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1. The Efficiency of French Franchised Hotel Networks: A DEA Application

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This paper deals with a study and a comparison of French hotel network performances through the concept of efficiency. The Data Envelopment Analysis (DEA) methodology is presented in details before being implemented. According to the reality of this sector which indicates a wide coexistence of franchised units and company-owned units within a same network, and some past researches which have showed the advantages of this new organizational form, the following hypothesis is tested: Plural form networks have a propensity to be more efficient than predominantly franchised or company-arranged networks. The models tested use different inputs: network age, network size, royalties, perceived quality and two outputs: occupancy rate and sales. Some managerial implications are also given.

2. Market Saturation, Intangible Assets and Agency Problems: The Internationalization of Spanish Franchising

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The aim of this paper is to analyze the degree of internationalization of the Spanish franchise chains. Drawing on strategic management theory, resource-based view and agency theory, we test on a sample of 211 franchise chains the influence of market saturation, intangible resources accumulation and opportunism on the internationalization process. The information was obtained mainly from professional franchise guides and completed with surveys and interviews. Our findings imply that avoiding saturated and highly competitive markets is the main reason to go overseas. Additionally, the influence of intangible resources on the decision of internationalization seems clear. Particularly, our results support the importance of reputational capital, the amount of know-how transferred and the monitoring capabilities.

3. Dimensions of Plural Franchising Arrangements: Insights from Franchisors

Scott Weaven, Griffith University, Australia

This paper uses a non-directive qualitative method known as convergent interviewing to examine the current status of multiple unit franchising in Australia. A review of the extant literature has resulted in the development of a set of propositions and a preliminary conceptual model derived through examination of the parent disciplines of capital theory, resource constraints theory, agency theory, transaction cost economics and the immediate discipline of multiple unit franchising. In addition to gaining valuable insights into current managerial practice, the purpose of this research is to support informed decision-making in the future through the presentation of a model that explains multiple unit franchising as a function of structural (age, size and the corporatised nature of the franchise system), procedural (store level involvement of franchisees) and experiential (level of franchisee experience) determinants. In addition, a given level of multiple unit expansion is described through predicted outcomes, including the reduction of conflict associated with lower franchisee numbers, franchise system growth, the increased likelihood of multiple unit franchising in close territories, the use of performance reward strategies and the reduction of monitoring expenses incurred by franchisors. Overall, the qualitative findings clarified and confirmed the validity of the conceptual model. Both the model and propositions will be empirically tested in the near future.

4. Structural and Strategic Dynamics in Franchising

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Three competing theories suggest radically different dynamic growth strategies for franchise systems as they mature. In this paper, we examine the three perspectives and test them against one another within the context of the industry in which these issues were first raised – fast food.

Signaling theory, tangentially related to efficient contracting and agency theory in economics, assumes that entrepreneurs prefer to expand their chain of outlets through franchising to gain the efficiencies related to the alignment of unit level claims to profits and management of the outlet. That preference is hindered, however, by prospective franchisees' concerns about the entrepreneur's incentive to misrepresent the quality of its system. Thus, the franchisor must invest in its own system (i.e., by opening franchisor owned units when the system is new) in order to signal quality credibly. Subsequently, when history has provided prospective franchisees with independent evidence of that quality, the franchisor can and will reduce its ownership of outlets and move toward a more heavily franchised system.

Resource acquisition theory predicts ownership redirection as well, but in the opposite direction. Under that theory, entrepreneurs prefer to expand through ownership of the outlets but often find themselves unable to attract the necessary financial capital through bank loans or stock offerings. Similarly, developing the necessary human and informational resources from the outset is often exceptionally difficult for new chains. Consequently, these entrepreneurs seek to attract the needed financial, human, and informational capital through franchising. Over time as the system

grows sufficient internal funds are generated to finance the opening of new outlets and existing outlets provide a stream of experienced managers. Time and operational experience also provide an increasing reservoir of internally generated information. Thus, the reluctant franchisor of resource acquisition theory will reduce its reliance on franchising and move toward a more heavily company owned chain.

A third theoretical perspective, sometimes referred to as tapered integration or plural forms, assumes that entrepreneurs view franchising and company ownership as two interconnected pieces of a system-level strategy. Each provides unique benefits to the system and the existence of both within a system creates synergies that could not be achieved with only one pure form. Thus, as the system matures this perspective suggests a steady state where there is no demonstrated tendency toward either a more heavily franchised or company owned chain.

To examine these competing theories, we sought to determine whether there was a tendency toward franchising or company ownership as the system matured. Such a tendency should be demonstrated in two ways; first through the uneven opening of new outlets (more franchised or company owned), and second through the permanent conversion of existing outlets from one form of ownership to the other. Finally, when neither a tendency toward or away from franchising was found, was there evidence that this preference for the steady state was related to the franchisor's recognition of the synergistic benefits of maintaining multiple forms of ownership within the system.

An empirical study of the fast food industry was conducted using primary survey data. Results indicate that although franchisors value the benefits of multiple forms of ownership and tend to maintain a mix of franchising and company owned outlets, there was some indication of a tendency toward company ownership evidenced by the level of self-reported permanent conversion of franchised outlets into company outlets with increases in company resource availability as compared with the level of conversion in the other direction.

5. Plural Forms in Store Networks: Explaining the Gap Between the Observed Proportion of Franchised Units and the Targeted One

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Thierry Penard, University of Rennes 1, France

Stéphane Saussier, University of Nancy, France

This paper deals with plural form organizations in store networks. Plural forms can be defined by the simultaneous presence of franchised and company-owned units in the same network. The aim of the paper is to explain the motivations and determinants of this dual distribution. In a first part, we present the managerial and economic literature on plural forms mix. In the second part, we try to model the franchiser's choice of company-stores proportion. We proceed to several regressions on the current rate of company-owned units, the targeted rate and on the gap between these two rates. The econometric estimations are based on data from 100 French franchisors. We find that these statutory choices are linked with the positioning of the trade-name, the

geographical coverage of the chain, its stage of development and the role played by franchisees in innovation and commercial stimulation.

6. Cross-National Comparison of the Franchise Contract Provisions: Findings from the U.S.A. and Finland

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Mika Tuunanen, University of Jyvaskyla, Finland

Robert T. Justis, Louisiana State University

The present study focuses on describing and comparing the provisions of the franchise contracts and pre-sale disclosures to prospective franchisees in the USA and Finland. A fact that makes the investigation especially interesting is that no franchising specific legislation exists in Finland. Whereas in the United States franchisors are by the federal law required to publicly disclose the key information on their franchise systems. The information is of paramount importance for potential franchisees who need to analyze franchise offering(s) before buying one.

Two separate samples were developed for the study. The member franchisors of the International Franchise Association (IFA) were sampled for the US data and in Finland the member franchisors of the Finnish Franchising Association (FFA) were surveyed. The US data included information derived from the Uniform Franchise Offering Circular (UFOC) documents of 114 franchises. In Finland a mailed questionnaire based on selected UFOC items was used to collect the data. The survey instrument was sent to 45 member franchises of the FFA. Thirty usable responses were received, thus response rate was 67%. The obtained data sets from the two countries were combined and then analyzed statistically to reveal differences and similarities between franchise contract characteristics.

The article delineates the central results of the cross-national examination carried out in fall 2001 in the USA and spring 2002 in Finland. It was found that significant differences in franchise contract provisions occur and they have concrete consequences on franchisees' business operations.

7. Legislating Territorial Protection in Franchising: An Economic Analysis

Roger D. Blair, University of Florida

Francine Lafontaine, University of Michigan Business School

Location decisions often give rise to significant conflict within established franchised chains. Not surprisingly, franchisees object when they perceive that the franchisor is encroaching on their "territory." While it is clear that existing franchisees can be made worse off, especially in the short term, by the decision of a franchisor to open new outlets nearby, it is not clear that the implication is that franchisors are doing something wrong in the process. Yet franchisees have called for legislative remedies similar to those instituted for car dealerships in the 70s. This paper uses a very simple example to highlight clearly the sources of tension between franchisors and incumbent franchisees in terms of outlet location and market coverage, and to clarify the merit of various claims. We also examine proposed and actual legislation that deals with this issue,

separating the effects on franchisees, the franchisor, and consumers. Our analysis puts in sharp focus the costs and benefits of this type of legislation.

8. Contract Duration: Evidence from Franchise Contracts

James A. Brickley, University of Rochester
Sanjog Misra, University of Rochester
R. Lawrence Van Horn, University of Rochester

This study provides evidence on the determinants of contract duration using a large sample of franchise contracts. We find that the term of the contract systematically increases with the franchisee's physical and human capital investments, measures of recontracting costs, and the franchisor's experience in franchising (which we argue is negatively related to uncertainty about optimal contract provisions). These results are consistent with the hypothesis that the optimal contract duration involves a tradeoff between protecting the parties against potential hold-up of relationship-specific investment and reducing the flexibility that the parties have to respond to environmental changes.

9. How Do Franchisors with International Operations Differ? An Empirical Examination

B. Elango, Illinois State University

This study compares franchisors with international operations with franchisors who are domestic market-oriented. Using the existing literature, various hypotheses are developed and tested on a sample of 421 franchisors. Findings indicate that monitoring capability is positively related to the likelihood that a franchisor operates internationally. No differences in franchisee fee or the franchisor's growth rate in domestic markets were found to be related to international operations. Marginal differences in age and royalty exist between franchisors who operate internationally and those that don't. Though the findings are inconclusive, there are indications suggesting that the reputation of the franchisor does play a role when the franchisor operates in international markets other than Canada.

10. A Survey of Franchising in China

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Ilan Alon, Rollins College

Franchising is a new method of conducting business in developing countries that evolved in the late 20th century. Once adopted, it has the potential to stimulate the development of enterprise and alter the surrounding social environment. As China continues to open its markets to the

outside world, it is searching for western business formats which will stimulate its economy. This paper analyzes the current development and problems of franchising in China. A detailed analysis of various franchising sectors is performed. The strengths, weaknesses, opportunities and threats of international franchising in China are examined. Specific examples of three retail formats are used to examine the status of franchising in China. The appendices include the questionnaire administered and a summary of interviews conducted at the 4th annual franchise China conference and exhibition.

11. An Empirical Investigation of Innovation with Business Strategy, Firm Structure, the Containing Environment and Financial Performance in Franchised Firms

Richard J. Judd, University of Illinois-Springfield

John Palmer, University of Illinois-Springfield

This paper reports results of a study examining innovations in franchised firms based on a sample of independently owned and operated fast food franchised outlets. Results suggest that it may be inappropriate for researchers to utilize models that identify universal predictors of aggregate innovation in firms. Instead, separate models that identify relationships between contextual factors and innovation may likely result in a richer understanding of underlying factors contributing to innovation in franchised firms. Results indicate that franchisees, pursuing innovation in their enterprises should give careful attention to levels of compatibility between strategy, structure and environment with regard to innovations to be implemented. Further, that innovation may—or may not—be associated with high sales volume, improved efficiency, or enhanced profitability. Results fail to show that highly innovative franchisees were more profitable than less innovative franchisee firms, regardless of the emphasis that the firms placed on business strategies or types of innovation pursued.

12. Plural Form Networks and Innovation: A Proposition of Two Models of the Innovation Process

Gérard Cliquet, University of Rennes 1, France

Nguyen Minh Ngoc, University of Rennes 1, France

A large amount of research has dealt with the concept of plural form within retail and services networks and shown the superiority of this organizational form over pure franchised and wholly-owned chains. This paper aims to reinforce this statement in focusing on the innovation issue. It deals with an approach that considers innovation as one of the essential stakes for the survival of franchised networks. The influence of plural form on innovation development is discussed in order to show the possibility that the plural form is a better organizational option in terms of fostering innovation. This work also investigates an innovation process in the retail and service sectors. Two models of innovation process are then proposed and expected to apply to plural form networks for better innovation management.

13. Multi-Unit Franchisee Ownership Study

Frank H. Wadsworth, CFE, Indiana University Southeast

Kathryn Boe Morgan, IFA Educational Foundation

The purpose of this research is to determine the propensity of multi-unit franchisee ownership in the United States. International Franchise Association (IFA) franchise system members were sent surveys asking about multi-unit ownership in their particular system. Eighteen percent of IFA members responded to the survey. About 80 percent of franchisees are single unit franchisees and they operate almost half of the franchised units. Multi-unit franchisees account for 20% of the franchisees but operate just over half of the franchised units. Results are similar to a 1998 Gallup study on multi-unit franchisee ownership. The primary reasons franchisors have multi-unit franchisees is to grow their system, as a reward for good franchisees, for economic/efficiency reasons and franchisees requests for more units.

14. Second Generation Franchisee Study

Frank H. Wadsworth, CFE, Indiana University Southeast

Kathryn Boe Morgan, IFA Educational Foundation

The purpose of this research is to explore the nature of second-generation franchisee ownership in the United States. Second-generation franchisees are defined as franchisees that purchased a unit from a parent or other relative. Twenty-five International Franchise Association (IFA) franchise system members were interviewed about second-generation franchisees. Systems were contacted based on their years of franchising experience starting with the most experienced IFA members. Subsequently participating systems were large, some owned more than one franchise system, and had on average 40 years of franchising experience. Almost ten percent of franchisees in the interviewed systems are second- generation. Second-generation franchisees are seen as being more accepting of new technology, working smarter and wanting more units. Respondents see both generations as sharing an “entrepreneurial spirit.” Researchers should remember that the transfer of a unit from one generation to the next generation is event that takes place over time, not an event that takes place during one day.

15. Comparing Response Rates for Franchisee Survey Methods

Frank H. Wadsworth, CFE, Indiana University Southeast

Douglas C. Haines, CFE, University of Idaho

Use of incentives is an accepted method for increasing survey response rates. This study examines the effectiveness of monetary and non-monetary incentives for increasing survey response rates for postal and web surveys. Monetary incentives positively influenced the

response rate for web and postal surveys. A non-monetary incentive had the same effect on the response rate as the largest monetary incentive for postal surveys. Comparing cost per response, postal surveys are superior to web-based surveys.

16. Entrepreneurial Teams, Intellectual Capital Acquisition and Knowledge Management – New Perspectives on Franchising as a Small Business Growth Strategy

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Simon Healeas, University of Westminster, England

David Purdy, University of Westminster, England

Anna Watson, University of Surrey, England

Celia Stanworth, University of Greenwich, England

The current paper looks at a crucial entrepreneurial team relationship - that existing between franchisors and franchisees - against the background of a meta- analysis of the role of Intellectual Capital (IC) and Knowledge Management (KM) in an important and expanding field of service provision.

One of the most interesting issues here is the potential of franchising to provide self-employment opportunities. After all, not only are many franchisees small businesses, but so are many franchisors. For instance, nearly half of all franchise systems in existence at any one time are less than 5 years old and have less than 10 outlets. Franchises are based, ideally, on a proven and tried-and-tested recipe for business success. The importance of replication and standardisation which this implies would appear to offer a short-lived licence for success in a world experiencing ever accelerating change. Thus, the question arises, how do franchise organisations plan their Intellectual Capital development and Knowledge Management ? An adjunct to this question is the role of franchisees who, while not independent in the sense of the conventional small business person, certainly do not see themselves as conventional employees either, and have certain expectations of participation in the process of which they are an integral part.

This paper breaks new ground in engaging currently topical concepts from leading- edge debates in the management literature (IC and KM) and using a meta-analysis drawing on a range of data-bases from both the fields of franchising specifically and small business more generally.

The paper should hold considerable interest for, not only, academics interested in franchising per se but, also, those who form part of the rising tide of small business researchers examining fields such as small business strategic management, innovation and intangible asset growth.

17. Franchise Systems and Knowledge Management

Audhesh Paswan, University of North Texas

C. Michael Wittmann, University of North Texas

Firms are increasingly facing the need to better manage knowledge. Many are approaching this need through the use of information technology. However, capturing tacit knowledge is difficult for even the most advanced systems. Franchise organizations are also struggling to manage knowledge in ways that will allow franchisors and franchisees to leverage system knowledge for competitive advantage and success. However, traditional franchise organizations face many difficulties and limitations versus more open, network franchise organizations. In this paper, we explicate types of knowledge, the differences between traditional and network franchise organizations, and develop propositions related to the differences in knowledge management for traditional and network franchise organizations.

18. Speak Softly and Work Hard: Communication Satisfaction and Its Effect on Productivity in Franchised Lodging Chains

Brian Tyrell, University of Nevada Las Vegas

Skip Swerdlow, University of Nevada Las Vegas

Wesley Roehl, Temple University

The purpose of this study is to examine communication satisfaction in franchised lodging chains and its effect on employee productivity. The results have important implications for the successful operation of franchised hotel chains. The following are some of these implications:

- Communication has a fundamental relationship with productivity
- Management's commitment to effective communication is necessary
- Communication is likely to play a role in operational problems
- Personal feedback affects the viability of communications processes and productivity
- Media Quality needs to well thought out and implemented

What all of these results imply is that the components of communication satisfaction are essential to ensure the long-term consistency and uniformity of lodging franchise customer service. Franchise systems are generally well prepared to do this given the emphasis on free-flowing communication often found in this business format. Part of the operator's responsibility is to periodically review how well that format is encouraging healthy communication.

19. Relational Norms and Franchisee Reaction to Franchisor Web Sites

C. M. Sashi, Florida Atlantic University Bay O'Leary, Barry University

The relationship between the franchisor and the franchisee is the key element for the successful attainment of mutual goals in franchising. Many franchisors are establishing corporate Web sites to increase process efficiency and improve the effectiveness of their communications with franchisees by facilitating contact with the corporate office as well as other franchisees. The establishment of the corporate Web site, however, may affect the relationship in various ways. The franchisee could view the site as a tool to help them reach their individual and corporate goals or as an opportunistic act on the part of the franchisor. This study examines how the relational norms of trust, commitment, and role integrity influence franchisee reaction to the franchisor Web site and the relationship between the franchisee and the franchisor.

20. Earnings Claims: How Much Money Can I Make?

Robert T. Justis, Louisiana State University William Slater Vincent, Kennesaw State University

The most important question asked by a prospective franchisee is the amount of money he or she can make if they purchase a particular franchise. It is not enough that papers be written on why or why not earnings claims should be made. This does not assist the prospective franchisee in his or her decision making analysis. People in the business world need practical information which they can apply in determining the profitability of a franchise. Such information is difficult to come by and, as a result, prospective franchisees must decide whether to proceed with the purchase of a particular franchise based on faith alone. This paper brings together into one place the issues involved, why franchisors don't make earnings claims, and how a prospective franchisee can derive credible earnings estimates despite little or no information given it by the franchisor.

21. Disclosing the Activities of Franchisors

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Mika Tuunanen, University of Jyvaskyla, Finland
Ye-Sho Chen, Louisiana State University
Gary J. Castrogiovanni, University of Tulsa

Franchising is a significant part of the US economy and a rapidly growing part of the international business scene. People and businesses in today's environment, who want to get ahead, need to understand and comprehend the basics and activities of franchising. This article focuses on the story of franchising and the requirements of reporting the activities of the headquarters franchising business. We reviewed the Uniform Franchise Offering Circulars (UFOCs) of 114 franchising companies. Most individuals have no idea that tremendous amounts of information are reported by franchising companies for individuals to review before the person is allowed to sign a franchise contract. The surprising results verified what information is available and what information is not available for potential new franchisees or interested parties.

22. How Franchisors Choose Franchisees: A Comparison of Prospective Franchisee Evaluation Criteria

John E. Clarkin, University of South Carolina
Steven M. Swavely, GrowWare Diagnostics

In this study, we examined the levels of importance franchisors assigned to six criteria in their evaluation of prospective franchisees. Using secondary data compiled from 1,043 franchises, financial net worth, general business experience, specific industry experience, formal education, psychological profiling, and personal interview were examined and compared. In addition to analysis of evaluation criteria, relationships between the amount of training provided by franchisors and the levels of importance assigned to three aspects of franchisee background were also analyzed. A system of scoring was designed to rank order franchisee selection criteria.

Analysis revealed that franchisors assigned the highest level of importance to a prospective franchisee's personal characteristics. Financial net worth ranked second in importance followed by general business experience, psychological profile, formal education, and specific industry experience. Using ANOVA, significant differences in the amount of training provided by franchises were revealed, dependent upon the level of importance assigned to prospective franchisee's background criteria.

Several future directions for continuation of this work are proposed, including development of an optimal performance model, designed to serve as a scientific evaluation tool for franchisors to evaluate prospective franchisees.

23. Retail Franchising as an Entry Mode in Eastern European and Russian Markets in Transition: Literature Review and Research Perspective

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Gérard Cliquet, Université de Rennes 1, France

Franchising is gaining popularity in economies in transition of Central and Eastern Europe and Russia. International retail firms seem to favor this organizational form in their expansion strategy. As franchising was unknown in planned economies, Central and Eastern European Countries and the Russian Federation are experiencing creation and diffusion of this organizational form. Franchise managers are facing very specific and remote environmental conditions in the development of their networks and manage to design organizational arrangements that fit to this situation. Despite the growing interest for this organizational form in this area of the globe research in this field is rather scarce.

This article attempts to fill this gap by presenting the environmental characteristics of Central and Eastern European Countries and the Russian Federation, analyzing the current franchise scene in these countries and reviewing the literature dedicated to it which leads to argue for and develop a research design for further empirical research.

In this article, franchisors will find a precise presentation of the franchising panorama in these countries. Researchers will find a literature review on franchising in these markets and the presentation of the theoretical framework of a research project.

24. Fast Food Chains In Europe: The Cases of France and Spain

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This paper deals with a presentation of the fast food sector in Europe and more precisely, a comparative analysis between the French and the Spanish fast food chains in the context of franchising. Descriptive statistics are used to analyze some variables like management form but also age, size, nationality, royalties, contract term, space needs and urban population. The fol-

lowing directions are investigated: first, the similarities and differences between a mature franchised market like France and a younger one like Spain in the fast food context and second, if countries with different sizes and legal systems have the same kind of chains, i.e. plural form chains.

25. Franchising in Greece: Current Issues and Future Trends

Irini Dimou, University of Surrey, England
Aris Ikkos, JBR Hellas Ltd., Greece

This article describes the current situation of Greek franchising. The recent developments in the Greek economy were quite favorable for the expansion of the franchise industry, which experienced a rapid growth after the mid 1990s. The authors focus on the Greek business environment with respect to franchising, present the profile of potential Greek franchisor/franchisee and provide guidelines for future franchise developments in the country. It is suggested that there is potential for further development of the franchise industry in Greece, as long as prospective franchisors approach the market in a professional way and invest in long-term relations and operations.

26. The Role of Franchising in African Economic Development

Eckhard Siggel, Concordia University, Canada
Perry Maisonneuve, Northern Lights Franchise Consultants, Canada
Emmanuelle Fortin, Concordia University, Canada

This paper examines the contribution of franchising to economic development in Africa. It is based on a recent questionnaire/interview survey of 52 franchising systems (franchisors and franchisees) in South Africa, Egypt, Morocco and Côte d'Ivoire done for the African Development Bank. The specific hypotheses considered concern the role of franchising in the promotion of entrepreneurship, employment creation, transfer of technologies and know-how, innovation, the generation of foreign exchange earnings, poverty alleviation and the enhancement of saving. Franchising is defined here as business format franchising (excluding thereby pure trademark franchising). The study concludes that franchised business has experienced very strong growth, especially in South Africa, and that it contributes significantly to technology transfers, employment creation and poverty alleviation.

27. The Franchise Baseline 2002 - A Census of the South African Franchising Sector

Anita du Toit, Franchising Plus, South Africa

The Franchise Baseline 2002 was a research project conducted in the South African franchise sector in 2002. The aim of the study was to form an overall impression of the franchising sector of South Africa, with a view to compile market statistics previously unavailable and to establish whether the reality of the market differed significantly from estimations to date. While most of the findings were in line with expectations, significant statistics emerged regarding the number of franchised systems, ownership demographics and the implications of non-regulation. The

article presents an introduction to franchising in South Africa, an economic overview and an overall view of the findings of the study. The significance of franchising to the African continent is also highlighted.