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Value Creation and Profitability of Quick Service Restaurants in Lagos State, Nigeria

[1]**Adeniranye, A. F.,** [2]**Asikhia, O. U.,** [3]**Magaji, N. &** [4]**Fidelis, B. N.**
Department of Business Administration and Marketing, School of Management Sciences, Babcock University, Ilishan –Remo, Ogun State, Nigeria

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Corresponding Author:
Adeniranye, A. F.

Abstract

The Quick Service Restaurant (QSR) industry makes a significant contribution to the Nigerian economy; providing substantial revenues to government and sizable employment opportunities at the processing and retailing levels. Previous studies in Nigeria scarcely investigated organisational value creation impact on firm performance particularly in the QSR industry. Despite the increasing popularity of "*eating out*," Quick Service Restaurants in Nigeria have shown a negative growth rate, with decline in total income, as it has become increasingly difficult to satisfy modern restaurant customers who seek unique experiences that are more than just consuming food. Hence, this study investigated the effect of value creation on profitability of Quick Service Restaurants in Lagos State, Nigeria. Cross-sectional survey research design was adopted. The total population was 414 owners/managers, accountants of Quick Service Restaurants in Lagos State, Nigeria. A well-structured and validated questionnaire was used for data collection. Cronbach's Alpha reliability coefficients for the constructs ranged from 0.72 to 0.92. The response rate was 73.2 percent. Data were analysed using descriptive and inferential statistics. Findings revealed that value creation dimensions had significant effect on profitability ($Adj.\ R^2$ = 0. 395; $F_{(6,296)}$ = 33.801, p< 0.05).The study concluded that value creation had significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria. The study recommends that Quick Service Restaurants (QSRs) in Lagos State, Nigeria should continue to deploy their resources effectively and efficiently, identify and satisfy the interests of their key stakeholders in order to enhance profitability.

Background to the Study

The quick service restaurant (QSR) industry is an important sector in the Nigerian economy employing over 500,000 workers at processing and retail levels and generates revenue estimated at N230 billion (Ayeni, 2015). Ademigbuji (2014) stated that the QSR industry in Nigeria is dominated by some 100 small- to medium-sized indigenous brands with over 800 outlets spread across the country. With an estimated population of 180 million people, the restaurants-per-person in Nigeria is very low and it is expected that the low restaurants-per-person will positively impact on the performance of QSRs. However, the performance of the industry operators has not matched this expectation. The reasons adduced for this below expectation in performance include economic recession, reducing disposable income, rising infrastructure costs, perennial challenge with reliable and quality ingredients (Uvie-Emegbo, 2015), increasing competition from other food service operators, particularly from the activities of the local retail restaurants popularly known as "Bukka" and villainous activities of low level QSR employees. In order to mitigate the adverse consequences of rising costs, intense competition and changing customer needs, QSRs need to deploy valuable resources effectively and efficiently in order to survive and be profitable. Hence the objective the study.

Objective of the Study

This study investigated the effect of value creation on profitability of Quick Service Restaurants in Lagos State, Nigeria.

H_{01}: Value Creation Dimensions have no significant effect on Profitability of QSRs in Lagos State, Nigeria.

Literature Review

Value Creation

According to Haksever et al., (2004), philosophers and ethicists study the values held by an individual or groups of individuals, such as society. They deal with principles or values that should guide human behaviour. However, unlike ethicists, economists and engineers are interested in the value of things. Taking the concept of value of things further and emphasizing the value derived from activities, policies, and practices of a firms, Haksever et al., (2004) define value as "the capacity of a good, service, or activity to satisfy a need or provide a benefit to a person or legal entity" (p. 292). This definition includes any type of good, service, or act that satisfies a need or provides a benefit, which may be tangible or intangible, including those that positively contribute to the quality of life, knowledge, prestige, safety, physical and financial security, as well as providing nutrition, shelter, transportation, income, etc. Market values as well as nonmarket values are included in this definition and for value to exist it must be perceived as such by the recipient.

Like value, value creation is a concept with many meanings (Fayolle, 2007; Gronroos, 2011). On the one hand, value creation means the customer's creation of value-in-use. On the other hand, value creation is used to describe the whole process of development, design, manufacturing and delivery as well as back-office and front-office activities,

including the customer's creation of value-in-use (Gronroos, 2011). Gronroos (2008) explained that value for customer or customer value means that customers, after being assisted by the provision of resources or interactive process, are better or feel better off than before. Based on the foregoing, the researcher adapted Haksever et al., (2004) definition of value and Gronroos's (2008) definition of value for customer to define value creation as the creation of customer value through the deployment of good, service, resource or activity to satisfy customer's need or provide a benefit to a customer.

Value Creation Dimensions

A review of extant literature revealed that the dimensions of value creation comprise: business model, environmental scanning, customer involvement, organizational innovation, organisational resources, and stakeholder orientation.

Business model has been identified as a veritable tool for improving firm performance because it is generally accepted that a business model has value creation at its core (Teece, 2010; Zott and Amit, 2010). Amit and Zott (2001) see the business model as an innovation platform that is capable of transforming entire industries. In addition to value creation, a business model also encapsulates the mechanism for delivering and capturing value for a firm.

Environmental scanning is the collection of information about events and relationships in a company's external environment, the knowledge of which would assist top management in its task of charting the company's future course of action (Aguilar, 1967). Aaker (1983) cited in Zhang et al., (2011) opined that environmental scanning should focus on target information needs, allocate effort among employees exposed to relevant information, and have an effective system for storing, processing and disseminating information. Environmental scanning has also been defined as assessing the societal environment and task environment to identify trends, threats and opportunities as a base for formulating strategies (Harrison & John, 1998). Yu et al., (2019) considered environmental scanning to be a requirement for strategic plan development in complex and constantly changing business environments.

Customer involvement (CI) is the degree to which customers are involved in a firm's new product development NPD) and continuous improvement programmes (Feng et al., 2014). CI may range from providing minor design suggestions to being responsible for the whole development process of a new product (Chen and Paulraj, 2004). Since customers can be involved not only in market opportunity analysis but also in product testing, product commercialization and continuous improvement, CI has been considered as one of the most often used methods to improve new product performance (Feng et al., 2014).

Organisational innovation refers to the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations (OECD, 2005). Organisational innovation comprises mainly new product development,

process innovation, and administrative innovations. . A product innovation is the introduction of a good or service that is new or significantly improved with respect to its characteristics or intended uses. A process innovation involves new ways of producing products or services as well as new ways of delivering them to customers (Blumentritt, 2004). Administrative innovation refers to procedures that enable innovation to be an inherent part of a company's operation (Laforet and Tann, 2006).

Organisational resources all assets, capabilities, organisational processes, attributes, information, and knowledge controlled by the organisation that allow it to implement more effective and efficient business strategies. These firm-specific heterogeneous resources can be classified into three categories of capital resources, namely: physical (plant and equipment), human (skills and knowledge) and organisational (capabilities associated with formal and informal planning, controlling and coordinating) (Barney, 1991). According to Daft (1983), company resources include all assets, capabilities, organisational processes, information, knowledge, attributes and so on controlled by a firm. Kamasak (2017) defined organisational resources as comprising tangible resources (cash, financial investments, physical structures and raised capital), intangible resources (e.g. brand, corporate image and organisational culture) and capabilities (e.g. human capital, networking capabilities and business processes).

A company's stakeholder orientation represents how much the company attends to the interests of all its relevant stakeholders and thus attempts to address such interests (Greenley and Foxall 1996, 1997, 1998). Stakeholder orientation has also been referred to as the organisational culture and behaviors that induces organisational members to continuously be aware of, and to positively act upon, a variety of stakeholder issues (Maignan et al., 2011). Four stakeholder groups consistently identified as relevant to most corporations are: customers, competitors, employees, and shareholders (Greenley and Foxall, 1996, 1997, 1998). The first two stakeholders, customers and competitors, are the components of the market orientation (Narver and Slater 1990).

Profitability

Profitability is a necessary condition for the long-term survival of a business firm and it measures a firm's past ability to generate returns (Santos and Brito, 2012). Brigham et al., (1999) consider that profitability is the net result of various policies and managerial decisions, and the profitability rates represent the net operating result of the combined effects of liquidity, asset management and debt management. Achim and Borlea (2008) suggest that for a firm to be profitable, it must work in conditions of profit, which means that the revenue has to exceed costs involved in achieving the activity. Tulsian (2014) opined that firm profitability comprise of two words: profit and ability. Whereas 'profit' means the generation of earnings, 'ability' indicates the power of a business entity to earn profits. The ability of a business firm is also an indicator of its operating performance.

Value Creation Dimensions and Profitability

Prior studies on value creation dimensions and profitability span the entire dimensions of value creation, namely: business model (Heij et al., 2014; Hryckiewicz and Kozlowski,

2017; Westerlund et al., 2017), environmental scanning (Chege and Wang, 2020; Fatoki, 2016), customer involvement (Witell et al., 2014), organizational innovation (Chen et al., 2020; Tackx et al., 2017), organisational resources (Ferro de Guimaraes et al., 2016; Lopez-Cabarcos et al., 2015) and stakeholder orientation (Brulhart et al., 2019). These studies on the effects of value creation dimensions on profitability produced mixed findings. For example, (Chen et al., 2020; Hryckiewicz and Kozlowski, 2017; Lopez-Cabarcos et al., 2015; Tackx et al., 2017) found that value creation dimensions have positive and significant effect on profitability. Specifically, Chege and Wang, (2020), confirmed that entrepreneur's environmental analysis strategy is paramount in ensuring firms' performance sustainability as this facilitates the adoption of new techniques to align business strategy under turbulence environment.

Other studies (Heij et al., 2014; Westerlund et al., 2017;Witell et al., 2014) revealed environmental dynamism, marketing strategy and new product development phase as the critical factors that influence the effect of value creation dimensions on profitability. Heij et al., (2014) found that even though business model replication and business model renewal have a positive effect on firm performance, environmental dynamism weakens the relationship between business model replication and profitability while environmental dynamism does not strengthen the relationship between business model renewal and firm performance. Witell et al., 2014, on the other hand, noted that customer involvement effect on profitability through new offerings is dependent on the phase (early or later) of new product development and whether the focal firm is into production of goods or provision of services. This finding corroborated the contextual nature of the firm performance effect of customer involvoment noted by Cui and Wu (2016) and Feng et al., (2016). Conversely, Brulhart et al., (2019) found a negative link between companies simply having a higher stakeholder orientation and profitability. However, environmental proactivity not only had a positive impact on profitability, but also mediates the relationship between stakeholder orientation and profitability.

Theoretical Foundation

Dynamic Capabilities

Dynamic Capabilities (DC) decouple from the criticisms against the Resource-Based View as a static and equilibrium model by its emphasis on dynamism (Easterby-Smith et al., 2009). Dynamic Capabilities (DC), developed by Teece et al., (1997), refers to "the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments" (p. 516). DC examines how firms address changes in their turbulent business environment through reconfiguration of their firm-specific competencies into new competencies (Teece, 2007). Dynamic Capabilities is concerned with mechanisms for bringing about organisational change, change management, issues of strategic renewal, adaptation and growth. Based on its concern with mechanisms for change, it links to innovation and organisational learning (Easterby-Smith et al., 2009).

In the perspective of DC, and in contrast to the RBV, there exists a very clear distinction between resources and capabilities. Competitive advantage sources lie in the context of

DC, with greater emphasis on capabilities than on resources because the value of resources in the context of dynamic markets tends to depreciate quickly (Collis and Montgomery, 2008). Resources remain important, not per se, but based on the configuration conferred by DC (Cavusgil et al., 2007; Liao et al., 2009), because it is not clear that all companies use their resources in the same ways, even those resources that are easily accessible (Cardeal and Antonio, 2012). Instead, firms combine these resources with inside knowledge, in order to put together the pieces of a puzzle, to find solutions, and to achieve strategic and operational objectives. The way these resources are interconnected and the most appropriate combinations and types of interconnections are relevant in DC (Kay, 2010).

As important as having useful resources, is the possession of capabilities that allows the integration and use of these resources (Barney and Wright, 1998). Over time, firms have opportunities to improve their organizational processes or routines (which reflect how things are done in the company). Combining this path dependency effect with the fact that, due to their strong intangible component, organizational resources or routines are ambiguous (in the sense that their relationship with competitive advantage is not evident and is often the result of the integration of various packages of resources) and are also socially complex, these processes/routines are difficult for competitors to imitate, which increases the firm's potential to achieve competitive advantage (Teece et al., 1997).

Dynamic capabilities help firm's sense opportunities and then seize them by successfully reallocating resources, often by adjusting existing competencies or developing new ones. An enterprise with strong DC will be able to innovate and respond to or create changes in the market by profitably building and renewing resources, assets and capabilities in the appropriate way (Teece, 2018). This study is anchored on Dynamic capabilities because the dimensions of value creation employed are essentially capabilities, which when they are properly developed, integrated and reconfigured will enable industry players create benefits that will enhance customers' willingness-to-pay and thereby improve their profitability.

Methodology

A cross-sectional survey research design was employed for the study. The target population for the study were owners/managers and accountants of 207 outlets of QSRs located within Lagos State and registered with Lagos State Chapter of Restaurant and Food Services Proprietors Association of Nigeria (REFSPAN). This made the population four hundred and fourteen (414). Census method was used because of the relatively small size. Lagos State Chapter was chosen for this study because it has over 50% of QSRs in Nigeria (REFSPAN). Data was collected with the aid of close-ended structured questionnaire.

The validity of measurement was established through content and construct validity. For the content validity, the research instrument was given to colleagues in the doctoral seminar class and other researchers in the Department of Business Administration and Marketing, Babcock University to ascertain that the items adequately covered the domain

of the constructs. To further improve content validity, a principal component factor analysis was used to check the adequacy of the sample size. The common measures of sampling adequacy, Kaiser-Meyer-Olkin measures (KMO) and Bartlett's Test of Sphericity, were used to test the significance of the variables. The construct validity of all variables involved in the study was established through Exploratory Factor Analysis. Cronbach's Alpha was used to determine the internal reliability of the items in the questionnaire in this study. The Cronbach's Alpha is a reliability coefficient that indicates how well the items in a set in the questionnaire are positively correlated to one another. The Cronbach's Alpha values for the constructs ranged between 0.72 and 0.92. Inferential analysis was carried out using statistical tools of multiple linear regression analysis model to establish the relative effect of the sub-independent variables on the sub-variable of the dependent variable (profitability).

Response Rate

A total of 414 copies of questionnaire were administered owners/managers and accountants of Quick Service Restaurants (QSR) in Lagos State, Nigeria. Out of 414 copies of questionnaire that were distributed, 303 copies were correctly filled and returned. This represented 73.2 percent. According to Mugenda and Mugenda (2003) and Saunders et al., (2007), a response rate of 50 percent is adequate, 60 percent is good, and 70 percent is very good. Therefore, the response rate of 73.2 percent is very good and hence acceptable for drawing conclusions on the study. The results are shown in Table 4.1.

Results and Discussion

The data for value creation dimensions was generated by adding all the responses on business model, environmental scanning, customer involvement, organisational innovation, organisational resources and stakeholder orientation. Precisely, the questions related to: organisational resources sub-variables (physical resources, financial resources, experiential resources, informational capabilities, and relationship building capabilities), and stakeholder orientation sub-variables (customer orientation, employee orientation, shareholder orientation, and competitive orientation) were each respectively combined to form total average indices of organisational resources and stakeholder orientation. Also, data for profitability was generated by adding the scores of the items of the variable on the questionnaire administered to the customers. Data from three hundred and three (303) respondents were gathered and analyzed using SPSS version 21 software. The results of the multiple linear regression analysis are shown in Table 1.

Table 1: Summary of multiple regression analysis for effects of value creation dimensions on profitability

N	Model	*B*	Sig.	T	ANOVA (Sig.)	R	R^2	Adjusted R^2	F (df)
303	(Constant)	.320	.326	.984	0.845[b]	.638[a]	.407	.395	33.801 (6, 296)
	Business Model	.347	.000	4.567					
	Environmental Scanning	.031	.738	.335					
	Customer Involvement	.080	.080	1.756					
	Organisational Innovation	-.292	.000	-3.885					
	Organisational resources	.456	.000	4.363					
	Stakeholder Orientation	.270	.012	2.542					
	Predictors: (Constant), business model, environmental scanning, customer involvement, organisational innovation, organisational resources and stakeholder orientation								
	Dependent Variable: Profitability								

Source: Researcher's findings (2020)

The analysis in Table 1 reveals the result of the multiple linear regression analysis on the effect of value creation dimensions (business model, environmental scanning, customer involvement, organisational innovation, organisational resources and stakeholder orientation) on profitability of Quick Service Restaurants in Lagos State, Nigeria. The analysis revealed that value creation dimensions had significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria. The result showed that business model ($\beta = 0.347$, $t = 4.567$, $p<0.05$), organisational resources ($\beta = 0.456$, $t = 4.363$, $p<0.05$) and shareholder orientation ($\beta = 0.270$, $t = 2.542$, $p<0.05$) have positive and significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria. Also, the result revealed that environmental scanning ($\beta = 0.031$, $t = 0.335$, $p>0.05$) and customer involvement ($\beta = 0.080$, $t = 1.756$, $p>0.05$) have positive but insignificant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria. The result further showed that organisational innovation ($\beta = -0.292$, $t = -3.885$, $p>0.05$) has a negative and insignificant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria.

Moreover, the R value of 0.638 shows that a relationship exists between the explanatory variables and the explained variable, which is further confirmed by the coefficient of determination value 0.407. The coefficient of multiple determination, adjusted R^2, is relatively low but positive 0.395 ($F_{(6, 296)} = 33.801$, $p=0.845$) indicating that value creation dimensions determine the profitability of Quick Service Restaurants in Lagos State, Nigeria. Also, the F-statistics (df = 6, 296) = 33.801 at $p<0.05$) indicates that the overall model is significant in predicting the effect of value creation dimensions on profitability. This implies that value creation dimensions (business model, environmental scanning,

customer involvement, organisational innovation, organisational resources and stakeholder orientation) had a significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria.

The linear regression model is thus expressed as:

PR = 0.320 + 0.347BM - 0.292OI + 0.456OR + 0.270SO

Where:

PR = Profitability
BM = Business Model
OI = Organisational Innovation
OR = Organisational Resources
SO = Stakeholder Orientation

The regression model shows that holding all value creation dimensions employed in this study to a constant zero, profitability would still be somewhat positive. The analysis also showed that when business model, organisational resources and stakeholder orientation are improved by one unit profitability will be improved by a significant value of by 0.347, 0.456 and 0.270 respectively. This indicates that an increase in business model, organisational resources and stakeholder orientation would lead to a subsequent significant increase in profitability of Quick Service Restaurants in Lagos State, Nigeria. Furthermore, the results revealed that one unit increase in environmental scanning and organisational innovation would result to a subsequent insignificant increase in profitability by 0.031 and 0.080 respectively. Similarly, an improvement by one unit in organisational innovation will cause an insignificant decrease of 0.292 on profitability of Quick Service Restaurants in Lagos State, Nigeria. The result of the analysis indicates that value creation dimensions of Quick Service Restaurants in Lagos State, Nigeria partly had a significant effect on profitability. Therefore, the null hypothesis (H_{01}) which states value creation dimensions have no significant effect on the profitability of Quick Service Restaurants in Lagos State, Nigeria is hereby rejected.

Discussion

The result of the multiple regression analysis showed that some value creation dimensions were significant in predicting profitability. In other words, value creation dimensions had statistically significant effect on profitability of Quick Service Restaurants in Lagos State. Conceptually, the deployment of value creation dimensions enables organisations to be able to meet their customers' needs for functional, experiential, symbolic and/or cost benefits in unique ways. In this way, customers' willingness-to-pay for benefits derived is enhanced and organisations' profitability is improved as a result. When organisations introduce new or significantly improved product into the market, the novelty (newness) of the product avails organisations the opportunity to earn above average return on the new product, which translates to higher profitability. In the same vein, new or improved process, marketing method or

organisational method in business practices serve to lower the overall cost of business, which also results in increased profitability for organisations. This is the reason why organisations invest in research and development programme so as to develop innovative products and gain first-mover advantage over competitors. All the other value creation dimensions namely: business model, environmental scanning, customer involvement, organisational resources (particularly, capabilities) and stakeholder orientation are employed by organisations in a way that enables them to stand out from competition and be in a position to charge higher price and generate higher profitability.

The results of this study are in congruence with the findings of earlier scholars like Lopez-Cabarcos et al., (2015) who found a strong positive relationship between organizational capabilities, business strategy, and profitability and concluded that the choice of the business strategy is a partial mediator between organisational capabilities and profitability. Witell et al.,(2014) showed that obtaining customer information during NPD significantly influences the profits from new offerings. However, the effects vary depending on the phase of the NPD process. Particularly, they noted that the financial rewards from obtaining customer information for goods are highest in the early phases of the NPD process and decline in later phases. The financial rewards for services, on the other hand, are high in the early and late phases of the NPD process. Some other previous empirical findings reported mixed results. For instance, , Hryckiewicz and Kozlowski (2017) found that business models adopted by systemically important banks during economic crisis have negative impact on profitability (for investment bank model) and positive impact on profitability (for retail bank model). They documented that the funding structure was responsible for the systemic effect of the mortgage crisis. Hence, it is concluded that Quick-Service-Restaurants operators must learn how to create value thereby leading to increased profitability and overall business performance. Similarly, Tackx et al., (2017), who investigated whether advertising leads to higher profits from a value creation and value capturing perspective, reported that advertising spending has no significant impact on profitability, while both brand value and research and development (R&D) spending have a significant positive effect. In addition, they observed a positive interaction effect between advertising spending and R&D spending and a negative interaction between brand value and R&D spending on profitability.

Majority of scholarly literatures supported the study finding that value creation dimensions had a positive and significant effect on profitability. There were few other studies that have established that value creation dimensions had negative and insignificant effect on profitability. Based on these majority findings that value creation dimensions had positive and significant effect on overall profitability, therefore this study rejected the null hypothesis (H_{01}) that value creation dimensions has no significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria.

The findings of this study supports the Dynamic Capabilities Theory because when the value creation dimensions (business model, environmental scanning, customer involvement, innovation, organisational resources and stakeholder orientation,

identified as organisational resources by Daft (1983) and Kamasak (2017), are integrated and reconfigured in response to changes in the external business environment result in the achievement of predetermined organisational objectives (Teece, 2007) inclusive of profitability. Based on the support provided by the Dynamic Capabilities Theory and past empirical findings to the findings of this study, therefore, the null hypothesis (H_{01}) which states value creation dimensions have no significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria was rejected.

Conclusion and Recommendation

In conclusion, value creation dimensions, particularly, business model, organisational resources, and stakeholder orientation, have significant effect on profitability of Quick Service Restaurants in Lagos State, Nigeria ($Adj.\ R^2 = 0.395$; $F_{(6,296)} = 33.801$, $p < 0.05$). Given the importance of profitability business continuity and growth, the study recommends that the management of QSRs should continuously evaluate the appropriateness of their business model, effectively and efficiently deploy their resources, identify and satisfy the interests of their key stakeholders in order to enhance profitability.

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