



A Study of Evaluating Factors that Affect SMEs in Adopting Franchise Model (A Case Study in Malawi- Lilongwe District)

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ABSTRACT

This study sought to evaluate the factors that affect small and medium enterprises in adopting franchise model in Lilongwe district the central region of Malawi. Franchise is a form of a business model that is usually chosen by an entrepreneur who want to venture into a new business and acquires a license from the parent company to sell its brand. On the other hand, it is a relationship or agreement between two interested parties to run a business.

Small and Medium Enterprises, need to use franchising model as a mechanism to activate the innovative activity in business in order to increase the effectiveness of innovation and expand their businesses. This study aims at finding out the importance of adopting franchise business model in Small and Medium Enterprise (SMEs) and analyze the factors that affect the business. It depicts the gaps that exist between large companies and small companies in the business. The gaps are resulted from lack of information, lack of knowledge, lack of self-confidence, lack of understanding, lack of education, and lack of capital and expertise. Inadequate commitment of SMEs to adopt a new system of doing business is another contributing factor that affects the SME sector. This study will help SMEs to open their eyes and see business opportunities through franchise model. Franchise business model has a lot of benefits to the SMEs and the country of Malawi at large. Absolutely, franchise business model is a way of expanding business as well as creating jobs.

The findings indicate that; many SMEs are located in remote areas that are not suitable for franchise business. The study also indicated that a number of SMEs find it hard to access bank loans to finance their businesses. The study results revealed that many SMEs are lacking behind in business skills as well as technological expertise that makes them failing to adopt the franchise method. The study recommends that commercial banks and other lending institutions should revise their policies to allow SMEs to access finances easily through offering better lending terms and conditions.

Keywords: Franchise Model, Small and Medium Enterprises, Collateral. Remote areas.

Introduction

Franchise business model significantly provides a number of benefits which include the opportunity for immediate entry into business. It offers the SMEs immediate entry into a particular market with a proven successful package that is a brand product. Regular advice and assessment is provided by the franchisor as well as training (Bernard Davis, 2008). Franchise business model plays a vital role in developed countries and it serves as a catalyst of alleviating poverty.

Small and Medium Enterprises (SMEs) are regarded to be the backbone of all economies in the country-Malawi. However, the SME sector has long been constrained by various factors, some of these constraints include: lack of government support, the limited availability and accessibility of financial resources to meet a variety of operational and investment needs, and lack of access to information. Frankly speaking, the SME sector play a significant role in all economies and are key agents of employment, innovation and growth although they are facing a lot of challenges in the course of doing their business.

Small and Medium Enterprises (SMEs) in Malawi are regarded as small businesses that can only manage to employ few staff depending on the level of revenue and assets they have. Malawi is one of the developing country where SMEs play an important role by providing the transaction of business and the creation of employment that contribute to the economic development of the country. According to Peterhof, Romeo and Calvey (2014) stated that small and medium enterprises account for 90 per cent of all businesses globally.

Despite that SMEs plays a bigger role in the economic development of Malawi, there is a lot to be desire particularly on the issue of franchising business. Reports has shown that a large proportion of franchise business model is only done by large companies than local small and medium-sized enterprises. The gap is so wide and it is of my opinion that government of Malawi should come in to support the SME sector with more information so that they join the franchise business. The government should come up with more awareness campaigns to sensitive people on the goodness of franchise model so that they can have knowledge about the new system of doing business.

Literature Review

Franchising is a business arrangement in which the parent company (franchisor) grants permission or a license to the operator (franchisee) to use the brand, trademarks and sell the franchisors goods and services. According to Pride and Ferrell (2000), states that, it is an arrangement to conduct a business in accordance with the standards specified by the franchisor.

The franchisee will be able to expand the business using the franchisors expertise and gain popularity in the market place. The franchise model will provide a higher chance of success to the SMEs than in a sole proprietorship (Eddy Goldberg, Franchise. com).

Traditionally, SMEs will be provided with initial training once engaged in franchise business. The franchise business model will make the business to grow fast using the franchisors knowledge and expertise, and again, the SMEs will have a chance of using the trademark, branding of the business model. The SME sector will have an opportunity to gain experience in running one's own business, based on the modern management methods offered by the franchisor and thereby gaining stable economic platforms and other financial benefits.

Franchising business has been seen as an alternative to individual self-employment decision to start an independent small business (Kaufmann, 1999; Williams, 1998). It offers the SMEs immediate entry into a particular market with a proven successful package that is a brand product. Regular advice and assessment is provided by the franchisor as well as training.

Franchise business model provides high standard skills of business and this will improve service quality which can result in high level of customer satisfaction. Quality in a service of any business (be it franchise) has become a measure of the extent to which the service provided meets the customer's expectations (Suki, 2013). Indeed, Small and medium enterprises that are able to rapidly understand and satisfy customers' needs, through franchising make greater profits than those which fail to understand and satisfy them. Franchise business model is thus, considered as a significant core concept and a critical success factor in the SMEs sector. A successful franchisee delivers excellent quality goods and services to customers and become competitive in the market place.

According to Bruwer (Citation 2020:148), SMEs are essential to the economy, because they contribute significantly towards the socio-economic objectives, and they can be key drivers of economic growth, innovation and job creation. If Malawi SMEs can majestically adopt the new system of franchise model in business, this can add more salt by expanding their businesses competitively and hence improve the economic stability of the country.

Moreover, the key to achieve sustainable advantage lies in delivering high quality goods and services that results in satisfying customers (Shem wallet al, 1998). Adopting franchise business model will be regarded as the key factors in the battle to obtain competitive advantage and customer retention on the market. In this study, reports have shown that many communities do not understand the concept of franchise business model and this will be a subject matter of concern in local communities.

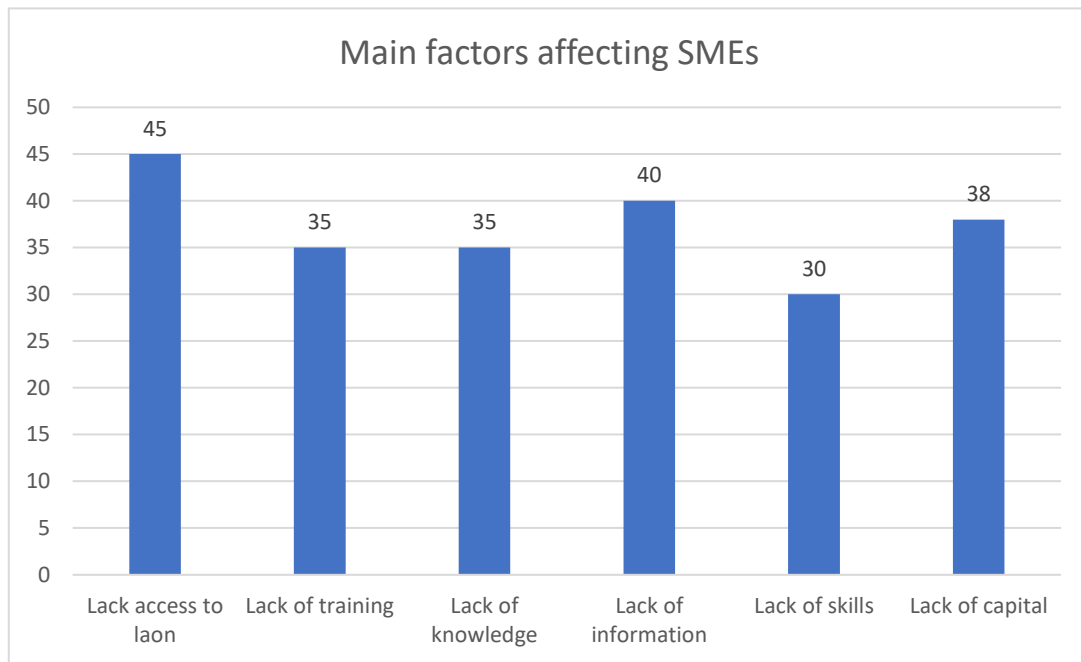
Research Methodology

The study was conducted through primary research using structured questionnaire. The researcher followed basic procedures that are employed when developing the questionnaire to investigate the factors affecting SMEs in adopting franchise business model in Malawi. The formulated statements on the structured questionnaire were based on procedures recommended by Saunders, et al. (2009), and they culminated into the formulation of the statements that represented main variables of the study. It was a comprehensive survey focusing on individual entrepreneurs of small and medium enterprises (SMEs) and their general needs. This survey distributed 70 questionnaires and also carried a face to face interview with small business entrepreneurs across Lilongwe district in Malawi. The target respondents were from the SMEs service owners that are basically located in remote areas and small townships of Lilongwe district.

Findings

The study findings concluded that lack of access to information and failure to access loans from financial institution are detrimental factors that affecting SMEs not to adopt the franchise system of business in Malawi. Lack of managerial skills experience due to inadequate training by government also affects the growth of SMEs businesses in Lilongwe. The study also indicated some other key factors that were found to affect SMEs such as: huge tariffs charged on taxes, inadequate support from government, lack of technological know-how, unreasonable collaterals charged by financial lending institutions and government policy and regulations which are not favourable to small businesses in Malawi.

The study highlighted that lack of information can be a major constraint when accessing the credibility of SMEs in Lilongwe. Access to information is a major milestone of success to business people and that is the reason why government should come open by providing necessary information that will benefit its citizens.



Source: Research Findings

[Qureshi and Herani, 2011](#), [Dhliwayo & Radipere, 2014](#). [Beck et al. \(2005\)](#) stated that SMEs contribute to the improvement of the country's revenue and this is the subject agreement matter if the government can initiate the activities of SMEs to a better height, many SMEs would have been engaged themselves in developing this country through franchise business.

Interpretation

Franchise business model is a good concept of running business in Malawi although most of the SMEs businesses are conducted in the remote areas and small townships of Lilongwe district as sole proprietorship entrepreneurs. This interprets that many SMEs are failing to adopt the franchise business model due to failure of accessing the business information. The franchise business model is a new concept of doing business and this has led many SMEs failing to understand what franchise is all about due to lack of knowledge. Many SMEs lamented that the franchise model is difficult to operate due to lack of expertise on how to do the business.

Table 5 Effects of franchise business model

Responses	Number of respondents	Percentage
Difficult to operate	20	38.5%
Needs more capital	15	28.8%
Needs training	10	19.2%
Lack of infrastructure	7	13.5%
Total	52	100%

Source: Source: Research Findings

Some have observed that franchise business involves the license of a trademark which comes up with a fee, which means for one to be engaged in this kind of business, there are fees attached to it. This has scared many SMEs, and as a result, it makes them fail to adopt the system.

Franchising is a very interesting concept of developing entrepreneurship in the SME sector. This is because it creates job opportunities and also improves the economy of a country. The franchise business provides SMEs a higher chance of success in the business than a sole proprietorship. It is also discovered that franchise business model helps SMEs businesses to grow, and have a chance of using the franchisors trademark and branding. The study through its findings discovered that, involving the franchise business model in the SME sector will help to improve the quality of goods and services. Customers will be provided with good products and services using the expertise and knowledge of the franchisor. This approach will normally make SMEs to become competitive on the market and as a result, SMEs will become more productive hence making more profits.

Conclusion

The study suggests that availability of information on franchise model need to be improved by government so that small and medium enterprises should have access to it. In fact, almost 90 % of the SMEs declared that they were not aware of the franchise business model because they are lacking some knowledge. It is therefore the responsibility of the government to be fully engaged in disseminating information about this new concept of doing business for a better Malawi. It is believed that, strong monitoring mechanisms and support should be put in place by the government of Malawi to ensure that the SME sector is provided with the necessary information concerning franchise business model like what other governments are doing in the world.

Commercial banks should reduce their interest rates in order to accommodate small scale businesses and even giving those opportunities for SMEs to access loans from them. There is also issues of big collaterals demanded by commercial banks and other money lending institutions that makes these SMEs to fear and fail to access loans that would help to boost their business capital. If the government would consider to have a table discussions with the banks to remove these collaterals, this means that many SMEs will have chances of getting loans from these commercial banks.

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