

**RESIDENTIAL-BASED BUSINESS AS
AN ALTERNATIVE LOCATION-DECISION
FOR SMME's**

MARTHINUS BREDELL EHLERS

SUBMITTED IN FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE

DOCTOR COMMERCII (BUSINESS MANAGEMENT)

IN THE

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

AT THE

UNIVERSITY OF PRETORIA

PROMOTOR: Dr. G.H. Nieman

Pretoria, South Africa

May 2000

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude towards the following people without whom this doctoral thesis would not have been possible:

- *The Lord Jesus Christ whose love and grace has been with my family and me all along throughout our prayers.*
- *My promotor, Dr. Gideon Nieman, for his continuous motivation, support, advice and friendship during this project as well as the returning of reviewed material within a very short time.*
- *Solly Millard and especially Rina Owen from the Department of Statistics at the University of Pretoria for their hard work, advice and continuous help during the empirical part of the study.*
- *Ann-Louise Viviers for all her hard work and dedication during the time of the field study.*
- *My family and friends for their continuous interest and support during my studies.*
- *My parents, Chris and Suzette, who taught me the importance of utilising your God-given talents to the full and all the moral, financial and other support throughout the years.*
- *My two daughters, Chanté and Marli, whose love and presence made it all worthwhile.*
- *My loving wife, Lené, for her continuous love, support, help and sacrifices she made during my studies, especially while she was pregnant. This study is therefore devoted to her.*

SUMMARY

RESIDENTIAL-BASED BUSINESS AS AN ALTERNATIVE LOCATION-DECISION FOR SMME'S

By

Marthinus Bredell Ehlers

Promotor: Dr. G.H. Nieman
Department: Business Management
Degree: Doctor Commercii

Home-based and residential-based businesses have become a very visible feature of some main road arteries into and out of suburbs of most big cities in South Africa. Previous residential zoned properties are being used to such an extent for business purposes that certain main routes into cities has virtually lost its residential character.

Home-based businesses is not new to South Africa. Some 1,8 million people run some form of business from home. However, the purchase or rent of a residential property and then re-zoning it for business use in some specific areas seem to be a new phenomenon.

Preliminary interviews with entrepreneurs and small business owners of these residential-based businesses would indicate that it is an alternative location to shopping centres / malls and office parks. They are often harassed by landlords and / or cannot afford the rentals charged or cannot comply with certain aspects of the lease agreement.

The study is an exploratory research into this phenomenon and is supported by a proper literature study as well as an empirical study.

The literature reviews the concepts of entrepreneurship and small, medium and micro enterprises (SMME's) as a starting point for this study. This sector is a vital contribution factor for any economy and one of the most important strategic decisions that must be made by these small business ventures is the location-decision. All the theories and factors of location in the literature reveals this important decision and the different types of location for SMME's are explored, with emphasize on the newest phenomenon, residential-based businesses.

The empirical part of the study consisted of a questionnaire that was completed by means of personal interviews on a sample in the greater Pretoria Metropolitan region. The objective of this study was to find the reasons for this very visible development in suburbs and to investigate whether this is an effective alternative location for SMME's.

The research findings indicated the reasons and advantages of residential-based businesses as well as the possible problems and disadvantages of this location-decision. The three factors identified as advantages of this location-decision are the location and growth advantages, the cost advantages and personal advantages. The three disadvantage factors are some personal disadvantages, local authorities' rules and regulations and some management disadvantages. Proper recommendations are being made on how to run and manage such a residential-based business and the paper will therefore not only be of value to entrepreneurs and SMME's wanting to make this important location-decision, but also to town planners at the city councils for future strategic planning.

OPSOMMING

RESIDENSIEËL-GEBASEERDE ONDERNEMINGS AS ALTERNATIEWE LIGGINGSBESLUIT VIR KMMO's

Deur

Marthinus Bredell Ehlers

Promotor: Dr. G.H. Nieman
Departement: Ondernemingsbestuur
Graad: Doctor Commercii

Tuis-gebaseerde en residensieël-gebaseerde ondernemings het 'n baie sigbare en duidelike verskynsel geword in verskeie Suid-Afrikaanse stede se hoof-toegangsroetes. Verskeie residensiële woongebiede is tot so 'n mate omskep in residensiële besighede, dat die totale woongebied sy voorkoms en karakter as woongebied verloor het.

Tuis-gebaseerde ondernemings is nie nuut in Suid-Afrika nie. Sowat 1,8 miljoen mense bedryf een of ander besigheid vanuit 'n huis uit. Die koop of huur van eiendom en die hersonering daarvan in besigheidsregte in sekere woongebiede is egter 'n heelwat nuwer verskynsel.

Voorafbepaalde onderhoude met entrepreneurs en eienaars van sulke kleinsake-ondernemings het aangetoon dat so 'n ligging 'n alternatiewe opsie is vir winkelsentrums en kantoorparke. Eienaars word by laasgenoemde gereeld onregverdig behandel, kan nie die huur bekostig nie of selfs nie sekere van die huurooreenkomste in die huurkontrak nakom nie.

Hierdie studie is 'n ondersoekende studie in hierdie nuwe verskynsel en word gerugsteun deur 'n omvattende literatuurstudie sowel as 'n empiriese ondersoek.

Die literatuur neem 'n oorsig oor entrepreneurskap en klein, medium en mikro ondernemings (KMMO's) as beginpunt van hierdie studie. Hierdie sektor is 'n baie belangrike bydraende faktor tot enige ekonomie en een van die belangrikste strategiese besluite wat so 'n onderneming moet maak is die liggingsbesluit. Al die teorieë en faktore van ligging in die literatuur erken hierdie belangrike besluit en al die verskillende tipes ligging vir KMMO's word ondersoek met klem op veral die nuutste verskynsel, naamlik residensieël-gebaseerde ondernemings.

Die empiriese gedeelte van hierdie studie bestaan uit 'n vraelys wat deur middel van persoonlike onderhoud beantwoord is deur 'n steekproef in die groter Pretoria Metropolitaanse gebied. Die doelwit van hierdie studie was om die redes vir hierdie nuwe sigbare ontwikkeling te verklaar en om te ondersoek of dit 'n moontlike alternatief is vir die ligging van KMMO's.

Die navorsingsbevindinge toon die redes en voordele van residensieël-gebaseerde ondernemings, sowel as die probleme en nadele van hierdie liggingsbesluit. Die belangrikste voordele wat uit die faktor-analise na vore getree het is liggings- en groeivoordele, koste-voordele en persoonlike voordele. Die nadele wat geïdentifiseer is, is sommige persoonlike nadele, plaaslike owerhede se reëls en regulasies en bestuursnadele. Volledige aanbevelings word gemaak oor hoe om so 'n residensieël-gebaseerde onderneming suksesvol te bestuur en die studie is dus nie net van waarde vir entrepreneurs en KMMO's wat hierdie liggingsbesluit oorweeg nie, maar ook vir stadsbeplanners by stadsrade vir toekomstige strategiese beplanning.

TABLE OF CONTENTS

1.	BACKGROUND AND DEFINITION OF THE PROBLEM.....	1
1.1	INTRODUCTION.....	1
1.2	LITERATURE REVIEW.....	2
1.3	BACKGROUND AND IMPORTANCE OF STUDY.....	4
1.4	DEFINITION OF THE RESEARCH PROBLEM.....	6
1.5	PURPOSE OF THE STUDY.....	7
1.6	OBJECTIVES OF THE STUDY.....	8
1.7	METHOD OF STUDY.....	9
1.8	OUTLINE OF THE CHAPTERS.....	9
2.	THE FUNDAMENTALS OF ENTREPRENEURSHIP AND SMALL, MEDIUM AND MICRO ENTERPRISES (SMME's).....	12
2.1	INTRODUCTION.....	12
2.2	DEFINITION OF ENTREPRENEURSHIP.....	13
2.3	A DISTINCTION BETWEEN ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT.....	18
	2.3.1 <i>Innovation</i>	20
	2.3.2 <i>Potential for growth</i>	21
	2.3.3 <i>Strategic objectives</i>	21
2.4	ENTREPRENEURS AS INITIATORS OF SMALL BUSINESS VENTURES.....	23
2.5	THE ROLE OF SMME's IN AN ECONOMY.....	25
	2.5.1 <i>Definition of SMME's</i>	26
	2.5.2 <i>State of small business in South Africa</i>	32
	2.5.3 <i>Difference between SMME's and larger firms</i>	35
2.6	SUMMARY.....	38

3.	THE SMME ENVIRONMENT.....	39
3.1	INTRODUCTION.....	39
3.2	THE ACQUIRING OF RESOURCES FOR SMME's.....	42
3.3	THE STRUCTURE OF SMME's.....	43
3.4	MANAGERIAL INFLUENCE AND CONTROL OF SMME's.....	44
3.5	IMPORTANCE OF SMME's.....	47
3.6	ADVANTAGES AND DISADVANTAGES OF SMME's.....	52
	3.6.1 <i>Advantages</i>	52
	3.6.2 <i>Disadvantages</i>	54
3.7	LOCATION-DECISION AS ESSENTIAL PART OF A SMME's SURVIVAL.....	56
3.8	SUMMARY.....	57
4.	LOCATION THEORY.....	59
4.1	INTRODUCTION.....	59
4.2	THE THEORY OF LOCATION.....	61
4.3	LOCATION THEORIES.....	63
	4.3.1 <i>Least-cost theory</i>	63
	4.3.2 <i>The demand approach (locational interdependence)</i>	64
	4.3.3 <i>Theory of the maximum-profit plant location</i>	64
	4.3.4 <i>Large versus small firms and price systems theories</i>	65
4.4	RELEVANCE OF LOCATION THEORIES.....	66
4.5	CONDUCTING THE BUSINESS LOCATION SEARCH.....	67
	4.5.1 <i>Relocation versus expansion</i>	67
4.6	LOCATION CONSIDERATIONS.....	71
4.7	LOCATION FACTORS AS REVEALED BY THEORETICAL AND EMPIRICAL STUDIES.....	72
4.8	LOCATION FACTOR CONCEPTS.....	77
4.9	VARIOUS LOCATION FACTORS.....	80
4.10	THE LOCATION DECISION.....	94

4.11	QUANTIFYING THE LOCATION-DECISION.....	96
	4.11.1 <i>Evaluating location by means of the method SLAM</i>	99
	4.11.2 <i>The SLAM-modelling process</i>	102
	4.11.3 <i>Implications of the SLAM-model</i>	103
4.12	SUMMARY.....	106
5.	TYPES OF LOCATIONS FOR SMME's.....	108
5.1	INTRODUCTION.....	108
5.2	CENTRAL BUSINESS DISTRICT (CBD).....	109
5.3	SHOPPING CENTRES / MALLS.....	110
5.4	OFFICE BLOCKS.....	112
5.5	INDUSTRIAL PARKS.....	113
5.6	HOME-BASED BUSINESS.....	114
5.7	TELECOMMUTING.....	119
5.8	RESIDENTIAL-BASED BUSINESS.....	122
5.9	SUMMARY.....	124
6.	RESEARCH METHODOLOGY.....	126
6.1	INTRODUCTION.....	126
6.2	DEFINITION OF PROBLEM, OBJECTIVES AND DATA REQUIRED.....	127
	6.2.1 <i>Problem definition</i>	127
	6.2.2 <i>Objectives of the study</i>	127
	6.2.3 <i>Data required</i>	128
	6.2.4 <i>Method of data collection</i>	131
6.3	ANALYSIS.....	135
	6.3.1 <i>Tables</i>	135
	6.3.2 <i>Validity and reliability</i>	136
6.4	FACTOR ANALYSIS.....	142
6.5	CROSS-TABULATION.....	144
6.6	SUMMARY.....	144

7.	RESEARCH FINDINGS.....	146
7.1	INTRODUCTION.....	146
7.2	DEMOGRAPHICAL INFORMATION.....	146
	7.2.1 <i>Gender and age.....</i>	147
	7.2.2 <i>Qualification and position in the business.....</i>	148
7.3	OWNERSHIP AND SMME INFORMATION.....	150
	7.3.1 <i>Form of residential-based business.....</i>	150
	7.3.2 <i>SMME-sector according to SIC.....</i>	151
	7.3.3 <i>Employees and turnover.....</i>	153
7.4	LOCATION CHARACTERISTICS.....	154
	7.4.1 <i>Property characteristics.....</i>	154
	7.4.2 <i>Previous location.....</i>	155
	7.4.3 <i>Factors / reasons / advantages of managing a residential-based business.....</i>	156
	7.4.4 <i>Factors / problems / disadvantages of managing a residential-based business.....</i>	161
	7.4.5 <i>Residential-based growth figures.....</i>	164
	7.4.6 <i>Specific advantages of residential-based business.....</i>	165
	7.4.7 <i>Specific disadvantages of residential-based business.....</i>	167
	7.4.8 <i>Action and recommendations.....</i>	169
7.5	RELIABILITY TESTING.....	172
	7.5.1 <i>Reliability – Reasons / advantages of residential-based business.....</i>	172
	7.5.2 <i>Reliability – Problems / disadvantages of residential-based business.....</i>	174
7.6	FACTOR ANALYSIS.....	176
	7.6.1 <i>Factor analysis on reasons / advantages of residential-based businesses.....</i>	176
	7.6.2 <i>Factor analysis on problems / disadvantages of residential-based businesses.....</i>	180
7.7	CROSS TABULATIONS.....	182
	7.7.1 <i>Growth figures.....</i>	183

8.	CONCLUSIONS AND RECOMMENDATIONS.....	185
8.1	INTRODUCTION.....	185
8.2	LITERATURE REVIEW.....	186
8.3	CONCLUSIONS.....	189
	8.3.1 <i>Demographical characteristics.....</i>	<i>189</i>
	8.3.2 <i>SMME characteristics.....</i>	<i>190</i>
	8.3.3 <i>Property characteristics.....</i>	<i>191</i>
	8.3.4 <i>Factors / reasons / advantages of residential-based businesses.....</i>	<i>192</i>
	8.3.5 <i>Factors / problems / disadvantages of residential-based businesses.....</i>	<i>193</i>
	8.3.6 <i>Residential-based growth figures.....</i>	<i>194</i>
8.4	RECOMMENDATIONS.....	195
	8.4.1 <i>Recommendations on type of business.....</i>	<i>195</i>
	8.4.2 <i>Recommendations on work force.....</i>	<i>196</i>
	8.4.3 <i>Recommendations on local authorities.....</i>	<i>196</i>
	8.4.4 <i>Recommendations on managing this location-decision.....</i>	<i>198</i>
8.5	FINAL COMMENTS.....	204
8.6	LIMITATIONS OF THE STUDY.....	204
8.7	FUTURE RESEARCH.....	205
9.	BIBLIOGRAPHY.....	207

APPENDIX A – Preliminary Questionnaire

APPENDIX B – Questionnaire

APPENDIX C – Manual for application for consent for a Home Undertaking

LIST OF FIGURES

FIGURE 2.1 - Traits for successful entrepreneurs.....	17
FIGURE 2.2 - Entrepreneurial performance versus time.....	20
FIGURE 2.3 - Difference between a small business and an entrepreneurial venture.....	22
FIGURE 5.1 – Contribution of home-based businesses as a % of all US businesses.....	115
FIGURE 6.2 – The cumulative questions of validity.....	138

LIST OF TABLES

TABLE 3.1 - Managing the small firm: controlling and empowerment forces.....	45
TABLE 3.2 - Survival rate of businesses.....	54
TABLE 3.3 - Greatest financial obstacles of small businesses.....	55
TABLE 4.1 - Relative advantages of new locations versus expansion-on-site.....	69
TABLE 4.2 – Important formal and informal location judgements.....	92
TABLE 4.3 – A comparison of two location options.....	98
TABLE 6.1 – Scale types.....	132
TABLE 7.1 – Gender of respondents.....	147
TABLE 7.2 – Age of respondents.....	147
TABLE 7.3 – Highest educational qualification.....	148
TABLE 7.4 – Position of respondent in business.....	149
TABLE 7.5 – Form of residential-based business.....	150
TABLE 7.6 – Standard Industrial Classification (SIC) of SMME.....	151
TABLE 7.7 – More detailed classification of SMME’s.....	152
TABLE 7.8 – Full-time employees.....	153
TABLE 7.9 – Annual turnover.....	153
TABLE 7.10 – Owning versus renting of property.....	154
TABLE 7.11 – Rezoning of property.....	155
TABLE 7.12 – Previous location of business.....	155
TABLE 7.13 – Reasons / advantages of a residential-based business.....	157
TABLE 7.14 – Problems / disadvantages of a residential-based business.....	162
TABLE 7.15 – Growth in sales / turnover.....	164
TABLE 7.16 – Growth in customers.....	165
TABLE 7.17 – Specific advantages of residential-based businesses.....	166
TABLE 7.18 – Specific disadvantages of residential-based businesses.....	168
TABLE 7.19 – Actions and recommendations.....	169
TABLE 7.20 – Cronbach Alpha coefficients for reasons / advantages of a residential-based business.....	173
TABLE 7.21 – Cronbach Alpha coefficients for problems / disadvantages of a residential-based business.....	175
TABLE 7.22 – Eigenvalues: explained variance in three factor solution.....	177
TABLE 7.23 – Extraction of principle components – Factor 1.....	178
TABLE 7.24 – Extraction of principle components – Factor 2.....	179
TABLE 7.25 – Extraction of principle components – Factor 3.....	179
TABLE 7.26 – Eigenvalues: explained variance in three factor solution.....	180
TABLE 7.27 – Extraction of principle components - Factor 1.....	181

TABLE 7.28 – Extraction of principle components – Factor 2.....	181
TABLE 7.29 – Extraction of principle components – Factor 3.....	182
TABLE 7.30 – Cross-tabulation regarding growth in the residential-based business.....	183