loan, to open your franchise? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>13a. If your answer to question 12 is yes, how easy or difficult was it to receive funding from a financial institution? <input type="checkbox"/> Very easy <input type="checkbox"/> Easy <input type="checkbox"/> Difficult <input type="checkbox"/> Very difficult</p> <p>13bPlease elaborate on your answer to question 13a.</p> <p>14. Did you receive any financial assistance from the government? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>15.If your answer to question 14 is yes, please elaborate.</p> <p>16. Did you receive any financial assistance/concessions from the franchisor? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>17. If your answer to question 16 is yes, please elaborate.</p> <p>18. Were and are the costs entailed in the franchise: <input type="checkbox"/> More than you expected? <input type="checkbox"/> As you expected? <input type="checkbox"/> Less than you expected?</p>	<p>19. Did/do you receive training from the franchisor that assists you in the running of your franchise outlet/s? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>20. If your answer to question 19 is yes, please indicate the kind of training you have received and do receive. <input type="checkbox"/> Initial basic training (operations/ management <input type="checkbox"/> Individual specialist course run by the franchisor <input type="checkbox"/> Ongoing training as & when required <input type="checkbox"/> Other (please specify).....</p> <p>21. How successful would you rate your franchise outlet? <input type="checkbox"/> Very successful <input type="checkbox"/> Somewhat successful <input type="checkbox"/> Not very successful <input type="checkbox"/> Not at all successful</p> <p>22. Does the amount of money you are making: <input type="checkbox"/> Exceed your expectations? <input type="checkbox"/> Meet your expectations? <input type="checkbox"/> Meet some of your expectations? <input type="checkbox"/> Meet none of your expectations?</p> <p>23. How many days a week do you work? <input type="checkbox"/> Less than 5 days a week <input type="checkbox"/> 5 days a week <input type="checkbox"/> 6 days a week <input type="checkbox"/> 7 days a week <input type="checkbox"/> 7 days a week including public holidays <input type="checkbox"/> Other (please specify)</p>
---	--

24. On average, how many hours do you work per day?

- | | |
|--|--|
| <input type="checkbox"/> Less than 8 hours | <input type="checkbox"/> 8 – 10 hours |
| <input type="checkbox"/> 10 – 12 hours | <input type="checkbox"/> 12 – 14 hours |
| <input type="checkbox"/> 14 – 16 hours | <input type="checkbox"/> Over 16 hrs |

25. How would you rate the level of assistance and support you receive from your franchisor?

- ☐ Exceeds your expectations
- ☐ Meets your expectations
- ☐ Meets some of your expectations
- ☐ Meets none of your expectations

26a. Are you on good terms with your franchisor?

- ☐ Yes ☐ No

26b. Please elaborate on the positive &/or negative aspects of your relationship with the franchisor.

.....

.....

.....

.....

27. How would you rate your overall satisfaction?

- ☐ Very satisfied
- ☐ Somewhat satisfied
- ☐ Not very satisfied
- ☐ Not at all satisfied

28a. Do you feel that you are at an advantage by being part of a franchise system?

- ☐ Yes ☐ No

28b. Please indicate reasons for your answer to question 28a.

.....

.....

.....

29a. Has franchising allowed you to be financially independent?

- ☐ Yes ☐ No

29b. If your answer to question 29a is no, please indicate reasons for your answer.

.....

.....

.....

30a. Has franchising allowed you to be innovative?

- ☐ Yes ☐ No

30b. If your answer to question 30a is no, please elaborate.

.....

.....

.....

31a. Has franchising allowed you to take calculated risks?

- ☐ Yes ☐ No

31b. If your answer to question 31a is no, please indicate reasons.

.....

.....

.....

32a. Has franchising allowed you to achieve other ambitions?

☐ Yes ☐ No

32b. Please elaborate on your answer to question 32a.

.....

33. In any way, has your franchise outlet aided in the upliftment/ improvement of your community?

☐ Yes ☐ No

34. If your answer to question 33 is yes, how has your franchise outlet uplifted/ improved your community?

- ☐ Services introduced that were not previously available
- ☐ Products introduced that were not previously available
- ☐ Employment opportunities created
- ☐ Other (please specify)

.....

35. Has franchising provided you with skills you would not have otherwise acquired?

☐ Yes ☐ No

36. Has franchising provided you with training you would not have otherwise received?

☐ Yes ☐ No

37a. Do you find working within the franchising agreement inhibiting?

☐ Yes ☐ No

37b. If your answer to question 37a is yes, please indicate reasons.

.....

38a. Do you find it a bother to pay royalties to the franchisor every month?

☐ Yes ☐ No
☐ Do not pay royalties

38b. If your answer to question 38 is yes, please elaborate.

.....

39. Is your profitability assessed by the franchisor?

☐ Yes ☐ No

40. Have you found any other advantages to owning a franchise operation? Please elaborate.

.....

41. If you have any further comments, please use this space.

.....

Thank you for your participation

APPENDIX E

FINANCIAL INSTITUTIONS' QUESTIONNAIRE

Please tick the block next to your answer.

1. What proportion of entrepreneurs, that require financial assistance from your institution, are aspiring franchisees?
- ☐ 0% - 20%
☐ 21% - 40%
☐ 41% - 60%
☐ 61% - 80%
☐ 81% - 100%
2. Of those who approach you for financial assistance in opening a franchise outlet, what percentage are (please tick the appropriate box):

Race Groups	Percentages				
	0% - 20%	21%- 40%	40% - 60%	61% - 80%	81% - 100%
Black					
Coloured					
Indian					
White					

3. Do you consider it an advantage if the applicant is supported by a reputable franchisor?
- ☐ Yes ☐ No
4. When seeking financial assistance, what percentage of aspiring franchisees get (please tick the appropriate box):

	0% – 20%	21% - 40%	41% - 60%	61% - 80%	81% - 100%
All they require					
Most of what they require					
Some of what they require					
None of what they require					

5. What is the minimum academic qualification you require of aspiring franchisees?
- ☐ Grade 8 (Std 6)
 - ☐ Grade 9 (Std 7)
 - ☐ Grade 10 (Std 8)
 - ☐ Grade 11 (Std 9)
 - ☐ Grade 12 (Std 10)
 - ☐ Post-secondary qualifications
 - ☐ Tertiary qualifications
 - ☐ Other (please specify).....

6. When seeking financial assistance what percentage of small business applicants, who are not aspiring franchisees, get (please tick the appropriate box):

	0% – 20%	21% - 40%	41% - 60%	61% - 80%	81% - 100%
All they require					
Most of what they require					
Some of what they require					
None of what they require					

7. Which of the following do you require from aspiring franchisees?
- ☐ Financial history
 - ☐ Business plan
 - ☐ An acceptable franchisor
 - ☐ Other (please specify).....

APPENDIX F

REMINDER LETTER TO FRANCHISORS

Jeanine Jonson

(BSoc Sci Hons)

156A Manning Road, Durban 4001

Tel & Fax: 031-210160

ATTENTION: THE FRANCHISOR

COMPANY:

This is just a letter to remind you of the questionnaire that I faxed to you a few weeks ago. It concerns your role in the franchising industry as a means of gauging whether franchising is a worthwhile industry to participate in. This research is being conducted as part of my Masters degree.

I would greatly appreciate it if you would take the time to fill out the questionnaire and fax it back to me. If you would like to participate but need the questionnaire refaxed to you please let me know.

Thank you for your time.

Yours sincerely
Jeanine Jonson

APPENDIX G

REMINDER LETTER TO FRANCHISEES

Jeanine Jonson

(BSoc Sci Hons)

156A Manning Road, Durban 4001

Tel & Fax: 031-210160

ATTENTION: THE OWNER

This is just a letter to remind you of the questionnaire that I sent to you a few weeks ago. It concerns your role in the franchising industry as a means of gauging whether franchising is a worthwhile industry to become involved in. This research is being conducted as part of my Masters degree.

I would greatly appreciate it if you would take the time to fill out the questionnaire and send it back to me in the self addressed stamped envelope which was included with the questionnaire. If you would like to participate but need the questionnaire resent to you please let me know.

Thank you for your time.

Yours sincerely
Jeanine Jonson

APPENDIX H

THE RACIAL REPRESENTATIONS OF FRANCHISEES AS
DEPICTED BY FRANCHISORS

Table H 1 Racial Representation - Black Franchisees

Categories Indicating Majority Representation	Percentage
0 percent	10.7
0-20 percent	58.9
21-40 percent	14.3
41-60 percent	5.4
61-80 percent	7.1
81-100 percent	0
Question not answered	3.6
Total	100

Table H 2 Race Representation - White Franchisees

Categories Indicating Majority Representation	Percentage
0 percent	0
0-20 percent	1.8
21-40 percent	5.4
41-60 percent	14.3
61-80 percent	28.6
81-100 percent	46.4
Question not answered	3.6
Total	100

Table H 3 Race Representation - Indian Franchisees

Categories Indicating Majority Representation	Percentage
0 percent	19.6
0-20 percent	48.2
21-40 percent	14.3
41-60 percent	10.7
61-80 percent	1.8
81-100 percent	1.8
Question not answered	3.6
Total	100

Table H 4 Race Representation - Coloured Franchisees

Categories Indicating Majority Representation	Percentage
0 percent	25.0
0-20 percent	67.9
21-40 percent	3.6
41-60 percent	0
61-80 percent	0
81-100 percent	0
Question not answered	3.6
Total	100

REFERENCES

BOOKS

- African National Congress. 1994. The Reconstruction and Development Programme: A Policy Framework. Johannesburg: Umanyano Publications.
- Baillieu, D. 1988. Streetwise Franchising. London: Hutchinson Business.
- Barber, J. 1997. "What is Franchising?" In The Franchise Book of Southern Africa 1997. Eleventh Edition. Braamfontein: Franchise Association of Southern Africa.
- Bless, C. and Higson-Smith, C. 1995. Fundamentals of Social Research Methods An African Perspective. 2nd Edition. Kenwyn, South Africa: Juta & Co.
- Dane, F.C. 1990. Research Methods. California: Brooks/Cole Publishing.
- Davies, R., O'Meara, D. & Dlamini, S. 1998. The Struggle for South Africa. New Jersey: Zed Books.
- De Vaus, D.A. 1986. Surveys in Social Research. London: George Allen & Unwin.
- Dowdy, S. & Wearden, S. 1985. Statistics for Research 2nd Edition. New York: John Wiley & Sons.
- Fröst, D. 1997. "The Franchisee Group of the Franchise Association of Southern Africa". In The Franchise Book of Southern Africa 1997. Eleventh Edition. Braamfontein: Franchise Association of Southern Africa.
- Gordon, B. 1997. "Conversion Franchising." In The Franchise Book of Southern Africa 1997. Eleventh Edition. Braamfontein: Franchise Association of Southern Africa.
- Hall, P. & Dixon, R. 1988. Franchising. London: Pitman Publishing.
- Henry, G.T. 1990. Practical Sampling. California: Sage Publications.
- Kinnear, T.C. & Taylor, J.R. 1987. Marketing Research An Applied Approach. 3rd Edition. New York: McGraw-Hill Book Company.
- Maitland, I. 1991. Franchising A Practical Guide for Franchisors and Franchisees. London: Mercury books.

Mendelsohn, M. 1992. The Guide to Franchising. 5th Edition. London: Cassell Publishers.

Morley, G.E. 1991. "Franchising." In Butterworths Forms and Precedents Volume 5 Intellectual Property. J.P. Naude (editor). Durban: Butterworths Professional Publishers.

Mouton, J. & Marais, H.C. 1990. Basic Concepts in the Methodology of the Social Sciences. Pretoria: HSRC.

Oates, D. 1987. The Complete Entrepreneur A Guide to the Survival for the Small Business. London: Mercury Books.

O'Connor, N. "Patrons of FASA." In The Franchise Book of Southern Africa 1997. Eleventh Edition. Braamfontein: Franchise Association of Southern Africa.

Siegel, W.L. 1983. Franchising. New York: Wiley Press.

Stanworth, J. & Smith, B. 1991. The Barclays Guide to Franchising for the Small Business. Oxford: Basil Blackwell Ltd.

Sudman, S. and Bradburn, N.M. 1983. Asking Questions: A Practical Guide to Questionnaire Design. California: Jossey-Bass Publishing.

Sunter, C. 1997. What it Really Takes to be World Class. Cape Town: Human & Rousseau.

Warwick, D.P. and Lininger, C.A. 1975. The Sample Survey: Theory and Practice. New York: McGraw-Hill.

Wickman, P.A. 1998. Strategic Entrepreneurship A Decision-Making Approach to New Venture Creation and Management. London: Pitman Publishing.

Williamson, J.B., Karp, D.A. & Dalphin, J.R. 1977. The Research Craft An Introduction to Social Science Methods. Boston: Little, Brown and Company.

Williamson, J.B. *et al.* 1982. The Research Craft An Introduction to Social Science Research Methods. Second edition. Boston: Little, Brown and Company.

JOURNALS

- Bisseker, C. 1998. "Privatisation creeps up on public hospitals." In Financial Mail. Vol.148 No.2 pp 37.
- Bisseker, C. 1997. "Weaving a new social fabric." In Financial Mail. Vol.146 No.7 pp 58.
- Bisseker, C. 1997. "Universities and technikons face the chop." In Financial Mail. Vol.146 No.6 pp 39.
- Bisseker, C. 1997. "Franchise industry: fast tracking." In Financial Mail. Vol. 144 No.4 pp 76.
- Bruce, P. 1997. "Mboweni moves too far, too fast." In Financial Mail. Vol. 144 No.11 pp 27.
- Bruce, P. 1997. "Education: facing economic realities." In Financial Mail. Vol.146 No.3 pp 24.
- Collings, J. 1997. "School curriculum more work, more pay?" In Financial Mail. Vol.144 No.9 pp 42-43.
- Conner, D. 1992. "The management of change: welcome to day 29." In Human Resource Management. Vol.8 No.7 pp 8-13.
- Coulson, M. 1997. "Education: costly miscalculation." In Financial Mail. Vol. 144 No.3 pp 22.
- Ebersohn, W. 1998. "Work for All." In Succeed SA. February/March. pp21-22.
- Fife, I. 1997. "Small retailers: mom and pop are bleeding to death." In Financial Mail. Vol.145 No.8 pp 61.
- Fourie, T. 1997. "Business renewal essential to cope with radical change." In Management Today. Vol.13 No.5 pp 39-40.
- Goldberg, A. 1996. "Low-cost housing: accepting the challenge." In Financial Mail. Vol.144 No.8 pp 47.
- Halse, M. 1996. "Private-sector engagement poised to boost delivery." In Financial Mail. Vol.142 No.9 pp32-34.
- Hazelhurst, E. 1997. "Growth and unemployment: defusing the time bomb." In Financial Mail. Vol.145 No.9 pp 34-36.

- Hazelhurst, E. 1997. "Employment statistics: head count may be wrong." In Financial Mail. Vol.145 No.12 pp 46-47.
- Hermann, K. 1998. "Relieving the tax burden for SMME's." In Start, Manage and Own Your Business. Vol.2 No.1 pp 54.
- Honey, P. 1997. "Police stations - a breakdown in management." In Financial Mail. Vol.145 No.4 pp 42.
- Joubert, D. 1992. "Technology: major impact on South African skills market." In Human Resources Management. Vol.8 No.2 pp 4-6, 63.
- Laurence, P. 1996. "Housing: A way forward." In Financial Mail. Vol.142 No.8 pp 47.
- Laurence, P. 1996. "Utopian quest flounders in mire of bad planning." In Financial Mail. Vol.143 No.1 pp22-24.
- Machenheimer, S. 1997/1998. "Job opportunities for Cape Flats' unemployed." In Start, Manage and Own Your Business. Vol.2 No.1 pp 8.
- Machenheimer, S. 1997/1998. "The advantages and challenges of franchising." In Start, Manage and Own Your Business. Vol. 2 No.1 pp 45.
- Malala, J. 1997. "Mbeki blesses black lobby group." In Financial Mail. Vol.145 No.4 pp 41-42.
- Malunga, M. 1998. "Black empowerment: Don Ncube and the fourth wave." In Financial Mail. Vol.148 No.3 pp30-32.
- Manning, T. 1992. "New world order - challenges and opportunities for business." In Human Resource Management. Vol. 8 No.1 pp 4-9.
- Marais, P. & Israelstam, I. 1997. "Co-determining a company's workplace forum system." In People Dynamics. Vol. 15 No.3 pp 40-44.
- Masango, S. 1994. "Black economic empowerment: making much business sense." In Human Resource Management. Vol.10 No.3 pp 12-13.
- McNulty, A. 1996. "Delivery prospects boosted as municipalities enter fray." In Financial Mail. Vol.143 No.1 pp31-32.
- Mkhwanazi, D. 1994. "Financial institutions and black economic empowerment." In Human Resource Management Vol. 10 No.3 pp 7-11.

- Mohlamme, J.S. 1991. "Black advancement - constraints and frustrations." In Human Resource Management. Vol.7 No.3 pp 13-15.
- Naidoo, J. 1994. "Reconstruction essential for equal economic participation." In Human Resource Management. Vol.10 No.6 pp 4-6.
- O'Connor, N. 1997. "Upholding Ethics in Franchising." In The Franchise Book of Southern Africa 1997. Eleventh Edition. Braamfontein: Franchise Association of Southern Africa. pp 100.
- Oxtoby, R. 1999. "Empowerment just another flavour of the month?" In People Dynamics. Vol.17 No.6 pp 38-42.
- Parker, E. 1998. "Where is the fast food market going?" In Start, Manage and Own Your Business. Vol.2 No.1 pp 20-21.
- Pretorius, B. 1992. "Moving faster than the environment a recipe for success." In Human Resource Management. Vol. 8 No. 5 pp 4-6.
- Pretorius, B. 1993. "The elements needed for growth in a shrinking market." In Human Resource Management. Vol.9 No.6 pp 8-11.
- Ramphela, M. 1996. "Affirmative action experienced by Whites as reverse discrimination." In Financial Mail. Vol.42 No 8 pp 30-31.
- Riley, A. 1994. "Improving productivity through organised learning." In Human Resource Management. Vol.10 No.1 pp 20-23.
- Roberts, A. 1998. "In search of new products and processes." In Financial Mail. Vol.148 No.3 pp 21.
- Roberts, A. 1997. "Free markets forge growth." In Financial Mail. Vol.147 No.7 pp 19.
- Roberts, A. 1997. "Tracking the informal sector." In Financial Mail. Vol.147 No.9 pp 11.
- Rosen, L. 1997. "Transforming the public service." In People Dynamics. Vol.15 No. 11 pp 68-72.
- Ryan, B. 1997. "Mining and empowerment: blacks gamble for a pot of gold." In Financial Mail. Vol.145 No.3 pp 36-38.
- Senge, P. 1991. "Leadership: bringing vision and reality together." In Human Resource Management. Vol. 7 No. 5 pp12-15.

Smith-Chandler, W. 1998. "Food Factor '98". In *Start and Manage your Business*. Vol.2 No.3. pp 32-37.

Teke, M. 1997. "Empowering the South African worker." In *People Dynamics*. Vol.15 No.10 pp 23-31.

Van Huyssteen, A. 1996. "Franchising: colour blind." In *Financial Mail*. Vol.142 No.12 pp 84, 87.

Van Huyssteen, A. 1997. "Small business: lack of cash hobbles sector." In *Financial Mail*. Vol.145 No.6 pp 53.

Van Huyssteen, A. 1997. "Skills development: green for go." In *Financial Mail*. Vol.144 No.7 pp 54.

Van Huyssteen, A. 1998. "Franchising: promising road to riches, and jobs." In *Financial Mail*. Vol.149 No.3 pp 54.

Venter, J. 1997. "The participation and productivity race: where are we and where should we be? In *People Dynamics*. Vol.15 No.1 pp 24-27.

Vermaak, A. 1992. "Organisations in uncharted waters." In *Human Resource Management*. Vol. 7 No. 10 pp 18-24.

Visser, W. 1994. New paradigms in business: the power of perception." In *Human Resource Management*. Vol. 10 No.9 pp 17-19.

Wilhelm, P. 1997. "New curriculum amid crowd control challenge." In *Financial Mail*. Vol.143 No.9 pp 25-26.

Wilhelm, P. *et al.* 1997. "Capitalism's bonding power." In *Financial Mail*. Vol. 143 No.12 pp 18-20.

Wilhelm, P. 1997. "Security Industry, who will mind the minders?" In *Financial Mail*. Vol.145 No.6 pp 53-54.

Wilhelm, P. 1997. "Bail law and the prisons: a political ruse?" In *Financial Mail*. Vol.146 No.12 pp 37-38.

Wilhelm, P. 1998. "Transformation - is it the end of conciliation?" In *Financial Mail*. Vol.148 No.12 pp 28-30.

UNPUBLISHED THESES & PAPERS

Bunn, E.M. 1992. The Factors that make a Successful Small Business in the Clothing Industry. Honours dissertation. BSoc Sci. University of Natal, Durban.

Hansa, M.R. 1995. Towards a Strategic Planning Model for Small Family Businesses. Unpublished Honours dissertation. Bachelor of Commerce. University of Natal, Durban.

Joubert, M.N. 1990. Black Economic Empowerment: With Specific Reference to the Role of the Informal Sector. Unpublished thesis. Master of Business Administration. University of Stellenbosch.

MacDonald, J. 1997. "Franchising." Handout. University of Natal, Durban.

Makhubele, N.T. 1995. Factors Limiting the Involvement of Black Entrepreneurs in Franchising. Unpublished thesis. Master of Business Administration. University of the Witwatersrand.

Ramsdale, N.J. 1990. The Development of Small Business in South Africa: An Analysis of the Period 1981-1989 and Considerations for the Future. An unpublished paper. Honours dissertation. BCom. University of Natal, Durban.

Rodkin, B. 21 June 1995. The Franchise Option. A "Business Buzz" Breakfast Briefing presented in Johannesburg by Kessel Feinstein Consulting.

Vosloo, W.B. 30 September 1991. A Strategy for Entrepreneurship and SME Development for the New South Africa. An address given at the Small Business Conference at Pilansberg. pp1-15.

ACTS

The Basic Conditions of Employment Act No.75 of 1997. The Department of Labour. Government Printer.

The Employment Equity Act No. 55 of 1998. The Department of Labour. Government Printer.

The Labour Relations Act No.66 of 1995. The Department of Labour. Government Printer.