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Franchising & Performance of Multinational Corporations in the Nigerian Fast Food Industry: a Conceptual Insight from Kentucky Fried Chicken (KFC)

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Abstract
Over the years, issues on franchising arrangement have been a topic of discussion in international business, export management and other related disciplines. The idea that franchising arrangement is a shortcut for business expansion and means of distributing goods and services still requires further attention especially from the multinational context This study therefore examined franchising and performance of multinational corporations in Nigeria. Survey method was used in research and data for the study were drawn from both primary and secondary sources. These were collected principally to aid interpretation of data in connection with other approach. A sample size comprising 115 employees of Kentucky Fried Chicken (KFC) were selected using random sampling techniques. Quantitative data from the study was analyzed through descriptive statistics and the hypotheses were tested using correlations. The results indicated that there is a positive relationship between franchising arrangement via political and cultural factors. The findings also showed that franchising arrangement enhances market share of MNCs as well as customers' satisfaction. The study is therefore of the opinion that MNCs should continually use franchising arrangement as an option for expansion into unfamiliar business unit. Finally, effort should be geared towards assessing the effectiveness of franchising arrangement as it serves as a good model for economic development.

Keywords: *Franchising, Performance, Political & Cultural Factors, Customer satisfaction, MNCs and Kentucky Fried Chicken (KFC).*

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Background to the Study

As a result of globalization, today's business environment is undergoing business fundamental transformation. Franchising as a format for market penetration has become an accepted strategy for business growth, job creation and economic development (kotler and Amstrong, 2001). However, franchising as a business concept is fully established in USA which dates back to the late 1850s when Isaac Singer wanted to increase the distribution of his sewing machines. But franchising gained ground as a type of business in the beginning of the 20th century. The automobile industry and the soft drink industry were the first to adopt the so-called product and trademark franchising. Later in the 1930s, the petroleum industry franchised the gasoline service station.

Quinn (1998) considered franchising as a relatively low cost, low control entry mode. Franchisors sell right to market goods and services to the franchisees who uses the franchisor's brands and business methods (Comb 2004). According to Sashi and Karppur (2004) the transaction between the franchisor and the franchisee is influenced by factors such as technical complexity, brand name, unstable environment, cultural diversity and opportunistic behavior. These factors affect transaction cost and the mode of operation in global market. The next big step in franchising came because of a need for a huge distribution net-work. As Henry Ford started mass producing his cars in the assembly line in a pace one had never seen before everything had to adapt to the new culture. There were cars accessible for the masses; cars need gasoline, parts and services. Now people could live in a larger area, drive to other towns, they needed accommodation, places to eat and so on. In the early 1940's a lot of business started blooming; automobile dealers, travel lodges, oil companies made deals with convenience stores etc. This started the expansion of franchising the way we know it today (Dugan 2008).

Conclusively, Franchising has been conquering the world during the past few decades without the masses really knowing of its existence. It is a poorly comprehended type of business ownership and method to grow existing business. Today, Franchising has become a major entry strategy used by multinational firms to gain acceptance in most host countries. In Nigeria today, there are different multinational corporations that have adopted franchising strategy across conglomerates, eateries, chain stores, departmental stores etc. In fact, franchising i is studied by business students and also entrepreneurs are aware of the term. In order to completely understand wh at franchising is all about one really has to closely study the concept and / or throw oneself in and experience it first handed (Barringer, 2010). The beauty of franchising is in the win-win situation that both parties have in the business; franchisor (owner) who seeks to grow the existing business with little financial input and franchisee-sees who are ready to spend the money in order to do a business without having to start from scratch (Bennet 2008).

Statement of the Problem

Over the past ten decades, franchising has grown to be a dominate distribution tool for goods and services. Now a day, franchising makes it possible to purchase a wide range of products and services from all over the world (Birkeland, 2002). However, the competition in the global market place is moving at a leapfrog basis. This has made most companies in which the multinational corporation is no exception to emphasize on franchising as a strategy for competition and controlling substantial market share in different countries across the globe. Moreover, the existence of cultural factors via belief, language, norms, values, mores and pattern of life in different countries has made franchising strategy difficult in its implementation. Political reasons are no exception in making franchising pretty difficult to devise in different countries. Also, the need to implant franchising as a strategy for sustainable business performance vis -a-vis increase in market share, profitability, customer satisfaction as a result of quick responsiveness to changing customer needs and maximization of wealth for the existing and potential shareholders is growing among multinational firms in Nigeria. Yet, the factors impeding its application for overall business performance shows that there is need to examine the effect that franchising has on performance of multinational corporations in Nigeria.

Objectives of the Study

The main objective of this study is to examine the effects of franchising on performance of multinational corporations in Nigeria. Accordingly, the specific objectives are to:

1. Examine whether cultural and political factors has positive effects on the adoption of franchising strategy in Nigerian Multinational Corporations
2. Evaluate whether franchising has significant effect on market share of multinational firms in Nigeria
3. Investigate if franchising has direct effect on the profitability of MNCs in Nigeria
4. Assess whether franchising is a tool to measure multinational performance via customer satisfaction.

Research Questions

The study is poised towards providing answers to the following research questions

1. To what extent has cultural and political factors affected the adoption of franchising strategy in Nigeria?
2. Does franchising have significant effect on increase in market share of MNCs?
3. Does franchising have a significant impact on profitability of MNCs?
4. Is franchising a tool to measure the performance of MNCs via customer satisfaction?

Research Hypotheses

The following NULL Hypotheses shall be tested and advanced in the course of this study

1. Ho: Cultural and Political factors do not have positive effect on the adoption of franchising strategy in Nigeria
2. Ho: Franchising does not have significant effect on increase in market share of MNCs
3. Ho: Franchising is not a tool to measure the performance of MNCs via customer satisfaction

Conceptual Clarifications on Franchising

Franchising is a system of business that has grown steadily in the last 50 years and is estimated to account for more than one-third of the world's retail sales. There are few business entities in the world today that are not touched by the results of franchising. Franchises range from the ubiquitous McDonalds to lawn mowing services such as Mr Green, valet services, medical and dental services, to book keeping services and even to services helping us to prepare our tax forms. Franchising is not restricted just to fast food outlets and gardening contractors. There are now franchises for mentoring managers and sports people and franchises for internet shopping. However, the concept of franchising means different thing to different people.

Atikson (2012) conceptualized franchising as a business arrangement which allows for the reputation, (goodwill) innovation, technical know-how and expertise of the innovator (franchisor) to be combined with the energy, industry and investment of another party (franchisee) to conduct the business of providing and selling of goods and services.

Williams (2009) sees Franchising as a concept which can be applied to just about any area of economic endeavour. It encompasses products and services from the manufacture, supply for manufacture, processing, distribution and sale of goods, to the rendering of services, the marketing of those services, their distribution and sale.

Okusaga (2001) defined franchising as a method of business expansion characterized by a trademark license, payment of fees, and significant assistance and control.

Types of Franchises

There are two main types of franchises according to Dudley (2011) namely:

1. Product Distribution Franchises
2. Business Format Franchises

Product Distribution Franchises: This simply sells the franchisor's products and is supplier-dealer relationships. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees but typically does not provide them with an entire system for running their business. The industries where one most often find this type of franchising are soft drink distributors, automobile dealers and gas stations.
Some familiar product distribution franchises include:

1. Pepsi
2. Exxon
3. Ford Motor Company

Although product distribution franchising represents the largest percentage of total retail sales, most franchises available today are business format opportunities.

Business Format Franchises: This on the other hand, not only uses a franchisor's product, service and trademark, but also the complete method to conduct the business itself, such as the marketing plan and operations manuals.

Business format franchises are the most common type of franchise. *USA Today* reported that the most popular franchising opportunities are in these industries:

1. Fast food Retail Service Automotive Restaurants Maintenance
2. Building and construction Retail—food Business services Lodging

Franchise Agreement

This is the legal, written contract between the franchisor and franchisee which tells each party what each is supposed to do.

Types of Franchise Arrangements

Because so many franchisors, industries and range of investments are possible, there are different types of franchise arrangements available to a business owner. Two types of franchising arrangements:

1. single-unit (direct-unit) franchise
2. multi-unit franchise:
    a. Area development
    b. Master franchise (sub-franchising)

A single-unit (direct-unit) franchise is an agreement where the franchisor grants a franchisee the rights to open and operate ONE franchise unit. This is the simplest and most common type of franchise. It is possible, however, for a franchisee to purchase additional single-unit franchises once the original franchise unit begins to prosper. This is then considered a multiple, single-unit relationship.

A multi-unit franchise is an agreement where the franchisor grants a franchisee the rights to open and operate MORE THAN ONE unit.

There are two ways a multi-unit franchise can be achieved:

1. An area development franchise or
2. A master franchise.

Under an area development franchise, a franchisee has the right to open more than one unit during a specific time, within a specified area. For example, a franchisee may agree to open 5 units over a five year period in a specified territory.

Pros of Franchising

Ownership Mentality

Similar to a dealership, but with more emphasis in franchising, particularly where the franchise agreement is long-term, the Franchisee will have an attitude of being a business owner (not merely dealing with one product line among many) and is more likely to devote time, attention and capital to growing the business, following the approved system and not walking away from occasional business challenges. As one observer put it: The best fertilizer for growing a business is the owner's foot firmly planted on the premises

Building the Value of the Brand

Critical to retail success of each unit in a distribution scheme, as well as the overall competitive strength of the distribution system, is the presence of strong brand identification covering both the products offered and the retail businesses operated. Assuming that a significant brand recognition factor can be established and maintained in the minds of consumers and Franchisees, the following benefits will flow for the Franchisor and its Franchisees. [Note that realization of these advantages has two primary drivers: (1) prominent identification of each retail business (not just the product) with the trademark and (2) a strong retail marketing campaign building brand identity in the consumer's mind.]

Image

Both among prospective owners and with the consuming public, franchise systems generally have a superior image over other distribution approaches, particularly if there is uniformity as to retail presentation, marketing methodology, operational compliance, etc., precisely the things which are easier to achieve within a franchise framework.

System-Wide Marketing Support Aid

Franchise systems typically include arrangements where Franchisees are required to contribute to a national marketing fund, and participate in local marketing co-operatives, supporting retail marketing, advertisements, promotions and public relations.
This ability of the entire system to pool advertising dollars produces obvious competitive advantages (including raising barriers to entry by potential competitors and/or leveraging an already leading position in the industry) and is one of the primary reasons for many systems' survival in down markets (e.g. Century 21) and / or ability to maintain market share in the face of competitive challenges irrespective of mediocre quality products (e.g. McDonald's).

Improved Control over Operation at the Retail Level

Franchising provides both a legal and institutional structure allowing detailed control over the individual unit's marketing and operational programs. If you believe that it is critical for each unit's success (as well as that of the system as a whole) that each unit follow recommended marketing and operational guidelines, franchising provides one of the strongest methods of achieving that objective.

Cons of Franchising

According to Chen (2009) there exist various setbacks to franchising arrangement as discussed below.

Higher Legal Expenses

The necessity of preparing agreements, Uniform Franchise Offering Circulars.
(UFOCs) and related documents, and filing them in various states (with attached audited financials) represents a significant expense, although the year-to-year expenses are generally less than those initially incurred in setting up the structure and related documents. Basic documents, once prepared, can be filed in many states with generally

minor changes. Additional legal (and possibly accounting) costs will be incurred if a separate legal entity is used for the franchising program.

Technical Legal Constraint- Franchise Award

Franchise laws are particularly technical in their application (for example, if a Franchisor provides only 9 days of pre-sale disclosure rather than the required 10, the Franchisee has an automatic rescission right, even though the missing day was not the cause of any loss.) For these reasons, an education program for franchising personnel (which we provide) and the assistance of an in-house legal compliance person is highly useful.

Technical Legal Constraint- Regulation of the Relationship

Franchise laws in a number of states regulate the circumstances in which a Franchisor may terminate or refuse to renew a franchise. While generally not preventing Franchisors from achieving termination or non-renewal, these laws do present a number of technical requirements that must be complied with. These requirements make inclusion of provisions for objective standards (for both system compliance and financial performance) for termination (and / or recovery of “exclusive” territories) particularly important.

Need to deliver perception and reality of continued value

Franchisees (perhaps more than dealers and particularly if they are being asked to pay royalties and / or marketing fund contributions throughout a long-term contract) can be expected, after some period, to feel that they know as much about running the business (at least on the retail level) as the Franchisor and will ask what their continued payments are buying them (“What have you done for me lately?”) Wise Franchisors anticipate the question by building value in the brand (see below), updating systems and providing continued operational and marketing benefits that give the Franchisee a superior position vis-a-vis the competition, making his or her leaving the system obviously a poor business decision.

Potential Loss of Freedom

Unless carefully designed, awards of “exclusive territories” may generate legal and other problems when a Franchisor seeks to expand through alternative channels of distribution (Internet, mail order, etc.), special venues (units in Wal-Mart, K-Mart, etc.), access different markets (non-automotive), co-branding opportunities, mergers with existing competitive chains, etc. Appropriate franchise agreement provisions, and proper education of Franchisees, and management of their expectations, can largely avoid these issues.

Franchising Business in Nigeria (An Overview)

A Nigerian businessman set up a fast food joint in Akure, Ondo State, South West Nigeria in the year 2000, making between N100,000 and N120,000 a day. He was making this money consistently until year 2002 when somebody bought a franchise of Mr. Biggs for Akure. All of a sudden the customer base shifted and the fast food joint's turnover was reduced to N10, 000 a day, while almost all his customers shifted to the well-known fast

food joint called Mr. Biggs, giving the franchise owner hundreds of thousands of Naira monthly. The case did not end there, the weight of Mr. Biggs eventually crushed the first fast food joint completely out of business - today, and they are no more in operation (Aminu, 2011). The above situation is not limited to fast food businesses alone, franchising exist in many other sectors, e.g., education, real estate, and the service sector.
A franchise is an agreement or license between two parties, which gives a person or group of persons (the franchisee) the rights to market a product or service using the trademark of another business (the franchisor). Both franchisor and the franchisee have a strong vested interest in the success of the brand and keeping the customer happy. Franchising is one of the greatest systematic transfers of know-how in the business world. A good franchise program is designed to take people without experience in a specific business and teach them how to run a successful operation following a detailed formula. New franchisees are successful only if they can learn to follow the system. The franchisor expects you, as a new franchisee, to be flexible, eager to learn and determined to "get it."

Small and medium scale enterprises in Nigeria have not fully tapped into the various opportunities franchising offers, which could be blamed on lack of awareness. Franchising has become the most popular business model for self-employment. The range of opportunities has never been broader, with franchise companies now established in virtually every industry.

SMEs in Nigeria face severe constraints but franchising (as a business model) provides entrepreneurs immense opportunities (technology transfer, marketing/business support services, skill acquisition, etc) to increase SMEs success rate and energise the national economy.

Multinational Corporations (An Overview)
Since the mid-1970s, multinational corporations have rapidly expanded business activities on a worldwide basis through foreign direct investment (FDI). This process has, on the one hand, been induced by structural changes in the world economy, such as trade liberalization, the free movement of capital or technological developments (e.g the availability of improved information and communication technologies that facilitate decentralized production). On the other hand, fundamental changes have taken place in the way firms organize their activities. A particular aspect of this is the strategic behaviour of firms in establishing joint ventures and alliances, major boost in recent years, making competition and cooperation two sides of the same coin. It has been argued that the new structures that are currently created by the largest multinational corporations, for example, through complex networks and strategic alliances, make national boundaries largely redundant, reduce the efficacy of national and regional policy instruments, and call for a need to reverse certain concepts and to establish rules in some areas not well covered in an international framework relating to foreign direct investment.

Since about 1970, multinational corporations have become players in international trade. According UNCTC (1992), in 1990 the total number of MNCs exceeded 35, 000, in total they have more than 150,000 foreign affiliates. There is a strong geographical concentration of MNCs, as nearly 90 per cent of them are based in developed countries; the links with developing economies are mainly through subsidiaries or association.

Theoretical Framework

There have been many researches done with regards to the operation, process, success and management in multinational corporation practices. Some of the theories relevant to this work are discussed below:

Transaction Cost Theory

Some authors mistakenly believe that the transaction cost theory of the MNE originated with Williamson (1975). In fact, it was independently developed by Buckley and Casson (1975) and Hennert (1977, 1982), himself inspired by McManus (1972). Because these authors developed their theories quite early, the application they make of transaction costs differs in significant ways from that of Williamson (1985). Specifically, the concept of asset specificity, which plays a large role in Williamson's theory, is less central to why MNEs expand abroad. As we will see below, many cases of foreign expansion can be explained by the high cost of using the market when property rights are imperfectly defined and enforced, and not by asset specificity, which is only a special case of narrow and hence inefficient markets. Another very common misconception is that transaction costs theory is coherent and monolithic. Transaction costs theory should be seen as an approach, a way of looking at the world. Its rather should be resent development which means the researchers are likely to exhibit significant differences in the way they apply it.

Basic Transaction Costs Theory

Transaction cost theory focuses on the problem of organizing interdependencies between individual. These individuals can generate rents by pooling together different or similar capabilities. Transaction cost theory argues that firms arise when they are the most efficient institution to organize these interdependencies. Likewise, MNEs thrive when they are more efficient than markets and contracts in organizing independencies between agents located in different countries. For example, firm A may have established a distribution system and a manufacturing capacity in its own country, but may be looking for foreign licenses to manufacture and distribute complementary products; while on the other hand a foreign manufacturer may have already developed such a product and can sell its technology to firm A at very low marginal cost. However, such cooperation, which would be profitable to both parties, will not automatically take place. Both parties must be aware of the potential gains of cooperating, they must agree on a price for the technology, and they must prevent protracted bargaining from eating all the potential gains from cooperation. Because economic agents suffer from cognitive limitations (they are bounded rational) and because at least some of them are opportunistic, organizing this cooperation will incur positive information, enforcement, and bargaining costs. These are called transaction costs (Williamson 1975, 1985). The basic argument of transaction cost theory is that cost of organizing a given transaction varies with the method of organization chosen to organize it.

Methodology

The study was carried out in Nigeria, using descriptive survey research design. The target population are employees of Kentucky Fried Chicken (KFC) in Lagos State. Lagos state was chosen because greater percentage of multinational corporations operating in Nigeria is located in Lagos state, the industrial nerve centre of the country. A sample size of 100 employees formed the respondents for the study; no precise population was ascertained as at the time the study was conducted. Simple random sampling techniques were used to select the respondents. Questionnaires were used to collect data which were validated through a pilot study. The questions were closed ended on a five point Likert scale. Descriptive statistics was used to analyse data.

Data Analysis & Presentation

Data collected during the research were analyzed. The data from the questionnaire were coded and fed into excel spread sheet. The data were then exported into Statistical Package for Social Scientists (SPSS) software version 17.0. Furthermore, the formulated hypotheses are subjected to empirical test using correlation analysis. The results of the findings are as follows. The results of the analysis are presented beginning with the presentation of demographics (bio-data) of the respondents which revealed that majority of the respondents were female which constitute (60.0%), while their male counterparts were (40.0%). This shows that majority of the MNCs in the fast food industry are dominated by female workers, the implication of this is that female employee attracts customers than male thus constituting more sales for the company.

4.1 Test of Hypotheses

Hypothesis one: Ho: Cultural and Political factors do not have positive effect on the adoption of franchising strategy in Nigeria

Table 4.22: Correlations

		Franchising Strategy	Cultural & Political Factors
Franchising Strategy	Pearson Correlation	1	.512**
	Sig. (2-tailed)		.000
	N	100	100
Cultural & Political Factors	Pearson Correlation	.512**	1
	Sig. (2-tailed)	.000	
	N	100	100

Correlation is significant at the 0.01 level (2-tailed).

Source: Field survey 2015.

The Correlation analysis showed 51.2% strength and direction of the linear relationship between franchising strategy and Political ET Cultural Factors.

From the table above, the Pearson correlation coefficient between franchising strategy and Political et Cultural Factors is 0.512, indicating that franchising strategy affects cultural et political factors of Kentucky Fried Chicken (KFC). Therefore, we reject the null hypothesis and accept the alternate hypothesis.

4.1.2 Hypothesis Two

Ho: Franchising does not have Significant Effect on Increase in market share of MNCs

Table 4.21: Correlations

		Franchising	Market Share of MNCs
Franchising Strategy	Pearson Correlation	1	.565**
	Sig. (2-tailed)		.000
	N	100	100
Market Share of MNCs	Pearson Correlation	.565**	1
	Sig. (2-tailed)	.000	
	N	100	100

Correlation is significant at the 0.01 level (2-tailed).

Source: Field survey 2015.

The Correlation analysis showed 56.5% strength and direction of the linear relationship between franchising and market share of multinational corporations in Nigeria. From the table above, the Pearson correlation coefficient between franchising arrangement and market share of MNCs is 0.565, indicating a Positive and strong correlations between Franchising arrangement and Market share of MNCs. Therefore, we reject the null hypothesis and accept the alternate hypothesis.

Hypothesis Three

Ho: Franchising is not a tool to measure performance of MNCs via customer satisfaction

Table 4.23: Correlations

		Franchising	Customer Satisfaction
Franchising Strategy	Pearson Correlation	1	.698**
	Sig. (2-tailed)		.000
	N	100	100
Customer Satisfaction	Pearson Correlation	.698**	1
	Sig. (2-tailed)	.000	
	N	100	100

. Correlation is significant at the 0.01 level (2-tailed).

The Correlation analysis showed 69.8% strength and direction of the linear relationship between Franchising arrangement and Customer satisfaction. From the table above, the Pearson correlation coefficient between franchising arrangement and customer satisfaction is 0.698, indicating positive impact of franchising arrangement on performance of multinational corporations in Nigeria vis-a-vis customer satisfaction in the food and beverage industry. Therefore, we reject the null hypothesis and accept the alternate hypothesis.

Discussion of Results (Tested Hypotheses)

The result of the analysis shows that all the effects variables were positive: indicative of the fact that franchising arrangement has effects on organizational performance of Multinational corporations via market share which in turn increases profitability and the quality of services provided by the franchisee to enhance customer's satisfaction, efficiency and overall performance the company. The analysis of the first hypothesis revealed a positive correlation that shows 51.2% relationship between the adoption of franchising arrangement via political and cultural factors in Nigeria. The conclusion corroborated with the findings of Havens (2001) that confirms the positive effect of franchising strategy be it type 1 or type 2 on multinational performance in terms of market share, operational effectiveness, and increase in sales volume and by extension profitability. Their study also reveals that franchising arrangement has some effects on performance measures, such as service quality, return on investment, organization and process effectiveness and customer satisfaction (Dudley et al., 2011).

Concluding / Recommendation

In conclusion, franchising is a shortcut into an unfamiliar business; in fact it is an entry to running a new business via complying with the requisite formula, training and marketing. It remains a strong model for business expansion for investors and multinational corporations. The study concluded that franchising arrangement is largely affected by political and cultural factors. However, investors and other business stakeholder willing to choose franchising arrangement as mode of entry should take cognizance of political factors and cultural environment of the country in question. Also, franchising arrangement enhances market share of companies and by implication improves profitability (Aminu, 2011). Finally, franchising arrangement is a good indicator of organizational performance vis-à-vis customer satisfaction.

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