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A Qualitative Analysis of the Influence of Exclusive Territory and Tying Clauses on Franchisees' Business Performance and Overall Satisfaction

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Abstract

The fortunes of the Nigerian franchise industry has been on a downward spiral over the past few years. Practitioners and scholars have observed that the design of franchise contracts is a key element in the performance of franchise systems and franchisees in particular. No prior empirical study has investigated the influence of non-fee contract terms on franchisees business outcomes and long-term commitment in Nigeria. The objective of this study is to explore the influence of exclusive territory and tying arrangement on franchisees' business performance and overall satisfaction. Face-to-face in-depth interview involving 26 franchisees was used to collect data from across different franchise brands in Nigeria. Each of the two contract terms investigated was found to have some form of influence on franchisees' business outcomes. The study provides the first-ever exploratory insight into issues relating to franchise contracts in Nigeria, thereby helping to strengthen theory in the subject. The actionable recommendations offered will potentially help in reviving the industry for the benefits of the players and the economy at large.

Key Words:
Contract Design, Exclusive Territory, Tying Arrangement, Franchisees Overall Satisfaction

Introduction

The Nigerian franchise industry, particularly the food & restaurant sector, was the darling of most investors between the period of 2001 and 2010 as the industry grew rapidly with franchise outlets doting most cities and towns across the country (Olotu & Awoseila, 2011). A survey by the US Commercial Service in 2010 valued the market size of the industry at about US$25 billion (Agu, 2013). The country was tipped to be a viable market for franchise development (Agu, 2013) as the industry was experiencing explosive growth (Sotos & Hall, 2007), prompting experts to predict that it would record much greater growth over several years in the future (Ndumanya & Quadri, 2014b). It was also thought that the Nigerian franchise industry was a potential market of over US$100 billion in annual sales (Agu, 2013) arguably with a capacity to create thousands of jobs. As a confirmation of the proven potential of the country's franchise industry, it was reported that between 2010 and 2011 alone, the International Finance Corporation (IFC) invested a total of US$28.5 million in two of the country's franchised quick service restaurants – Food Concept PLC and Tantalizers (Agu, 2013).

Sadly, over the last few years beginning from the year 2012, the Nigerian franchise industry has witnessed a steep decline in performance and relevance. The available records of some franchise systems in the country revealed that performance has been dismal. For example, the financial performance of Mr Bigg's – the largest (by number of outlets) and leading franchise system in Nigeria has been below par since 2013. Its revenue was down 20% while profits dropped by a staggering 63% at the end of 2014 (UAC, 2015). Its efforts to shore up performance by divesting 49% stakes to Famous Brands of South Africa in 2013 – in the hope of leveraging the latter's expertise – has not helped much as it continued to record loses with sales revenues going down further by 19% (year-on-year) while profit before tax recorded a further decrease of 88% (from US$189,500 to US$21,500) in the first quarter of 2015 (UAC, 2015). The half-years 2016 report of the parent company – UAC Nigeria (where it still constitutes substantial percent of the portfolio) showed that sales were down 2% while profits decreased again by 16% (UAC, 2016). The number of outlets also shrunk considerably from almost 300 in 2012 to under 150 currently (UAC, 2016). This is more than 50% closure rate within a span of 4 years. Further, Tantalizers which is the second largest franchise system, has also been operating on a losing streak since 2012.

The company which was doing so well and attracted the IFC to invest in it in 2010 has declared loses in the last four years consecutively (N303.3m in 2012, N564.8m in 2013, N784.2m in 2014 and N707n in 2015) totalling N2.36 billion (US$118,032,786) (Nairametrics, 2015, 2016). Many industry observers believe that this situation has forced IFC to declare its loan to the company a bad debt.

These dwindling business outcomes of the systems and the general paucity of studies on franchising practice (Dant, Grunhagen, & Windsperger, 2011) motivated the researchers to investigate the possible factors influencing outlets' performance. Meanwhile, the investigation is from the perspective of the franchisees. This is for both practical and theoretical purposes. Practically, franchisees' collective performance results in franchisors' (Lucia-Palacio *et al*, 2014) especially for systems that are purely franchised as some in Nigeria are. It was thought that the opinions of the franchisees on the operations of their system would be highly valuable in redesigning and re-strategizing for improved performance. More so, franchisees are more accessible and likely to vouch objective assessment of issues going on in their system. Theoretically, although franchisees form the backbone of the franchise system, only a few franchise studies have been conducted from their perspectives (Altinay, Brookes, Madanoglu, & Aktas, 2014). Arguably, a rounded understanding of franchise business would be gained with more studies on franchisees perspectives of the business model.

Meanwhile, scholars have noted that a properly designed, clear and fair franchise contract enhances performance of franchise chains (Cochet & Garg, 2008; Michael & Combs, 2008; Nijmeijer, Fabbricotti, & Huijsman, 2014). The major aspects of a business format franchise contract could be grouped into fee-related (e.g franchise license fee, initial investments, ongoing fees, contract duration or renewal) and non-fee contract terms (e.g. exclusive territories, tying, fairness and special clauses). Each of these contract terms could have varying level of influence on franchise business unit performance. More specifically, it has been noted that each of the terms and clauses in the franchise contract are a major sticking point for both parties in the relationship (Frazer, Weaven, Giddings, & Grace, 2012; Grace & Weaven, 2011; Hendrikse, Hippmann, & Windsperger, 2014; Roh & Yoon, 2009). However, while a great deal of research has been done regarding influence of contract design on the performance of franchisors, only a little research attention has been given to similar studies on franchisees business outcomes. Indeed, Michael & Combs (2008:74) note that 'despite the importance of franchisees in the success of franchising, only a few studies have investigated the effects of franchisor policy decisions on their welfare'. More so, within the few studies so far conducted, not much attention has been given to the influence non-fee contract terms such as exclusive territory and tying arrangement (Chaudey & Fadairo, 2010; Cochet & Garg, 2008). These scholars believe that these terms are key and likely to have pervasive influence on franchisees' business performance and long-term commitment to their franchisors. Meanwhile, there seem to be a major disagreement among scholars on the amount of influence that each of the above listed terms have on franchisees business performance and overall satisfaction. For example, a number of empirical studies (e.g. Frazer, Merrilees, & Wright, 2007; Frazer *et al*., 2012; Hing, 1996; Michael & Combs, 2008; Roh & Yoon, 2009) found varying and sometimes conflicting results on effects of contract terms on franchise units (franchisees' outlets) performance. Obviously, where great disagreement exist among scholars on a subject, theory building becomes difficult (Rauch & Frese, 2007) and arguably, one way to reconcile conflicts in findings is to conduct more studies in different settings and organizational types. Hence, many previous studies have recommended deeper exploration and understanding of the varying performance effects of franchisors policies on franchisees (Heong, 2014; Michael & Combs, 2008).

Moreover, several scholars (e.g Altinay, Brookes, Yeung, *et al*., 2014; Dada, Watson, & Kirby, 2015; Doherty *et al*., 2014; Elango & Fried, 1997; Frazer, Weaven, Giddings, & Grace, 2012) have accused extant franchising research as being mostly 'coarse-grained', lacking in depth and much-needed insights and understanding of the model's unique practices, idiosyncrasies, and challenges as most of the previous studies utilized mainly quantitative approach. This means that there has been overreliance on quantitative methods in spite of its peculiar weaknesses and in the knowledge of the advantages of the alternative approach - qualitative. Indeed, scholars (e.g Pratt, 2015) have noted that quantitative approach often ignores the unique voice of the research participants as well as the idiosyncrasies of business or entrepreneurial practices in different settings (Ajayi-Obe, 2007). This is all the more instructive given that business practices and particularly franchising practices differ from one culture and country to the other (Ajayi-Obe, 2007; Altinay, Brookes, Yeung, *et al*., 2014; Eser, 2012; Todeva & Knoke, 2005).

Therefore**,** the main question that guided the conduct of this study was: 'to what extent do non-fee contract terms influence franchisees' business performance and overall satisfaction?'. Based on this research question, the study attempted to achieve the following specific objectives.

i. To analyze the influence of exclusive territory on franchisees' business performance and overall satisfaction.
ii. To explore the influence of tying arrangement on franchisees' business performance and overall satisfaction.

Literature Review

Franchising is a business relationship wherein one party (franchisor) permits the other (franchisee) to run a replica of a business system that has been proven to have a measure of success (Duckett, 2008). Usually, as a price for the opportunity to benefit from a proven business system, franchisees are required to pay some fees such as the initial franchise or license fee and regular royalties which in most cases is an agreed percentage of sales revenues (Aliouche & Schlentrich, 2009).

There are two major types of franchising, viz.: product distribution franchising and business format franchising (Gillis, 2007). Product distribution franchising involves only the licensing of a brand name to a third party firm to transact an independent business (Killion, 2008). Example of this arrangement are found in the relationship between Coca-Cola and its numerous bottlers around the world. Oil and gas retailing industry is another good example of product distribution franchise. Other examples can be found in the automotive industry where an auto dealer is allowed to run his own independent dealership using the name of the auto manufacturers whose cars he/she distributes.

Business format franchising which is the focus of this study, is a continuing business partnership whereby the franchisor (a firm with a reputable brand and proven business concept) grants the franchisees (an independent individual or firm), the rights to undertake an independent business using the franchisors' brand name and complete business processes (Aliouche & Schlentrich, 2009). In return for these rights and the benefits therefrom, the franchisee is required to pay some applicable fees such as franchise (licence) fees, management fees, regular royalty and advertising contribution (Lindblom & Tikkanen, 2010; Michael, 2000; Shane, 2005; Sorenson & Sorensen, 2001).

Measures of Franchise Business Performance

While studies on franchisors' performance usually measure organizational outcomes by such terms as sales & profits growth, outlet growth and system survival (Nijmeijer, Fabbricotti, & Huijsman, 2014) as most of them are publicly quoted company whose data is available, it is usually difficult to access the financial records of franchisees who are mainly MSMEs and privately owned. Hence most studies focus on obtaining franchisees' subjective assessment of their financial performance and non-financial aspects of performance such as overall satisfaction (Altinay, Brookes, Madanoglu, & Aktas, 2014). Indeed, overall satisfaction in particular has been recognized to be better determinants of franchisees' business outcomes and commitment as well as the long-term health of a franchise system (Lucia-Palacio, Bordonabe-Juste, Madanoglu, & Alon, 2014).

Franchisees' Overall Satisfaction: Research in franchisees' overall satisfaction is presumed to be rooted in the concept of consumer satisfaction (Bordonabe-Juste & Polo-Redondo, 2008), as franchisees are usually seen not just as business partners to franchisors but also in many ways as their customers (Abdullah *et al*., 2008; Frazer & Winzar, 2005). In the marketing literature where overall satisfaction has its root, it is defined as the degree of fulfilment or contentment with key aspects of business relationship with the other party (Chiou, Hsieh, & Yang, 2004; Eser, 2012).

Given the above background, franchisees' overall satisfaction can thus be defined as the pleasurable fulfilment, feeling of contentment arising from the conscious appraisal or cognitive evaluation of every aspects of franchisees' overall experience with joining the franchise system. Fulfilment could be both financial and non-financial. In effect, franchisees' overall satisfaction is the affective state of being rewarded higher than or at least equal to the opportunity cost of joining a franchise system instead of starting an independent business.

Many scholars have indeed argued that franchisees' overall satisfaction is an important measure of franchise unit performance in the sense that most measures of franchisees' overall satisfaction include both financial and non-financial indicators, making it a robust and all-inclusive determinant of performance (Abdullah *et al*., 2008).

Empirical Literature on the Influence of Exclusive Territories and Tying Arrangement

A common part of franchise contracts that is supposed to represent an incentive package presumably to enhance franchisees' satisfaction, minimize possible free-riding and drive their financial performance is exclusive territory (Michael & Combs, 2008; Shane, 2001). Generally, studies show that exclusive territory provision has a positive effect on the survival of franchisees (Azoulay & Shane, 2001; Michael & Combs, 2008) as well as their financial performance (Kalnins, 2004). Indeed, Michael & Combs (2008:85) conclude that 'franchisees failed less when franchisors offered exclusive territories', as this practice enables franchisees to maximize the benefits of their investment in store promotion and other localized efforts.

Moreover, a key area of conflict in franchisor-franchisee relationship has been the tendency of franchisors to encroach on franchisees' territory, especially with company-owned outlets. Whenever franchisors encroach on franchisees' territory, the latter's sales are cannibalized as they have to compete with the new outlet and incur more expenses for every unit of sales (Kalnins, 2004; Michael & Combs, 2008) thereby leading to their poor financial performance and possible exit.

Tying agreements on the other hand, are clauses that require franchisees to rely on franchisors as the exclusive supplier of certain inputs and raw materials such as setup equipment and daily operational supplies. For instance, Nijmeijer *et al* (2014:61) cited 'obligatory central purchasing' as a common example of tying arrangement. Instructively, problem usually arises when the cost of purchasing from franchisor is higher than the market price (Roh & Yoon, 2009). For example, it is a standard requirement of Tantalizers Nigeria that their new franchisees will purchase every single kitchen equipment for the restaurant business from them. More so, key materials for most menu items are to be supplied in semi-cooked form by the head office (Tantalizers, 2013). Meanwhile, scholars (e.g Roh & Yoon, 2009) have observed that franchisees usually resent franchisors requirements of central purchasing as the prices charged for items in this arrangement are usually excessive, eating deep on franchisees' margins. Clearly, tying agreement is a classic example of a constraining contract and where this happens, studies show that franchisors benefit more as their managerial effectiveness and the long-term performance of the chain are enhanced (Akremi *et al*., 2015; Chaudey & Fadairo, 2010).

However, contrary to many experts' observation that central purchasing arrangement may be a source of dissatisfaction for franchisees, the study of Roh & Yoon (2009) involving a total of 50 Ice Cream franchisees in Korea using interviews and elements of survey, found that the punctuality with which franchisors-designated supplier deliver supplies to franchisees' outlets results in enhanced franchisees' satisfaction. The study nonetheless, found that the requirement to have the employees of franchisees' outlets recruited by franchisors is a major source of franchisees' dissatisfaction.

More so, in line with the tenets of constraining contract advocated by some scholars (e.g. Akremi *et al*, 2015), many franchisors seek to include other *special clauses* in their agreement with franchisees in order to have a solid grip on system control and maintenance of brand reputation, all in an effort to enhance the long-term survival and financial performance of the franchise system. For example, Gorovaia & Windsperger (2013) concluded that inclusion of such special clause as the option for franchisor to purchase franchisees' outlet at the expiration of the contract would enhance the overall effectiveness, growth and profitability of the network. Akremi *et al*. (2015) also believe that clear, unambiguous and enforceable special terms like non-competition clauses will enhance the performance of franchise system considerably. However, there is yet no empirical evidence indicating the effect of special clauses specifically designed to protect franchisees.

Methodology

The Design of the Study

The objective of the study is to explore and gain a deep insight into the relevant issues – competitive aggressiveness and autonomy as influences on franchisees' business performance and overall satisfaction. The data collection approach adopted for the investigation was qualitative, specifically face-to-face in-depth interviews. The approach is seen to be most appropriate for an emerging research area like franchising (Dant *et al*., 2011; Ketchen, Short, & Combs, 2011) where not much is understood especially on the application of the business model in different contexts (Dant *et al*., 2011).

Population and Sample Selection

There are currently about 420 franchise outlets in Nigeria with about 350 franchisees operating in such diverse industries as retailing, hotels & hospitality, quick service restaurants/food & beverages, transport, education & IT, and so on (Ndumanya & Quadri, 2014; Olotu & Awoseila, 2011; The Nigerian Franchise Directory, 2013).
Consistent with the qualitative nature of the study, the non-probability sampling techniques of purposive, and in a few cases, snowballing were used to select appropriate subjects for the investigation (Alharbi, 2014; Altinay, Brookes, Yeung, & Aktas, 2014; Brookes & Altinay, 2011; Frazer *et al*., 2012). Efforts were made to first

contact and get the consent of key informants to participate in the study. The specific types of respondents sought and were reached with the sampling methods include: owners, that is, franchisees (or their knowledgeable representative like unit manager) of fairly older outlets (more than three years in operation) as they are likely to have reasonable experience with the focal issues of the investigation and have probably seen the intricacies of the business model generally; owners of well-performing franchise outlets; owners of poorly performing franchise outlet; former franchisees; franchise outlet owners in different parts of Nigeria as experience and observation reveal that there exist some differences in business sophistication and entrepreneurial behaviours of people form these different zones.

Data Collection

Using contacts of the franchisees found on the websites of most of the franchise systems and subsequently a few walk-in to some outlets, the researchers initially contacted 50 franchisees for possible participation in the face-to-face interviews. Eventually, a total of 26 franchisees were interviewed and this number is considered to be a reasonable sample size for a study of this nature as it is within the recommended range of 20-30 deem to be adequate to reach saturation (Corbin & Strauss, 2008; Creswell, 2007).

To guarantee consistency throughout the interviews and enhance the overall reliability of approach (Yin, 2014), the case study protocol was used as a guide. The protocol spells out the steps and procedures that must be undertaken before, during and immediately after each interview. The interview questions which were prepared based on the objective of the study, were designed to seek participants' responses to broad questions relating to the focal issues of the study. Other appropriate follow-up questions were asked as successive interviewees told their stories.

All interviews were conducted within the franchisees' business premises and tape-recorded haven obtained their informed consent to do so. Each interview lasted for between one to one-and-half hours. Notes were taken throughout the interviews. In line with the suggestion of Corbin & Strauss (2008), memos were also written by the researcher immediately after each interview. This was done to capture the thoughts and impressions of the researchers with regards to what the participants said. The memos do not form part of the data but merely an instrument to reflect and interpret both the spoken and unspoken words of the respondents.

Techniques of Data Analysis

The interviews were subsequently transcribed with the help of a manual transcription software called *Transcriber Pro* (version 1.0.3.1). In order to ensure that what has been transcribed is exactly what the respondents said, the researchers carefully went through each transcription while listening to the tape again. The transcribed interviews were sent to the respective interviewee for confirmation. All 26 came back affirmed with minor correction.

With the analytical codes developed in advance based on existing literature (Doherty, Chen, & Alexander, 2014), the transcribed interviews were categorized using Corbins & Straus (2008)'s step-wise advice. On the basis of the themes and sub-themes (and in some instances, sub-sub themes) that emerged, data was loaded into the latest version of NVivo (version 11). NVivo is one of the most popular data analysis software commonly used in qualitative research (Myer, 2013:177). According to QSR International (2015), the manufacturer of the software, NVivo is a powerful platform used for analysing all types of unstructured data. The software has the capacity to quickly code data and appropriately organize same. There are also features to interrogate data, count words and display a descriptive analysis of responses. The researchers used this software to code data, appropriately organize and link memos and annotations, uncover connections, analyse opinions of different groups of respondents, search for common themes, visualize data, justify findings and assist in report writing. In all, there were two themes and several within theme issues that emerged as table I shows.

Table I: Themes and within theme issues explored

Main Theme	Issues within theme
Exclusive Territory	Is exclusive territory provided? What is the size?
	Actual practice of exclusive territory
	Issues with exclusive territory
	Influence of the term on franchisees
Tying Arrangement	Nature of tying arrangement
	Good or bad idea?
	Issues with tying arrangement
	Influence of tying arrangement on franchisees

Source: Author's compilation.

Results and Findings

A total of twenty six (26) franchisees participated in the study. The participating franchisees are hereafter referred to as informants. The informants were drawn from across six franchise systems herein labelled simply as SYS1, SYS2, SYS3, SYS4, SYS5 and SYS6, cutting across six industrial sectors including quick service restaurants (QSR), retailing, transportation, telecommunication and mobile devices, and ice-cream vending. Table II gives detail business profile of the informants.

Table II: Business Profiles of Informants

S/N	Informants/ Panelists	Designation	Organization	Unit Size	Sector	Location	Years in Business
1.	Informant 1	Franchisee	SYSTEM 1	Small	QSR	S/West	4Years
2.	Informant 2	Franchisee	SYSTEM 2	Medium	QSR	N/Central	4Years
3.	Informant 3	Franchisee	SYSTEM 2	Small	QSR	N/Central	3Years
4.	Informant 4	Franchisee	SYSTEM 1	Medium	QSR	S/South	5Years
5.	Informant 5	Franchisee	SYSTEM 1	Medium	QSR	S/East	3Years
6.	Informant 6	Franchisee	SYSTEM 1	Medium	QSR	N/West	7Years
7.	Informant 7	Franchisee	SYSTEM 1	Large	QSR	S/West	6Years
8.	Informant 8	Franchisee	SYSTEM 1	Medium	QSR	S/West	6Years
9.	Informant 9	Franchisee	SYSTEM 3	Large	Retail	S/West	5Years
10.	Informant 10	Franchisee	SYSTEM 2	Medium	QSR	S/South	4Years
11.	Informant 11	Franchisee	SYSTEM 1	Large	QSR	N/Central	8Years
12.	Informant 12	Franchisee	SYSTEM 2	Medium	QSR	N/Central	7Years
13.	Informant 13	Franchisee	SYSTEM 1	Medium	QSR	S/West	6Years
14.	Informant 14	Franchisee	SYSTEM 2	Small	QSR	S/West	6Years
15.	Informant 15	Franchisee	SYSTEM 1	Small	QSR	S/West	7Years
16.	Informant 16	Franchisee	SYSTEM 1	Medium	Mob.-Tele	S/West	6Years
17.	Informant 17	Franchisee	SYSTEM 3	Medium	Retail	S/West	10Years
18.	Informant 18	Franchisee	SYSTEM 4	Medium	Ice-C	N/Central	5Years
19.	Informant 19	Franchisee	SYSTEM 5	Medium	Trpt	S/East	4Years
20.	Informant 20	Franchisee	SYSTEM 2	Small	QSR	N/West	8Years
21.	Informant 21	Franchisee	SYSTEM 3	Large	Retail	N/West	6Years
22.	Informant 22	Franchisee	SYSTEM 1	Medium	QSR	S/South	8Years
23.	Informant 23	Franchisee	SYSTEM 4	Medium	Ice-C	S/West	5Years
24.	Informant 24	Franchisee	SYSTEM 1	Large	QSR	S/West	9Years
25.	Informant 25	Franchisee	SYSTEM 6	Medium	Mob-Tele	S/West	4Years
26.	Informant 26	Franchisee	SYSTEM 2	Medium	QSR	S/West	6Years

Source: In-depth Interview, 2016

Due to the dominance of QSR sector which represents nearly 85% of the players in the Nigerian franchise industry (The Nigerian Franchise Directory, 2013), about two-third (18) of the informants were drawn therefrom. Three (3) of the interviewees come from the retail sector, two (2) sell ice-cream and related products, two (2) are from mobile phone sector and 1 runs a transportation firm. Nearly 50% of the respondents are from South West (particularly Lagos) – the commercial hub of the country where more than 50% of all franchise units in Nigeria operate. Other franchisees are from such other cities as Abuja (North Central), Port Harcourt (South South), Ibadan (South West), Abeokuta (South West), Kaduna (North West), Kano (North West), Jos (North Central), Lafia (North Central), Enugu (South East), Asaba (South South) and Lokoja (North Central). Effectively, five of the six geo-political zones of the country are represented in this study. Security challenges did not permit the researcher to visit and interview franchisees in the sixth zone - the North-East where insurgent activities was going on.

Influence of Exclusive Territory on Franchisees' Business Performance and Overall Satisfaction

The number one objective of this study is to analysis the influence of exclusive territory on franchisees' business performance and overall satisfaction.

Analysis of the in-depth interview reveals that except for systems in the transportation industry, all franchise brands in Nigeria make explicit provision for exclusive territory in their contracts. For most QSR systems, the coverage is typically on the basis of areas (similar to zip codes in other countries like the US). A few systems specify such range as 5km square while one QSR system defines territory simply as 'sizeable neighbourhood'. As indicated in the quotations contained in table III, although overwhelming majority of franchisees think that exclusive territory is a good idea, there is a sense that the increasing competition from other brands (including non-franchise ones) has made it impossible to fully exploit the intended benefits.

Table III: Sample Responses on Respondents' View of Exclusive Territory

Informants	Sample Quotations
Informant 11	"The increasing competition has made it useless for us. That said, I think it still makes sense that we are not located too close to each other".
Informant 2	"Well, I think the philosophy is great but given the upsurge in competition from other brands, I don't think it now makes much of an impact".
Informant 22	"But I think that it helps only when there were not so many other brands in our location. But in the last 4 years, many restaurants, big and small have started operations here making the reason rationale of exclusive defeated".
Informant 20	"It makes sense. Without it, there will be serious conflict. Although, competition from other brands is trying to prevent us from maximizing the advantage, it's still a good idea that we enjoy being the sole outlet in this area. It helps our sales".

Source: In-depth interviews, 2016

Indeed, competition from other brands particularly in the big cities appears to be so tense that some franchisees actually think that they would be better off having a situation where they compete with similar brands than the current take-no-prisoner competition from other brands, especially the foreign-controlled ones who seem to be better organized and better supported. As one informant 1 puts it:

> *But does it really help us in any way now? I am not sure. The fact that [....] isn't allowed anywhere near here has not stopped [...] and [...] from opening close to me. Wouldn't it have even better if I am competing with another [...] than these people?*

Moreover, the experiences of Informant 14 and 8 make them to conclude that the provision of exclusive territory in the franchise contract is just a formality and never really operate in practice. This is because according to them, their franchisors opened a company-owned unit in a location that obviously should be part of their own territory and this eventually inspired other undesirable behaviours from both sides which resulted in a serious crisis currently rocking their both relationships. Informant 14 explains:

> *They opened a new outlet close to me. ... I stopped paying them…They stopped providing me the quality of support they promised. They almost stopped giving me promotional materials. They became arrogant in relating with me.*

Just like Informant 14, Informant 8 had the experience of franchisor's encroachment into her territory and both franchisees – coincidentally from the same system, are now in court with their franchisors as relationship became damaged, in part due to franchisors non-adherence to the provision of exclusive territory. Informant 8 described the current happening thus:

> *…as we speak, we are in court. As you can see from the outside, we have removed the name sign from our door.*

Although many franchisees think that exclusive territory is a good idea as it gives them a protected chunk of market and reduce some competitive pressures, they do not believe that it necessarily have any impact on their business performance. The assertions of informants 10, 1 and 4 below represents the common opinions of franchisees in this regard.

> *But I don't think it helps to improve our performance in any way. The competition is everywhere. (Informant 10).*
> *So, I don't see any connection between the so-called exclusive territory and my outlet performance. (Informant 1).*
> *Yes, there is exclusive territory. I really cannot say whether it has had positive impact on our performance or not. (Informant 4).*

Influence of Tying Agreements on Franchisees' Business Performance and Overall Satisfaction

Another specific objective of this study is to explore the influence of tying arrangement on franchisees' business performance and overall satisfaction.

The particular issue of interest for the study was first of all to know if tying is a common practice among franchise system in Nigeria. The second interest was to have an understanding of how it is actually practiced, what franchisees feel about it and whether or not there are issues to be addressed in the practice. It was also of interest to know whether the practice of tying has any influence on franchisees' business performance and overall satisfaction.

First, this study confirms that nearly all the franchise systems whose franchisees participated in this study have one form of tying arrangement or the other in their contracts. Although differences exist from one system to the other, it commonly includes purchase of cooking and other kitchen utensils, branded wrapping and packaging materials from franchisors as well as semi-cooked items in the case of QSR systems. For retail and convenience stores, it includes purchase of most merchandise and management services directly from franchisors. For ice-cream systems, franchisees have to purchase not only all the products to be sold from the franchisors but also, distribution van or bicycles as well as uniform promotional materials. For the transportation system, tying arrangement is in the form of purchase of new or refurbished vehicles from or through the franchisor. Informants 17 and 20 explained this further.

> *Well, we are basically in retail business and all our merchandises come from the franchisor. (Informant 17).*
> *There are several. From the very beginning, they can only be the one that will buy your equipment. Every single cooking utensils and kitchen wares that you see here were bought and fitted by them (Informant 20).*

Many franchisees that participated in the study believe that tying arrangement is a good idea as it helps to ensure uniformity and maintain standards both of which are necessary for the long-term value of the brand. Informant 26 stressed this point.

> *To me it's a good idea…. It helps to protect the brand image. If every outlet is using different materials to package their food or use less quality ingredients in making the food, we will all be in trouble. Before you know it, customers will think every outlet is the same and they will stop patronizing us.*

There are other benefits. Some franchisees recognize that using common branded materials gives them some prestige and protects the image of the brand.

> *I prefer to use the branded materials to sell instead of the ordinary items. It gives you some prestige. Of course, it costs us more but I still prefer it. I have had to use ordinary nylon a few times but I don't like it. (Informant 7).*

Moreover, as analysis revealed, the experience of many franchisees indicate that there are fundamental issues or problems in the way tying arrangement is practiced in most Nigerian franchise system. The two important issues that most franchisees complain about are the price of the items or services and lack of reliability in delivery. Indeed, some franchisees allege that their franchisors are ripping them off by the outrageous prices of the items. The quotations of some of the respondents in table IV highlight this problem.

Table IV: Sample Responses Regarding Problem with Tying Arrangements

Informants	Sample Quotations
Informant 6	"…and the items are very expensive. For example if the unbranded one is 1 Naira, the branded one will be around 5 Naira".
Informant 13	"…but we have been having problem getting those materials especially. They are not always available when we need them. They don't allow us to do those things ourselves yet they sometimes don't make them available when we really need them"
Informant 14	"That one? That is the most annoying part to me. It annoys me because the items we are supposed to be buying from them are too expensive. Man, it's crazy. It's actually very wrong that they are taking advantage of the contract to make money from the franchisees"
Informant 9	"It's not fair and we are made to pay too much for the items they tie us up with. The materials are too expensive. To me it's a fraud. They are just taking advantage of the contract to defraud us".
Informant 24	"That's another area of discomfort for me. For God's sake those items are way too expensive compared to what is in the market".

Source: In-depth interviews, 2016

As a result of the highlighted problems with tying arrangement, there are indications that many undesirable behaviours are emerging from franchisees. Some franchisees admitted to have actually breached their contracts and made use of unbranded materials as a result of dissatisfaction with tying arrangements. Informant 8 is among those.

> *...we buy nylon from them for selling our food and this nylon is so expensive that I had to stop buying from them. Most of the times I used ordinary leather to sell my things.*

Other respondents, including informant 24, confirmed that they have had to engage in similar free-ride behaviours in order to avoid buying the expensive items from their franchisors.

> *For God's sake those items are way too expensive compared to what is in the market. So, to be honest with you, I sometimes buy from the market to use. (Informant 24).*

However, it is not all franchisees who use unbranded materials, primarily do that because of high prices. Many engage in such free-ride behaviours because they simply do not get the branded ones when they need them. Informant 5 is one of those franchisees. He explains.

> *We don't even get them on time. Last week throughout, we didn't have the branded leather bag. We had no choice but to buy ordinary leather from the market to sell our food.*

So, what influence does tying arrangement has on franchisees' business performance and overall satisfaction? To this end, the narration of Informant 12, captures the thoughts of most franchisees.

> *Now, does this reality affect our performance? Obviously. When we cannot get the items when we need them – and we always do, our operational standard is disrupted. Sometimes we waited and waited in vain and then had to go and buy unbranded items to sell our food. Secondly, the high prices of the items eat deep into our profit. So, how can we be happy if our profit is being taken away in that manner? (Informant 12).*

Another informant in the transportation business whose contract has an additional clause stating that his franchisors can repossess his outlets at the expiration of his 7 year contract thinks that it is an unfair practice.

> *No, I am not comfortable with it. I feel it's not fair to us - the franchisees. I know that they would only want to take advantage of that clause if the business is doing very well. It means that you would walk yourself to develop the business to the point of success and only to be driven out of it. Yes, that's what it means. You are driven out of it. (Informant 19).*

Interestingly, this franchisee did at first read the contract document before signing and only discovered this clause two years into the contract. This highlights the need for better due diligence on the part of franchisees.

Discussion

The dwindling fortunes of the Nigerian franchise industry as well as the observation that some terms in the design of contract might have a role to play in such condition (Boulay, 2010) motivated the researchers to embark on this investigation. The main objective is to examine the influence of such non-fee contract terms as exclusive territory and tying arrangement on franchisees' business performance and overall satisfaction.

Through personal in-depth interview with franchisees, the study found that granting of exclusive territory does not have marked influence on franchisees' business outcomes. This finding is unexpected as exclusive territory is meant to be an extra incentive package presumably to enhance franchisees' satisfaction and drive their financial performance (Michael & Combs, 2008). Remarkably, the finding contradicts the conclusions of Kalnins (2004) who argued that exclusive territory directly enhances franchisees' business performance. The most plausible explanation for the negative finding in this study is the increasing competition from other franchise and non-franchise brands. Further analysis shows that although overwhelming majority of franchisees believe that exclusive territory does not directly enhance their business performance and overall satisfaction, removing it from the contract will cause franchisees' dissatisfaction and other possible undesirable consequences. In fact, even with its provision, there are already allegations of encroachment and this has caused disaffection in some relationships. This key finding may be explained by Frederick Herzberge Two-Factor Theory (Herzberg, 1966), otherwise called the Motivator-Hygiene Theory. The theory basically implies that the presence of certain factors in a work (business relationship or contract) may not necessarily enhance the satisfaction of parties in the relationship but absence of such factors (contract terms in this case) may result in dissatisfaction (Lundberg, Gudmundson, & Andersson, 2009). In this sense, it can be concluded that although the provision of exclusive territory does not necessarily enhance franchisees' business performance and overall satisfaction, excluding the term from the contract could cause dissatisfaction.

More so, another key objective of this study is the evaluation of the extent to which tying arrangements influence franchisees' business performance and overall satisfaction. The study found that although franchisees appreciate the philosophy behind tying arrangement, the actual practice of the clause causes them dissatisfaction, contributes to sub-optimal business performance and could potentially influence their decision to discontinue business relationship. It was found that items involved in the arrangement are not usually available and whenever franchisors make them available, the prices are usually too high and far more than what is obtainable in the market. The finding that franchisees express dissatisfaction with tying arrangement is not necessarily new. Roh & Yoon (2009) had found that the requirement to have the employees of franchisees' outlets recruited by franchisors (an example of tying arrangement) is a major source of franchisees' dissatisfaction in Korea. The finding is also consistent with the observation that franchisees generally resent franchisors' requirements of central purchasing, another example of tying arrangement, as the prices charged for items in this arrangement are usually excessive, eating deep into franchisees' margins (Roh & Yoon, 2009). Clearly, the finding of this study supports the prescription of resource base view that resources are critical to the formation, competitiveness and survival of a business firm (Barney, 1991), and by implication owners of business firms would be dissatisfied if valuable resources are taken away from them via contract provision such as tying. More so, the fact that franchisees are dissatisfied with the delivery element of tying arrangement echoes the expectation-confirmation theory (Oliver, 1977) which postulates that clients will be dissatisfied when delivery time and efficiency of products and services they have ordered do not meet their prior expectation (Jiang & Klein, 2009).

Limitation, Conclusion and Implication for Franchising Practice

This study used the approach of qualitative inquiry and therefore generalization may be limited to the context in which it was carried out. However, the researchers took rigorous measures to guarantee reliability and validity of methods. The objective was to explore and gain deep insights into the practice of franchising in Nigeria especially as relate to the influence of non-fee franchise contract terms on franchisees' business performance and overall satisfaction.

Analysis of the in-depth interviews revealed key findings that informed several conclusions and thereby some recommendations for improving franchising practice in the country.

This study demonstrates that exclusive territory does not necessarily have direct impact on franchisees' business performance, but its provision does contribute to their overall satisfaction. Going by this finding, it should be known that there are terms in the franchise contract that may not necessarily enhance franchisees' business performance but could impact overall satisfaction nonetheless, and such aspects need to be provided and maintained. This finding also alerts franchisors to be aware that there are elements in their contracts that may not necessarily woo franchisees to join the system but their absence could make their franchise offerings unattractive. There is also implication for franchisees. This finding impels recommendation that in negotiating terms of franchise contract, they must figure out which terms will have the greatest impact on their business performance and then strive to get a favourable deal on those important terms rather than waste valuable leverage on other less important terms.

Finally, this study finds that franchisees appreciate the idea of tying arrangement but they are however not pleased with the way it is being practiced in the country. There are complaints that the items concerned are not usually delivered when needed and that they are too expensive compared to what is obtainable in the market. The implication of these findings for franchisor are many. First, it should be good news that franchisees understand and share the philosophy of tying arrangement and this implies therefore that the practice should be enhanced for the satisfaction of all stakeholders. Specifically, franchisors should know that the inclusion of the term in the franchise contract necessitates that they have a solid delivery system to consummate it. Apparently, managing the logistics of getting items to franchisees in different parts of the country especially for a large system could be herculean and it is obviously not the area of specialization of most of the systems. Therefore, a serious thought must go into determining how best to deliver on this key contract term. A cheaper but effective third party delivery may be an option. Further, it has to be noted that the primary purpose for including the term in the contract is not for franchisors to make extra profits. Indeed, it can be argued that including the term in the franchise contract for the sole reason of profiting from sales of the concerned items could lead to several undesirable consequences as evidenced in this study. Obviously, the risk in including the clause for pecuniary financial gains for franchisors is high. It could evoke franchisees' resentment and ultimately ignite counter opportunistic responses that will hurt the entire system. The practice should be purely aimed at ensuring uniformity and to protect the standards of the brand.

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