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Assessment of franchisees through the entrepreneurial process

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ABSTRACT

Purpose of the study: Since few studies had been conducted in the South African context on whether franchisees progress through an entrepreneurial process this study sought to fill the gap by assessing South African franchisees in the context of an entrepreneurial process and investigating the progress of South African franchisees through an entrepreneurial process.

Design/methodology/approach: Primary surveyed-quantitative data were collected using self-administered, structured questionnaires with six factors: personal, internal environmental, external environmental, innovation, triggering and implementation factors. Purposive sampling was employed for a sample of 711. Statistical Package for Social Sciences was used for exploratory factor analysis and scale reliability, while Stata 14 performed confirmatory factor analysis and estimated the structural equation model (SEM).

Findings: Construct validity and scale reliability conditions were satisfied. SEM estimates showed that implementation factors, and external environmental factors, have a positive and statistically significant influence on franchise business growth. Furthermore, internal environmental factors have a positive and statistically significant influence on the innovation of a franchise business.

Recommendations/value: Before pursuing a franchisee business, franchisees should assess the industry and market conditions, expression of interest by financial institutions, the availability of legal assistance, and the availability of key success factors that drive the franchise business growth. Furthermore, franchisees should ensure that conditions, innovation prospects, established structures and diversified products are provided to stimulate the franchise's growth.

Managerial implications: Franchisees must be entrepreneurial managers of their franchises and inject entrepreneurial strategy into their partnership with the franchisor. This will improve their business growth and profitability when franchisees are highly motivated and take responsibility for ongoing effectiveness and success in the franchise. This resonates with 'psychological capital' and 'entrepreneurial autonomy which is required for sustainable improvement in the overall franchise system that will subsequently also benefit the franchisor.

Keywords: Business growth; entrepreneurial process; entrepreneurship; franchisee; franchise business

JEL Classification: L26

1. INTRODUCTION

Entrepreneurship in society encourages economic development, provides employment, and offers prospects for independence and self-realisation (Fatoki, 2014). To properly understand entrepreneurship and the entrepreneur, one must understand the entrepreneurial process and the factors that birth to new ideas and ventures. Botha *et al*. (2015) explain entrepreneurship development as a process of engagements - that includes purposeful actions to determine and assess identified prospects and exploit resources crucial for the creation of new ventures. However, how entrepreneurship and entrepreneurial processes apply within the context of franchising needs to be better understood.

A franchisor is a company that gives the franchisee the right to do business under its trademark or trade name (Nieman & Nieuwenhuizen, 2014). A franchisee is a person or company granted the right from a franchisor to conduct business using the franchisor's trademark or trade (Beshel, 2010). According to Torikka (2011), franchising and entrepreneurship have not received adequate attention from researchers.

Shane (2003) originally argued that there needs to be more robust research that examines franchising as a type of entrepreneurship. Furthermore, studies investigating the entrepreneurial process of a franchisee are limited, according to Shane (2003). This study sought to fill this research gap through empirical research conducted on whether South African franchisees progressed through an entrepreneurial process, and if they have done so, did this influence their success.

The research purpose, therefore, was to uncover relationships or links between the entrepreneurial process, franchising, and business performance. This, therefore, raised the following research questions:

1) Whether a franchise can be deemed a form of entrepreneurship,
2) whether the franchisees who follow the entrepreneurial process are indeed successful; and,
3) whether a franchisee can be deemed an entrepreneur.

Bygrave (2004) states that an entrepreneurial process constitutes a sequence of actions involving events and activities for discovering and appraising prospects and mobilising resources to create new enterprises. Therefore, based on Bygrave's (2004) entrepreneurial process model, the study focused on the following links and relationships:

- the influence of personal factors (PF) and internal environmental factors (IEF) on innovation in a franchise business.
- the influence of innovation factors (IF), personal factors (PF) and internal environmental factors (IEF) on the triggering of a franchise business.
- the influence of triggering factors (TF), personal factors (PF) and external environmental factors (EEF) on the implementation of a franchise business; and
- the influence of implementation factors (IM) and external environmental factors (EEF) on the growth of a franchise business.

The paper proceeds with the following structure: the literature review in the next section discusses the main concepts and arguments on the research topic. Followed by Section 3, which details the research design and methodology. This is followed by the results section reporting of the data analysis, which is the basis for the discussion section afterwards. The conclusions and managerial recommendations are then presented in the paper's final section.

2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

To measure the relationship between the entrepreneurial process and franchising, the researchers used the conceptual framework of the entrepreneurial process (see Figure 1). The literature is first discussed to explain the framework's foundations for the hypotheses that are then presented.

2.1 Franchising in South Africa

Franchising plays a significant role in the development of the South African economy. In line with the Franchise Association of South Africa (FASA) (FASA 2017:1), *"the franchise is a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package and business model containing all the elements necessary to establish a previously untrained person in the franchise business and to enable [them] to run it on an ongoing basis according to the guidelines supplied, efficiently and profitably."*

In the management franchise model, the franchisee markets and runs the business while trained staff carry out the actual business activity (Van Aardt, 2014). Typically, this franchise is run from regional or geographic head offices and entails developing, managing, and

coordinating a group of operatives or team of providers to provide the service or sell the product. The popularity of franchising has grown globally and is now widely seen as an exciting way of initiating a business or developing an existing business (Torikka, 2011).

South Africa sees franchising as an effective stimulus for economic growth and employment opportunities (Standard Bank, 2012). The FASA (2017) survey report indicates that franchising plays a crucial role in fostering entrepreneurship, developing skills and creating jobs through its 845 franchise companies, which involve 40 528 franchisees and employ 343 319 people. Of these franchise concepts, 86% are believed to have been developed locally (Standard Bank, 2012).

In the South African franchise landscape, *in both the strict logical sense and real practice, franchisees are not considered 'real' entrepreneurs due to the limited room for innovation provided to them.* This proposition derives from two areas of reference: Hisrich *et al*. (2017:316) and the South African Consumer Protection Act (No. 68 of 2008) (Republic of South Africa, 2008).

Hisrich *et al.* (2017) state that in the entrepreneurial process, to an entrepreneur, each day presents new ideas and challenges, while Bygrave (2004:4) regards an entrepreneur as "someone who perceives an opportunity and creates an organization to pursue it".

Innovation is thus a central feature of the entrepreneurial process since, for a person, including franchisees, to be regarded as an entrepreneur, they should be capable of generating new ideas and being innovative in the business. Regarding the South African context, Emerson (2014) indicates that the franchising landscape traditionally existed in the fast-food industry but has expanded into business services and retail and automotive sectors, among others.

To boost the contribution of franchise businesses to economic growth in the country, the South African Government enacted the Consumer Protection Act in 2009, which codifies franchise practices promoted by the FASA. Paragraph *(d)* under Section A of Part A in Chapter 1 of the Act includes a franchisee in the definition of a consumer (Republic of South Africa, 2008).

2.2 Entrepreneurship

Entrepreneurship stimulates economic expansion, creates employment, presents opportunities for autonomy and personal fulfilment, and can achieve expansion, growth and sustained economic improvement (Kritikos, 2014; Van der Zwan *et al*., 2016; Wiklund *et al.*, 2019). Fatoki (2014) argues that entrepreneurship is a way to decrease the unemployment rate.

According to Van der Zwan (2012), entrepreneurship is a critical phenomenon contributing to business formation and growth. Timmons (1978) defines entrepreneurship as a process of creating or seizing an opportunity and pursuing it. Pretorius *et al*. (2005) state that the concept of entrepreneurship is complicated and vexing, and as a result, there is no consensus on an exact definition.

Several studies define entrepreneurs as individuals who can recognise a business prospect and pursue the resources necessary to initiate a venture (Hisrich & Peters, 2002; Gill, 2017; Nguyen, 2018). The main qualities associated with entrepreneurial skills are the talent to actualise ideas into endeavours, which includes the preparedness to take on risks, and the ability to respond to changeable situations and resolve challenges (Ardichvili *et al.,* 2003).

More effort is directed towards exploiting market opportunities, like improvements in products and services, processes, and market access (Baron & Shane, 2008). Innovations require crucial elements, such as ideation and value creation in developing and consolidating productive models in the context of the new economy (Gill, 2017).

From the literature definitions above, it is apparent that there are different stages and steps involved in starting and growing a new venture, which is comprehensively understood within the entrepreneurial process. As introduced above, this study followed the entrepreneurial process modelled as a sequence of actions, events, and activities around discovering opportunities and gathering the required resources to create new enterprises.

2.3 Entrepreneurship process

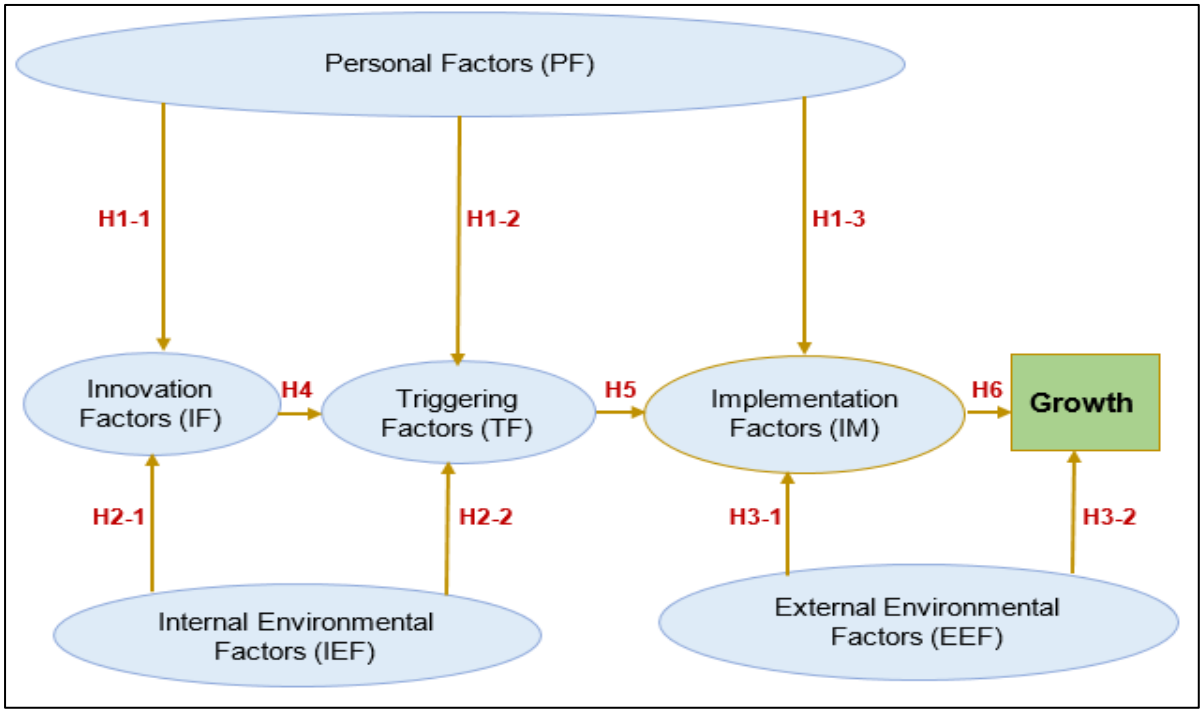
It is necessary to grasp the whole entrepreneurial process, including factors that give birth to new ideas, all activities and actions associated with identifying and evaluating opportunities, and gathering the resources necessary to establish a successful new enterprise to pursue an identified goal (Torikka, 2011; Botha *et al.,* 2015).

In a recent study, findings suggest that an entrepreneurial process consists of three phases (idea generation, idea development, and idea implementation) that are influenced by diverse interactions at multiple levels (horizontal, bottom-up, portfolio, franchisor-franchisee, and franchisee peer), where actors mobilise resources to enact collaborative activities. These interactions are influenced by relational and cognitive conditions (obligations, shared stories, trust, and norms), which can restrict or enable the franchisee's entrepreneurial process (Hadjielias *et al.*, 2021).

This study was motivated to understand how factors influence business growth based on Bygrave's (2004) model of the entrepreneurial process, and the integrated activities in the entrepreneurial process, as articulated by Ardichvili *et al.* (2003), Pretorius *et al.* (2005), and

Gruber (2007). Figure 1 presents the three main areas of influencing factors (Personal Factor, External Environment Factor, and Internal Environmental Factor), on the four stages (Innovation Factor, Triggering Factor, Implementation Factor and Growth) of the entrepreneurial process that this study focused on.

Figure 1: Conceptual framework of the entrepreneurial process



Source: Adapted and refined from Bygrave (2004:3)

The activities of identifying an opportunity, and starting and growing a business, translate into the four stages as illustrated in Figure 1. Innovation, triggering, and implementation followed by growth. According to Bygrave (2004), Figure 1 indicates that PF is individual attributes influencing entrepreneurship and innovation that trigger the implementation of the franchise at the agreement when the franchisee commences business operations. PF act at different stages of the entrepreneurial process with attributes such as levels of persistence, motivation, commitment, risk tolerance, ethical personal values, and capabilities of being an entrepreneur and a leader. While personal and environmental (internal and external) influence the stages.

Consistent with Bygrave's (2004) model of PF that influences entrepreneurship outcomes, psychological capital is a motivator for sustainable entrepreneurship (Tang, 2020), while entrepreneurial leadership is found responsible for small-, medium-sized enterprises (SME) effectiveness and success (Naushad, 2021). Previous literature reveals that the entrepreneurial process is accomplished once the resources are acquired and a business has been formed to exploit the opportunity. One part of the entrepreneurial process research focuses on the pre-start

phase, like research on entrepreneurial intentions (Krueger *et al.,* 2000). Another part focuses on the process of creating new organisations (Gielnik *et al.*, 2018). Furthermore, regarding triggering effects, Shepherd and Williams (2020) suggest that entrepreneurial action will serve as a balancing mechanism to restore pre-adversity well-being in response to adversities such as job loss.

Singh *et al*. (2007) identify four stages of the entrepreneurial process: opportunity recognition, technology setup, organisation creation and exchange. Hisrich *et al*. (2007) also highlight four stages in the entrepreneurial process: identifying and evaluating the opportunity, forming a business plan, determining the resources required and managing the enterprise.

Gruber (2007) and Pretorius *et al*. (2005) agree, that the aforementioned stages and activities involved in the entrepreneurial process, are as follows.

- Innovation factor (IF), which incorporates creating an idea, innovating, discovering a market opportunity, exploring data, testing ideas for viability, recognising where to derive value and developing the product or service.
- Triggering factor (TF), which involves business planning, recognising the different resources needed, risk evaluation, resource procurement and coordination.
- Implementation factor (IM), which involves developing the initial business idea, launching a new venture; developing a business strategy; operating the business; using resources; building success and administering the operation.
- Growth, which includes early-stage revenue and market share, increasing profits, reaping rewards, and persistently growing the venture to incorporate other opportunities.

2.4 The measurement scale based on Bygrave and other literature

The study's measurement scale for personal factors included education, business experience, level of creativity, and level of commitment, as PF is related to entrepreneurship. Regarding triggering factor, job loss is one of the factors that trigger individuals into entrepreneurship, while EEF includes factors such as the availability of opportunities, influence of role models, level of competition, availability of resources, enabling government policy, and availability of legal assistance. These EEF items that were measured for the study are consistent with the model of Bygrave (2004). According to Hasanov (2019), franchisees must furthermore pay attention to the impact of seasonal impact on sales, franchise locational factors that impact sales, and habits and behaviour of local consumers in the franchise vicinity that will impact sales.

Bygrave (2004) further relates to macro-environmental factors in the context of SMEs, such as technology, industry competitor structure, innovation and changing consumer preferences, which is supported by Prasanna *et al*. (2019) as factors that influence franchise growth. Hasanov (2019) refers to technical and technological advancements that condition franchise growth.

The items measured for IEF are the conditions that exist inside an enterprise once it has been created, such as the business structures, entrepreneurial culture and availability and diversity of products or services. Hasanov (2019:39) refers to "*five issues every entrepreneur or franchisee must be aware of:*

(1) whether signed contracts, arrangements or franchising can be a profitable business.

(2) whether key performance indicators – KPIs – are known and can be identified and learned, measuring the underlying processes and success factors while helping to understand the complete franchise business, that is, identify the underlying drivers of success.

(3) whether industry status and market conditions have been identified and assessed.

(4) whether business arrangements that are known and understood are selected and

(5) whether effective and developed management functions are in place in major management areas such as marketing, HRM, ITC, real estate, and day-to-day operations."

2.5 Entrepreneurship theory and the entrepreneurial process

Entrepreneurship and the entrepreneurship process include factors arising from a new idea (Botha *et al*., 2015) and embrace activities associated with identifying opportunities and gathering the resources to establish new enterprises (Torikka, 2011), which is generally considered a four-stage process (Hisrich *et al*., 2007:578; Singh *et al*., 2007).

In the context of a franchise the above relates to whether the franchisees have what is termed 'entrepreneurial autonomy' (Colla *et al.,* 2019:734). A franchisee's entrepreneurial autonomy is their freedom to enhance the franchise system performance, which could "benefit the franchisor in terms of adaptability" to local markets and to improve and increase franchise chain innovations (Colla *et al.,* 2019:734). It is the franchise system, that provides a turnkey process, for the franchisee to purchase an established brand, with which to leverage future growth.

Furthermore, an important consideration for this study was: *Does the entrepreneurship process follow an entrepreneurship theory?* The relevance of this question offers a theoretical context for the study. It is also a basis for modelling a contribution to such theory in the context of franchisees following an entrepreneurial process.

Classic entrepreneurship theory by Schumpeter (1947) defines entrepreneurship through innovation and newness. Mehmood *et al*. (2019), define an entrepreneur as someone who takes innovation to market, primarily for innovation itself. Mehmood *et al*. (2019:5-6) refer to Schumpeterian entrepreneurship as "innovate or perish", and further state, *"*Schumpeterian entrepreneurship is associated with innovations, which are changes in overtime of raw materials, machinery, labour and finances, products, etc., is quite an active or dynamic concept. It stands for creativity and change."

According to Bull and Willard's (1993) seminal paper, developing an entrepreneurship theory is slow because of the divergent nature of entrepreneurship research - which stems from varied disciplinary backgrounds that include economics, psychology, sociology, mathematics, and behaviour. Although Bull and Willard lament that no generally accepted theory of entrepreneurship has emerged, Bull and Willard do propose a tentative entrepreneurship theory (Bull & Willard's, 1993:188): "A new combination, causing discontinuity, will be created, i.e., entrepreneurship will occur, under conditions of:

1. Task-related motivation (some vision or sense of social value embedded in the basic task itself that motivates the initiator to act), and

2. Expertise (present know-how plus confidence to be able to obtain know-how needed in the future), and

3. Expectation of gain for self (economic and/or psychic benefits), and

4. A supportive environment (conditions that either provide comfort and support to the new endeavour or that reduce discomfort from a previous endeavour)."

Ripsas (1998) proposes that an entrepreneurship theory should consider several relevant disciplinary backgrounds within which entrepreneurship is grounded, for example:

- Economic: The economic interpretation of the entrepreneur dates to classic entrepreneurship literature and remains relevant today.
- Sociological: Because entrepreneurship is behavioural, sociology should be relevant to better understanding the entrepreneurial process, as entrepreneurship takes place in society. To support this claim, Ripsas (1998) cites the work of Reynolds (1991) and (1963; 1989).
- Psychological: Trait theory has long played an important role in understanding who entrepreneurs are by character (McClelland,1965).

- Behavioural: Citing Gartner (1989), Ripsas (1989) states that the role and behaviour of an entrepreneur are largely different from that of a small business manager.
- The intention of economic modelling to proportionally equate entrepreneurship to economic growth and development has failed until more recently.

Ripsas (1989) views the complexity of these different interdisciplinary backgrounds, as a significant challenge to developing an entrepreneurship theory. Ripsas further acknowledges the start made by Bull and Willard (1993) and insists that any future work on further developing a theory of entrepreneurship must be interdisciplinary (Ripsas,1989).

The purpose of this study was to establish the credence of franchisees following an entrepreneurial process and determine how entrepreneurial they are. This paper, therefore, reflects on the study findings juxtaposed with the Schumpeterian theory (Schumpeter, 1947) and the tentative entrepreneurship theory by Bull and Willard (1993). The following key issues derived from the theories above are key inspection points. Schumpeter (1947) regards innovation and newness as central to entrepreneurship, and the study inspects how franchisees are innovative and new.

The innovation factor (IF) and personal factor (PF) variables measured in the study are key to this point as they measure newness and innovation. Bull and Willard (1993) refer to task-related motivation, expertise, economic gain, and supportive environment conditions as requirements under which entrepreneurship occurs. The implementation factor (IM) and external and internal environmental factor variables relate to the four requirements by Bull and Willard (1993), and their relationship with economic gain, measured by franchise growth. Based on the above literature and the assignment of the variables in the study's conceptual framework, in Figure 1, the study hypotheses are now presented in the following sub-section.

2.6 Study hypotheses

Based on Figure 1, by Bygrave (2004), and the preceding literature the study hypothesised that all the factors specified in the conceptual framework have statistically significant positive influences on one another – based on specified paths. In addition, the dependent variable used to measure franchisees' growth was *actual turnover*. The following research hypotheses were formulated:

- H1-1: PF have a significant positive influence on the innovation of a franchise business.
- H1-2: PF have a significant positive influence on triggering a franchise business.

- H1-3: PF have a significant positive influence on the implementation of a franchise business.
- H2-1: IEF have a significant positive influence on the innovation of a franchise business.
- H2-2: IEF have a significant positive influence on triggering a franchise business.
- H3-1: EEF have a significant positive influence on the implementation of a franchise business.
- H3-2: EEF have a significant positive influence on the growth of a franchise business.
- H4: IF has a significant positive influence on triggering a franchise business.
- H5: TF has a significant positive influence on the implementation of a franchise business.
- H6: IM has a significant positive influence on the growth of a franchise business.

3. RESEARCH METHODOLOGY

The research paradigm employed for the study is based on a quantitative research approach grounded in objectivism. When observation of phenomena and the world is external, this is referred to as a positive research approach. Therefore, the researcher does not bring any personal interpretations of the observed data. In this study, statistically significant relationships determine whether the research hypotheses are accepted, and quantitative research is best suited for the study because of its powerful statistical procedures (Cooper & Schindler, 2014).

3.1 Research design

The research design for the study is a quantitative formal study with well-defined and highly crystallised study objectives and hypotheses. The data was collected via a quantitative-based survey and analysed using statistical procedures and advanced statistical analysis software.

3.2 Population and sample size

Taherdoost (2016) states that a sampling frame consists of a physical listing of the population units. The sampling frame for this study comprised fuel retail franchise owners or dealers in South Africa and the population was the list of fuel retail franchise owners in South Africa. The sample consisted of 1,300 franchise owners in the fuel retailers' sampling frame.

3.3 Data collection

A cross-sectional research design was used in this study. Based on the purposive sampling method, 1 300 questionnaires were electronically and physically distributed to franchisee owners in South Africa, of which 780 were returned to the researchers, thus yielding a 60%

(780/1 300) return rate. Of the 780 questionnaires returned, 711 were duly completed and used in statistical analysis, yielding a 91% effective response rate.

The questionnaire comprised two sections: Section A collected data on respondents' demographic profiles. In contrast, Section B collected data on respondents' opinions regarding the influence of the different factors on the franchisee's success. The designed questions were anchored on a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree).

Permission to conduct the study was applied for and granted by the institution. To protect the participants from any negative impact, the study followed the regulations and guidelines stipulated by the university's research ethics committee. Consent was obtained from participants for their voluntary participation in the study under the strict guarantee of anonymity and confidentiality.

3.4 Construct validity and scale reliability

The construct validity of the questionnaire was analysed using the Keiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (MSA) criterion. This ensured that the variables correlated sufficiently to be grouped into factors (Watkins, 2018). Values above 0.50 are adequate, while values above 0.60 are preferred. The internal consistency (scale reliability) of the research instrument's items was analysed using Cronbach's alpha criterion, where a higher coefficient value indicates a higher reliability of responses (Cronbach, 1951). Furthermore, Bartlett's tests of sphericity were conducted; this is a test of statistical significance for the values of the coefficient, which must be set at the 95% confidence level.

3.5 Statistical data analysis

Data analysis was conducted based on this research study's conceptual framework, which adapted and revised Bygrave's (2004) model of the entrepreneurial process to suit the context of the South African franchise landscape. Data from the questionnaires were captured on a spreadsheet and analysed using Statistical Package for Social Sciences and Stata 14. Descriptive and multivariate techniques were used to conduct statistical analysis and produce the results.

3.6 Estimation technique

The structural equation model (SEM) approach was used to estimate the study results. Before SEM, exploratory factor analysis and confirmatory factor analysis (CFA) were conducted to assess the dimensionality of variables with unobserved constructs (Beavers *et al*., 2013). The SEM conducted using Stata 14 was a suitable method for estimating causal relationships

among factors hypothesised to influence an individual's decision to grow a franchise business in South Africa.

3.7 Model goodness of fit statistics

The degree to which the hypothesised data 'fit' the sample data is an important aspect of SEM. Model fitting involves determining the goodness of fit (GOF) between the hypothesised model and sample data. Hence, the GOF reveals how well a model fits the data. In this research study, the key measures of the model GOF produced and reported were the comparative fit index (CFI) and the Tucker-Lewis index (TLI).

4. RESULTS

The results presented include the frequencies of respondents' demographic profiles (Table 1), SEM estimates (Table 2), research hypotheses, results and decisions (Table 3).

4.1 Frequency statistics

Table 1: Demographic of respondents

	Frequency (n)	Proportion (%)
Gender		
Male	465	65
Female	246	35
Level of education		
Matric	73	10
Diploma	263	37
Degree	193	27
Postgraduate diploma	103	15
Postgraduate degree	79	11
Annual turnover		
< R1 million	100	14
R1 million to R3 million	197	28
R4 million to R6 million	268	38
R7 million to R10 million	123	17
> =R11 million	23	3
The initial cost of investment		
R1 million to R3 million	199	28
R3.1 million to R5 million	231	32
R5.1 million to R7 million	235	33

R7.1 million to R9 million	41	6
>= R9.1 million	5	1
	711	**100**

Source: Researchers' calculations

Table 1 shows that from the total duly completed responses (n = 711), the majority, 65% (n = 465), were males, while 35% (n = 246) were females. Regarding the level of education, the largest groups, 37% (n = 263) and 27% (n = 193), reported that they had attained diploma and degree qualifications, respectively. Of the respondents,15% (n = 103) attained a postgraduate diploma, while 11% (n = 79) had a postgraduate degree. The general level of qualifications in the sample was above that of the average distribution for higher education in the country (14.6%) amongst adults aged 18 to 64 years, according to the Department of Higher Education (Department of Higher Education & Training, 2022).

In terms of revenue thresholds, the largest proportion (38%; n = 268) of firms had an annual turnover of R4 million to R6 million, followed by 28% (n = 197) with an annual turnover of R1 million to R3 million. Regarding start-up costs, relatively equal shares of 33% (n = 235) and 32% (n = 231) had incurred initial investment costs of R5.1 million to R7 million and R3.1 million to R5 million, respectively. In comparison, approximately 28% (n = 199) had initial investment costs of R1 million to R3 million.

4.2 Construct validity and scale reliability

Factor loadings were computed via principal axis factoring extraction and Oblimin with the Kaiser normalisation rotation methods. Only items with factor loadings equal to a 0.5 threshold were included in the CFA and SEM estimation that followed the KMO-MSA tests, which are now reported.

The overall KMO-MSA result for all 29 items had a value of 0.928 that exceeded the 0.6 minimum thresholds, and Bartlett's test of sphericity chi-square statistic (5975.90; $p < 0.01$) for all 29 items confirmed that exploratory factor analysis could be conducted to examine the total variances as explained by a set of observed variables measuring each latent factor.

The latent factors extracted were firstly for the construct PF, which included seven items that explained 37.8% of the total variance for the factor, with a KMO-MSA value of 0.865. The items for the factor PF included level of commitment, level of persistence and level of risk-taking. The overall factor's Cronbach's alpha value of 0.808 is considered excellent.

For the construct EEF, two factors were extracted with two items each, accounting for 42% of the total variance with a KMO-MSA value of 0.558 and a Cronbach's alpha value of 0.548,

both acceptable. The items for the EEF factors were the influence of role models, level of creativity, the interest of funding institutions, and availability of legal assistance.

The IEF construct's factor consisted of three items that explained 36% of the total variance and had a KMO-MSA value of 0.633. The three items, entrepreneurial culture, established structures and availability diversity products, had a Cronbach's alpha value of 0.616. This indicates empirical and statistical relevance for the items retained in the factor.

Five items explained 32% of the total variance for the construct IF, these five items were policies, products, services, process, and structure, which relate to how innovative the franchise is. The factor IF had a KMO-MSA value of 0.733 and a Cronbach's alpha value of 0.704, which are both very good.

The construct TF had five items grouped that explained 42% of the total variance for the factor: job opportunities, entrepreneurship as a career, contributing to the community, future wealth and financial security. The items relate to the triggers that push an entrepreneur into starting a venture, including the desire to start a business, and planning to do so if it is a career choice, and evaluating the risks involved and whether the required resources are available to start the business. The KMO-MSA value was 0.784, and Cronbach's alpha value was 0.784; both are considered very good.

The IM construct's factor retained three items, which explained 43.5% of the total variance. The KMO-MSA value of 0.647 and Cronbach's alpha value of 0.681 are both well above the accepted thresholds. The three items were financial independence, financial security, and willingness to be an entrepreneur, which involves the initial development and launching of a new venture, business strategy, using resources, and operating the business.

Based on the results above, the six factors (PF, EEF, IEF, IF, TF and IM) were all acceptable from the construct validity perspective. Furthermore, all the results for the six factors were statistically significant at the required level, set at the 95% confidence level ($p< 0.05$).

Regarding scale reliability, Cronbach's alpha coefficient (0.895) for 29 items exceeded the minimum 0.7 required threshold. Thus, the items measured the growth of a franchise business, as respondents perceived that the level of these factors was essential to them.

The study then conducted the CFA and SEM using Stata 14 to establish the causal relationships among the factors according to the hypotheses. These results are now reported.

4.3 Confirmatory factor analysis goodness of fit statistics

CFA was done to verify the factor structures of observed variables by testing for the null hypotheses regarding the relationships among observed variables and their relevant latent

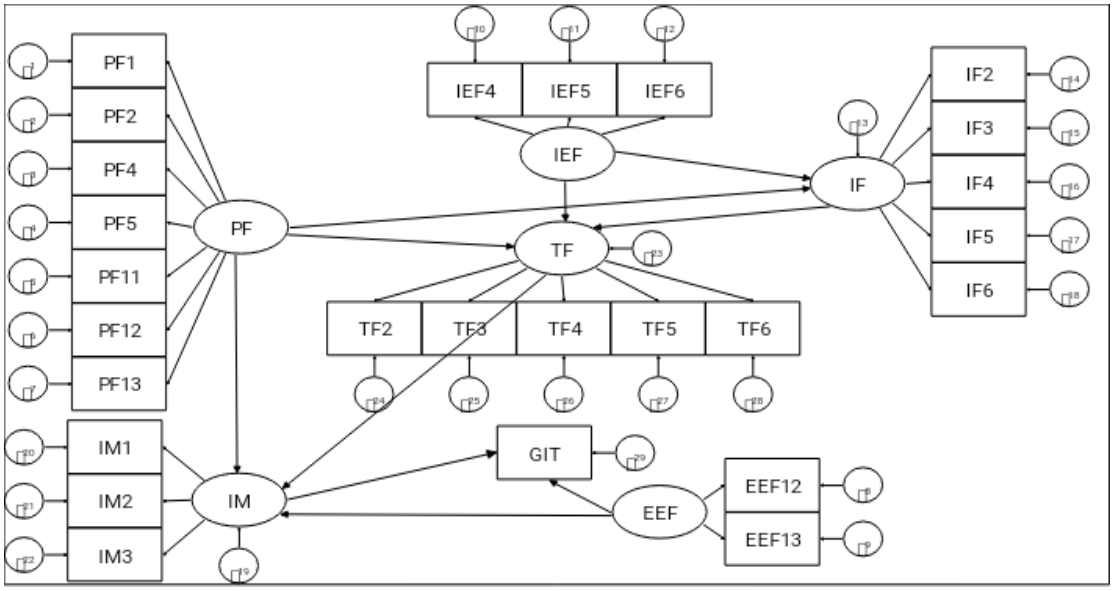
factors. The CFA goodness of fit statistics confirmed good fits between the data and relevant factors. According to Steiger (2007), as observed below, the results show that the CFI and TLI indices are all close to 1. This confirmed good fits as indices above 0.95 are acceptable.

- PF (CFI = 0.998 and TLI = 0.997);
- EEF (CFI = 1.000 and TLI = 1.000);
- IEF (CFI = 1.000 and TLI = 1.000);
- IF (CFI = 1.000 and TLI = 1.007);
- TF (CFI = 0.999 and TLI = 0.994); and
- IM (CFI = 1.000 and TLI = 1.000).

4.4 Structural equation model estimates

SEM estimation (Figure 2) was conducted using the CFA-validated indicators to assess multiple interactions among the latent factors and their relevant observed dependent variable (turnover growth).

Figure 2: A revised model for the progress of South African franchisees



Source: Researchers' CFA-validated model as adapted from Bygrave (2004)

The SEM estimates in Figure 2 were computed based on the revised model and again reflect the items that were retained for all six factors. The personal factor were items (PF1, PF2, PF4, PF5, PF11, PF12 and PF13). For the implementation, factor were items (IM1, IM2 and IM3), for the internal environment factor were items (IEF4, IEF5 and IEF6), for the innovation factor

were items (IF2, IF3, IF4, IF5 and IF6), for the triggering factor were items (TF2, TF3, TF4. TF5 and TF6) and lastly for the external environmental factor were items (EEF12 and EEF13). The SEM estimates are now presented in Table 2 which are then discussed.

Table 2: SEM estimates

Estimation method	**= ml**				**Observations = 711**	
Log likelihood	**= -25713.824**					
	Coeff.	**Std. err.**	**z-stat.**	**P>|z|**	**[95% confidence interval]**	
Structural						
IF ←						
PF	0.505	0.051	9.72	0.000	0.403	0.606
IEF	0.607	0.057	10.65	0.000	0.496	0.719
IM ←						
TF	-0.690	0.113	-6.10	0.000	-0.912	-0.468
PF	-0.399	0.106	-3.75	0.000	-0.608	-0.190
EEF	-0.010	0.063	-0.16	0.870	-0.135	0.114
TF ←						
IF	0.160	0.104	1.53	0.125	-0.044	0.366
PF	0.624	0.072	8.66	0.000	0.482	0.765
IEF	0.419	0.089	4.68	0.000	0.243	0.595
Measurement						
GIF ←						
IM	0.654	0.027	22.66	0.000	0.599	0.708
EEF	0.153	0.052	2.92	0.003	0.050	0.256
Likelihood ratio test – model vs saturated: chi2 (260) = 466.8; Prob > chi2 = 0; GOF statistics: CFI = 0.961 and TLI = 0.952						

Source: Researchers 'calculations

The SEM estimates in Table 2 are grouped into structural and measurement components and refers. Regarding innovation factors (IF), the structural component showed that internal environmental factors (IEF) had the largest statistically significant (z-statistic = 10.65; p = 0.000) and positive influence (coefficient = 0.607) on IF.

Personal factors (PF) also had a significant (z-statistic = 9.72; p = 0.000) and positive influence (coefficient = 0.505) on IF. Therefore, IEF accounts for 61% variation in innovation, while PF accounts for approximately 51% variation in franchise innovation.

Triggering factors (TF) had the largest statistically significant negative influence (coefficient = -0.690; z-statistic = -6.10; *p* = 0.000) on implementation factors (IM). followed by PF (coefficient -0.399; z-statistic =-3.75; *p* = 0.000). Further, external environmental factors (EEF) had a statistically insignificant but very slight negative influence (z-statistic = -0.16; coefficient = -0.010; *p* = 0.870) on IM. This result suggests that the implementation of a franchise business is constrained by TF and PF.

Regarding TF, IF had a positive but statistically insignificant influence on triggering (coefficient = 0.160; z-statistic = 1.53; *p* = 0.125). PF had a significant (z-statistic = 8.66; *p* = 0.000) and positive (coefficient = 0.624) influence on triggering, followed by IEF that also positively and statistically significantly influenced TF (coefficient = 0.419; z-statistic = 4.68; *p* = 0.00). Therefore, PF explains 62% of the variation in triggering, while IEF explains 42%.

In the measurement component of the model, the significant results of interest in line with the research objectives pertain to the magnitude and nature (positive or negative) of the effects of EEF and IM on franchise growth. Estimates show that both IM and EEF had statistically significant and positive effects on the growth (GIF) of franchise businesses.

IM exhibited a substantially higher statistically significant (z-statistic = 22.66; *p* = 0.000) positive influence (coefficient = 0.654) when compared to the influence of EEF (z-statistic = 2.92; *p* = 0.003; coefficient = 0.153). Estimates show that IM accounts for approximately 65% of the variation in the turnover growth of franchises, while EEF explains 15% of the variation in the turnover growth of franchises. Regarding EEF, IM has a notable influence on the growth of franchises. The estimated model's GOF statistics, CFI = 0.961 and TLI = 0.952, satisfied all minimum conditions for model GOF SEM estimates.

The SEM estimate results concluded the hypotheses, which are now summarised in Table 3.

Table 3: Research hypotheses, results, and decisions

Null hypothesis	Decision	Conclusion
H1-1: PF have a significant positive influence on innovation in a franchise business.	Do not reject the hypothesis.	PF significantly and positively influence innovation in a franchise business.
H1-2: PF have a significant positive influence on triggering a franchise business.	Do not reject the hypothesis.	PF significantly and positively influence the triggering of a franchise business.
H1-3: PF have a significant positive influence on implementation in a franchise business.	Reject the hypothesis	PF significantly and negatively influence the implementation of a franchise business.

Null hypothesis	Decision	Conclusion
H2-1: IEF have a significant positive influence on innovation in a franchise business.	Do not reject the hypothesis.	IEF significantly and positively influence innovation in a franchise business.
H2-2: IEF have a significant positive influence on triggering a franchise business.	Do not reject the hypothesis.	IEF significantly and positively influence the triggering of a franchise business.
H3-1: EEF have a significant positive influence on the implementation of the franchise business.	Reject the hypothesis.	EEF insignificantly and negatively influence the implementation of a franchise business.
H3-2: EEF have a significant positive influence on the growth of a franchise business.	Do not reject the hypothesis.	EEF significantly and positively influence the growth (turnover) of a franchise business.
H4: IF has a significant positive influence on triggering a franchise business.	Reject the hypothesis.	IF insignificantly and positively influence the triggering of a franchise business.
H5: TF has a significant positive influence on the implementation of a franchise business.	Reject the hypothesis.	TF significantly and negatively influence the implementation of a franchise business.
H6: IM has a significant positive influence on the growth of a franchise business.	Do not reject the hypothesis.	IM significantly and positively influence the growth (turnover) of a franchise business.

Note: The null hypotheses were tested at a 5% level of significance

Source: Researcher's construction

- There was support for hypotheses **H1-1** and **H1-2,** but not for **H1-3**.
- There was support for hypotheses **H2-1** and **H2-2.**
- There was support for hypothesis **H3-2** but not for **H3-1.**
- There was furthermore support for **H6,** but not for **H4** and**H5.**

The implication of these results is now discussed.

5. DISCUSSION

5.1 The influence of personal factors (PF)

The study findings show that PF had a statistically significant and positive influence on innovation (IF), and the triggering (TF) of a franchise business. However, PF did not influence implementation factors positively.

The PF construct included a passion for being an entrepreneur ($r = 0.64$), a level of persistence ($r = 0.60$), a level of risk-taking ($r = 0.58$), a high level of motivation ($r = 0.57$) and being a leader ($r = 0.58$). These personal factors found necessary resonate with psychological capital

seen as a requirement for sustainable entrepreneurship (Tang, 2020), and entrepreneurial leadership, which is responsible for SME effectiveness and success (Naushad, 2021).

Regarding **H1-1**, the finding is consistent with Schumpeter's (1947) theory that relates entrepreneurship to innovation and newness. Also, Mehmood *et al*. (2019:6) refer to "innovate or perish" as being entrepreneurial, and Bull and Willard's (1993) theory that being task-motivated will support innovation. It is thus crucial for franchisees to ensure they have high levels of confidence, motivation to persist, and risk in being entrepreneurial within their managing a franchise business despite it being a 'turnkey' operation – the franchisee must have persistence and risk tolerance and be solution-driven through their daily tasks.

Regarding **H1-2**, personal factors positively (r = 0.624; p = 0.000) influence a franchise business's triggering (TF). TF had five items: job opportunities, career entrepreneurship, community contribution, future wealth, and financial security. The TF construct items relate to the triggers that push or pull an entrepreneur - such as the desire to start a business, a career choice, and evaluating the risks involved and whether the required resources are available to start the business.

Therefore, this finding implies that franchisees who are less confident, less motivated to persist, and more risk-averse will be less influenced by triggers to start a franchise business. The finding is consistent with the franchisee as an entrepreneur, according to Bull and Willard (1993), when franchisees are motivated positively in the expectation of financial and economic gain. Their need for personal financial well-being and wealth creation is highly receptive to the triggers to start a franchise business.

Regarding **H1-3**, the finding **(**r = -0.399; p = 0.000) should be understood in the context of the franchisee implementing the franchise business by the franchise system that is under the control of the franchisor. This may explain why personal factors are found to negatively influence the implementation of a franchise business - ostensibly, the personal factors of the franchisee may play less of a role during setting up the franchise.

This finding relates to whether the franchise agreement allows franchisees' entrepreneurial autonomy (Colla *et al.,* 2019). When franchisees have entrepreneurial autonomy, they may improve franchise system performance by adapting to local markets and increasing innovation and business performance. However, franchise agreements depend not only on the franchisor but also on whether franchisees keenly evaluate the policies, products and services offered, with the process that must be observed and structured in a franchise business before pursuing and concluding an agreement (Hasanov, 2019).

Overall, the study findings regarding personal factors align with Bull and Willard's (1993) tentative entrepreneurship theory on when entrepreneurship will occur. For example, when a franchisee is motivated, persistent, and risk-tolerant, they can be expected to initiate and attempt further entrepreneurship inside the franchise business after the initial purchase.

5.2 The influence of internal environmental factors (IEF)

EF refers to entrepreneurial culture (r = 0.69), established structures (r = 0.57) and availability and diversity of products (r = 0.50). IEF (**H2-1)** had a statistically significant and positive influence on IF. Hasanov (2019) recommends potential franchisees understand five areas well before entering a franchise purchase and refers to signed contracts and arrangements, key performance indicators must be known and understood, industry and market conditions must be assessed, business arrangements must be known and understood, and are effective and developed management functions in place – ostensibly any or all of these will influence franchise growth and as having a great influence on innovation.

IEF (**H2-2)** furthermore had a statistically significant and positive influence on triggering the franchise business. Therefore, once assessed first before purchase by the franchisee, IEF factors could prompt and persuade them to enter a franchise agreement. On the other hand – their assessment could also prompt them not to purchase if they believe that the IEF is contra to having entrepreneurial autonomy (Colla *et al.,* 2019).

The individuals' motivation to act entrepreneurially is related to the task and the incentive for them to gain financially. For example, do franchisees remain entrepreneurial after they have purchased and are operating the franchise business? Or do they become purely the business owner, and innovation and further entrepreneurial endeavours are left to the franchisor? This in the view of Colla *et al*. (2019), considers franchisees as not strictly entrepreneurial. This is because innovation is the responsibility of the franchisor, while franchisees are merely the implementors of franchise innovation, which is consistent with the view of Mehmood *et al*. (2019).

5.3 The influence of external environmental factors

The items for the EEF factors were the influence of role models, level of creativity, the interest of funding institutions, and availability of legal assistance. The study found (**H3-1**) that EEF had a statistically significant and small positive (r = 0.153; p = 0.003) influence on franchise business growth, but the opposite is found for (**H3-2**) its impact on the implementation of the franchise business; which is negligible negative (r = -0.010) and statistically insignificant (p = 0.8700). This suggests that creativity, funding availability, legal assistance availability, and role models' influence must be considered when considering the future growth prospects of a

franchise business, but that it plays a negligible role during the implementation of the franchise business, although the strength of these findings is negligible.

This seems inconsistent and may well indicate that during implementation, the franchisee trusts that the franchisor provides a fail-proof turnkey system that they may not need to actively check – that is, to trust the franchisor's systems. However, Hasanov (2019) recommended that potential franchisees understand signed contracts and arrangements, be knowledgeable of key performance indicators, and know and understand business arrangements.

Furthermore, as indicated by Bull and Willard's (1993), second point - there must be expertise and confidence to obtain know-how, if required. Within the franchise system, the franchisor holds the know-how, while the franchisee implements this within a well-controlled system. There appears to be a paradox involved here where the franchisee seems to be entrepreneurial through the initial purchase and start-up phase but is then constrained by franchise agreements.

5.4 Additional findings

The study found that implementation factors (IM) directly affect the growth of the franchise (**H6)**. SEM estimates indicated that the IM relating to the franchise business has a statistically significant large positive (r = 0.654; p = 0.000) influence on the growth of the franchise business. The items that constituted the implementation factor construct included financial independence (r = 0.75), financial security (r = 0.68) and willingness to be an entrepreneur (r = 0.52). This finding is relevant to Bull and Willard's (1993), entrepreneurship theory on point three, that franchisees must expect gain for economic benefits and be motivated to create wealth.

This finding further shows that the entrepreneurial franchisee is very important to support the future growth of the franchise business, which is supported by the theoretical basis of Naushad (2021), who maintains that entrepreneurial leadership is responsible for ongoing effectiveness and success in the franchise. Furthermore, Tang (2020) argues that the franchisee must be motivated, pursue an entrepreneurial management approach and develop innovative strategies with the franchisor - if they are to remain entrepreneurial and retain their psychological capital for sustainable entrepreneurship.

The study, furthermore, found that two hypotheses (**H4 and H5)** needed to be rejected as the study results did not support them.

H4: The innovation factor (IF)had a statistically insignificant (p = 0.125) but small positive (r = 0.160) influence on the triggering of a franchise business (H4). The IF items consider policies,

products, services, processes, and franchise structures. This finding is in the direction as expected (positive), but the statistical insignificance did not agree.

H5: TF had a statistically significant (p = 0.000) but large negative (r = -0.690) influence on implementing a franchise business. Therefore, despite the franchisee viewing job opportunities, entrepreneurship as a career, contributing to the community, future wealth, and financial security as personal reasons to purchase a franchise business, the implementation of the franchise remains largely under the influence of the franchise system and the franchisor. This finding is consistent with the finding of **H1-3** (that personal factors are found to influence the implementation of a franchise business negatively); ostensibly, personal and triggering factors do not influence implementation.

6. CONCLUSIONS AND MANAGERIAL IMPLICATIONS

Based on the results, this study considered the inclusion of the term 'franchisee' in the definition of a consumer of a franchisee's service, as stipulated in the Consumer Protection Act. The inclusion of ‘franchisee’ in the Consumer Protection Act is based on the rationale that franchises, in principle, largely revolve around the selling of an already established product or service using the franchisor's business format. The franchisee is, therefore, the consumer of the franchisor – when buying the turnkey process for an already established brand (Hasanov, 2019).

However, the implementation of the franchise must also be considered. The study findings found that implementation factors have a statistically significant positive influence on franchise business growth, while PF is responsible for 51% of franchise innovation. This indicates the duality of franchisees needing to ‘consume’ and implement the franchise very well but at the same time needing to persist in being entrepreneurial with personal factors such as their commitment, persistence and risk-taking, which are typical entrepreneurial characteristics and are relevant to the argument for sustainable entrepreneurship (Tang, 2020) and entrepreneurial leadership (Naushad, 2021).

Based on the above evidence, the presence of the attributes of both consumers and entrepreneurs among franchisees strongly suggests that franchisees cannot be defined or classified as pure consumers or entrepreneurs. Instead, this study revealed that franchisees are consumers with special entrepreneurial attributes, which most ordinary consumers do not possess. Consistent with the legal requirement for franchisees to comply with the conditions of franchise agreements, empirical findings in this study confirmed that franchisees in South Africa cannot be regarded as entrepreneurs. Therefore, this study proposes that a franchisee

should be regarded, classified, and defined as a *consupreneur* – a term derived from combining the words ‘consumer' and 'entrepreneur'.

The limited provision of adequate room for franchisee innovation, which supports the notion that franchisees are not entrepreneurs, is further supported by the findings of the CFA model for implementing factors. This confirmed that it has a positive but insignificant influence on triggering the franchise business. Concomitantly, franchisees should assess franchisors' entrepreneurial culture and the availability and diversity of products that exist in franchises they consider pursuing.

The findings answered the research objectives set out in this study. They showed that franchisees are entrepreneurial, specifically at the onset when they pursue and start up a franchise. This is consistent with both Schumpeter (1947) and Mehmood *et al*. (2019). At the onset, there is novelty and innovation in setting up and providing a franchise in new surroundings. This is in the pursuit of financial reward, consistent with the tentative entrepreneurship theory of Bull and Willard (1993).

Furthermore, setting up a franchise follows an entrepreneurial process when personal motivation provides the incentive to start a franchise, according to Bygrave's (2004) model and Ardichvili *et al*. (2003), Pretorius *et al*. (2005), and Gruber (2007). The findings showed that PF, such as motivation, level of commitment, level of persistence and level of risk-taking by the franchisee, have a positive influence on the triggering of innovation in a franchise, although not the implementation thereof. There is, therefore, both consistency and contradiction in the entrepreneurial process. One reason for this contradiction is that the implementation of the franchise is according to the franchise agreement, which is largely in the control of the franchisor who provides the franchise operating systems, requiring less franchisee involvement.

Lastly, whether a franchisee is entrepreneurial depends on their management approach to the franchise after setting it up. Furthermore, it also depends on their relationship with the franchisor. The franchisee must be motivated, pursue an entrepreneurial management approach and develop innovative strategies with the franchisor if they are to remain entrepreneurial and retain their psychological capital for sustainable entrepreneurship (Tang, 2020). This maintains entrepreneurial leadership responsible for ongoing effectiveness and success in the franchise (Naushad, 2021).

Therefore, based on the discussions above, the research study's findings have practical implications for franchisees, finance institutions, policymakers, FASA and educators. Concerning the influence of external factors on a franchise business's triggering,

implementation and growth, the study findings suggest the following. Financial institutions should assess elements that trigger the growth of franchisee businesses to ensure their decision to finance prospective franchisees is weighted on key push factors triggering franchisees' desire to pursue a franchise. Such elements include the desire to be creators of job opportunities, recognition of entrepreneurship as a career, ambition to contribute to the community, and accumulation of future wealth and financial security.

Policymakers, mainly the government and FASA, have important roles in creating an external environment conducive to the pursuit and growth of franchise businesses. Policies, legislation, and regulations in the franchise industry, implemented by the government and FASA, influence interest by financing institutions to finance prospective franchisees.

Thus, the government and FASA must implement and monitor policies, regulations and legislation that increase financial institutions' interest in providing funding to potentially qualifying franchisees at affordable interest rates. The government and FASA should ensure the adequate availability of legal assistance to franchisees at affordable consultation costs or even the provision of free consultancy services at public institutions across provincial locations.

Educators play a major role in improving the models used in this study to ensure an enhanced understanding of franchising via the entrepreneurial process, particularly in the context of the South African economy. Improved models can provide more in-depth insights into how a franchise business can be improved to contribute to the growth and development of the South African economy. Thus, theoretical and empirical models for analysing the progress of franchisees via the entrepreneurial process should be improved to ensure the advancement of franchise entrepreneurship in the country.

6.1 Contribution of the study

To date, none of the preceding research studies on entrepreneurship has investigated whether franchisees progress through the entrepreneurial process in the South African context. The major academic and practical contributions made by this study include:

- filling the research gap in empirical evidence regarding whether franchisees progress through an entrepreneurial process.
- reviewing theoretic frameworks in the context of franchisees being entrepreneurial.
- selecting the most suitable entrepreneurial process model.
- using a sound methodological procedure for achieving the study objectives.

- contributing to understanding how Bygrave's (2004) entrepreneurial process model applies to franchisees and franchisers; and
- determining whether a franchisee can be defined as either a consumer or an entrepreneur in the South African context.

6.2 Recommendations for future research

This research has some areas that similar future studies can improve on. The study used a cross-sectional research design in which data on growth (actual turnover) was collected at a particular time. This can be enriched by using pooled data on actual turnover growth. Future studies should consider conducting the same study at a disaggregated geographical level to control for factors influencing the growth of a franchise business according to location. In addition, although the sample used in this research study was acceptably large, future research should consider using a larger sample size to ensure generalisability for the entire South African franchise industry.

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