

Critical success factors of a fast food franchise system entering the Kenyan market

Lucy Gikonyo

Strathmore University, Nairobi, Kenya, and

Adele Berndt

Monash, South Africa

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Abstract - The fast food industry has become an important part of globalization as people spend many hours working or doing business. The need for quick food services has grown with apparent shortage of free time. With reduced disposable income, a consequence of the global economic downturn, customers seem to shift from the fine dining and full service restaurants to quick service or fast food outlets since the latter are more cost effective. However, a widespread exposure to goods and services has produced a highly informed clientele, the fast food customer expectations seem to grow and follow global patterns. In Kenya international fast food franchises have not done well, fast food franchise systems enter the market but after a number of years they exit or close down operations. On the other hand there is an apparent increase of the 'eating out trend' among the Kenyan urban population in keeping with the global trends. It is therefore necessary to establish why the franchises enter the Kenyan market and then close down. This study will determine the critical success factors (CSFs) of franchise systems entering the Kenyan (and East African) market.

Introduction

Globalization, an emerging trend towards a single integrated and interdependent global economy, has prompted some economists to think of the world as one market and to examine common needs within and across societies (Alon, 2004). With greater interconnections among countries there is greater homogeneity in buyer behaviour (Chan & Justis, 1992; Quinn, 1999).

This view of some researchers suggests the adoption of more standardized marketing strategies globally (Buzzell, 1968; Rau & Preble, 1987). In standardizing marketing strategies, firms would standardize the product, price, distribution and promotion programs. Another group of researchers views customers as central to the emergence of marketing strategies (Saegert, Hoover & Hilger, 1985; Khale, 1986) and recommend that these be tailored to each country (Kotler 1986; Douglas & Wind, 1987). From these contrasting views, standardization of marketing programs on the one hand and adaptation to suit local conditions on the other, (Agrawal, 1995; Boddewyn & Grosse,1995), hybrid strategies have emerged (Jain, 1989), influenced by the nature of the product, the country characteristics and organizational factors. Sashi & Karuppur (2002) suggest that in certain situations, it may be more beneficial to standardize some aspects of the marketing strategy across the world, while accommodating local market differences by localizing other aspects.

Franchising is one form of managing business enterprises and of expanding into global markets, which permits the adoption of a hybrid marketing mix strategy; standardization of some elements and localization of other elements specific to the country (Sashi & Karuppur, 2002). Under a flexible franchise agreement, the franchisor would standardize some elements of the marketing mix strategy while allowing the franchisee to modify other elements to suit the local market.

Franchisors would develop product or service ideas and offer these to franchisees for marketing in specific geographical territories (Norton, 1988a). A franchise business arrangement would require a franchisee to pay an initial fee and royalties to the franchisor. Using a hybrid marketing strategy the franchisor would provide the overall strategy for running the business but may leave aspects of the business to the franchisee to determine, for example local marketing programs, recruitment and routine operations (Sashi & Karuppur, 2002).

Research Objective

The purpose of this study is to determine the critical success factors of a fast food franchise entering the Kenyan market. In so doing we shall first try to establish how franchisors and franchisees define, identify and evaluate success. Second we shall explore the main issues that concern customers of fast foods. Third we shall identify what fast food customers consider as

success. Fourth, we shall identify why customers support or patronize fast food franchises and why they decide to withdraw their support from others.

Literature review

Critical success factors

The identification of “success factors” was first proposed by Daniel, (1961) in an article on Management Information Crisis. It was later refined by Rockart (1979:85) who uses the term ‘Critical Success Factors’ to mean: *“The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance in an organization”*. In this definition Rockart emphasizes that these areas of activity are key and must “go right”, therefore they should be carefully managed by the company to ensure success. Other definitions exist, Bruno and Leidecker (1984:24) saw CSFs as *“those characteristics, conditions or variables that when properly managed, can have a significant impact on the success of a firm competing in a particular industry”*. Later, Pinto and Slevin (1987:22) regarded CSFs as *“factors which, if addressed, significantly improve project implementation chance”*.

In a criticism of the above definitions of CSFs, Esteves (2004) underlines that, the later definitions failed to address the concept with the comprehensiveness that Rockart (1979) gave it. Rockart seeks to identify a link between the environmental conditions and the business characteristics for a particular company (Amberg, Fischl & Weiner 2005).

Rockart (1979) identifies sources of CSFs as industry based, from environmental situations, geographical locations, temporal factors or strategic situations. This approach of CSFs focuses on information needs for purposes of management control and seeks to identify data which can be used to monitor and improve existing areas of business (Amberg, et al, 2005). In some research, this emphasis of deriving CSF from management has been criticized as it has been seen as an approach which relies only on opinions of managers (Davis, 1980). Munro & Wheeler (1980) suggested that middle managers views should be incorporated while Baynton & Zmud (1984) proposed that a cross-section of managers’ views should be incorporated as well as opinions of other stakeholders in the organization. This widespread consultation was seen as strengthening the CSF approach because it was viewed that success of an organization does not

depend only on managers. The CSF approach by Rockart (1979) continues to be widely used especially within project management and information implementation.

In time many academics have applied, the concept of CSFs generically in many fields to identify the “key areas” that must “go right” for a business to “succeed”; in healthcare Johnson & Friesen (1995), in Inflight Catering Services (Chang, Yeong & Loh, 1997), in fashion retailing (Wigley, Moore & Birtwistle, 2005); in casual dining restaurant industry (DiPietro, Murphy, Riviera & Muller, 2007), Botherton, (2004) studied the critical success factors in UK budget hotel operations, Goldman & Eyster (1992) looked at the CSFs underlying restaurant success and Lee (1987) studied hotel food and beverage leases.

Though CSFs have been widely applied they seem to have a generic essence (Brotherton & Shaw 1996). They have a focused specialization in areas which give the company the greatest competitive advantage, and which therefore become “key” and receive priority in resources allocation and effort. CSFs may be derived from the organization’s internal or external environment and could comprise of products, processes, people and competencies that are critical for the competitive advantage (Berry, Seiders & Gresham, 1997; Duchessi, Schanninger & Hobbs, 1989; Van der Meer & Calori, 1989). The possibility of success in franchises would be enhanced if the critical factors are identified and managed well. Botherton (2004) observed that studies on CSFs had largely been done in the USA and Asia- pacific region, when he undertook the study in the UK. There is no evidence of literature on CSFs in the franchised fast food industry in developing nations of Africa and this study aims to contribute to fill this gap.

Critical success factors (CSFs) and sustainable competitive advantage (SCA)

Through value chain approach, Porter (1980, 1985) postulates that a firm’s competitive advantage can be achieved through generic competitive strategy consisting of cost leadership, differentiation and focus. Barney (1991: 102) states that “*a firm is said to have sustained competitive advantage (SCA) when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when other firms are unable to duplicate the benefits of this strategy*”. Hunt (1999) sees strategy as enhancing competitive advantage when it is consistent with and furthers the ongoing process that consists of the constant struggle among firms for comparative advantage in resources that yield marketplace

positions, and thereby superior financial performance. Day (1994, 1999), proposed a marketing strategy approach to competitive advantage. He views that a firm's competitive advantage comes from two sources, assets or resource endowments (image, quality perception, brand equity etc) which the organization acquires over time and distinct capabilities which are the glue that holds these assets together. Day (1994) proposes that a market driven organization will have a superior ability to understand, attract and keep valuable customers. Other scholars of the marketing capability approach include Aaker (1989), Cool & Derrickx (1989).

The link between the two concepts critical success factors (CSFs) and sustained competitive advantage (SCA) is made in Rockart's (1979) definition of critical success factors. CSFs are those key areas that require focused attention, when identified and managed well keep the firm in business, while sustained competitive advantage (SCA) is to be the best among competitors in the same sector.

Relevance or prioritization of CSFs

Following the identification of CSFs recent research has tended to move to the stage of prioritizing or establishing the relevance of CSFs (Stevens et al, 2004; Amberg et al, 2005; Remus and Weiner, 2008). In quality management there are studies that have been done using pareto analysis on critical success factors. This has given rise to classification with statistical frequencies between the "useful many" and the "vital few" success factors and consequently identifying the vital few with the critical success factors. Aaker (2001) states that there is a need to analyze the external environment and the competitive market place in order to make strategic market selections and competitive positioning decisions, he categorizes these into strategic necessities and strategic strengths effectively grouping CSFs according to their significance in impacting success. Strategic necessities are vital and their absence may weaken an organization's position in the market, whereas the strategic strengths, are useful but do not influence the market positioning in any significant manner (Aaker, 2001).

It is clear that for CSFs to have any meaningful impact on issues in the real world there is a need to identify and establish their relevance in the organization. It is also evident that CSFs are industry specific and therefore the generic concepts and methods of CSFs will need to be contextualized in a specific industry before further identification and relevance can be

established. This study hopes to identify CSFs in the fast food industry and the scope is limited to the Kenyan market. The study will be carried out through interviews to franchisors or would be franchisor of fast food outlets. The interview hopes to identify enterprise CSFs from the top most layer of management. The interviewer will help these interviewees to bring out factors that originate from the industry, as well as those that may originate from the external and internal environment of the organization. Once the variety of sources and dimensions has been exhausted, a prioritization or relevance of the identified CSFs will be established to distinguish between the vital few and the useful many.

Franchise systems

According to Abdullah, Alwi, Lee & Ho (2008) franchising seems to have no set definition as it has been assigned different meanings by different researchers. Norback & Norback (1982) use franchising to mean: a license from the owner (franchisor) of a trademark or brand allowing the user (franchisee) to market a product or service under the brand name in accordance with the franchisor's system. Bain (1986) defines a franchise as a privilege of a contractual nature by an individual or a company (owner) to another individual or company. Alyling (1987), proposes franchising as a method a franchisor uses to raise capital for his business, while Justis & Judd (1986) view franchising as a method of distribution of goods or services which is used by businesses for growth and expansion. Mendelsohn (2004), views franchising as a legal or marketing concept, a method of distributing goods and services which knows no boundaries in terms of business categories. International Franchise Association (IFA) states that, '*A franchise is the agreement or license between two legally independent parties; which gives a person or group of people (franchisee) the right to market or service using the trademark or trade name of another business (franchisor)*' (IFA, 2004).

These definitions of a franchise can be summarized as: the granting of rights by the franchisor for a franchisee to operate their business system using a common brand and common format for promoting, managing and administering the business. This is the most widely used understanding of a franchise in research.

Franchising has continued to stimulate scholars in research, in an effort to clarify, contribute and perhaps also drive the process through findings. Different perspectives of franchising have been

interested scholars in the wake of globalization. Studies in internationalization of franchising have been undertaken dealing with motivations to use franchising as an entry mode into international markets, Among them Erramilli & Agarwal (2002) examined brands across borders, determining factors in choosing franchising or management contracts for entering international markets; Altinay (2007) looked at the internationalization of hospitality firms and the factors influencing franchise decision-making process; Doherty (2007) studied the internationalization of retailing and looked into the factors influencing the choice of franchising as a market entry strategy. Alon (2004) explored global franchising and development in emerging and transitioning markets, while more recently, Dant, Perrigot & Cliquet (2008) have undertaken a cross-cultural comparison of plural forms of franchise networks between, United States, France and Brazil. In the study of internationalization of franchising, Choo (2003) is among the few who have tried to determine the critical success factors, and he looked at the case of foreign franchisors in East Asia. This study hopes to contribute to filling the gap in knowledge regarding the markets of East Africa; the research will try to determine the critical success factors of fast food franchise system entering the Kenyan market. The study will examine a threefold perspective, the franchisors, franchisees and the customers.

Franchising theories

Most franchising research seems to be based on the agency theory and resource scarcity theory (Combs, Michael & Catrogiovanni, 2004). Resource scarcity theory views franchising as a means to ease resource constraints (financial and managerial) on the growth of a firm, while agency theory views franchising as a means for improving the alignment between the firm and the agency level incentives. These broad streams of literature were advanced to explain franchising by Carney & Gedajlovic (1991) and Foss (1996).

- **Resource scarcity theory**

The stream of literature that advances the resource scarcity theory were concerned with and share a resource perspective and include, Norton (1988), Conner (1991), Kogut & Zander, (1992), Conner & Prahalad, (1996). This stream originates from Oxenfeldt & Kelly (1968/69), who assumed that the motivating factor behind franchising, to have been mainly the acquisition of capital that was needed for the system to expand. It seems to have been a response to a shortage

of resources in the growth or expansion of a firm. These resources include financial capital, human capital and managerial talent or market knowledge (Minkler, 1990). When firms encountered difficulties in raising financial capital and finding managerial talent in the early stages of franchising, it is suggested that franchisors sought franchisees that could inject some financial capital into the business and thus share the subsequent risk. If franchisors could find franchisees that could reduce the constraints of money and labour needs in the franchise system, the franchisor would be in a better position to direct his efforts towards the development of the brand and the system (Oxenfeldt & Kelly, 1968/69; Cave & Murphy, 1976; Shane, 1996). The desire for early rapid growth is associated with the eagerness to achieve minimum efficient scale and to grow the brand name capital that is essential for retail oriented operations, and a transfer of a measure of risk from the firm to the franchisee (Combs & Castrogiovanni, 1994).

Later researchers have found that while franchisors were interested in sharing the risks early on in the life of the franchise, as the franchises grew, the same franchisors become interested in buying back and owning the franchises that performed well in “owner redirection” (Rubin, 1978; Lafontaine, 1992; Kaufmann & Dant, 1996; Dant, Paswan & Kaufmann, 1996; Brown, 1998). The life cycle model suggests that as the firm grows in size, resource constraints eventually ease and the firm achieves stability, the firm will look to own the more profitable units operated by franchisees (Thomas, O’Hara, & Musgrave, 1990). Those franchises in low locations, where the investment of the franchisee is lower and where there is a danger of ‘free riding’ by the franchisees, will also tend to be re-acquired by the franchisor. However, full vertical integration (i.e. full company ownership) will be avoided as greater economic benefits seem to be derived from quasi-vertical integration.

Hunt (1972), provided empirical support to the view of Oxenfeldt & Kelly (1968/96), he identified an aggregate trend towards company owned units. Later, Caves & Murphy (1976), found similar trends, and Anderson (1984), established that there was a systematic increase in franchisor owned units over the period of a year. Never the less, subsequent research suggests that while there is empirical support for the ownership re-direction view, (Dant et al, 1992, 1996) however, data gathered over the same period shows a steady ratio of 80:20 in favour of franchised units (Trutko, 1993).

The resource scarcity theory therefore suggests that firms use franchising as a means of reducing financial and managerial constraints, and to transfer a measure of risk to the franchisee. Risk spreading appears to be particularly attractive to new firms with a relatively new concept who wish to expand or grow rapidly to achieve a sustainable critical mass (Gilman, 1990). It has been suggested that where firms require high initial investment or those that grow rapidly, franchising is preferred to company ownership (Thompson, 1992). The use of franchising as a growth strategy by firms has found support in by some scholars, Lafontaine, (1992b) and Dant, (1994).

Rubin (1978), questioned the use of franchising as a means of raising scarce capital and suggested that it was more efficient to raise funds from investors instead. Accordingly it has been suggested that there must be other reasons for franchising rather than simply that of access to capital. Lafontaine argues that there are higher incentives at single (franchised) units than there is to be found in company owned and managed chains, this seems to produce a scenario where franchising is a more efficient form of capital than investors. This seems to be an important issue as companies exist that have access to capital markets but continue to show a preference to franchising as a mode of operation. Therefore resource scarcity theory alone, cannot explain the expansion or growth of a firm (Lafontaine & Kaufman, 1994).

- **Agency Theory**

The growth of a firm from a resource constraints perspective that Oxenfeldt & Kelly (1968/69) posited would probably be transitory and it has been suggested that the franchisor would revert to fully owned company chains. However the development of franchising and the persistence of the practice seem to have challenged this position (Dant, et al, 1996). This has given rise to the stream of literature in an alternative perspective, agency theory.

Agency theory addresses the relationship between the principal, who delegates work to another, the agent, through a mutual agreement (Bergen, 1992; Eisenhardt, 1989; Jansen & Meckling 1976). Both principal and agent in this relationship expect mutually satisfying results. But it is possible for an imbalance to result from either side. It has been suggested that managers as agents with a fixed compensation could shirk their duties to the firm or they could behave in an opportunistic manner, pursuing their own interests at the expense of the principal. This could happen in a situation where the generated surpluses of a firm belong to the owner and therefore

the employees have no incentive to maximize their efforts for the benefit of the firm. For this reason the owner needs to incur monitoring costs to ensure that the employee works for the interests of the firm, this has been referred to as moral hazard. On the other hand the owner of the firm may be unable to ensure that the selected employee is capable of performing the task delegated, giving rise to the problem of adverse selection (Rubin 1978; Mathewson & Winter 1985; Brickley & Dark, 1987). Franchising has been seen as an efficient way of reducing the possibility of both moral hazard and adverse selection, as it takes into account the interests of both the franchisor and the franchisee, through the alignment of mutual benefits in the contractual agreement (Elango & Fried, 1997).

From the perspective of the agency theory, researchers argue that the franchisor would maximize the value of their system operation by ensuring that effective monitoring costs the least possible. It has been argued that franchising in its hybrid form can deliver the desired outcome (Klein Crawford & Alchian, 1978; Rubin 1978). However, Norton (1988b) argues that the point at which franchising becomes superior to company ownership, is when marginal costs of monitoring owned units becomes greater than the marginal cost of using franchise contracts. Combs & Castrogiovanni (1994), claim that franchising has the potential for arriving at a greater goal convergence between the principal and the agent than can be achieved in an arrangement of company ownership. The franchisee is motivated to maximize the value of their own operation, given that he has residual claim over any profits that arise from the operation after meeting the royalty fees to the franchisor, and the profitable franchise is in the best interests of the franchisor (Norton, 1988b; Carney & Gedajlovic, 1991). The franchise arrangement however is not without its share of monitoring problems and the costs that go with it (Lashley & Morrison, 2000).

- **An intergrated view**

These two theories, resource scarcity theory and agency theory that have been used to explain the 'raison d'être' of franchising would seem to be competing, but some researchers have seen them as complementary rather than distinctive perspectives (Lashley & Morrison, 2000). Among those that support this view include Martin (1988); Carney & Gedajlovic, (1991), and Lafontaine (1992a). They view franchising as a solution to incentive problems and also as a means of acquiring capital for accommodating growth. Catrogiovanni, Combs & Justis (2006), after empirical analyses suggest that there exists a cubic pattern of franchised outlets over time. It

appears that the resource-based theory lies beneath the desire to grow and expand rapidly in the early years of a franchise, however when economies of scale is achieved with the franchise network, the franchisors base shifts to agency theory as the costs of monitoring outlets become the focus. When the franchisors look to expand to international markets, the perspective of resource base seems to dominate early on in the process. This integrated view seems to offer a more complete explanation on why firms franchise, however the debate continues.

Internationalization of franchising

Through the years, franchising has been used as a powerful mode of expanding businesses stemming from a desire to keep unit-monitoring costs low combined with inexpensive access to capital for franchisors (Norton, 1988b; Carney & Gedajlovic, 1991). These two theories have been seen by researchers as a motivation in part to franchise (Hoover, Ketchen & Combs, 2003). Domestic market saturation in the United States, home of franchising, has also driven American franchisors to explore the internationalization of their concepts (Alon, 2004). Elango, (2007) observes that many franchisors operating internationally have continued to grow steadily even in the recent economic slowdown. It would appear that there are many benefits in the use of franchising even in balancing profits between the domestic and international operations, albeit the higher risks encountered in the international sphere.

The risks associated with franchising

Franchising like all other business activities, encounters elements of risk. Price (1997), states that some researchers have claimed that the success rate of franchise operations is greater than that of other businesses due to the support structure inherent in franchising, the shared knowledge and the economies of scale that result from the relationship with the franchisor as well as the recognized brand and identity of the franchisor's marketing input. However some researchers have found that survival rates and profitability of franchises are lower than the impression given by previous studies when compared to independent businesses (Bates, 1995). Stokes (1995) suggests that the impression of success of franchising has led banks to facilitate credit acquisition, but as Hoy (1994) suggests, the data on failed franchisees may have distortions as franchisors try to disguise failure. Price (1997) continues to postulate that there are mal-practices by franchisors in presenting information on performance of franchisees in order to encourage

business. Other studies on ownership redirection in franchising by Dant, Paswan & Kufmann (1996) bring out the public concern and policy implications of the practice and question of ownership redirection (transfer of the ownership back to the franchisor) and they examine the possible mal-practices that may be inherent in this trend, which seems to be associated with success as well as failure of franchises.

The failure of a franchise is one of the risks that parties in the franchise agreement face, therefore as the discussion on franchising success and failure continues, this study will contribute in further identification of reasons for the failure of franchises, and determine the key areas that need careful management in order enhance success. The study will try to capture these critical success factors from three points of view, the franchisors, franchisees and the customers. The study will enrich literature through the use of triangulation of research methods in an attempt to be more comprehensive in examining the problem.

Fast food restaurant industry

Researchers and industry practitioners generally consider that the restaurant industry is made up of two broad categories, full service restaurants and fast food or quick service restaurants (Mueller & Kleiner, 2004). Among full service restaurants' are to be found buffets, family and fine dining restaurants, (Agnelo & Vladmir, 2007); under the fast food category fall all who sell food to customers for consumption on or off the premises, these include independent and chain restaurants that serve all types of foods for example, sandwich shops, pizza places, chicken grills, hamburger joints, fish and chips etc. (Ditmer, 2002). Casual dining restaurants have sometimes been categorized with either full service restaurants or quick service restaurants and occasionally on their own, (Muller & woods, 1994; Dipierro, Murphy, Riviera & Muller, 2007).

For a long time, fast food industry has been associated with franchising, (Lashley & Morrison, 2004; Sen 1998). The fast food concept, with simple menus, quick product finishing and service times, lends itself to standardization of products and service delivery systems which are easy to franchise (Lashley & Morrison, 2000). The fast food giants for example McDonald's, Kentucky Fried Chicken (KFC), Burger King etc. have developed, expanded and internationalized their operations through franchising (Quinn et al, 2002). Acheson & Wicking (1992) observe that the largest fast food companies are involved with franchising.

The fast food concept seems to attract franchisees as compared to establishing independent fast food outlets because of its association with high viability of the business and the positive cash flow that comes faster from franchises than for independent businesses (Mendelsohn, 2004). This seems to boost the survival rates and to accelerate profitability, due to their market recognition and the elimination of unnecessary start-up-costs (Mendelsohn, 2004). However even with this impression of relatively easy success, the changing expectations of the customers seem to have shifted the paradigm from standardization to customization as variety becomes a trend (Taylor & Lyon 1995). This may contribute to what customers consider to be a success or a failure in a fast food franchise outlet.

Envisaged methodology

The first phase of the research will be qualitative. In-depth interviews will be carried out of with franchisors and franchisees of fast food operations in the two main cities in Kenya, Nairobi and Mombasa, where there is a concentration of fast food outlets. This stage will also involve the use of focus group discussions in order to help in the design of the questionnaire for the quantitative survey in the phase II of the research. The data collected in the focus group discussions will enrich the research process and the emerging data will then help the researcher to focus and generate an understanding of issues to be confirmed in the survey that will follow.

The second phase of the research will try to capture CSFs from the customers' perspective. Customers are a major stakeholder in the fast food industry, with the current trends in marketing that are customer driven, it is important to establish why they may be loyal to some fast food outlets and why they move away from others. This will be a quantitative research and will be done with the aid of a questionnaire. The statistical analysis that will follow the identification process will enable the prioritization of CSFs to be done.

Conclusion

Franchise failure doesn't only affect the franchisor and the franchisee, but also the customers and hence, by implication, the society as a whole. This effect is seen in the perceptions of the franchise in the marketplace. This also has the potential of affecting the success of future franchisees entering the market. Franchising is regarded as key to employment, and identifying

critical success factors in the East African context can have an impact on the business environment.

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