FRANCHISING ALLIANCE AND LOCAL CONTENT DEVELOPMENT OF FOODS AND BEVERAGES MANUFACTURING INDUSTRY IN RIVERS STATE, NIGERIA

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ABSTRACT

This study examined the relationship between franchising alliance and local content development of foods and beverages manufacturing industry. The study adopted a cross-sectional survey research design to obtained responses from the industry in Rivers State, Nigeria. The population of the study was (5) five foods and beverages manufacturing firms registered on the Nigeria Industrial Directory: Manufacturers Association of Nigeria (MAN) Directory of the Rivers State Branch of the Association that has operational base in Rivers State, Nigeria. The study used census sampling thus adopting the entire population with a total of fifty eight (58) strategic managers in the companies constituting the sampling elements. Data analysis, which was with the aid of Statistical Package for Social Sciences (version 26.0) was based on the Spearman's Rank-order Correlation Coefficients which was used to test the study hypotheses. The empirical results showed that franchising alliance has a very strong positive and significant relationship with technological development as a measure to local content development. There is a very strong positive and significant relationship between franchising alliance and skill development as measure of local content development. The study thus, concluded that franchising strategy alliance has a positive and significant influence on local content development, thus; the dimensions and measures showed variations in the significance of relationships. Therefore, the study recommend that management of foods and beverages manufacturing firms should consider franchising alliance in terms of sub-contracting to helps international firms to expand their business overseas and enter into unfamiliar foreign markets.

INTRODUCTION

Organizations seeking alliances always look for partners who will help them create value for customers at lower costs in the competitive market. The foods and beverages industry in Nigeria have been described as being technological oriented and input specific with a predominance of foreign technology and foreign inputs and with poor alliance to link the other facets of the economy. In line with this, Gbegi and Adebisi (2013) argue that the success of business organizations in the current times depends to a large extent how they are able to develop local talent, build a cost-effective local supplier base and provide sustainable socio-economic benefits to their host communities and the regions where they operate. However, with the growing presence of multi-nationals companies within the country; which according to Hansen, Pedersen and Petersen (2009) is principally geared towards the exploitation of the natural resources and abundant cheap labour pool; the constant competition, frictions and rift between indigenous companies and multi-nationals companies, and the seeming unequal relations resulting from the system; the need to re-evaluate operational working relations from a more strategic tools arises (Hamilton, 2011). The Nigerian Oil and Gas Development Law (2010) define local content as the quantum composite value added or created in the nation’s economy through the utilization of nation’s human and material resources for the provision of goods and services to the petroleum industry. This follows the definition of Belderbos and Sleuwaegen (1997); Gbegi and Adebisi (2013) they described local content as comprising of a set of expectations from foreign companies operating within a local region, with regards to the utilization of local resources such as manpower and materials as well as intermediate input in the local environment.

Apparently, the emphatics obtained from the above definitions are premised on a clear working relationship between foreign companies and their indigenous counterparts in such a way that is beneficial to both parties (foreign companies and local or indigenous companies) with indigenous organizations acquiring the required development for their staff and technologies which in turn transfers and the foreign companies obtaining support, cooperation, and a favourable operational relationship. The alliances are wide-ranging associations including; franchises, joint research and development, long-term supply arrangements, joint ventures and joint mergers and acquisition. Successful alliances become firms' engine for growth and profitability globally and/or in the local market. Strategic coalitions offer a chance for companies to partner in business operations which is very helpful in reducing individual firm weaknesses (Smith & Smith, 2003; Uko & Hamilton, 2020). Franchising has received considerable attention from a variety of academic fields and practitioners (Madanoglu et al., 2011, Hsu and Jang, 2009). Due to creating job opportunities and economic and local development (Pizanti and Lerner, 2003), franchising continues to increase in importance in many countries such as the US, France, Germany, Spain and other countries; as there are approximately 265,943 franchised outlets in Europe (Bordonaba-Juste and Polo-Redondo, 2008). franchising is a business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor (Stanworth, 2004).

Furthermore, studies have shown that alliances allow companies to develop their capabilities and minimize the competitive uncertainties resulting from competition and environmental changes through the acquisition and utilization of new knowledge (Rothaermel & Deeds, 2004). Furthermore, strategic alliances provide a platform for exchanging important resources as well as strategic advantages such as skills and competence, market access and promotion of legitimacy. In addition, companies make use of strategic alliance as a means to achieve their goals and increase their competitive power (Genç, Alayoglu & Iyigun, 2012). As argued by (Omojimite 2009), in (Uko & Hamilton, 2020) strategic alliances are more likely to succeed when partners possess complementary assets and thus a firm will seek knowledge it considers lacking but vital for the fulfillment of its strategic objectives. One traditional view is that in seeking and applying this relevant knowledge, a firm will furthermore need to possess a knowledge base in the same or similar area, since only such similarity will allow for an understanding of the intricacies of the new knowledge as well as of its applicability to the firm's unique circumstances (Cohen & Levinthal, 1990). In light of the identify gap from previous research, therefore, this research is carried out to fill the gap in the literature which aim to examine the effect of strategic alliance on local content development between indigenous and international foods and beverages manufacturing companies in Rivers State, Nigeria. The purpose of the study was to examine the relationship between franchising alliance and local content development in the foods and beverages manufacturing industry in Rivers State, Nigeria.

Conceptual Framework

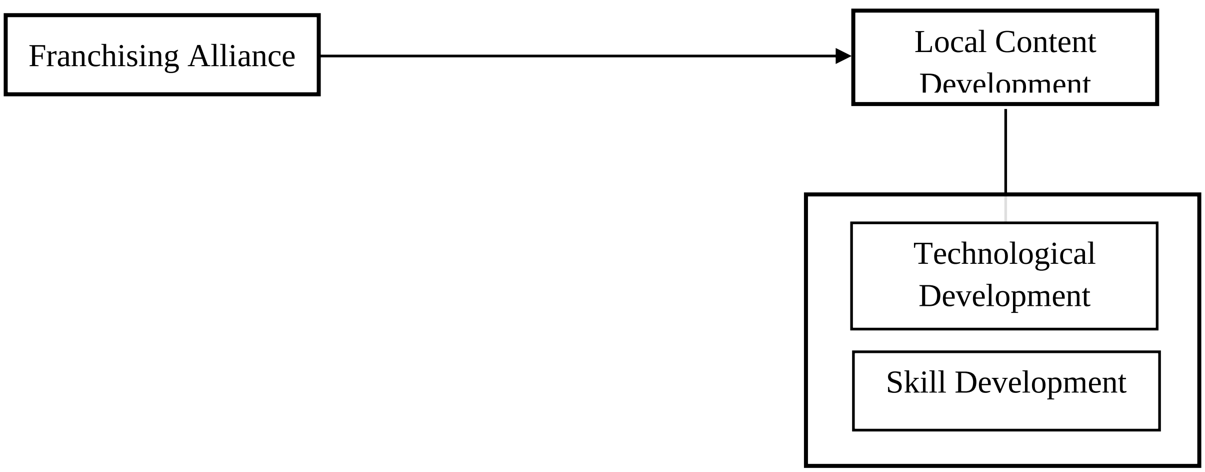

Figure 1: Strategic alliance and local content development

Source: Desk Research, 2024

The following research questions guided the study:

1. To what extent does franchising alliance affect technological development in the foods and beverages manufacturing industry in Rivers State, Nigeria?
2. To what extent does franchising alliance affect skill development in the foods and beverages manufacturing industry in Rivers State, Nigeria?

LITERATURE REVIEW

Conceptual Review

Franchising Alliance

Franchising alliance began in Singer Company for the first time during the nineteenth century in the USA, to distribute sewing machines. Since the 1950s, other companies such as McDonald's, Burger King, Coca-Cola, Pizza Hut and Holiday, have used this strategy to expand their business operations (Eser, 2012). International franchisees or partners tend to possess extensive and comprehensive local information and knowledge, such as local customers' preferences and national regulations (Lee, 2008). Research has identified three generic governance modes: direct franchising, area development, and master franchising (Alon, 2006). Direct franchising involves selling a business concept on an individual basis to franchisees in the host country (Baena & Cerviño, 2014) where franchisee manages resulting network directly without the use of any intervening organization (Petersen & Welch, 2000). In area-development governance, franchisors allow a defined territory to the franchisee in which they can develop units (Jell-Ojobor and Windsperger, 2014; Ni & Alon, 2010). Apparently in this type of franchisee agreement, the franchisee is an independent company licensed to establish, develop and manage individual units or outlets, but, unlike master franchising, these are company-owned units by the area developer rather than sub-franchised units (Petersen & Welch, 2000). Master franchising allows the franchisee to be both the agent to the franchisor and principal to others (sub-franchisees) (Ni & Alon, 2010). Master franchise agreements are more complex than other franchise modes of entry, because the master franchisor has the right to operate franchise units and/or grant franchise rights to third parties (Brookes, 2014; Brookes & Roper, 2011).

However, a widely accepted definition of franchising is the work of Stanworth (2004) he stated that franchising is a business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms operating under the franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor (Stanworth, 2004). In a franchising alliance, the franchisees, pay an initial fee and royalty, are granted the right to use the franchisor's system of trademark. Although in a franchising system as a partnership, two entities are closely linked to one another, they remain distinctly separate (Bordonaba-Juste and Polo-Redondo, 2008).

Local Content Development

The Nigerian Oil and Gas Development Law (2010) define local content as the quantum of composite value added to or created in Nigeria through utilization of Nigerian resources and services in the petroleum industry resulting in the development of indigenous capability without compromising quality, health, safety and environmental standards. It is framed within the context of growth of Nigerian entrepreneurship and the domestication of assets to fully realize Nigeria's strategic developmental goals. The scheme, which has the potential to create over 30,000 jobs in the next 5 years, is geared to increaseing the domestic share of the $18 billion annual spending on oil and gas from 45% to 70%, in addition to enhancing the multiplier effects on the economy, through refining and petrochemicals. Local content is a complicated concept (Sigrid et al., 2011); also, there is a gap in the adequate and acceptable definition of local content in existing theory. Most countries define local content by their own words, even some countries use other terms such as In-Country Value (Muscatdaily, 2012). First, it was a requirement from governments or national oil and gas companies that IOCs should have a plan to ensuring local content in their project like Nigeria that required a 40% local content component for all oil and gas projects in its jurisdiction by the end of 2007. This component was increased to 70% by the end of 2010 (Australia, 2011).

Skill Development

Knowledge and skills development takes place within the context of a present reality and preferred future. The gaps in many developing countries between current reality and preferred future are enormous and the challenges for knowledge and skills development that will bring the future closer are therefore significant and substantial. More and more developed nations are or aspire to be what are called knowledge economies. Skill development is an investment in human capital, which enhances labour productivity and higher levels of output. The structure and pattern of skill training has to be purposefully re-oriented to join together with the projected future pattern of employment requirements. Most of the countries across the globe have given due importance to Vocational Education and Training(VET) to provide educational opportunities and improve individual employability, reduce gaps between demand and supply of skilled human resource. Whether to vocationalise or not has been a matter of debate for long (Gaba, 2006).

Technological Development

Technology development in the context of this study can be defined as the process of creating technological solutions to problems or needs that currently do not have satisfactory solutions. The technical aspects must be developed to a point such that the technology is simple, friendly to the environment and rugged enough to be used in real world applications. Additionally, the technical, social and economic advantages must be well established. The indigenous nature of technology is a consideration for some studies. The original Capacity for Innovation Index of Porter and Stern (1999) distinguishes between countries where companies obtain technology by pioneering their own new products and processes, which receive the highest scores, and countries where "companies obtain technology exclusively from foreign countries", which receive less credit.

Empirical Review

Franchising Alliance and Local Content Development

Uko and Hamilton (2020) investigated the relationship between strategic alliance and local content development of oil and gas producing companies in Nigeria. The study adopted a cross-sectional survey research design to obtained responses from the oil and gas producing companies in Nigeria. After data cleaning, 108 respondents were finally used for data analysis with the aid of statistical package for social science version 25.0. The regression analyses were used to test the research hypotheses. The findings revealed that strategic alliance had a strong and positive significant relationship with the two measures of local content development such as: skill and technological development. The study thus, concluded that a strategic alliance had a positive and significant influence on local content development.

Nnamdi, (2017), conducted a study on the effect of international strategic alliance on local content development programme. The study adopted quantitative methodology and data was generated through the use of structured questionnaire while the sample size was 62 respondents from indigenous oil and gas servicing firms in Nigeria. The result of the analysis revealed a highly significant level of association between international strategic alliance and local content development. The results further suggest that through effective partnerships and strategic vertical and horizontal collaborations, firms can be developed such that they are more effective and functional within the industry (Wiklund, Patzelt & Shepherd, 2009).

Brickley, Misra and Van-Horn (2006) find that the franchisee's physical and human capital investments and the franchisor's experience are positively related to contract duration. Cochet and Garg (2008) conclude that firms learn over time and from the experience of peers in their sector in designing optimal contract terms. Sorenson and Sorensen (2001) conclude that company-owned and franchised units' complement each other because they provide different types of organizational learning: managers of company-owned outlets exploit more, while franchisees explore more.

Clarkin and Rosa (2005) conclude that cooperative and adaptable relationships between franchisors and franchisees allow room for entrepreneurial activity by franchisees with a positive effect on performance, but that restrictive systems are likely to perform less well. Hoffman and Preble (2003) investigate franchisors' inclination to follow a conversion franchising strategy, which is a strategy where new franchisees are added to a franchised system by recruiting existing independent entrepreneurs or competitors' franchisees. They conclude that conversion franchising may offer economic resources and skills, which may serve as sources of competitive advantage. They conclude that consensus on the means of pursuing efficiency exhibits a positive relationship with business performance and franchisees' satisfaction.

Ho_1: There is no significant relationship between franchising alliance and technological development in the foods and beverages manufacturing industry in Rivers State, Nigeria.

Ho_2: There is no significant relationship between franchising alliance and skill development in the foods and beverages manufacturing industry in Rivers State, Nigeria.

METHODOLOGY

This study adopted explanatory research type due to the ability to identify the extent and nature of cause-and-effect relationships between independent and dependent variables (Saunders, Lewis & Thornhill, 2009). Therefore, due to the lack of control on the study elements by the researcher over the variables and outcome of this study, the cross-sectional survey design was used in this study. The population of the study was (5) five foods and beverages manufacturing firms registered on the Manufacturers Association of Nigeria (MAN) Directory, Rivers State Branch that has firms' operational base in Rivers State, Nigeria. The study used census sampling thus adopting the entire population with a total of fifty eight (58) strategic managers in the companies constituting the sampling elements. They include General Manager, Manager-Productions, Operations Manager-Packaging, Finance Manager, Manager-Market Development, Research and Development Manager, and Human Resource Manager. The study made se of primary data obtained through self-adminnistered closed ended questionnaire. The study instrument was tested for reliability by assessing the Cronbach Alpha coefficients of the study variables, which were all greater than 0.70 as shown in table 1.

Table 1: Cronbach's Alpha Values for Variables Studied

S/No	Dimensions/Measures of the study variable	Number of items	Cronbach's Alpha
1.	Franchising Alliance	3	.833
4	Technological Development	3	.836
5.	Skill Development	3	.774

Source: Research Data, 2024

The data analysis was done using descriptive and inferential analysis was used to determine the relationship between variables using Spearman's Rank Order Correlation Statistics

DATA ANALYSIS

Franchising and Technological Development

The first research hypothesis was empirically analyzed using Spearman Rank Correlation Coefficient tool (*rho*) to determine the strength of the relationship between franchising and technological development is reported in table 2.

Table 2: Correlations Analysis on Franchising and Technological Development

			Franchising Alliance	Technological Development
Spearman's rho	Franchising Alliance	Correlation Coefficient	1.000	.976**
		Sig. (2-tailed)	.	.000
		N	51	51
	Technological Development	Correlation Coefficient	.976**	1.000
		Sig. (2-tailed)	.000	.
		N	51	51

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

Source: SPSS Output, Version 26.0 2024

Ho1: There is no significant relationship between franchising alliance and technological development in the foods and beverages manufacturing industry in Rivers State, Nigeria.

The empirical result of the Spearman Rank-order Correlation Coefficient (*rho*) in the table 2 showed the rank value of (*rho* = 0.976) and a (P-value at 0.000 which is P< 0.05%); the result indicates that there is a very strong positive and significant relationship between franchising and technological development in the foods and beverages manufacturing industry, Nigeria.

Franchising and skill development

The second fourth hypothesis was empirically analyzed using Spearman Rank Correlation Coefficient tool (*rho*) to determine the strength of the relationship between franchising and skill development is reported in table 3.

Table 3: Correlations Analysis on Franchising and Skill Development

			Franchising Alliance	Skills Development
Spearman's rho	Franchising Alliance	Correlation Coefficient	1.000	.976**
		Sig. (2-tailed)	.	.000
		N	51	51
	Skills Development	Correlation Coefficient	.976**	1.000
		Sig. (2-tailed)	.000	.
		N	51	51

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

Source: SPSS Output, Version 26.0 2024

Ho2: There is no significant relationship between franchising alliance and skill development in the foods and beverages manufacturing industry in Rivers State, Nigeria.

The empirical result of the Spearman Rank-order Correlation Coefficient (*rho*) in table 3 showed the rank value of (*rho* = 0.976) and a P-value at 0.000 which is P< 0.05%; the result indicates that there is a very strong positive and significant relationship between franchising and skill development in the foods and beverages manufacturing industry in Nigeria.

DISCUSSION OF FINDINGS

The findings of this study showed that franchising had a positive and significant relationship with technological development in the foods and beverages manufacturing industry in Nigeria. Furthermore, the study findings showed that franchising had a significant relationship with skill development. The empirical result also showed that franchising explains the variation of the criterion variable (skill development) in the foods and beverages manufacturing industry in Nigeria. The findings of the study collaborate with the conclusion of Brickley, Misra and Van-Horn (2006) find that the franchisee's physical and human capital investments and the franchisor's experience are positively related to contract duration. The study in line with the conclusion of Cochet and Garg (2008) conclude that firms learn over time and from the experience of peers in their sector in designing optimal contract terms. Sorenson and Sorensen (2001) concluded that company-owned and franchised units complement each other because they provide different types of organizational learning: managers of company-owned outlets exploit more, while franchisees explore more. The result of the study corroborates Clarkin and Rosa (2005) position that cooperative and adaptable relationships between franchisors and franchisees allow room for entrepreneurial activity by franchisees with a positive effect on performance, but that restrictive systems are likely to perform less well. Hoffman and Preble (2003) investigate franchisors' inclination to follow a conversion franchising strategy, which is a strategy where new franchisees are added to a franchised system by recruiting existing independent entrepreneurs or competitors' franchisees. The study in line with the concluded of Yin and Zajac (2004) find that franchised stores with their more decentralized structures are more likely to pursue strategies that emphasize flexibility, whereas company-owned stores tend to emphasize predictability. Panel and Baucus (1996), they conclude that consensus on the means of pursuing efficiency exhibits a positive relationship with business performance and franchisees' satisfaction.

CONCLUSION AND RECOMMENDATION

Based on the evidence of this empirical endeavour we assert that: Franchising strategic alliance as a dimension of strategic alliance is important for attaining local content development in the foods and beverages manufacturing industry and as such the skills and technological development of the identified in the foods and beverages manufacturing industry in Nigeria. It is therefore recommended that management of foods and beverages manufacturing firms should consider franchising alliance in terms of sub-contracting to helps international firms to expand their business overseas and enter into unfamiliar foreign markets.

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