FRANCHISING AND THE SURVIVAL OF ALUMINUM FIRMS IN KOGI STATE

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ABSTRACT

Aluminium firms appear to be in continuous competition in Kogi State. The firms in this competitive atmosphere comprise of mini, small, medium and large firms in the aluminium sub-sector. About 80% of small and medium enterprises in the aluminium sub-sector seem to experience problems of low market share, production inefficiency, and lack of public confidence (goodwill), low turnover and survival. Consequently, the objective of this study is to determine the relationship between franchising and survival of aluminium firms in Kogi State. Correlation survey research design was employed. The data obtained were analysed with the Pearson's Product Moment Correlation Coefficient. Finding revealed that there is significant relationship between franchising and survival of aluminium firms in Kogi State. This implied that increase in the franchising would promote the activities of small and medium enterprises in the aluminium sub-sector and vice versa. It was also found that franchising has positive relationship with the performance of aluminium enterprises in Kogi State. Based on the findings, it is recommended that efforts should be made by investors, stakeholders and the government of Kogi State to create awareness among small and medium-sized aluminium enterprises in Nigeria regarding the potential benefits of franchising.

Keywords: Franchising, Survival, Loyalty, Firms.

INTRODUCTION

Global competition is intensifying because domestic businesses that dominated the local market at home now find foreign competitors to contend with based on their influx through franchise as a distribution strategy. Franchising is a powerful vehicle for the marketing and distribution of goods and services employed by franchisors to market their products. International franchising has grown significantly since the 1960s because of push and pull factors. Survival difficulties, increased competition and diminishing customer loyalty at home have pushed franchisees into franchising proper (Alon, 2007). Osy Aliminium Ltd, Gods Hand Aluminium Ltd and IAA Aluminium products Ltd have all embarked on franchising to minimise the problems associated with being independent firms. Franchising has been observed by industrial watchers as the key strategy adopted by multinationals to promote and expand their trade in other untapped markets and this cut across different sectors including the aluminium sub-sector (Aryeetey, 2012). SMEs franchising in the developed economy has increased geometrically. Chambarlain (2006) observed further that, franchising is well established in most developed countries today with over one third of all retailing is franchised-related. In recent years however, opportunities have diminished in these countries as well, and international franchisors have begun to seek development opportunities in developing economies such as China, Brazil,

South Africa and Nigeria Businesses grouped under medium scale, according to Fasua (2006), include soap production, hair/body cream production, chemical production, commercial poultry, and profession practices (law, accountancy, education) food and beverage production among others. 'The first priority for the small business entrepreneur is survival; knowing how to achieve long-term success is more critical than ever (Jerry, 2013). Business survival is the ability of a business to stand out, and be recognised, among the firms in the industry (Otokiti, 2004)

The most important thing today's small businesses can do is expose their organizations to critical self-analysis. Small businesses survive not by competing head-on with global corporations, but by pursuing the market niches larger operators ignore. '|What the most successful companies have recognized is that survival hinges on two separate, yet intertwined factors - being the best, and being recognized as being the best (Jerry, 2013). Corporate reputation refers to the observers' collective judgments of a corporation based on assessments of financial, social and environmental impacts attributed to the corporation over time (Andrew, 1990).

Nigeria is a growth market for U.S. franchising and franchise development services. There are opportunities for both business format and product or trademark franchising. A market survey conducted by the china Commercial Service in Nigeria (CS Nigeria) in January, 2012 clearly showed that aluminium franchising is currently experiencing strong growth. This growth trend is expected to continue over the next five years and in fact, may have a spill over effect on other sectors.

Customer loyalty is a process whereby customers continue to believe that an organisation's product/ service offer is their best option that best fulfills their value proposition, whatever that may be. They take that particular companies offer whenever faced with a purchasing decision, over time. Moreover, loyalty means hanging in there even when there may be a problem. This occurs because the organization has been good to them in the past and address issues when they arise. It means that they do not seek out competitors and when approached by competitors, are not interested. It means also, being willing to spend the time and effort to communicate with the organisation so as to build on past successes and overcome any weaknesses.

STATEMENT OF THE PROBLEM

Aluminium enterprises appear to be in continuous competition in Kogi state. The firms in this competitive atmosphere comprise of mini, small, medium and large firms in the aluminium sub-sector. The large firms seem to dictate the course of business action. It is believed that the small and medium enterprises experience difficulties in competing with big firms. Small and medium enterprises in the aluminium sub-sector experience problems of decreased customer loyalty, production inefficiency, lack of public confidence (goodwill), and low turnover. All these problems accumulated largely to survival difficulties of aluminium firms in Kogi state. The small firms in aluminium sub sector lacked the capacity to survive which resulted largely to low economic growth and development of the country, Nigeria. It is as a result of the above stated problem that the study explored the relationship between franchising and survival of aluminium firms in Kogi state.

OPERATIONALIZATION OF KEY VARIABLES

Independent variable: corporate reputation.
Dependent variable: customer loyalty

OBJECTIVES OF THE STUDY

The broad objective of this study is to determine the relationship between Franchising and Survival of Aluminium Firms in Kogi State. The specific objective is to determine the type of relationship between Corporate Reputation and Customer loyalty in selected Aluminium Firms in Kogi State.

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RESEARCH QUESTION

What is the type of relationship between Corporate Reputation and Customer loyalty in selected Aluminium Firms in Kogi State?

RESEARCH HYPOTHESIS

This hypothesis guided the study:
H_A: There is a significant positive relationship between Corporate Reputation and
Customer loyalty in Aluminium Firms in Kogi State.

CONCEPTUAL REVIEW

FRANCHISING

Franchising is a long-term cooperative relationship between two entities-a franchisor and one or more franchisees-that is based on an agreement in which the franchisor provides a licensed privilege to the franchisee to do business (Emerson & Robert 2010). The franchisor grants the franchisee the right to use a developed concept, including trademarks and brand names, production, service and marketing methods and the entire business operation model, for a fee. The franchisee then provides the time, capital, and desire to utilize the brand and services provided by the franchisor to build a thriving business. The product, method or service being marketed is usually identified by the franchisor's brand name, and the holder of the privilege (franchisee) is often given exclusive access to a defined geographical area for a defined period of time, all of which is defined in the Franchise Agreement. Franchising developed over time as an efficient way to do business and there were versions of franchising employed in Europe centuries ago (Konigsberg & Alex 2009). The origin of the word franchise goes back to Anglo-French, meaning freedom, liberty, and from Middle French, franchir, to free, and earlier from Old French franc, free.

FRANCHISING IN NIGERIA

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BUSINESS SURVIVAL

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CORPORATE REPUTATION

The term refers to the observers' collective judgment of a corporation based on assessment of financial, social and environmental impacts attributed to the corporation over time (Andrew, 1990). Many agencies or companies publicly assess the reputations of corporations. One of these is Fortune magazine which produces

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a global annual rating called the 'world's most admired companies'. The criteria used to rank these companies include innovation, quality of management, people management, financial soundness, social responsibility, product/services quality and global competitiveness. In 2010, Apple was ranked number one, followed by Google. Reputation is how your business is perceived through the eyes of your customers, suppliers, employees and other interested parties (Mack, 2013).

CUSTOMER LOYALTY

Customer loyalty can be defined as a process whereby a customer continuously believes that an organisation's product/ service offer is their best option. It best fulfils their value proposition whatever that may be. They take that offer whenever faced with that purchasing decision. Moreover, loyalty means hanging in there even when there may be a problem. This occurs because the organization has been good to them in the past and addresses issues when they arise. It means that they do not seek out competitors and when approached by competitors, are not interested. It means also, being willing to spend the time and effort to communicate with the organisation so as to build on past successes and overcome any weaknesses.

THEORETICAL FRAMEWORK

This research is anchored on new growth theory, formalized by Romer (2006). This theory assumes that firms exist exogenously and then engage in the pursuit of new economic knowledge as input into the process of generating endogenous growth. Technological change plays a central role in the explanation of economic growth, since on the steady state growth path the rate of per capita GDP growth equals the rate of technological change. The particular functional form of knowledge production is explained by the assumption that the efficiency of knowledge production is enhanced by the historically developed stock of scientific-technological knowledge. Even the same number of researchers becomes more productive if the stock of knowledge increases over time. The rationale for anchoring this work on the theory of 'new growth' is because part of the problems that contributed to the survival difficulties is inability to be self improved via technological knowhow. As such the small firms need to grow through exogenous absorption of knowledge for endogenous growth.

EMPIRICAL REVIEW

Olu (2011) examined the practice of franchising as a strategy by which entrepreneurs can expand their venture and make substantial return from their investments. He explored the extent to which franchising was practised in Nigeria and the resultant effect of franchising on the national economy. The result of this study showed that franchising is not well known or practiced in Nigeria. Only a handful of business entities such as the Nigerian Bottling Company and some fast food companies have been engaged in franchising. The paper recommends that government should create a greater awareness of the franchise strategy so that more investors will be aware of it and invest in it.

Olu and Irefin (2011) studied Franchising and organizational performance: Empirical investigation of selected fast food Restaurants in Nigeria. They specifically determined the effects of franchising types and franchising ownership on organizational performance using survey research design. Primary data were used and data collected were analyzed using descriptive method and simple percentage. Three hypotheses were advanced and tested with the aid of correlation coefficient. The findings show that there is positive relationship between franchising types and organizational performance and that positive relationship also exists between franchising ownership and organizational performance.

Carlin and Peng (2013) carried out a study on Franchising in Indonesia: An Empirical Study from Franchisee Perspective. The study examined the issues and challenges of international franchising from the perspective of franchisees in an emerging market, Indonesia. Due to the popularity of restaurant franchising, this sector is the focus of the present study. This study attempts to validate a similar study done in South Korea. Based on data gathered from 85% of the US restaurant franchises operating in Indonesia, their results revealed that brand value is a key component in franchise selection criteria as well as one of the success

factors in running a franchise. The findings justify a highly efficient franchise system as the most important factor in selecting US franchises. In addition, cleanliness and high quality food are recognized as factors attributed to the success of US franchises. Training is found to be needed in areas of service and food preparation in order to maintain the standards set by the franchisors. In addition, a survey of local consumers disclosed that they prefer to go to shopping malls to get food from US franchises.

Khanungnit, Ishak, and Hasnah, (2013) assessed Franchisors' Relationship, Marketing and Perceived Franchisor Support on Franchisors' Performance: A Case of Franchise Food and Beverage in Thailand. This study appraised the franchisees' satisfaction and how franchisors can better manage their franchisees so as to ensure sustainability of their franchisees. It is also established that the perceived franchisor support mediates the relationship between relationship marketing and franchisors' performance. The results of this study have presented evidence that perceived franchisor support (PFS) is the contribution in the franchise business system. The mediating effect of PFS is the key structure of franchisors' performance to keep in touch for future success in the franchise system.

Conlin (2000), in Syracuse, researched on 'effects of franchising on competition: an empirical analysis'. The study empirically tested whether price competition is greater between franchised properties compared to company-owned properties. From the secondary data used and regression analysis, the results indicated that the level of price competition is indeed greater between franchised properties and this increased competition is not the result of franchised properties being closer substitutes.

Huang (2004) researched on 'Agency theory in franchising: empirical result' in China and the article provides an empirical assessment of various agency problems in franchising. Descriptive survey research design was used with franchisors and franchisees in two different contrast industries and ownership patterns. The findings indicated that both parties used different criteria to sort out the best agents in the pre contractual stage and in the post contractual stage. Some conflict with the existing theories, such as the cost of monitoring multi-unit franchisee, the relationship between the incompleteness of contract and monitoring mechanism.

Stronczek (2013) worked on 'Insight into franchising in Poland: a review of empirical perspective in Poland. Business format franchising has expanded rapidly over the past 40 years as an alternative method of distribution and business development. He reviewed the major issues which have been the subject of in-depth research or significant debate. These include: the determinants of franchising in theory and practice; the role and position of Franchisees within the Franchisor/Franchisee relationship. His findings were evaluated and aspects of franchising for further investigation were outlined.

Michael (2014) assessed 'conceptualization and empirical examinations of the effects of marketing alignment on franchising relationships', in Canada. The hypotheses were tested with multiple regression analyses. The research found out that marketing alignment does not exist across the dimension of strategies, operations and values. It was recommended that marketing alignment between franchisor and franchisee be enhanced. Tanzil (2012) studied 'Franchising in Indonesia: an Empirical study of firms' survival'. The researcher made use of multiple regression analysis to analyse data obtained from 230 respondents. The result obtained showed that the survival of firms do correlate with the application of franchising.

Stanworth (2012) worked on 'the franchise relationship: entrepreneurship or dependence.' at the university of Westminster, England. The research evidence indicated that high levels of dependence were reported by franchisees and that when examining the issue of franchisee freedom; the formal contract was often a poor guide to the world of operational reality. Porterley (2011) in South Africa studied 'Franchising: the nature of relationship between franchisor's image and franchisee's business survival'. In his empirical study of 15 firms, he found out that franchisee's business survival does not depend on franchisor's public image. He therefore recommended that firms should rather capitalise their ability to handle situational problems within the limit of resources.

RESEARCH DESIGN

This study employed correlation survey design to describe the events using the resulting data to explain and predict the given situation (Stanworth, 2012). It gathers consistently the data of occurrence to test hypothesis, make predictions or get meaning and implementation of the situation (Tanzil, 2012).

POPULATION OF THE STUDY

Table 1: *Aluminium Firms in Kogi State*

S/N	NAME OF ORGANIZATION	POPULATION	LOCATION
1.	Osy Aluminium Ltd	52	Idah
2.	God's Hand AluminiumNig Ltd	50	Lokoja
3.	IAA AluminiumNig Ltd	50	Igalamela
TOTAL		**152**	

Source: Kogi Ministry of Commerce and Industry, 2015.

Table 1 above shows a list of 3 Aluminium firms involved in franchising in Kogi State. Their population figure and proportions are given below:

Table 2: *Population of the firms and proportions*

Organization	Osy	God's Hand	IAA	Total
Number	52	50	50	152
Proportion	0.34	0.33	0.33	1.0

Table 2 above shows the proportions for all the firms' population. The population constituted 152 persons, as basis for this research work.

SAMPLE SIZE

Sample size consists of hundred and ten (110) respondents from some small and medium enterprises (SMEs) which are randomly selected from the population. Taro Yamane formula was used to determine the sample size thus:

$$n = \frac{N}{1+N(e^2)} = \frac{152}{1+152(0.05)^2} = \frac{152}{1.38} = 110.145 = 110$$

Therefore, the sample size is **110.**

SAMPLING TECHNIQUES

Probability random sampling technique was employed to provide equal chances to variables in the study scope of being selected or rejected in the sample(Omoniyi, 2009).

Table 3: *Sample sizes of the firms and proportions*

Organization	Osy	God's Hand	IAA	Total
Number	38	36	36	110
Proportion	0.34	0.33	0.33	1.0

Table 3 above shows the proportions for all the firms' samples.

SOURCES OF DATA

This research employed primary and secondary sources of data. The primary source was questionnaire while the secondary sources were the relevant books, journals and company's' books.

RESEARCH INSTRUMENT FOR DATA COLLECTION

This research employed questionnaire as the method of data collection.The questionnaire was a structured one arranged in a 5 point Likert scale ranging from strongly agree (5), agree (4), strongly disagree (3), disagree (2), to undecided (1).

VALIDITY OF INSTRUMENT

Face validity and Content validity were employed in validating the instrument of data collection. Face validity was based on the 'clarity of the questions and how logically structured the questions were (Omoniyi, 2009). The content validity was achieved by sending copies of questionnaire to validators to ensure that the instrument contained all the aspects of the variables (coverage) being tested and to also make sure that the questions were clear, unambiguous and not subject to misinterpretation.

RELIABILITY OF THE INSTRUMENT

Reliability statistic was determined using a test retest method. 30 copies of questionnaire representing 27% of the sample size were distributed to the respondents and it was distributed in two different occasions within an interval of one week. The respondents were employees of Osy Aluminium Company.

Table 4: *Reliability Test Table*

	SA+A				**SD+D**			
S/N	Test	Re-test	x-y = di	di^2	Test	Re-test	x-y = di	di^2
1.	15	14	1	1	14	15	-1	1
2.	17	15	2	4	12	13	-1	1
3.	14	13	1	1	13	15	-2	4
4.	14	13	1	1	16	14	2	4
5.	18	19	-1	1	12	11	1	1
6.	13	12	1	1	11	12	-1	1
7.	20	19	1	1	10	11	-1	1
8.	17	15	2	4	10	12	-2	4
9.	12	15	-3	9	18	15	3	9
10.	17	15	2	4	10	11	-1	1
Total				**27**				**27**

Source: Field Survey, 2015.

Computation of Reliability for Positive Responses:

$$1 - \frac{6\sum di^2}{n(n^2-1)} = 1 - \frac{6(27)}{10(100-1)} = 1 - 0.1636 = 0.8364 = 0.84$$

Computation of Reliability for Negative Responses:

$$1 - \frac{6\sum di^2}{n(n2-1)} = 1 - \frac{6(27)}{10(100-1)} = 1 - 0.1697 = 0.8364 = 0.84$$

Combined Reliability for the Questionnaire: $= \frac{0.84+0.84}{2} = \frac{1.68}{2} = 0.84$

The correlation coefficient of 0.84 shows that the instrument used was reliable.

METHOD OF DATA ANALYSIS

The data were analyzed using the Pearson's Product Moment Correlation Coefficient. This was used in order to determine the nature of relationship that exists between the dependent and independent variables (Burns, 2004). The level of significance used was 5% while 95% confidence interval was adopted.

SCORING OF THE INSTRUMENT

The Rensis Likert scoring method was used for the scoring of the questionnaire. The following scales were attached to the research instrument:
5-Strongly agreed,
4-Agree,
3-Undecided,

2-Disagree and
1-Strongly disagree

DATA ANALYSIS

In line with the hypothesis formulated, data were presented and analyzed using appropriate statistic.
Decision: Accept when mean response is greater than mean weight, otherwise reject.

Table 4.2.1: *Questionnaire Analysis*

S/N	Questionnaire Items	Responses							
		SA	A	SD	D	U D	N	X	Di
		5	4	3	2	1			
	franchising (corporate reputation)								
1	Corporate reputation stimulates customers' acceptance of your firm's product	25	25	24	21	5	100	3.44	Ai
2	licenced privilege enhanced activity in the organisation	26	25	25	24	-	100	3.54	Ai
3	The production/service methods are really encouraging and suportive	35	15	13	37	-	100	3.49	Ai
4	The company's brand name has long gained popularity in your area of business	21	30	18	29	2	100	3.39	Ai
5	Marketing strategies have being an outstanding in your area of business	19	31	33	12	5	100	3.47	Ai
	Firm's survival (customer loyalty)								
6	Customers provide opportunities to correct problems	21	29	23	23	4	100	3.40	Ai
7	Customers believe your product and services are superior to others.	26	24	22	25	3	100	3.45	Ai
8	Cutomers purchase your products continually	26	22	24	22	6	100	3.45	Ai
9	Customers believe in your product/service's quality	24	21	22	21	12	100	3.24	Ai
10	Your customers do not seek out alternative sources	27	23	22	25	3	100	3.46	Ai

Source: Field Survey, 2015.

In the correlation test table, the figures in the Strongly Agreed (SA) and Agreed (A) were merged together while that of Strongly Disagreed (SD) and Disagreed (D) were also merged together to give X and Y value respectively.

Table 4.2.2: *Correlation Analysis*

S/N	X	Y	X^2	Y^2	XY
1.	49	46	2401	2116	2254
2.	51	49	2601	2401	2499
3.	50	50	2500	2500	2500
4.	51	47	2601	2209	2397
5.	50	47	2500	2209	2350
6.	50	46	2500	2116	2300
7.	50	47	2500	2209	2350
8.	48	46	2304	2116	2208
9.	45	43	2025	1849	1935
10.	47	43	2209	1849	2021
Total	**491**	**464**	**24141**	**21574**	**22814**

Source: Field Survey, 2015.

Product Moment Correlation Coefficient (r) is calculated thus:

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{[N\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]}}$$

$$= \frac{10(22841) - (491)(464)}{(10(24141)-491(491))\ ((10(21574)-(464)(464))}$$

$$= \frac{316}{146076} = \frac{316}{382.20} = 0.8268.$$

SUMMARY OF FINDINGS

The results of the analyzed data showed a positive sign (0.8268). The decision rule states that if the critical value gotten from the test is more than the critical of the Pearson's Product Moment Correlation Coefficient, we should reject the null, otherwise accept. From the table, the critical value for r at N-2 degree of freedom, is 0.632 where N=10. The null hypothesis is therefore rejected, and states that there is a significant positive relationship between corporate reputation and customer loyalty.

DISCUSSION OF THE FINDINGS/IMPLICATIONS

From the result obtained above, it can be inferred that there is a significant positive relationship between franchising and survival of Aluminium Enterprises in Kogi state. This implied that increase in the franchising would promote the activities and survival of aluminium firms and vice versa. The result obtained is in line with Olu (2011) who assessed Franchising and organizational performance: Empirical investigation of selected fast food Restaurants in Nigeria and concluded that franchising as a business strategy is fast becoming a thing in Nigerian business arena and it is therefore a good investment opportunity for upcoming entrepreneurs

CONCLUSION

Based on the findings of this study, it can be concluded that franchising is a good source of business strategy that brings the needed relationship between two entities (i.e the franchisor and the franchisee). This nexus provides opportunities to acquire technical knowledge, basic modern facilities and a good business trademark which are essential to small and medium enterprises. Furthermore, Small and Medium aluminium Enterprises rely heavily on franchising as a means of survival. Franchising also creates consumer trust for a particular product since consumers have the behaviour of patronising a brand that is well known to them.

RECOMMENDATIONS

Sequel to findings and conclusion, the following recommendations are made:
 1. Training should be encouraged in Aluminium firms embarking on franchising in other   to create a long lasting relationship between the franchisor and the franchisee.
2. Franchizees in Aluminium sub-sector should device effective quality and quantity control measures to make them meet standards of their respective franchisors.

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APPENDIX I: QUESTIONNAIRE

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	franchising (corporate reputation)								
1	Corporate reputation stimulates customers' acceptance of your firm's product.	25	25	24	21	5	100	3.44	Ai
2	Licenced privilege enhances activity in the organisation.	26	25	25	24	-	100	3.54	Ai
3	The production/service methods are really encouraging and supportive.	35	15	13	37	-	100	3.49	Ai
4	The company's brand name has long gained popularity in your area of business.	21	30	18	29	2	100	3.39	Ai
5	Marketing strategies have been outstanding in your area of business	19	31	33	12	5	100	3.47	Ai
	Firm's survival (customer loyalty)								
6	Customers provide opportunities to correct problems	21	29	23	23	4	100	3.40	Ai
7	Customers believe your products and services are superior to others.	26	24	22	25	3	100	3.45	Ai
8	Cutomers purchase your products continually.	26	22	24	22	6	100	3.45	Ai
9	Customers believe in your product/service's quality	24	21	22	21	12	100	3.24	Ai
10	Your customers do not seek out alternative sources	27	23	22	25	3	100	3.46	Ai

Source: Field Survey, 2015.